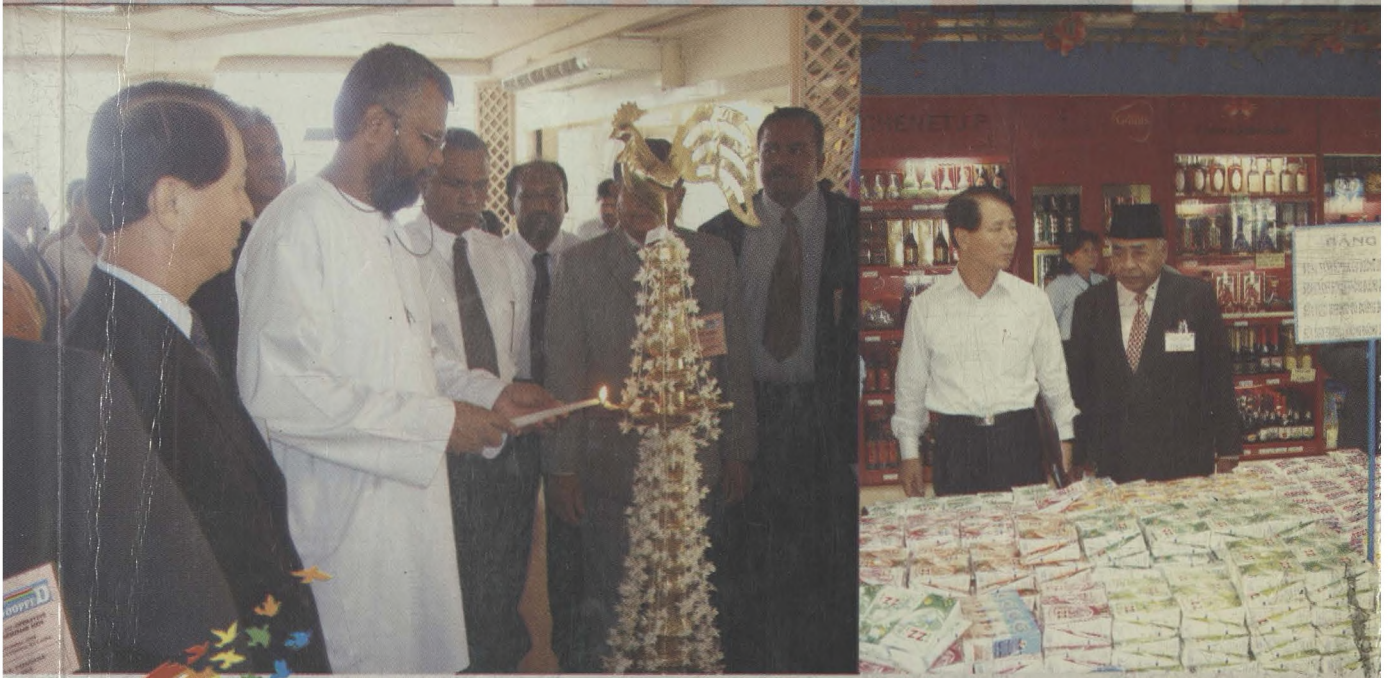




# Strengthening of Consumer Co-operatives in Asia-Pacific



**International Co-operative Alliance  
Asia and Pacific**



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**International Co-operative Alliance**  
**Asia and Pacific, New Delhi**



**Strengthening of Consumer Co-operatives in Asia-Pacific**  
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## Foreword

In Asia-Pacific Region, growth and development of Consumer Cooperatives reflects divergent patterns and directions. While in some countries, these cooperatives were recognized as an institutional arrangement by the Govt. for implementing public distribution system to ensure availability of essential commodities in the situation of scarcity, in others, they emerged with the initiatives of consumers to protect themselves from the exploitation of market forces. However, the fast changing scenario of retail market due to globalization is generating a great deal of pressure on consumer cooperatives to adapt themselves with the change and to shed their traditional attitudes and business strategies. Obviously this calls for a critical review and appraisal of institutional structure, business strategy, operations and management of consumer cooperatives for their effective repositioning and sustainability in the changed context.

Viewed in this perspective, JCCU supported consumer cooperative development project of ICA Asia-Pacific, undertook critical studies of consumer cooperatives in India, Sri Lanka, Philippines and Vietnam in 2004. The findings of critical studies were deliberated in two sub-regional workshops (South Asia and ASEAN sub-regions) and National Workshops in respective countries to formulate country-specific strategy and Action Plans for strengthening consumer coops.

The country consultants, namely Mr. S.C. Mishra, Mr. W.U. Herath, Mr. Joel Beasca and Mr. Hoang Tuan Cuong deserve our heartiest appreciation for their hard work to bring out valuable study reports on consumer cooperatives in India, Sri Lanka, Philippines and Vietnam respectively. ICA Asia-Pacific team, consisting of Mr. B.D. Sharma, Sr. Consultant, ICA Domus Trust, Mr. Jiro Ito, Director, Consumer Project, and Mr. A.K. Taneja, Program Officer (Consumer Project) also deserve our appreciation for taking entire process to logical conclusions and tangible outcomes for the benefit of consumer cooperative movement of Asia-Pacific region. And above all, we acknowledge gratefully the technical and financial support of Japanese Consumers' Co-operative Union (JCCU) and members of Advisory Committee, particularly Ms. Akiko Yamauchi, Manager, Int'l Dept., JCCU, for their valuable guidance.

We hope, this publication documenting the critical studies and action plans will be a useful material for reference of not only the respective countries but for others as well to visualize and formulate suitable country-specific strategies for strengthening consumer coops in the changing times.

**SHIL KWAN LEE**  
Regional Director, ICA  
Asia and Pacific

## **Introduction**

### **STRENGTHENING OF CONSUMER COOPERATIVES IN ASIA-PACIFIC**

#### **Background**

In Asia-Pacific, Consumer Cooperatives constitute an important segment of cooperative sector of different countries. These cooperatives were borne out of the urge of consumers to protect themselves from the vagaries of the market and exploitation of private trading. In a number of countries, consumer cooperatives were recognized by the national governments as an important institutional framework for implementing public distribution system to ensure availability of essential consumer goods to the vulnerable sections of the population at concessional prices. However, the basic objectives of these cooperatives continued to provide their consumer members quality goods at competitive prices through bulk procurement and joint buying. With a view to establish their direct link with supply points at secondary and tertiary level, federations of consumer cooperatives have been set up. These federations undertake joint buying operations and bargain with suppliers on behalf of their member cooperatives.

The globalization and structural adjustment programmes in majority of the countries of Asia-Pacific region has also impacted consumer cooperatives. It has exposed them to more intense market competition. The niche market, which consumer cooperatives used to have, appears to be slipping into hands of private retailers and big departmental stores. In view of this, some countries have undertaken amalgamation and re-structuring and changes in their business practices. However, these cooperatives find themselves under acute pressure to meet the competition of open market. Yet in every country some successful consumer cooperatives have been in a position to sustain in competitive market.

Another important trend observed in majority of the countries is rise in middle income groups with higher purchasing power but at the same time rise in income equalities among different sections of the population. These trends explain the need for changes in the business paradigms of consumer coops to meet the needs of different sections of the people, particularly middle and lower income groups.

### **A Pilot Project**

Given the above backdrop, ICA Regional Office in Asia-Pacific felt that a comprehensive strategy for strengthening consumer cooperatives in the context of globalization with a long term perspective will go a long way in enabling consumer cooperatives to meet the challenges of growing competition and fast changing consumer taste and behavior at market place. To give concrete shape to such strategy, a pilot project with the financial support of Japanese Consumers' Co-operative Union (JCCU) was implemented in 2004. Details of project goal, purpose, activities, outputs, work break-down structure with a time-frame, mode of implementation are given below:

### **Project Goal**

The objective of the project was as follows:

*“To enhance the capacities and competitive strength of consumer cooperatives to enable them to sustain and grow to meet the socio-economic needs of their consumer members”.*

### **Project Purpose**

In line with above-referred goal, the specific purpose of the project was to formulate strategy and framework of action plan to facilitate reforms and improvement in institutional, management and business practices of consumer coops in select countries like India, Sri Lanka, Vietnam and Philippines.

### **Project Activities and Outputs**

Sl. No.	Activity	Output
1.	Critical Study of Consumer Cooperatives in select countries (India, Sri Lanka, Vietnam and Philippines).	Study Report prepared and disseminated.
2.	Two Sub-Regional Workshops (South Asia and ASEAN Sub-Regions) organized.	Framework of Action Plan for sub-regions prepared.
3.	National Workshops in select countries organized (total 4)	National Action Plans based on sub-regional action plans prepared and adopted.
4.	ICA Consumer Committee for Asia-Pacific Region convened (Dec. 2004).	Sub-Regional Action Plans and National Action Plans endorsed and implementation plan formulated.



### Work Breakdown Structure

Sr. No.	Activity	Time Frame
1.	Interview of National Coop Federations of selected countries, Formulation of Questionnaire, Terms of Reference and Identification of Country Consultants	April, 2004
2.	Completion of Critical Study in selected countries	May-July 2004
3.	Printing of Study Report	August, 2004
4.	Sub-Regional Workshops in ASEAN and South Asian Region	October, 2004
5.	National Workshops in Target Countries	Oct.-Nov., 2004
6.	Finalisation of Action Plans	November, 2004
7.	Presentation before ICA Consumer Committee	December 2004

### Implementation of the Project

- i) Activities visualized in the project were completed by a project team of the following:
  1. Mr. B.D. Sharma, Senior Consultant
  2. Mr. Jiro Ito, Advisor, CCDP
  3. Mr. A.K. Taneja, Program Officer, CCDP
- ii) The Critical Study was undertaken with the help of Country Consultants/Researchers in targeted countries. A comprehensive questionnaire to elicit information from consumer coops of respective countries was formulated. The questionnaire, among others, also posed the issue of the state of the retail market and development of consumer cooperatives in the context of socio-economic situation of the respective countries. In addition, field studies in targeted countries were also undertaken. Besides, a few experts on the subject were also interviewed.
- iii) An Advisory Committee consisting of the following was constituted to guide the project team in regard to (a) questionnaire; (b) finalization of draft study report; and (c) sub-regional action plans:
  1. Mr. Shil Kwan Lee, Chairman
  2. Ms. Akiko Yamauchi, Member
  3. Mr. B.D. Sharma, Senior Consultant, Member
  4. Mr. Jiro Ito, Advisor, CCDP, Member
  5. Mr. Poh Leong Sim, NTUC Fairprice, Member
  6. Mr. A.K. Taneja, Program Officer, CCDP, Secretary

### Framework of Action Plan to Strengthen Consumer Co-operatives

Based on analysis of outcomes of critical studies of consumer co-operatives in select countries, namely India, Sri Lanka, Philippines and Vietnam, a broad frame-work of Action Plan to strengthen consumer co-operatives was formulated by Mr. B.D. Sharma, Sr. Consultant, ICA Domus Trust and a member of the project team. This Action Plan focuses on following aspects of consumer cooperatives:

#### Policy Issues

- Institutional Issues
- Managerial Issues
- Role of Government
- Role of ICA

Details are given in Annexure-1

#### **Sub-Regional and National Workshops:**

Above-referred Action Plan formed the basis of deliberations of two sub-Regional workshops - one for South Asian countries, held in Colombo, Sri Lanka from 18 to 20 October 2004, where participants from Bangladesh, India, Nepal, Pakistan and Sri Lanka attended and other for ASEAN countries, held in Ho Chi Minh City, Vietnam from 26 to 28 October 2004, which was attended by the participants of Indonesia, Malaysia, Philippines, Thailand and Vietnam. After intensive deliberations for two days at each workshop, participants of these sub-regional workshops formulated their own country specific action plans for consideration and adoption by National Workshops that followed sub-regional workshops in respective countries. Reports of National Workshops are given in Annexures 2(a), 2(b), 2(c) and 2(d).

#### **What Next ?**

ICA-Asia Pacific believes that outputs of this project i.e. Critical Studies, Action Plans and Recommendations of Sub-Regional and National Workshops would provide workable guidelines to set-in motion a process of reforms to strengthen consumer cooperatives in the changed context. Consumer Committee of ICA-AP has already accepted the project outputs. It is expected that the National Consumer Co-operative Movements and Policy makers in Cooperatives Movements and Governments will extend their appropriate consideration for implementation of Action Plans and Recommendations of Sub-Regional and National Workshops. ICA - Asia-Pacific will continue its endeavours in this direction as hitherto.

# **Critical Studies on Consumer Cooperatives in Asia-Pacific**

**INDIA - PHILIPPINES - SRI LANKA - VIETNAM**

Conducted by :

**S.C. Mishra (*India*)**

**Joel Beasca (*Philippines*)**

**W.U. Herath (*Sri Lanka*), and**

**Hoang Tuan Cuong (*Vietnam*)**

INDIA

# INDIA

## Critical Study on Consumer Cooperatives of India

By S.C. MISHRA

### Introduction

In today's fast paced world values, concepts and the business paradigms too are changing very fast. LPG (Liberalization Privatization and Globalization) and the technology boom have further accelerated this process. The market economy is ruthless. Whether somebody likes it or not it is going to stay and will rule the roost. People and organizations who can change and adjust themselves to the changing scenario can only survive, others will lag behind. Darwin's theory of, 'Survival of the fittest' will be more prominent and pronounced today than ever before.

In my opinion, ICA taking up a Critical study of the Consumer Cooperatives in select countries of the Asia Pacific region is justified and at the right time as it provides a much needed opportunity for introspection of the performance of the Consumer Cooperatives and maybe to draw a suitable action plan to rejuvenate the peoples' movement. This, I believe will provide the consumers escape from the vice like grip of the largely selfish private and corporate organizations having an eye on the bottom-line only.

The problems found during the study is of much serious nature and perhaps the best option is to seek the support of big cooperative brands like Migros, NTUC Fair Price, COOP. ITALIA.

After nearly a decade of retiring from active service of the ministry of Civil Supplies, It was very touching to find my name for this assignment.

As India is a very big country with a federal structure making samples and covering all the states is virtually impossible within the time given for the study. Hence select cooperative stores of Western Maharashtra and Mumbai were chosen for this study. Here there is a network of successful consumer stores and also a cooperative culture besides there is an onslaught of big private players. The analogy is - if these stores cannot withstand the predatory pricing and aggressive marketing of the corporate giants, cooperative stores in other parts of the country cannot do so. With this idea in mind the samples were drawn mostly from this area.

Since this kind of study involves collection, compilation, processing and interpretation of a lot of data, a team was selected and the tasks were distributed. But for this team this report would not have been possible in such a short time and that too with a comparative relevance to the private players.

I believe, comparison of the performance of the cooperatives with the private sector – a sort of SWOT analysis is the need of the hour; has been attempted and this makes interesting reading besides providing an opening for action. A few people have been interviewed as per the guidelines provided by the ICA and their answers indicate the mood of the moment. It is hoped that this study will provide useful insights to all concerned in turning around the ailing consumer cooperatives.

In making this study it is worthwhile to record the help, assistance and cooperation of the members of D'Tail Consulting – N. Tungare, Vivek Bhama, Damodar Mall and Ramana Murthy, and Mr. P.L. Kadam, Registrar, Asoka Mehta Institute of Management and Research.

# 1.0 Country Profile

## 1.01 GEOGRAPHICAL LOCATION\*:

1. India occupies a strategic position in Asia. India lies to the north of the Equator between 80° 4' and 37° 6' North Latitude and 68° 7' and 97° 25' East Longitude. It is bound on the south-west by the Arabian Sea and on the south-east by the Bay of Bengal. On the north, north-east and north-west lie the Himalayan Ranges. Kanyakumari constitutes the southern tip of the Indian Peninsula.
2. India measures 3214 km. from north to south and 2933 km. from east to west with a total land area of 3,287,263 sq. km. It has a long frontier of 15200 km. and a coastline of 7516.5 km.
3. India shares the political borders with Pakistan and Afghanistan on the west and Bangladesh and Burma on the east. The northern boundary is made up of Sin kiang Province of China, Tibet, Nepal and Bhutan. India is separated from Sri Lanka by a narrow channel of sea formed by the Palk Strait and the Gulf of Mannar.
4. The main rivers of the Himalayan group are the Indus, the Ganga and the Brahmaputra. These rivers are both snow fed and river fed and have therefore continuous flow throughout the year. The Deccan rivers include the Godavari, the Krishna, the Cauvery, the Narmada and the Tapti. They contribute about 30% of the total outflow in India. These rivers are entirely rain fed with the result many of them shrink into rivulets during the hot season.

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Source : Economic Survey, Govt. of India 2001-02 and World Development Report, World Bank 2003.

## 2.0 Socio Economic Data

### 2.01 SOCIAL INDICATORS\*:

1. As per 2001 census the population of India was 1027 million and in this criteria India ranks second in the world, the first being China.
2. The projected population growth rate during the year 2002-2015 is estimated to be 1.2%. Though this growth rate is much higher than the developed countries of the world, this shows a healthy sign of population control compared to the earlier growth rate 2% per year.
3. The population density is 324 per sq. km.
4. Average household size is 5.5
5. Number of households – 178 million and it may be interesting to know that India has world's largest English speaking population and the largest pool of trained population.
6. The sex ratio is 933 females per 1000 males. The male female ratio is 52:48.
7. With rapid advances in setting up schools, colleges even in rural areas the literacy rate is 65.38%. This constitutes 75.85% of male and 54.16% of females. With growing importance attached to literacy, 59.4% of rural population is now literate as against 80.3% in the urban area. Though this literacy ratio is much lower than the global standard, it is much better than what it was a couple of decades back.
8. With advancement in health and medical facilities, Indians have attained a life expectancy of 67 years. Better rural medical aid and hospitalization has brought the infant mortality rate to 67 per 1000 live births. Epidemics which used to be mass killers in the past, seem to have been forgotten. 4.9% of India's GDP was spent on health expenditure of which 82% was spent on private health expenditure and 18% on public health expenditure in the year 2000.
9. Unchecked and unplanned growth in population has generated poverty. The national poverty ratio for the year 1999-2000 was estimated as 28.6% of which rural population constitutes 50.2%. Poverty ratio however is fast reducing. In spite of this scar, the rich population of India is more than the total population of many countries.
10. The expenditure on education by Indians was 3.9% of the GDP.
11. Being one of the most populated country of the world, the 2001 total labour force was 460 million and is projected to be 543 million in the year 2010 growing at the rate of 2% per annum. Out of the total labour force 32% comprises of women.

12. The total organised sector employment is 27.96 million comprising of 19.31 million in Public sector and 8.64 million in Private sector.

## **2.02 ECONOMIC INDICATORS\*:**

1. India with a population of more than a billion, is the eleventh largest economy in the world, and its Gross National Income is close to 500 billion dollars in 2002. The per capita income is 460 US dollars.
2. India is the 5th largest country of the world.
3. India is the biggest democracy of the world.
4. Though it does not occupy a place in the exclusive club of G-7 or G-8, according to media reports, BRIC (Brazil, Russia, India and China) will be the big economic powers in the 21st century.
5. In military might India occupies 3rd largest place in the world, after US and China. It is now the 2nd largest spender for military equipments in the world. India is one of the members of the exclusive Atomic club.
6. 54% of the Indians are less than 25 years old, making India the youngest country in the world.
7. Every year about 2 million students graduate from the Universities of India.
8. The expat population of India alone exceeded 25 million and their annual income is on an average 3 times that of the locals wherever they have settled abroad !
9. India and Indians are expected to be the brain and nerve centre of world, thanks to its software, BPO and IT success. There are going to be 10 software companies with billion dollar sales by 2006. According to a public statement of George Bush, US President, the biggest import to USA from India is "brain".
10. The GDP growth is expected to be 8% of current fiscal.
11. The foreign exchange reserves exceed \$100 billion from less than a billion \$ in 1991 and every month about \$5 billion is being added.
12. The stock market index almost doubled in 2003 and investors are richer by Rs. 6500 billion in one year.
13. In 2003-04 India exported more than a million cars. Every automobile produced in the world has at least one component made in India.
14. India is inching towards becoming the biggest producer of two-wheelers.
15. The mobile phone users population in India is set to reach 100 million by 2005 while costs of long distance connectivity has come down by three-fourths in the last 20 years.
16. The cost of housing finance came down from 18% to 7% in 12 years indicating a housing boom.
17. Investments on roads from 2001-2005 will be 10 times that of the investments made from 1947 to 2000. A 60 ton truck will be able to reach Delhi from Chennai in 48 hours flat in 2006. This indicates in the substantial development in infrastructure sector.
18. India is among the top 5 producers in the world in food grains, pulses, fruits, poultry, vegetables, tea and milk. In fact India is one of the top ten producers of almost all the products shown above.
19. The arrival of international tourists has been steadily increasing and sooner or latter it will be an international tourist destination. India can rightfully boast of climatic diversity, long history, histori-



cal monuments, beautiful hill stations, mouth-watering cuisines.

20. In all essential commodities India is the cheapest country of the world. While a person cannot have anything other than a cold drink or mineral water for \$5 in any developed country, one can have a luxurious lunch/dinner in India for the same amount.
21. The fact that hotel occupancy rate is steadily increasing (present rate is 85%) is an indicator in this regard.
22. India produces 3.8 million tons of fabric washing detergent and its popular toilet soap Lifebuoy with a production of 1,10,000 tons is the world's largest brand. Also the Nirma is the world's largest selling detergent powder and in Biscuits – Parle-G is the highest selling biscuit variety – An interesting point for Retailing.

### 3.0 Genesis of Consumer Co-operative Movement in India

Consumer co-operatives in India have been playing an important role in rendering distributive justice. They are working as a bulwark of consumer protection, a deterrent against unfair trade practices and organized institutions of participatory democracy.

After the success of the Rochdale pioneers when co-operatives were spreading through out Europe, during the later part of 19<sup>th</sup> century, it did come to India. The first co-operatives were organized in India by the industrial workers and railway employees, The Railway Employees Consumer Co-operative Store of Bhusaval established in 1865, Ajmer Railway Employees Store established in 1884 and a few more stand till today as mute witness to this historic event. In the absence of any co-operative legislation, these early co-operatives were registered under the Indian Companies Act. They had, however, all the basic principles of co-operation such as open membership, one member one vote, limited return on capital etc. They were, however, very few and far between. Towards the tail end of 19<sup>th</sup> century, there were droughts affecting millions of people. To ameliorate the economic conditions of the farmers on a regular basis, under the recommendations of various committees and experts, the Govt. of India enacted the first Co-operative Societies Act in 1904. This was done to facilitate organization of credit co-operatives to provide agricultural credit to the farmers at a low interest rate. As the idea was to help the poor farmers, the law contemplated registration of only credit co-operatives.

It is paradoxical that the first registered co-operative society is a consumer store organized by Rt. Honorable Srinivas Shastri and the store is TUCS (Triplicane Urban Co-operative Society) of Chennai. They wanted to organize a consumer store, but when the law did not permit them to be registered as a consumer store, they got it registered as a credit society and started both credit and consumer business. This is why till today its name does not include the word 'Consumer Store'. This was an instant success and it continued to be the best and biggest consumer store of the country till the sixties. Success of this store motivated the intelligentsia in south India and in similar pattern, a few more consumer stores were registered as credit societies with consumer business. Malleswaram Co-operative society, Veershaiva Co-operative Society, Parthashaiva Co-operative Society, Basavanaguddi Co-operative Society etc. are the fore runners of the consumer co-operative movement of India. Leadership of these societies were clamoring to change the co-operative law and to make suitable provision for registration of all types of co-operative societies.

In 1912, the law was amended facilitating registration of all types of co-operative societies.

In 1919 the freedom movement was picking up and the Royal Commission on Agriculture inter alia recommended 'Co-operation' as a Provincial Subject. The then Madras was the first province to enact provincial co-operative law followed by Bombay and other provinces, now states. Perhaps this is why these two states are more progressive in the co-operative sector. In spite of these suitable changes in the legislation, consumer co-operative movement did not pick up. It was only during the war period, when there was acute shortage of essential commodities and rationing was imposed, cooperatives were given preferential treatment for allocation of fair price shops for equitable distribution of scarce commodities there was a mushroom growth of consumer co-operatives throughout the length and breadth of the country.

Soon after the second World War, India achieved independence in 1947 and there was neither scarcity nor price rise. This is how during the first decade of independence, the people, the press and the parliament all forgot consumer co-operatives. In addition to this, the then eminent Food Minister Rafi Ahmed Kidwai, who always thought control breeds corruption, disbanded rationing in 1956. The then, Finance Minister, C. D. Deshmukh was always against tax hike. As a result of this twin factors, there was neither any price rise nor any inflation. All these compounding factors culminated in the collapse of the consumer co-operatives especially dependent on the ration business. In that decade, the number of stores and their revenue decreased by 50%. During the late sixties both these ministers were not in the cabinet i.e. the former expired and the latter resigned. The ugly head of inflation crept along with shortage of essential commodities. Rationing was once again imposed which though redundant, continues till today. To fight this menace, everybody thought of consumer co-operatives as a panacea. Keeping in view of the situation, Govt. of India constituted a committee under the Chairmanship of Dr. Natesan, an eminent co-operator of the south to analyze the problems of consumer co-operatives, to recommend structural changes and financial assistance as part of the planned growth of consumer co-operatives. After studying the consumer co-operative movement, the committee recommended a three-tier federal structure with Primary Societies at the grass-root level, wholesale stores at the district level, state-level federation in every state and the NCCF at the apex level. The committee also recommended state partnership and financial assistance in the form of debt, equity and subsidy. The other aspect of the recommendation was plan outlays and plan targets, which were to be harnessed with the Five Year Plans. Govt. of India accepted the report in totality. However, before the ink of the report dried, there was Chinese aggression in 1962. Apprehending, shortage, inflation and price rise, Govt. of India recognized consumer co-operatives as a bulwark of consumer protection. For the sound and systematic growth of consumer co-operatives, Govt. of India envisaged expert support and the services of a consumer expert of Mr. Samuel Ashalman of CLUSA (Co-operative League of USA) was availed of. Mr. Ashalman studied the consumer co-operatives of India. By and large he endorsed the recommendation of Natesan Committee. He however, suggested central stores in place of dist. level w/s stores and higher doses of financial assistance. That is why in India while some stores are called w/s store others are called central stores. Both have now individual members. Govt. of India accepted the report and launched the centrally sponsored scheme.

Soon after there was war with Pakistan in 1965 and again Govt of India invited a consumer expert from Canada Mr Schubert. He endorsed the recommendation of Mr. Ashalman. His additional suggestion was the development of department stores in the co-operative sector and release of Govt. assistance on the basis of population, sales potential and the infrastructure available with a store. He highlighted the importance of training to improve operational efficiency and recommended association of foreign trainers. The biggest contribution of Mr. Schubert is that he suggested norms and for the first time introduced management orientation in consumer co-operatives. Though his norms are now outdated and revised, his parameters will be remembered. The recommendation was accepted by the Govt. of India and consumer co-

operatives could get more financial assistance. Under his recommendation, Govt. of India set up a management institute for the managers of consumer co-operatives with Scandinavian experts as trainers. All this led to the accelerated growth of consumer co-operatives and by the end seventies in several parts of India consumer co-operatives made their presence felt. They accounted for 2% of the retail trade of the country.

In the mean time, the National Co-operative Development Corporation started providing financial assistance for rural distribution under which a lead society which may be a w/s store, central store or a marketing society could provide supply support to a group of 15 to 20 village societies. N.C.D.C. also provided financial assistance for setting up small industries by consumer co-operatives and margin money for raising working capital. All these helped in setting up rural distribution by the village societies. During early seventies a team of consumer experts developed countries like Sweden, Denmark, Finland, Canada were invited through ILO With the financial support of the Govt. of India a Consultancy and Promotional (C&P Cell) was established in the NCCF having its regional offices in Kolkata and Chennai. The foreign experts and their Indian counterparts developed policy guidelines (manuals) on purchase, accounting, retail operations, marketing and training. The C&P cell organized a series of seminars for implementation of these policies. Simultaneously, ILO had worked out a set of teaching (MATCOM) materials to improve the professional competency of the people working in consumer co-operatives. For exposure to these aids also a series of seminars/workshops were organized in different parts of the country by the C&P Cell. In the Seventies and the Eighties a number of managers of consumer co-operatives were sent for training to Scandinavian countries and Japan. ICA-ROAP also extended its helping hand to NCCF in particular and the consumer co-operatives in general to help train the managers of consumer co-operatives.

All these concerted efforts with the consultancy services provided by NCCF helped in developing several successful super markets in the co-operative sector. So much so that till recent times, all the top retailers of the country were consumer co-operatives. Stores like Apna Bazar, Sahakari Bhandar of Bombay, Raigad Bazar, Warna Bazar, Grahak Peth, Kalwa Sahakar Bazar, Bharti Bazar, Puri etc. in other parts of Maharashtra. TUCS, Chintamani, Kamdhenu of Tamil Nadu, Bagayatdar Bazar of Goa, etc. have become household names in their areas of operation.

Since NCCF is the national level apex organization of the country, it may not be out of place to mention a few words about the organization. It has a chequered past. Initially it was the bestowed with the privileged business of monopoly distribution of customs confiscated goods and subsidized controlled cloth. It helped the organization to achieve huge sales resulting in substantial profit. But over the time interest among people for foreign goods diminished and custom goods business came down to notional level. Controlled cloth scheme had long since been withdrawn. Loss of these twin businesses nose-dived the revenue of NCCF resulting in heavy loss. Nevertheless during the last few years with the support of the Govt. of India, Office supply business picked up resulting in rapid growth of business and profit.

The financial highlights of NCCF can be seen and appreciated from the following table :

Sr.No.	Particulars	(figures in million INR)	
		2002-2003	2001-2002
A.	Sales	6740.60	3805.10
	Gross Margin	196.00	153.04
	Other receipts	15.72	25.25
	Total income for the year	211.72	178.73
	% of G. P. to sales	2.50	4.03
	% of total income to sale	3.14	4.69
B.	Expenses		
	Establishment Exp.	89.08	84.21
	Expenses on VRS	1.62	0.73
	Administrative Exp.	22.97	20.51
	Interest	2.65	6.16
	Selling & Distribution Exp.	5.57	5.84
	Other Exp.	6.84	5.91
	Provisions	3.09	4.86
	Total Exp. for the year	131.82	128.22
	Total (A-B)	79.90	50.51
	Less loss due to non export	37.97	-
	Net Profit	41.93	50.51

Coming back to the structural development of consumer cooperatives the four tier urban structure of consumer cooperatives is as follows:

(as on 31st, March 2001)

	Number	Membership
National Cooperative Consumers' Federation of India Limited (National Federation) – 33 Branches	1	129
State Consumer Cooperative Federations including State Marketing-cum-consumer Federations (871 Branches)	28	27,058
Wholesale / Central Societies (with 5676 Branches)	1156	1,12,582
Primary societies (with 10305 branches)	26426	91,49,814

Apart from these urban structures which have a network of large medium and small stores in 2800 cities and towns in the country; more than 58000 village societies–(Primary, Agriculture Credit Societies PACS) and Large size Multipurpose Co-op Societies (LAMPS) are engaged in rural distribution. They are catering to the needs of 70% of the people of the country living in 0.56 million villages some of which are very remote and inaccessible.

The sales turnover of the urban /rural co-op. distributive set up during the year 2000-01 amount to INR 53.90 billion and INR 52 billion respectively as against INR 52.80 billion and INR 47.85 billion during the previous year. 50% of the consumer stores are in loss. The perception differs from person to person about the success and failure of the movement. Study of the defunct, moribund and chronically loss making society reveals that majority of them have neither the membership base nor a capital base. This is the darker side of the movement. The brighter side reveals that in most cities and towns, consumer co-operatives are the biggest retailers and they are house hold names – talk of the town. They do sell a wide range of consumer goods at a cheaper rate. Their image, impact & coverage are to be seen to be believed. Stores like CCS of Port Blair, Warna Bazar, Raigad Bazar, Bagayatdar Bazar have covered more than 20% of the retail trade of the catchments area.

Of late large format retailers are coming in all the 'A' class cities with a bundle of aggressive marketing techniques. This poses a new challenge before the consumer cooperatives.

The Research and Development Department of the NCCF which was earlier known as Consultancy and Promotion Cell has been providing the technical know how to the consumer co-operatives through its head office as well as regional offices at Mumbai, Kolkatta and Chennai.

The main areas of consultancy support are as follows:-

- a) Providing building layout, shop layout, light & ventilation arrangement. Air conditioning for new super markets and for renovated super markets and 'C' stores.
- b) Preparation of project reports / project profiles for opening new super markets.
- c) Reviewing progress and sales performance & providing necessary feedback.
- d) Implementation of Management Accounting system and computerization.
- e) Staff training.

There is also a network of training institutes now called Institutes of Cooperative Management, one in almost all the states administered by the NCUI (National Cooperative Union of India) with the financial assistance of the Government of India.

All this training facilities have helped Consumer Cooperatives to achieve a particular level of professionalization but that is far behind than what is required today.

## 4.0 Performance of Consumer Co-operatives

There are over 30,000 primary stores, and Central/Wholesale Stores spread across the length and breadth of the country. They have more than 12,000 Department Stores, with a membership of about 1.5 million. This inter alia shows that one out of every 100 people of India is a member of some consumer store. It is presumed that if a family comprises of 5 members and one member represents one family, then it can be inferred that 5% of the Indian families have allegiance to Consumer co-operative. However the shareholding per member works out to be only INR30.53.

The paid up share capital per store including all types of stores works INR 13,200 (USD 295 !). Such a small amount is not sufficient to meet even the furniture cost of a store, leave apart other fixed costs and other working capital. With such a low capital base, any sort of development is unthinkable. Even a 500 sq.ft.(50 sq.m.) modern "C" (Convenience Store) store requires a fixed capital investment of INR 0.35 million, and a working capital investment of INR 0.5 million.

It may not be out of line to mention here that most of the consumer stores use the word department stores, while actually they operate a supermarket. In the true sense of the term; there is not a single department store in the co-operative sector in the entire country.

It may be further observed that the primary societies, Central/Wholesale Stores, and State level federation, Government's contribution towards share capital accounts for 20.99%, 29.01% and 64.01% respectively.

Annual sale per primary store works out to INR 0.78 million, and the same for Central/Wholesale store is INR 30.36 million and that of Federation works out to be INR 72.42 million respectively.

Again more than half of the sale of Primary & Central/ Wholesale Stores relate to controlled commodities (sugar, kerosene, food grains etc.). With such a low level of annual sale normally stores cannot be viable. Even a 'C' Store requires a monthly sale of about INR 0.8 million to be viable, which is more than the annual sale of the primaries. Similarly even a small supermarket of about 3000 sq.ft.(300 sq.m.) requires a monthly sale of INR 0.25 million or annual sale of INR 30 million, to survive and grow.

Sale per employee works out to be INR 0.52 million/year for primary stores, where as for Central/ Wholesale stores it works out to be INR 1.34 million per annum. This is too less to be viable. Sale per employee per month has to be more than INR 0.1 million or at-least INR 1.2 million per year and preferably INR 1.5 million per annum, if the minimum wages and the normal benefits under the labour laws are taken into consideration.

From the table it may also be observed that more than 75% of the employees have not got any sort of training.

**Table 4.01 Structure of Co-operatives in India**

Particulars	Primary Consumer Co-op	Central / WS Store	State Consumer Co-op Federation
No. of stores	23173	709	29
Branches (including Dept. Stores)	7162	5554	570
Membership (in 10 Lakhs)	8.33	2.12	21311*
a) Co-op Stores	0	0.04	3967*
b) Other Institutes	0	2.08	5157* (+)12129**
Share Capital (in Rs. 10 Lakhs)	1347.7	1809.97	796.13
State Partnership	20.99%	29.01%	64.01%
Working Capital (in Rs. 10 Lakhs)	4907.84	871.56	3204.91
Total Sale (in Rs. 10 Lakhs)	18200.38	21527.63	16654.83
a) Controlled Items (%)	64.38%	57.11%	5.28%
b) Uncontrolled Items (%)	35.61%	42.89%	94.71%
c) Wholesale (%)	-	44.69%	86.36%
d) Retail Sale(%)		55.30%	13.63%
Net Profit (%)	14.52%	11.74%	0.45%
No. of Employees	34902	16027	3724
No. of Trained Employees	8932	3660	656

\* State Federation Membership is not indicated in 10 Lakhs

\*\* State Federation Personal Membership

10 Lakhs = 1 million

10 million = 1 crore

Source : Annual report of Government of India, Ministry of Civil Supplies, Consumer Affairs and Public Distribution- Year 2001-2002

#### 4.02 Statewise Performance of Primary Co-operatives

Statewise performance of the Primary co-operative Stores can be seen from the Table 4.03. From this table it may be observed that following states: 1. Maharashtra; 2. Tamilnadu; 3. Gujarat; 4. Karnataka, and 5. Andhra Pradesh - are doing better than other states. This may be because of the consumer co-operative movement started in Tamilnadu, followed by Karnataka and Maharashtra. Even in these comparatively advanced states, the average sale per store works out to be only INR 0.7 to 1.4 million per annum, which does not show a happy picture.



**4.03 STATEWISE PERFORMANCE OF PRIMARY CONSUMERS CO-OPERATIVE STORES:**

(Rs. in Lakhs)

SR. No.	STATE	No. of		Branches		Member-ship	Share capital		Working Capital	Total Employee	Trained Employees
		Primary stores	Dept. Stores	Other Branches	Total		Total	Government			
1	2	3	4	5	6	7	8	9	10	11	12
1	Andhra Pradesh	886	227	54	281	623939	374.92	76.29	853.84	959	72
2	Arunachal Pradesh	69	Nil	Nil	Nil	7591	32.45	20.79	556.26	188	24
3	Assam	341	67	26	93	154590	110.32	43.92	4638.45	606	48
4	Bihar	3203	N.A.	N.A.	N.A.	482505	138.25	62.54	295.25	N.A	N.A
5	Goa	73	14	43	57	27792	39.86	8.71	406.04	303	65
6	Gujarat	2006	441	28	469	364019	4337.29	159.26	26509.44	3186	1751
7	Haryana	57	3	33	36	20138	17.29	0.67	102.72	18	6
8	Himachal Pradesh	279	Nil	206	206	36205	107.09	65.13	408.98	306	66
9	Jammu & kashmir	90	Nil	50	50	8651	85.13	70.69	111.85	N.A	N.A
10	Karnataka	1672	159	275	434	766396	635.48	100.36	1878.47	N.A	N.A
11	Kerala	1675	25	117	142	1825000	704.79	232.44	2070.86	749	170
12	Madhya Pradesh	1142	12	52	64	181385	541	25.15	135.15	862	40
13	Maharashtra	3560	47	1519	1566	1765566	1980	160	7686	17705	2125
14	Manipur	192	Nil	Nil	Nil	11259	15.62	N.A.	N.A.	N.A	N.A
15	Meghalaya	53	Nil	Nil	Nil	9087	87.45	69.37	214.32	53	24
16	Mizoram	97	N.A.	N.A.	N.A.	2071	6.92	8.02	165.76	55	Nil
17	Nagaland	1	1	Nil	1	N.A.	0.92	0.64	N.A.	13	1
18	Orissa	322	15	156	171	188622	115.68	40.26	1401.59	478	75
19	Punjab	88	Nil	Nil	Nil	355	34	1	247	122	Nil
20	Rajasthan	549	16	287	303	188700	2779.91	1340.74	2566.47	712	54

## 4.03 STATEWISE PERFORMANCE OF PRIMARY

## CONSUMERS CO-OPERATIVE STORES:

SR. No.	STATE	No. of Primary stores	Branches		Member-ship	Share capital		Working Capital	Total Employees	Trained Employees	
			Dept. Stores	Other Branches		Total	Government				
1	2	3	4	5	6	7	8	9	10	11	12
21	Sikkim	35	N.A.	N.A.	N.A.	14716	16.94	11.5	80.14	70	21
22	Tamilnadu	2674	414	574	988	1229006	489.78	99.62	2598.26	4845	1895
23	Tripura	38	0	18	16	3263	12.94	9.57	4291	50	12
24	Uttar Pradesh	1785	Nil	2178	2178	209378	48.79	1.26	N.A.	N.A.	N.A.
25	West Benegal	1656	Nil	Nil	Nil	17535	499	N.A.	1.76	2370	N.A.
26	Andaman & Nicobar	14	N.A.	N.A.	N.A.	1980	4.58	0.57	23.41	10	N.A.
27	Chandigadh	6	N.A.	N.A.	N.A.	1000	2.8	N.A.	5	N.A.	N.A.
28	Daman & Diu	6	1	9	10	7912	5.25	0.5	81.74	48	0
29	Dadra & Nagar	1	Nil	1	1	818	0.94	0.46	5.88	3	1
30	New Delhi	569	1	9	10	154928	188.32	68.5	125.29	971	524
31	Lakshideep	16	0	55	55	N.A.	16.96	10.7	1230	214	15
32	Pondicherry	18	Nil	31	31	28294	290.38	271.38	93.38	206	69
	<b>Total</b>	<b>23173</b>	<b>1443</b>	<b>5719</b>	<b>7162</b>	<b>8332701</b>	<b>13477</b>	<b>2828.93</b>	<b>49078.4</b>	<b>34902</b>	<b>8932</b>

Source: Annual report of Government of India, Ministry of Civil supplies, Consumer Affairs and Public Distribution- Year 2001-2002

**4.03 STATEWISE PERFORMANCE OF PRIMARY CONSUMERS CO-OPERATIVE STORES:**

(Rs. in Lakhs)

SR. No.	STATE	Stores in Profit		Stores in Loss		No Loss No profit		Dormant		Sale		Total
		No. of Stores	Amount	No. of Stores	Amount	Stores	Amount	Soceties	Controlled	Uncontrol		
1	2	3	4	5	6	7	9	10	21	22		
1	Andhra Pradesh	132	55.48	259	244.77	495	NIL	1715.11	4925.12	6640.23		
2	Arunachal Pradesh	22	12.08	47	NIL	NIL	15	N.A	N.A.	N.A		
3	Assam	127	637.68	122	139.6	NIL	92	3591.18	1100.4	4691.58		
4	Bihar	213	10.23	1631	17.81	N.A.	N.A.	1313.71	408.52	1722.23		
5	Goa	48	31.51	8	N.A.	N.A.	15	1030.82	1173.1	2203.92		
6	Gujarat	1138	2098.21	677	1632.46	NIL	181	12167.33	4728.51	16895.84		
7	Haryana	11	0.96	2	0.53	NIL	44	59.99	59.45	119.44		
8	Himachal Pradesh	169	12.39	41	4.08	NIL	69	886.5	288.51	1175.01		
9	Jammu & kashmir	51	2.2	8	0.24	8	33	75.6	80.25	155.85		
10	Karnataka	808	122.88	592	209.09	NIL	272	7866.85	4057.03	11923.88		
11	Kerala	899	119.08	629	198.63	NIL	147	3526.48	3681.04	7207.52		
12	Madhya Pradesh	N.A.	N.A	N.A.	N.A.	N.A.	N.A.	N.A	3862.07	3862.07		
13	Maharashtra	2068	1287	1141	N.A.	NIL	351	35176	15074	50244		
14	Manipur	N.A.	N.A	N.A.	N.A.	N.A.	N.A.	N.A	N.A.	N.A		
15	Meghalaya	25	21084	20	N.A.	0	8	208.75	113.58	322.33		
16	Mizoram	10	33.03	5	3.75	NIL	0	164.7	24.8	189.5		
17	Nagaland	1	0.39	NIL	NIL	NIL	NIL	3.07	56	59.07		
18	Orissa	125	38.91	134	37.12	NIL	63	409.22	1336.87	1746.09		
19	Punjab	14	10	47	2	NIL	27	NIL	759	759		
20	Rajasthan	265	148.8	69	23.02	NIL	215	5173.89	2938.67	8112.56		

#### 4.03 STATEWISE PERFORMANCE OF PRIMARY CONSUMERS CO-OPERATIVE STORES:

SR. No.	STATE	Stores in Profit		Stores in Loss		No Loss No profit		Dormant		Sale		Total
		No. of Stores	Amount	No. of Stores	Amount	Stores	Amount	Societies	Controlled	Uncontrolled		
1	2	3	4	5	6	7	8	9	10	11		
21	Sikkim	15	9.84	10	23.52	NIL	10	11	58	69		
22	Tamilnadu	1015	388.71	918	308.09	NIL	741	17984.37	18562.24	36526.61		
23	Tripura	3	0.27	8	NIL	NIL	26	75.88	44.58	120.46		
24	Uttar Pradesh	416	N.A.	382	N.A.	987	0	75.18	174.36	249.54		
25	West Benegal	576	21.5	445	17.45	N.A.	N.A.	74.32	30.78	105.1		
26	Andaman & Nicobar	3	5.94	7	2.86	NIL	4	16.81	3.58	20.39		
27	Chandigadh	6	1.72	N.A.	N.A.	N.A.	N.A.	16	10	26		
28	Daman & Diu	5	2.31	1	0.4	0	0	155.61	701.53	857.14		
29	Dadra & Nagar	1	0.075	0	0	NIL	NIL	27973	NIL	27973		
30	New Delhi	149	957.53	238	36.15	NIL	203	428.6	260.7	689.3		
31	Lakshideep	NIL	NIL	14	N.A.	NIL	2	604.78	769.84	1374.62		
32	Pondicherry	3	4.37	15	130.87	NIL	NIL	289.91	801	1090.91		
	<b>Total</b>	<b>8318</b>	<b>26439.1</b>	<b>7471</b>	<b>2906.84</b>	<b>1490</b>	<b>2528</b>	<b>117178.8</b>	<b>64824.97</b>	<b>182003.8</b>		

**Source:** Annual report of Government of India , Ministry of Civil supplies , Consumer Affairs and Public Distribution- Year 2001-2002

From the Table 4.03, it may also be observed that from a total of 23,173 primaries, only 8,318(35.89%) are in profit, 7,471 are in loss and 1,490 are in no Loss, no Profit situation. This means two out of every three Primary stores are not in a sound position.

Even in progressive states like Maharashtra and Tamilnadu only 58.7% and 37.9% of the primary stores are in profit respectively.

#### **4.04 Statewise Performance of Central/Wholesale Co-operative Stores:**

Refer state-wise performance of the Central/ Wholesale co-operative Stores as seen from the Table 4.05. From this table it may be observed that out of 709 Stores, 275 stores are in profit, 319 stores are in loss and 15 stores are in No profit, no Loss situation.

The Wholesale stores in Tamilnadu, Maharashtra, Gujarat, Karnataka and New Delhi are performing comparatively better than stores in other states.

**Tamilnadu :** In Tamilnadu normally every district has only one Wholesale store with a network of branches including rural branches and bulk of their business comprises of distribution of controlled commodities such as sugar, kerosene and food grains, which yield a very low margin. As a result of which though the average annual sale/store is as high as INR 237 Million, 19 out of 32 stores are in loss. This includes the first registered store i.e. T.U.C.S. (Triplicane Urban Co-operative society), organized in 1904 and which was the best and biggest till 1965.

**Maharashtra :** In Maharashtra though the annual average sale per Central wholesale store is as low as only INR 29.4 million, it has all the successful co-operative Supermarkets, including rural Supermarkets. The average sale per store is less because there is proliferation of Central/Wholesale stores and there are as many as 145 in 26 districts.

Out of 145, 40 stores are in loss. Here some of the Wholesale stores are as small as Primary stores and some are as big as the Supermarkets of International Standards. There is a concentration of successful supermarkets in Western Maharashtra and Mumbai.

**Rajasthan :** Rajasthan stores have an interesting USP. It has monopoly distribution of medicines for Govt. employees and pensioners. On account of this monopoly business, average sale of every store is much higher than their counterparts in other states. If this monopoly is withdrawn, the Wholesale Stores would collapse like a pack of cards. Udaipur Wholesale Store is however the only one which operates two small Supermarkets and is setting up one more. They are doing fairly well.

**New Delhi :** Delhi has only three wholesales Stores. Bulk of the business of two of them comprise of a sort of monopoly supply of Stationery and office Equipments to government offices. Delhi Super bazar which was once upon a time the biggest store of the country with INR 1.5 Billion of sales annually has now collapsed on account of overstaffing, mismanagement and lack of professionalism.

The Delhi Wholesale Store had a monopoly distribution of liquor which used to give them a good margin. With the withdrawal of this business, their position may not be as sound. The total sale of Central/Wholesale Stores of four states viz. Tamilnadu, Maharashtra, Gujarat, Delhi is more than 50% of the total sale of all Central/Wholesale Stores.

**4.05 STATEWISE PERFORMANCE OF CENTRAL /WHOLESALE CONSUMERS  
CO-OPERATIVE STORES: (Rs. In Lakhs)**

SR. No.	STATE	No. of W/s stores		No. of Branches			Membership			Share capital		Working Capital
		Dept. Stores	Other Retail St	Total	Consum Co-op S	Indivi- uals	other Insti/ Co-op Soc	Total	Total	Govern- ment		
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Andhra Pradesh	79	33	211	244	1327	301821	95	303243	418	227.37	636.4
2	Arunachal Pradesh	0	0	0	0	0	0	0	0	0	0	0
3	Assam	38	93	71	164	517	56821	1953	59291	261.53	238	833.42
4	Bihar	92	N.A.	N.A.	NIL	15590	33900	4720	54210	255.24	184.2	342.55
5	Goa	NIL	NIL	NIL	NIL	NIL	NIL	NIL	nil	NIL	NIL	NIL
6	Gujarat	32	23	26	49	699	120397	524	121620	872.87	13.77	14316.73
7	Haryana	33	NIL	45	45	453	93220	NIL	93873	306.06	292.42	459.57
8	Himachal Pradesh	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
9	Jammu & kashmir	12	N.A.	487	487	345	21495	240	22080	113.34	99.33	420.09
10	Karnataka	25	22	128	150	1610	451845	324	47119	261.5	201.25	1223.86
11	Kerala	14	31	69	100	2723	24207	332	27262	373.84	346.88	1231.1
12	Madhya Pradesh	35	9	38	47	607	23465	99	25071	128.66	258.11	274.66
13	Maharashtra	145	60	496	556	48	3652	22	3722	10830.2	320.22	9454
14	Manipur	9	NIL	NIL	NIL	N.A.	N.A.	N.A.	852	18.27	N.A.	N.A.
15	Meghalaya	3	NIL	NIL	NIL	53	267	1	321	52.03	52.46	127.75
16	Mizoram	0	0	0	0	0	0	0	0	0	0	0
17	Nagaland	NIL	NIL	NIL	NIL	NIL	NIL	NIL	nil	NIL	NIL	NIL
18	Orissa	27	13	96	109	2124	29540	619	32283	250.24	235.7	1152.7
19	Punjab	NIL	NIL	NIL	NIL	NIL	NIL	NIL	nil	NIL	NIL	NIL
20	Rajasthan	29	23	244	267	2536	150292	46	152874	1926.77	1528.77	12518.67

**4.05 STATEWISE PERFORMANCE OF CENTRAL WHOLESALERS CONSUMERS  
CO-OPERATIVE STORES: (Rs. in Lakhs)**

SR. No.	STATE	No. of W/s stores		No. of Branches			Membership			Share capital		Working Capital
		Dept. Stores	Other Retail St	Total	Consum Co-op S	Indivi- uals	other Insti/ Co-op Soc	Total	Total	Govern- ment		
1	2	3	4	5	6	7	8	9	10	11	12	13
21	Sikkim	2	N.A.	N.A.	N.A.	39	NIL	330	369	13.24	11.73	38
22	Tamilnadu	32	36	2236	2272	8033	827985	29211	865229	902.69	707.11	10691.63
23	Tripura	0	0	0	0	0	0	0	0	0	0	0
24	Uttar Pradesh	64	N.A.	N.A.	489	N.A.	N.A.	N.A.	202067	382.88	N.A.	1428.97
25	West Bengal	28	26	113	139	2350	10920	955	14225	338.98	283.59	1847.11
26	Andaman & Nicobar	4	49	46	95	43	15606	17	15666	104.35	4.74	2180.27
27	Chandigadh	1	3	60	63	NIL	8311	0	8311	56.11	55.5	N.A.
28	Dadra & Nagar	0	0	0	0	0	0	0	0	0	0	0
29	Daman & Diu	0	0	0	0	0	0	0	0	0	0	0
30	New Delhi	3	7	269	276	619	40017	NIL	40636	161.71	118.47	18
31	Lakshideep	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
32	Pondicherry	2	2	NIL	2	NIL	30719	NIL	30719	384.7	360.24	481.28
	<b>Total</b>	<b>709</b>	<b>430</b>	<b>4635</b>	<b>5554</b>	<b>39716</b>	<b>1637820</b>	<b>40388</b>	<b>2120843</b>	<b>18099.7</b>	<b>5248.97</b>	<b>8715.59</b>

NOTE : 10 Lakh = 1 million  
10 million = 1 Crore

Source: Annual report of Government of India, Ministry of Civil supplies, Consumer Affairs and Public Distribution- Year 2001-2002

**4.05 STATEWISE PERFORMANCE OF CENTRAL /WHOLESALE CONSUMERS  
CO-OPERATIVE STORES in 2001-2002:**  
(Rs. in Lakhs)

SR. No.	STATE	Stores in Profit		Stores in Loss		No Loss		Dormant		Total Sale		Controlled Items	
		No. of	Amount	No. of	Amount	No Profit	No Profit	Societies	Wholesale	Retail	Total	Total	Items
		Stores		Stores		Stores			sale				
1	2	3	4	5	6	7		9	10	11	12	13	
1	Andhra Pradesh	12	36.36	54	360.37	13		NIL	1266.52	4012.34	5278.86	1383.35	
2	Arunachal Pradesh	0	0	0	0	0		0	0	0	0	0	
3	Assam	18	26.36	20	56.43	NIL		0	7535.93	651.05	8186.98	5298.4	
4	Bihar	15	5.18	70	170.05	NIL		7	25.4	526.13	551.53	84.25	
5	Goa	NIL	NIL	NIL	NIL	NIL		NIL	NIL	NIL	NIL	NIL	
6	Gujarat	13	394.5	19	572.75	NIL		NIL	9583.82	8824.33	18408.2	11492.01	
7	Haryana	5	2.43	9	8.6	NIL		19	254.7	1476.27	1730.97	1056.59	
8	Himachal Pradesh	NIL	NIL	NIL	NIL	NIL		NIL	NIL	NIL	NIL	NIL	
9	Jammu & Kashmir	5	13.93	5	0.01	NIL		2	592.61	464.42	1057.03	N.A.	
10	Karnataka	17	33.82	8	75.14	NIL		NIL	6584.93	2967.48	9552.41	6385.19	
11	Kerala	3	7.82	8	31	0		3	1644.88	2269.38	3914.26	746.27	
12	Madhya Pradesh	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	409.82	779.63	118.65	986.67	
13	Maharashtra	91	961	40	71	NIL		14	26930	15818	42748	24774	
14	Manipur	N.A.	N.A.	N.A.	N.A.	N.A.		N.A.	N.A.	N.A.	N.A.	N.A.	
15	Meghalaya	2	23102	1	0.83	NIL		NIL	51.34	0	51.34	NIL	
16	Mizoram	0	0	0	0	0		0	0	0	0	0	
17	Nagaland	NIL	NIL	NIL	NIL	NIL		NIL	NIL	NIL	NIL	NIL	
18	Orissa	8	4.24	14	237.83	NIL		5	2271.86	1926.37	4198.23	2530.47	
19	Punjab	NIL	NIL	NIL	NIL	NIL		NIL	NIL	NIL	NIL	NIL	
20	Rajasthan	22	95.4	7	54.69	NIL		NIL	8442.8	4824.12	13266.9	8898.12	



**4.05 STATEWISE PERFORMANCE OF CENTRAL/WHOLESALE CONSUMERS  
CO-OPERATIVE STORES**

(Rs. in Lakhs)

SR. No.	STATE	Stores in Profit		Stores in Loss		No Loss		Total Sale		Controlled		Employees	
		No. of Stores	Amount	No. of Stores	Amount	NO profit stores	Domnant Societies	Whole-sale	Retail	Total Items	Total	Total	Trained
1	2	3	4	5	6	7	8	9	10	11	12	13	14
21	Sikkim	1	45.03	1	1.62	NIL	NIL	146.72	100.06	246.78	45.66	N.A.	N.A.
22	Tamilnadu	13	145.55	19	239.65	NIL	NIL	26211.85	4945.05	75856.9	57364.12	7919	2549
23	Tripura	0	0	0	0	0	0	0	0	0	0	0	0
24	Uttar Pradesh	30	414.18	28	347.66	0	6	4461.84	N.A	4461.84	2169.96	964	56
25	West Benegal	14	N.A.	12	N.A.	2	NIL	5521.76	2739.83	8261.59	NIL	995	140
26	Andaman & Nicobar	2	11.62	2	15.67	0	0	1495.11	2151.59	3646.7	N.A.	N.A.	N.A.
27	Chandigadh	N.A.	N.A.	N.A.	N.A.	N.A	N.A.	0	686	686	N.A.	N.A.	N.A.
28	Dadra & Nagar	11.62	0	0	0	0	0	0	0	0	0	0	0
29	Daman & Diu	N.A.	0	0	0	0	0	0	0	0	0	0	0
30	New Delhi	N.A.	13.21	N.A.	0.36	0	0	109.32	19130.07	19239.39	5042.06	2483	189
31	Lakshideep	0	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
32	Pondichery	0	0	2	536.35	NIL	NIL	255.33	725.99	981.32	NIL	18	71
<b>Total</b>		<b>275</b>	<b>25286.27</b>	<b>319</b>	<b>5022.75</b>	<b>15</b>	<b>56</b>	<b>96209.27</b>	<b>19067</b>	<b>15276.3</b>	<b>122958.7</b>	<b>16027</b>	<b>3660</b>

**NOTE : 10 Lakh = 1 million      10 million = 1 Crore**

Source: Annual report of Government of India, Ministry of Civil supplies, Consumer Affairs and Public Distribution- Year 2001-2002

#### **4.06 Statewise Performance of State Federations Co-operatives:**

Statewise performance of the Central/ Wholesale co-operative Stores can be seen from the Table 4.07. From this table it may be seen that Assam Federation has a huge business of INR 6.7 billion. It is a composite federation. It does the function of state level Consumer federation, Marketing federation and civil supplies cooperative. It has also a network of retail outlets, including rural retail outlets. In early 90's with the consultancy support of the then Consultant - Consultancy & promotion cell of NCCF (National Consumers Co-operative Federation of India), Assam Federation set up a few Supermarkets in all the major cities and towns of Assam, with moderate success.

As has been indicated earlier, the entire consumer Co-operative movement of the country do not have a any real Department Stores. There are however a number of successful Supermarkets and some of them were the top retailers of the country for a long time.

It has been repeatedly recommended by various conferences that while the primary and central/Wholesale stores should concentrate their business in retailing, state level federation and the NCCF should provide them the supply support.

Though the state federations and the NCCF have got much more financial assistance from the Government they have not been successful in providing supply support in any major product category on sustainable basis. A big experiment to set up a regional distribution centre in Chennai in the 80's also failed.

#### **4.08 Other cooperatives with Consumer business:**

Apart from urban consumer cooperatives more than 50,000 village societies including PACS (Primary Agricultural Credit Societies), LAMPS (Large Multi Purpose Cooperative Societies), FSS (Farmers' Service Societies) are distributing consumer goods in the country side. Though some village societies are doing well in select places, in a majority of them the sales volume is not sustainable and viable.

A few credit societies and employees stores are doing well. Shreyas Credit Society of Ahmedabad has become more of a Consumer Store than a Credit Society. Alembic Employees Consumer Cooperative Stores is bigger than any wholesale stores but they are exceptions than the rule.

**4.07 STATEWISE PERFORMANCE OF CONSUMERS  
CO-OPERATIVE FEDERATION -YEAR 2001-2002:**

(Rs. in Lakhs)

SR.	No.	STATE	No. of Federations	No. of Branches			Membership			Share capital		Working Capital		
				Dept. Stores	Other Retail St	Other O/s branches	Consumer Co-op Sto	Individuals	other Insti	Total	Government			
1	2		3	4	5	6	7	8	9	10	11	12	13	14
1	Andhra Pradesh		1	NIL	18	12	30	87	0	645	732	58.58	58.58	108.58
2	Arunachal Pradesh		1	5	24	2	31	67	1	NIL	68	51.47	38.56	276.79
3	Assam		1	NIL	11	32	43	617	NIL	1	618	1858	N.A.	5432
4	Bihar		1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	58	241.7	236.66	245.15
5	Goa		1	9	1	9	19	40	7400	124	7564	19.66	17.17	287
6	Gujarat		1	1	NIL	NIL	1	204	NIL	NIL	204	39.37	NIL	NIL
7	Haryana		1	NIL	NIL	NIL	NIL	34	N.A.	N.A.	34	546.63	541.49	5781.7
8	Himachal Pradesh		1	NIL	98	14	112	705	2855	1	3591	163.96	750.85	2361.5
9	Jammu & kashmir		1	NIL	45	3	48	NIL	196	894	1090	933.22	133.22	N.A.
10	Karnataka		1	9	NIL	32	41	26	NIL	NIL	26	66.4	57.25	300
11	Kerala		1	30	3	NIL	33	14	NIL	13	27	2091.5	26.67	3342.68
12	Madhya Pradesh		1	7	5	2	14	407	1	407	815	346.87	304.53	733.8
13	Maharashtra		1	9	NIL	8	17	566	NIL	1	567	193.3	139.47	4182
14	Manipur		1	NIL	2	NIL	2	251	346	1	598	36.91	34.8	N.A.
15	Meghalaya		1	1	1	12	14	9	15	170	194	949.61	947.62	355.25
16	Mizoram		1	NIL	NIL	2	2	179	11	1	191	193	263	37.05
17	Nagaland		1	NIL	1	3	4	186	821	2	1009	626	433	39.83
18	Orissa		1	5	0	1	6	37	NIL	41	78	277.79	264.89	531.35
19	Punjab		1	NIL	NIL	NIL	NIL	NIL	NIL	815	815	199	150	301
20	Rajasthan		1	49	6	NIL	55	1	32	130	163	308.09	289.81	618.37

**4.07 STATEWISE PERFORMANCE OF CONSUMERS  
CO-OPERATIVE FEDERATION -YEAR 2001-2002:**

(Rs. in Lakhs)

SR. No.	STATE	No. of Federations	No. of Branches			Total	Membership			Share capital		Working Capital			
			Dept. Stores	Other Retail St	Other O/s branches		Consumer Co-op Sto	Indivi- uals	other Insti- Co-op Soc	Total	Govern- ment				
1	2	3	4	5	6	7			8	9	10	11	12	13	14
21	Sikkim	1	1	2	NIL	3			27	NIL	NIL	27	67.98	67	162
22	Tamilnadu	1	NIL	NIL	NIL	NIL			143	1	1546	1690	383.92	115.36	411.58
23	Tripura	1	1	1	12	14			9	15	170	194	949.61	947.62	355.25
24	Uttar Pradesh	1	1	NIL	38	39			251	250	NIL	501	638.47	549.83	3928.84
25	West Benegal	1	NIL	1	1	2			34	NIL	1	35	141.08	105.14	270.6
26	Andaman & Nicobar	1	NIL	1	1	2			2	95	30	127	2.25	2.1	77
27	Chandigadh	NIL	NIL	NIL	NIL	NIL			NIL	NIL	NIL	NIL	NIL	NIL	NIL
28	Dadra & Nagar	NIL	NIL	NIL	NIL	NIL			NIL	NIL	NIL	NIL	NIL	NIL	NIL
29	Daman & Diu	NIL	NIL	NIL	NIL	NIL			NIL	NIL	NIL	NIL	NIL	NIL	NIL
30	New Delhi	1	0	29	4	33			37	1	38	76	2.71	1.98	10.12
31	Lakshideep	1	NIL	2	NIL	2			10	58	12	80	20.34	17.05	635
32	Pondicherry	1	NIL	1	2	3			24	1	114	139	277.64	261	72.91
	<b>Total</b>	<b>29</b>	<b>128</b>	<b>252</b>	<b>190</b>	<b>570</b>			<b>3967</b>	<b>12129</b>	<b>5157</b>	<b>21311</b>	<b>7961.32</b>	<b>96.57</b>	<b>2049.1</b>

NOTE : 10 Lakh = 1 million  
10 million = 1 Crore

Source: Annual report of Government of India , Ministry of Civil supplies , Consumer Affairs and Public Distribution- Year 2001-2002

SR. No.	STATE	Profit	Loss	Cumulative Loss, if any	Total Sale		Controlled Items	Employees		
					Whole-sale	Retail		Total	Trained	
1	2	3	4	5	6	7	8	9	10	11
1	Andhra Pradesh	22.3	NIL	167.38	2240.92	655.82	2896.74	NIL	23	92
2	Arunachal Pradesh	NIL	44.7	N.A	444.37	674.82	1119.19	444.37	108	18
3	Assam	240	NIL	N.A	59425	7580	67005	N.A	N.A	N.A
4	Bihar	N.A.	N.A.	N.A	NIL	NIL	NIL	NIL	N.A	N.A
5	Goa	0	124.58	217.49	1518.39	1645.79	3164.18	111.4	259	4
6	Gujarat	4.96	NIL	NIL	917	80	997	NIL	22	NIL
7	Haryana	NIL	955.48	1468.47	26062.8	1451.48	27514.28	32	503	N.A
8	Himachal Pradesh	339.39	0	0	6383.06	155.44	6538.5	27.15	302	221
9	Jammu & kashmir	N.A.	N.A.	N.A	5520	44	5564	92.5	N.A	N.A
10	Karnataka	NIL	96.48	236.48	2028.42	1823.2	3851.62	414	516	N.A
11	Kerala	28.59	NIL	133	54.08	47.32	101.4	NIL	294	33
12	Madhya Pradesh	NIL	94.57	NIL	620.1	1306.38	1926.48	228.85	171	120
13	Maharashtra	51.01	NIL	NIL	9290.65	670.29	9960.94	365.57	N.A	N.A
14	Manipur	NIL	N.A.	N.A	N.A	N.A	N.A	N.A	N.A	N.A
15	Meghalaya	N.A.	N.A.	N.A	0	607.77	607.77	N.A	164	19
16	Mizoram	NIL	361.79	361.79	109.75	29.85	139.6	0	93	NIL
17	Nagaland	N.A.	N.A.	361.72	NIL	211.94	211.94	2.52	103	2
18	Orissa	4.11	NIL	NIL	2216.44	279.11	2495.55	NIL	123	29
19	Punjab	52	NIL	262	607	82	689	N.A	56	3
20	Rajasthan	100	NIL	NIL	NIL	3402.96	3402.96	NIL	212	N.A

**4.07 STATEWISE PERFORMANCE OF CONSUMERS  
CO-OPERATIVE FEDERATIONS in 2001-2002:**

(Rs. In Lakhs)

SR.	No.	STATE	Profit	Loss	Cumulative Loss, if any	Total Sale		Controlled		Employees	
						Wholesale	Retail	Items	Total	Total	Trained
1	2		3	4	5	6	7	8	9	10	11
21	Sikkim		NIL	1.82	1.82	290.79	NIL	290.79	NIL	37	2
22	Tamilnadu		NIL	33.98	487.28	101.04	NIL	101.04	N.A	22	20
23	Tripura		NIL	NIL	NIL	NIL	607.77	607.77	607.77	164	19
24	Uttar Pradesh		NIL	160	2849.62	16477.74	NIL	16477.74	265.94	353	N.A
25	West Benegal		NIL	18.06	116.27	645	NIL	645	62	51	3
26	Andaman & Nicobar		NIL	13.29	29.89	51.46	0.6	52.06	12.52	11	NIL
27	Chandigadh		NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
28	Dadra & Nagar		NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
29	Daman & Diu		NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
30	New Delhi		1.17	NIL	NIL	14.91	395.09	410	0	61	9
31	Lakshideep		N.A	N.A	79.43	1113.8	NIL	1113.8	446.95	21	14
32	Pondicherry		17.28	NIL	126.95	7711.33	952.64	8663.97	NIL	55	48
	<b>Total</b>		<b>750.57</b>	<b>448.21</b>	<b>5069.33</b>	<b>43844</b>	<b>2704.2</b>	<b>66548.3</b>	<b>800.6</b>	<b>3724</b>	<b>656</b>

NOTE : 10 Lakh = 1 million      10 million = 1 Crore

Source: Annual report of Government of India, Ministry of Civil supplies, Consumer Affairs and Public Distribution- Year 2001-2002.

## 5. Changing Indian Retail Scenario

India's independence in 1947 is a watershed in the socio economic history of the country. Pre independence India followed by the post independence by a couple of decades is a history of illiteracy, poverty, land infrastructural, industrial backwardness, diseases and epidemics, scarcity of essential commodities. The so called democratic socialism pursued but the government restricted growth of private sector. Licenses, permit and quota system developed a high cost bureaucracy breeding corruption. Investments of foreign capital except in a few industries through government was restricted. The Gandhian concept of village self sufficiency used to be the dream of many.

India had practically a commodity market that too a sellers market with scarcity of some basic commodity or other everyday resulting in hoarding, black marketing, under weighment and a host of nefarious trade practices. The Essential Commodities Act, Food & Adulteration Act, which are now redundant , a hangover of those days, is a mute witness in this regard.

Branded commodities were very few, and could be counted on fingertips. There were just a couple of brands of tea, hair oil, bath soaps and just one brand of tooth paste, shaving blade, one brand of footwear (BATA). Small items like razor and razor blades, fountain pens, cycles used to be imported. Even these few branded products used to be casually used by the rich. Even millionaires used to walk barefoot, use *datun* (neem stick) to brush teeth and buy a few branded products only occasionally and used to possess only a couple of pairs of dresses. So the retail scenario was dominated by small subsistence level mom and pop stores.

Average middle class used to have a craze for a fountain pen a bicycle and a watch. In recent years, explosion of choice and media has changed the options and aspirations of the consuming class, by leaps and bounds.

Average margin in retailing in dry grocery and FMCG products used to be just 5%. In such a scenario how can one think of growth of organised retailing - Supermarket, Hypermarkets, Department Stores?

In a vast country like India there were just three Department Stores i.e. Spencer in Madras, Akbarally's in Bombay and Kamalaya in Calcutta and a few other smaller versions like Dorabjee of Poona in State capitals, merely to cater to the need of British class existed.

**BUT GRADUALLY THINGS HAVE CHANGED AND GLOBALISATION, PRIVATISATION AND LIBERALIZATION HAVE ACCELERATED THE PROCESS.**

## **5.01 Factors Contributing to the Changing Indian Retail scenario :**

*5.01.1 Growth of Middle Class Population :* The last half a century has created a huge middle class population with much better income than their forefathers, better education, aspiration outlook with materialistic mindset, resulting in buying more.

“Big Buying Power-India’s huge middleclass market is no myth” – says “Business Standard “ dated 23/06/04. It reports that twenty percent of the population i.e. 214.6 Million receive an annual income of Rs.48,082, for family of four household income would be Rs.1,92,328 per annum or Rs. 16,027 per month.(USD 350; USD 1050 at purchase power parity.)

Out of the top ten percent of this population a monthly household income works out to be Rs.23,000. This data proves that top 20 percent of the Indians have a tremendous buying power. It is this market which is driving the “Retail Revolution”.

*5.01.2 Growing need of Retail Space :* According to media reports India will need to create atleast 110 million square feet of additional retail space per annum for the next several years , just to keep pace with additional demands on account of economic and population growth.

*5.01.3 Market Size :* The size of the organized retail segment today is estimated at about Rs. 20,000 million , barely 5% of the total retail market, but is projected to surge to Rs. 1600 Billion by 2005. As per press reports, organized retail is growing at the rate of 8.5%. Total retail trade is estimated INR 10,000 Billion, which is less than the annual Walmart.

*5.01.4 Increase in Disposable Income :* The majority of urban population which is educated, is in mid thirties and has a big disposable income. They want to experience the modern age retailing, which India lacks at present. Undoubtedly the brand conscious urban population forms the largest segment of demand for the majority of Retailers. This segment has grown 3.22% per annum over the last decade compared to the overall population growth of about 2% per annum. Further over the past decade consumers spending has increased at an average of 11.5% per annum.

It is due to this reason that recent, press reports/ economic Publications in its studies has ranked India second as most attractive emerging market in the world. – Business Standard dtd.23/06/04 . This report further cites the following reasons why India is considered more attractive Retail destination than even China for the International Retailers.:

1. Very low market saturation, puts India on top.
2. Lower political and economic risk than Russia, Vietnam . Turkey and Indonesia.
3. Fragmented Retail market
4. However India is as hot as Russia or Slovakia for immediate entry and large rural population reduces attractiveness.

### *5.01.4. Changing Demographics:*

Due to globalisation, the Information Technology boom, and the telecommunication explosion, lifestyle of majority of Indians have changed drastically more so over the last 10 years. Goods once considered as luxuries have assumed a place of basic necessity in the changed mind set of the consumers. Appliances like TV set, a washing machine, a mobile phone, Two wheeler and even a car have entered the household of a middle class family. They are being bought over not only by urban population, but also by rural population in large numbers. Retail mania is gradually being percolated even to rural area.



More and more families have two earning members, with the result convenience food brands, cold storage stocks, ready to cook food stuff, fast food restaurants are gaining popularity in metropolises.

Indian households are graduating to better standard of living. As per Economics Times survey in ten years between 1993-94 & 2001-02 aggregate household expenditure on health services has increased by an annual compound rate of 9.3%. It's share in total private final consumption has increased by 1.8% percentage points during the same period from 3.5% to 5.3%.

Household expenditure on education has risen by 7.4% annually compounded during the same period and now accounts for 2.3% of household's aggregate consumption expenditure as against 1.8% ten years ago.

Refer Table of Consumption Expenditure below.

The expenditure on household appliances such as refrigerators , air conditioners and washing machines increased by 9.5% annually compounded during this year.

Sr. No.	Category of Consumption	1993-94 Share in Household Consumption (%)	2001-02 Share in Household Expenditure (%)
1.	Health Services	3.5	5.3
2.	Education	1.8	2.3
3.	Domestic Appliances	0.3	0.4
4.	Communication	0.6	1.8
5.	Food	51.3	44

More and more households are now spending larger amounts of money on recreation and in hotels and restaurants. Expenditure on hotels and restaurants has increased by massive 9.5% annually during this period.

However the rise in expenditure on health services , education or on domestic appliances has largely been due to a fall in the share of food items in the household consumption market. The share of food in the total private consumption expenditure, as the table above shows, has fallen from 51.3% in 1993-94 to 44% in 2001-02

### **5.02 Impact of the above changes on Indian Retail Industry:**

The foresaid socio economic factors have allured the private sectors which was shying away from the retail industry, with apprehensions of low retail margin, to jump into the fray in a big way. Now the Biyanis, Damanis, Jagtianis, Goenkas, Rahejas, Piramals, Tatas etc. have entered in Retailing in a big way.

The share values of all the listed retailers such as Pantaloon , Trent is soaring and they are the darling of the stock exchanges.

The following table indicates the turnover and number of outlets and expansion plans for the next year of the major Indian Retailers:

Sr. No.	Retailer	Turnover (Rs. Billion.)		Total floor space (lakh sq.ft.)		Total No. of outlets	
		2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
1.	Pantaloon	6.50	1.30	11.0	30.0	31	74
2.	RPG	5.45	8.00	5.2	7.5	110	130-134
3.	Shopper's Stop	4.04	5.45	6.3	8.5	13	40
4.	Lifestyle	2.30	3.10	3.2	3.2	7	0
5.	Westside	1.20	N.A.	2.3	3.3	14	18/19
6.	Ebony	0.85	1.00	1.7	2.4	8	12
7.	Piramyd	0.72 (2002-03)	1.40	1.3	5.0	3	7/8
8.	Globus	N.A.	N.A.	1.5	6.0 (next 3 yrs.)	7	14/15 (next3 yrs.)

Source: Businessworld 14<sup>th</sup> June 2004

However in the above Table, the Supermarket chain of the south Margin Free, a 214 store chain with Rs.2.40 billion and - Subhiksha with turnover of Rs.2 billion and Nilgiris seemed to have been forgotten. Also there are a number of co-operative Stores like Kolhapur Shetkari Sangh, Apna Bazar, Sahakari Bhandar of Mumbai, whose turnover is around 1.00 billion annually, which have not found place in the above Retailer comparison. Between 100 million to 700 million of annual sale there are around a dozen of co-operative stores in Maharashtra, Tamilnadu, Goa, Delhi, Rajasthan, but seems to have been forgotten by the media. This prima facia shows they are fast losing their image.

According to the press report Subhiksha, the Discount store chain is taking over "FAB MART", Supermarket chain of bangalore and "Tirnetra" Supermarket chain of Hyderabad. If this is true this may be the beginning of the process of consolidation and concentration through acquisition and merger.

## 6.0 Salesmix & Marginmix

Normally private Supermarkets do not share key data or information with fellow businessmen, leave apart outsiders. Nevertheless, being the people connected with the industry for decades, informally and continuously collecting and processing data in retailing, has helped to collect this rare and crucial data in retailing, which speaks a lot of competitive efficiency/inefficiency in the retail industry.

### 6.01 Salesmix :

The sales mix and margin mix of a few replicable private Supermarkets and Co-operative Supermarkets can be seen from table 6.1 on the adjoining page. Replicable means normal Supermarkets which sell full range of grocery and FMCG products,, consumed by majority of household every month and which can be replicated in all urban areas.

This table is most revealing about the comparative efficiency in profitability of private and co-operative stores operating in different parts of India.

From the Sales mix (composition of sales) of private Supermarkets, it might be observed that Grocery, edible, oil, detergents (Washing Aids), Spices and Tea alone contribute to more than 50% of the sale. In the co-operative sector also the same categories (commodity groups) contribute to almost the same percentage of the sale, but in Grocery, which is the basic need of entire population, the percentage of sale in the co-operative sector is comparatively less. In all other categories, the variations in the sales mix of private and co-operative sector is much less.

The variation in margin from store to store private or co-operative, largely depends upon the sales mix. If the percentage of sale of high margin (% of G.P. to Sale)category or commodity group are more, it leads to a higher margin. Better negotiations and better bargaining also contribute to improved margin. Contribution of Grocery in total sales mix of private Supermarkets is comparatively more than, co-operative supermarkets.

### 6.02 Margin mix :

Coming to the margin mix table 6.2, it may be observed that while the average margin of private sector Supermarkets varies from 12 to 16%, in the co-operative sector, is distinctly lower and in many of the consumer cooperatives margin does not even touch two digit figure. The reasons may be many, but whatever it may be, it provides a documentary evidence of inefficiency of co-operative sector. It may be noted that the cooperative stores included for comparison here are amongst the top performers in the sector.

## 6.0 SALESMIX &amp; MARGINMIX COMPARISON

6.1 COMPARATIVE CATEGORISE DATA OF A FEW PVT. & CO-OPERATIVE SUPERMARKETS :  
SALES MIX:

Sr No.	Supermarket Type	PRIVATE SUPERMARKETS					CO-OPERATIVE SUPERMARKETS				
		Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4		
	Store No.	55	22	60	15	500	15	22	17		
	Monthly sale * (Rs.in lakhs)										
	Category :							NOT AVAILABLE			
	Salesmix (%)							(N.A.)			
1.	Grocery	23	24.8	26.15	32.65	14.3	19.5		17.6		
2.	Oil/Ghee	16.6	11.8	10.1	17.7	15.2	7.3		23.10		
3.	Spices	5.10	6.70	8.11	5.5	4.3	7.5		3.70		
4.	Tea/Coffee	4.2	4.10	4.0	4.2	6.3	4.1		4.80		
5.	Biscuits & bakery	4.2	4.2	5.21	2.4	3.7	2.7		3.50		
6.	Snacks	2.1	1.80	3.81	0.8	1.3	0.2		1.305.9		
7.	Sugar	4.1	3.80	3.10	4.9	4.7	2.4		1.70		
8.	Babyfood, Milk	1.6	2.10	1.89	1.8	3.5	0.60		1.0		
9.	Dairy/frozen	1.9	2.60	1.58	0.7	3.6	1.10		0.5		
10.	Confectionary	0.8	1.0	1.27	0.6	0.8	0.90		0.8		
11.	Cold drinks	1.4	2.2	3.15	0.1	1.4	1.80		2.8		
12.	Jam/ Jelly	1.9	2.2	1.26	2.5	2.3	0.80		1.3		
13.	Instant food	2.4	1.10	3.12	1.6	0.9	3.60		1.70		
14.	Dry fruits	2.4	1.30	2.36	1.2	0.8	2.10		1.2		
15.	Papad/Pickles	1.1	1.30	1.36	1.1	2.10	1.10				
	<b>Non-Foods:</b>										
16.	Dental care	2.6	2.7	2.26	2.4	3.90	2.50		2.40		
17.	Bath soaps	4.7	4.2	4.52	4.6	5.20	4.0		5.60		
18.	Hair care	2.7	2.7	2.6	3.4	3.20	2.20		3.70		
19.	Talc powder	0.8	0.60	0.5	1.0		0.70		0.7		
				47							

Store No.	Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4
20. Cosmetics	2.3	1.60	3.09	1.4	2.10	1.30		2.50
21. Shaving Aids	1.1	1.30	N. A	0.7	0.90	0.90		1.50
22. Napkins/Diapers	0.9	1.0	1.2	0.6	2.0	0.4		1.0
23. Cleaning Materials	2.30	4.10	2.72	2.3	5.9	4.40	N. A.	2.9
24. Mosquito-Repellents	1.10	1.60	0.64	1.0	1.6	1.10		1.10
25. Washing soaps/Detergents	6.20	5.70	4.69	6.4	9.0	7.20		6.40

Note :

Store No. Location And monthly sale:	Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4
Mumbai Suburb 55 lakhs	Thane 22 Lakhs	Mumbai 60 lakhs	Mumbai 15 lakhs	Mumbai With network of branches 500 Lakhs	Pune 15 Lakhs	Madhya Pradesh 22 Lakhs	Rajasthan 17 Lakhs	

\* 10 Lakhs = 1 Million

**6.2 Margin Mix : COMPARATIVE CATEGORYWISE DATA OF A FEW PVT. & CO-OPERATIVE SUPERMARKETS: MARGIN MIX:**

Sr No.	Supermarket Type	Private Supermarkets					CO-OPERATIVE SUPERMARKETS			
		Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4	
	Store No.	55	22	60	15	500	15	22	17	
	Monthly sale* (Rs.in lakhs)									
	Category : Margin (%)									
1.	Grocery	25	25	18	22	14.1	18.0	15.0	9.5	
2.	Oil/Ghee	9.7	5.8	7.7	8.6	7.3	4.10	8.76	4.40	
3.	Spices	34	34	21.2	32.3	20.6	25.0	19.5	9.7	
4.	Tea/Coffee	14.2	11.3	13.55	14.7	7.4	11.5	6.84	4.8	
5.	Biscuits & bakery	15.7	11.2	13.7	12.5	12.7	10.2	11.87	7.7	
6.	Snacks	23.5	22.4	19.8	22.1	22.5	20.3	17.30	8.6	
7.	Sugar	5.8	8.6	8.0	3	8.3	11.7	n.a	4.8	
8.	Babyfood, Milk	10.2	9.3	10.84	10.7	10.5	14.6	9.55	6.6	
9.	Dairy/frozen	11.5	11.6	10.4	9.4	9.2	7.4	7.91	7.8	
10.	Confectionary	20.4	33.3	39.921	38.9	12.3	15.2	13.68	6.60	
11.	Cold drinks	17.2	12.7	10.1	11.	11.7	13.4	8.83	8.4	
12.	Jam/ Jelly	24.0	17.6	16.3	16.8	14.6	16.5	14.2	6.8	
13.	Instant food	15.3	17.6	15.5	18.4	16.8	16.7	11.0	7.0	
14.	Dry fruits	22.1	31.8	30.65	25	16.2	22.4	25.6	5.90	
15.	Papad/Pickles	22.6	16.0	18.9	18.9	16.5	16.2	17.57	8.8	
	<b>Non-Foods:</b>									
16.	Dental care	16.1	12.6	12.3	11.1	10.8	11.2	9.27	9.7	
17.	Bath soaps	10.3	10.0	10.85	9.5	9.1	9.6	8.75	5.9	
18.	Hair care	15.9	18.4	12.2	11.6	10.0	14.4	13.29	6.8	

Store No.	Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4
19. Talc powder	11.0	13.2	12.0	15.5	n.a	13.7	9.87	6.70
20. Cosmetics	15.4	17.9	14.74	16.9	12.9	11.4	10.74	7.4
21. Shaving Aids	15.8	14.1		16.7	12.5	11.9	11.82	7.4
22. Napkins/Diapers	13.6	11.1	14.19	19.1	16.2	11.2	31.84	.1
23. Cleaning Materials	19.6	22.0	19.48	11.9	16.6	14.5	17.84	8.5
24. Mosquito-Repellents	21.6	20	19.53	15	11.3	19.6	10.26	7.0
25. Washing soaps/Detergents	15.5	8.70	10.76	8.1	9.3	8.7	10.13	5.80
26. AverageMargin%	17%	15.9%	16.1%	14.5%	11.6%	13.1%	13.0%	7.1%

Note : \* 10 Lakhs = 1 Million

Store No. Location And monthly sale *:	Pvt.1	Pvt.2	Pvt.3	Pvt.4	Co-op 1	Co-op 2	Co-op 3	Co-op 4
Mumbai Suburb 55 lakhs	Mumbai Suburb 55 lakhs	Thane 22 Lakhs	Mumbai 60 lakhs	Mumbai 15 lakhs	Mumbai With network branches 500 Lakhs	Pune 15 Lakhs	Madhya Pradesh 22 Lakhs	Rajasthan 17 Lakhs

If one takes the biggest selling category i.e. Grocery, in the cooperative sector Supermarkets, the average Margin in Grocery is 7% to 14%. Some cooperative Executives claim that their prices are cheaper than the private Supermarkets and the quality better. But the bitter truth is that wherever private Supermarkets are coming up cooperative Supermarkets are losing their customers and business. Sample survey of prices of private and cooperative supermarkets show little difference in a couple of stores. Thus, this can be said to be the biggest weakness of the cooperative Supermarket. Since Grocery comprises of all agriculture produce lacking uniformity and not containing MRP (Maximum Retail Price), the claim of the Superlative quality of the products, speaks of their inefficiency. Since they do not compare the purchase price with other retailers their weakness in this regard eclipses. This weakness is however more revealing in FMCG products containing MRP. It might not be out of place to mention here that all leading FMCG companies have a fixed markup structure. However since discriminatory pricing is the basic principle of wholesaling, the margin in every category which should be the same, if not better, varies from store to store. The system of Cash Discount (even if bill is paid within a week or two), Quantity Discount and Company Scheme facilitate the price discrimination. Negotiations also plays an important role.

From the table it might be observed that in the category of Oil/Ghee, the private Supermarkets are getting an average margin of 7.7% to 9.7% , while cooperative are getting 4 % to 8.7% only. Such a low margin on one of the top categories of sale, also is one of the reasons of fast eroding profitability of the co-operatives.

From the table it might be observed that in the category of Dry fruits, the private Supermarket are getting an average margin of 21% to 30%, while cooperatives are getting 11 % to 16% only. This is an eye opener for the so called professional executives of the co-operatives.

From the table it might be observed that in the category of *Masalas* (spices), the private Supermarket are getting an average margin of 21% to 34% , while cooperative are getting 19 % to 25% only. This proves the lack of negotiation skills of the Co-operatives Executives.

In Branded Tea business retailing, the normal markup of all FMCG including the local brand is only 6.66%. All of them however discriminately offer 1% to 2% cash discount plus Rs. 10 to Rs. 20 cash discount per Kilogram, plus 1 kg. To 2.5 kg. of tea for every 100 kg. of purchase. All these put together takes the margin up to 15% and then even if they sell 2% to 3% less than MRP, they get an average margin of 12% to 13% in Tea. Most of the cooperatives Stores are either not availing these or are not getting the benefit to the extent of the private retailers.

It may also be observed that in all other categories Private Supermarkets are getting much more margin than their counterparts in the cooperative sector.

All these *prima facie* shows co-operators and co-operative executives are neither keeping abreast about the marketing environment nor are they making SWOT analysis.



## 7. Financial Analysis of Select Co-operative Consumer Stores

From the core data i.e. Financial Analysis & Comparison Of Balance sheets of Select Co-operative Stores at the Appendix Table F1- F7, and the table 7.01 it may be observed that membership, share capital, funds and sales are all stagnating or the growth rate is very nominal. If we consider the growth in population of about 2%, increase in per capita income and consumption expenditure of about 5% and GDP growth of about 5%, then the cumulative growth rate in sale in all consumer stores should be atleast 10% to 12%. Again unless sale and gross Profit increase every year, they cannot sustain the increase in expenditure especially increase in staff cost, as they have to comply with the labour laws and have to pay atleast 10% more to the employees every year.

If we consider the stock productivity (Margin x Stock turn) it may be observed that in all the consumer stores it varies from 114% to 252%. In the private sector in all supermarkets it is 250% to 400%, since margin varies from 12% to 15% and the Stock turn varies from 15 to 25 times.

The Productivity and profitability of the Consumer Co-operatives can be increased only by increasing the average margin (%of G.P. to Sale), and the Stock turn rate. In this regard there is ample scope for improvement which can be appreciated from the comparative Margin statements in 6.2 of chapter 6 of this report.

One surprising thing is that the stores which were in overall profit, would have been in loss , but for the other income or non business income. Thus some of them which are today in profit may be in loss after a couple of years. In fact during 2003-04, this situation has already occurred in one of the successful stores in Mumbai.

Staff cost is the biggest component of the cost structure, both in the cooperatives and private sector retailing. Compared to sale this cost varies from 3.3% to 7.68% of the sale and 45% to 87.50% of gross profit. In the private Supermarkets. the % of staff cost to sale is almost the same, but nowhere it exceeds 45% of Gross profit. But in some consumer Stores, it is as high as 70% of the Gross profit. This is due to irrational demands of the organized labour and inability of the management to contain the demands within a particular norm. e.g. no retailer in the world can survive if the staff cost is more than 50% of Gross profit.

In all the stores the cost of Interest, Insurance and bank charges except for Purti Bazar of Indore and Apna Bazar of Mumbai, where it has crossed the tolerable limit , is below the normal norm of 1.5% of the

## 7.01 FINANCIAL ANALYSIS &amp; COMPARISON OF A SELECT

## CO-OPERATIVE STORES:

PARTICULARS:	Raigadh Bazar		Sahakar Bazar , Kaiwe		Apna Bazaar	
	F.Y. 2002-03		F.Y.2002-03		F.Y.2002-03	
	% to sale	% to GP	% to Sale	% to GP	% to Sale	% to GP
Sale (Rs. In Lakhs)	4029.06	1137.09	1893.33	1187.12	12881.45	1236.41
Gross Margin	354.33	8.79	159.49	8.42	1041.84	8.09
Staff Costs	171.13	4.25	91.99	4.86	567.52	4.41
Interest, Bank & Insurance Charge	100.04	2.48	4.77	0.25	10.30	0.08
Rent & Depreciation	29.61	0.73	12.45	0.66	234.69	1.82
Electricity Bill	19.95	0.50	5.48	0.29	0.00	0.00
All other Expenses	56.19	1.39	48.82	2.58	517.97	4.02
Total	376.92	9.36	163.51	8.64	1330.48	10.33
Net Profit	372.37	9.24	10.40	0.55	1.00	0.01
Sundry Creditors	857.28		93.86		0.00	
Net Profit to sale	9.24		14.21		0.16	
Net Profit to Gross Profit	105.09		6.52		0.10	
Net Profit to Paid Up share	2251.33		33.62		1.01	

## SELECT RATIOS

Margin (%)	8.79	8.42	8.09
Average Stock	310.21	77.17	654.20
Stock Turn	12.99	24.53	19.69
Stock Productivity	114.22	206.67	159.26
Debt Equity Ratio	58.90	0.78	29.41
Current Ratio	fail	24.09	2920.19
Acid Test Ratio	0.54	0.92	0.72
	-535.90	7.82	244.10
Fixed Assets Ratio	FAIL	fail	fail
Fixed Assets	143.35	51.54	309.08
	909.31	165.35	165.35

DATA SOURCE :ANNUAL REPORTS

7.01 FINANCIAL ANALYSIS & COMPARISON OF A SELECT

CO-OPERATIVE STORES:

PARTICULARS:	Sahakari Bhandar		Grahak Peth, Mumbai		Goa Cooperative Society	
	F.Y.2002-03		F.Y.. 2002-03		F.Y. 2002-03	
	% to Sale	% to GP	% to Sale	% to GP	% to Sale	% to GP
Sale	7527.27	873.00	1037.24	996.39	2252.00	1139.04
Gross Margin	862.23	100.00	104.10	100.00	197.71	100.00
Staff Costs	507.78	58.89	42.36	40.69	173.00	87.50
Interest, Bank & Insurance Charges	17.39	2.02	0.42	0.40	95.01	48.06
Rent & Depreciation	133.03	15.43	10.05	9.65	48.47	24.52
Electricity Bill	48.19	5.59	3.32	3.19	3.82	1.93
All other Expenses	260.45	30.21	56.80	54.56	33.15	16.77
Total	966.84	112.13	112.95	108.50	353.44	178.77
Net Profit	3.43	0.40	84.87	81.53	-139.29	-70.45
Sundry Creditors	0.00		135.78		857.28	
Net Profit to sale	0.05		8.18		-6.19	
Net Profit to Gross Profit	0.40		81.53		-70.45	
Net Profit to Paid Up share Ca	32.45		588.15		-708.49	
Margin (%)	11.45		10.04		8.78	
Average Stock	572.90		41.19		112.84	
Stock Turn	13.14		25.18		19.96	
Stock Productivity	150.50		252.73		175.25	
Debt Equity Ratio	6.73		0.14		35.09	
Current Ratio	71.15				fail	
Acid Test Ratio	0.47		0.31		0.20	
	665.77		-90.05		-716.19	
Fixed Assets Ratio	pass				fail	
Fixed Assets	251.20		143.35		143.35	
Fixed Assets	165.35		97.74		909.31	

DATA SOURCE :ANNUAL REPORTS

**7.01 FINANCIAL ANALYSIS & COMPARISON OF A SELECT  
CO-OPERATIVE STORES:**

	<b>Superibaug Cooperative FY.2002-03</b>		
<b>PARTICULARS:</b>	<b>% to Sale</b>	<b>% to GP</b>	
Sale	1508.24	1357.43	
Gross Margin	111.11	7.37	100.00
Staff Costs	41.22	2.73	37.10
Interest,Bank & Insurance Charges	13.64	0.90	12.28
Rent & Depreciation	14.51	0.96	13.06
Electricity Bill	NA	N.A	N.A
All other Expenses	36.18	2.40	32.56
Total	105.55	7.00	95.00
Net Profit	7.67	0.51	6.90
Sundry Creditors	62.45		
Net Profit to sale			
Net Profit to Gross Profit			
Net Profit to Paid Up			
Margin (%)	7.37		
Average Stock	97.22		
Stock Turn	31.94		
Stock Productivity	235.84		
Debt Equity Ratio	2.66		
	fail		
Current Ratio	0.89		
Acid Test Ratio	54.59		
	Pass		
Fixed Assets Ratio	24.25		
Fixed Assets	117.28		

**DATA SOURCE :ANNUAL REPORTS**

sale and 15% of the Gross Profit. This cost component compares favourably with the private sector.

The cost of Rent and Depreciation in all the cooperative Stores compares favorably with the Private sector. This is mainly because some of them have their own buildings and/or have taken lease hold properties for the last several years at a very low, often subsidized cost.

Electricity charges is also comparatively much lower compared to the Private Sector Supermarkets. This is mainly on account of the fact that none of the Co-operative stores are Air conditioned nor do they have sophisticated gadgets like chillers, freezers etc.

Other expenses of the consumer co-operatives are much higher than the Private Sector and this is on account of holding meetings, mandatory under the law, Printing and Stationary (mandatory under the law). In this regard, this cost do not exceed 1% to 1.5% of the sale in all the successful Private Supermarkets.

Thus Staff cost and other expenses are the important areas of cost control in Consumers co-operative Stores.

The Margins have been increasing over the past year as the industry is currently growing stage and competition is just coming in. Stores like Apna Bazaar, & Sahkari Bazaar have slightly improved their margins. This growth in margin is however, not adequate enough to compete with the Private supermarkets where the margins vary from 12 to 15%.

On an average private supermarkets are rotating their stocks once a month. Baring two i.e. Sahkar Bazaar, Kalwe and Grahak Peth, Pune are achieving a stock turn rate of more than twice a month. This shows good inventory management and sales strategy. Only these two stores match the efficiency of the private supermarkets. and the cooperatives do not operate for twelve hours a day and seven days a week.

Baring Grahak Peth, Pune none of the stores qualify the parameter of 250% for Stock Productivity. Acquisition of fixed assets viz. Land, Building is a positive sign of development provided it is not more than Own Fund + Term Loan, if any. Apna Bazaar and Raigad Bazaar have acquired assets entailing over borrowing resulting in high cost of interest.

In short while the average margin of the cooperative stores is much less than the private sector their cost structure is much higher than the private sector.

## 8. Competition & Problems

As indicated earlier the corporate houses are jumping into the fray in a big way and their ambitious plan to expand their retail chain at a rapid speed is taking shape. They are even contemplating to enter into B grade cities. In fact Big Bazaar has already opened a hypermarket in Bhubaneswar and another at Nashik very recently.

What are these big Retailers doing? Their competitive edge revolves around:

- ✓ Merchandising
- ✓ Services
- ✓ Ambience
- ✓ Computerisation/Automation.
- ✓ Low Prices
- ✓ Aggressive Marketing

### 8.1 Services:

The big Retailers are taking utmost care in providing :

1. Infrastructural Services
2. Comfort Level Services
3. Convenience Level Services
4. Sales Related services
5. After Sales Services.

#### 8.1.1 Infrastructural Services :

Their Infrastructural Services include huge premises of 50,000 Sq.ft. to 70,000 Sq.ft. (5,000 Sq.m.- 7,000 sq.m.), huge parking for hundreds of vehicles, large number of trolleys and baskets, wide aisles, ramps, lifts and escalators, imported and sophisticated standard Racks and Gondolas, furniture, equipments and more checkouts.

None of the Cooperatives has to offer any such Infrastructural services. While one hypermarket involves an investment of Rs. 200 Million(Giant Hypermarket of Hyderabad), the total financial assistance provided by the Government of India to all of the Primary and Central Consumer stores during last 50 years is less than Rs. 200 million.

### *8.1.2 Comfort Level Services :*

Comfort Level Services includes wide aisles – 10 feet – 20 feet wide, fully air conditioned atmosphere, pleasant music systems etc. None of the cooperative stores in the whole of India are air conditioned.

### *8.1.3 Convenience Services:*

Convenience Services of private retailers encompasses:

1. Longer working hours (closing time beyond 10 p.m.),
2. Drinking water,
3. Toilet facilities
4. Sitting arrangement for customers.
5. Wheel chair for handicapped etc.

Some of the cooperative stores do provide some of these services. By and large they are lagging far behind in providing Convenience Services to the customers.

### *8.1.4 Sales related Services:*

Sales related Services of the large format Retail Chain includes accepting all modes of payments such as Cash, Cheques, Credit/Debit card, Sodexo Pass, Ticket Restaurant Coupons, Debit notes etc. Some of them provide Door delivery services and Telephone Order facilities. Sample survey shows that Sales through Credit/Debit cards account for 10% to 40% of total sale. But barring a few big Stores most of the Cooperative Supermarkets do not accept Credit cards, e.g. a very successful and leading Cooperative Store like Sahakar Bazar, Kalwa, with an annual sale of INR 200 million do not accept Credit cards. Some of them argue that they lose the margin by way of paying commission to the Bank. Yet some other stores accepting credit cards hide the swiping machine, discouraging the customer to use the credit card. Some of the Cooperatives do have the Door delivery system.

Also the product range of Hypermarkets is in the range of 20,000 to 100,000 SKU's, which is much higher than cooperatives. They are also selling imported gift articles and food stuff.

### *8.1.5 After Sales Services:*

In after sales services the Private Sector has a clear, written and declared policy. It is specifically communicated to the customers through placards or printed at the rear of Cash memos e.g. in Pantaloon they have declared:

“Return/Exchange Allowed – No Questions Asked.”

In most of the Consumer Cooperative Stores there is the existence of a return/exchange facility, but nowhere is it conspicuously communicated.

The behavioral services of the Private Sector retail chain far out weighs the local players. The employees are trained to be well dressed, well mannered and serve with a smile.

## **8.02 Computerization & Automation:**

Apart from the large format retailers even the small private Supermarkets are using computers, churning out useful management information, which are so essential for identifying operational problems if any and to take suitable action/decision.

Contrary to this there are just a counted few stores which are using computers. Again barring two, three of them, in all other cases, the software does not provide the classified Management Information, and wherever the suitable software is installed, interpretation of this data is yet to be taken seriously. Other automation equipments like Fork lifts, Pellet Jacks, Computerised automatic weighing and billing machines are yet to be thought of.

### **8.03 Pricing:**

Earlier most of the Cooperatives were selling cheaper than the local private retailers. But the large format retailer are following very aggressive pricing, e.g. Fortune Oil with an MRP of INR 72 was sold at D-MART, Thane with 'Buy Two, Get One Free' scheme. This means that the cost of one litre is reduced to INR 48 to the consumer. Buying price of all the cooperatives and small private supermarkets was more than this, leave apart the selling price.

All the hypermarkets are either following low price policy or resorting to deep discount policy for multiple pieces of one SKU. In most of the products the prices of D-MART in Mumbai is cheaper than the local market rate and the consumer cooperatives. In Britannia Biscuits permanently 10% discount on MRP is offered to the consumer and so and so forth.

Consumer Stores apart, even the smaller private Supermarkets with a monthly sale of INR 2-3 million in one unit are scared of these large format retailers.

### **8.04 Marketing:**

During the scarcity days and when there was no concept of MRP, small private retailers were invariably resorting to under weightment, hoarding, black marketing and overcharging. In such a scenario correct weightment, little lower than market price used to be the USP's of consumer cooperatives. Introduction of self service unknowingly became their strong marketing strategy and in several parts of India specially in Maharashtra, Goa, Tamilnadu, New Delhi they became the biggest retailers of the country.

But all these USP's have no meaning in this changed retail scenario. This large format Retail chain are giving full page, colored, attractive newspaper advertisement resulting in mad rush of the customers.

The bitter truth is that consumer cooperatives are losing their customer traffic and sales. In one of the stores of Mumbai during 2003-04, sale has decreased by around 15% as compared to the preceding year.

### **8.05 Cost structure:**

By and large the big format retailers are paying better salaries to their employees, recruiting highly qualified top management, incurring higher cost of electricity on account of air conditioning, still their cost structure is less than the cooperative stores. This is mainly on account of better productivity, e.g. while the average sale per employee per month is hardly INR 0.1 million a month in a cooperative store, whereas it is more than INR 0.2 million in this large format stores.

### **8.06 A Point to Ponder:**

If:

- The stock range is less;
- Prices are comparatively higher,
- Infrastructure, ambience and comfort level services are low,
- Customer services are poor,
- Cost structure is higher,
- Marketing is absent,



*How can the Consumer Cooperatives compete with the large format retailers, which are expanding their tentacles very fast?*

The answer lies in NTUC fair price of Singapore, Migros of Switzerland, Coop Italia of Italy, which have been successfully competing against the Global retail players.

At a mission level having the customer and the shareholder as one entity is a huge structural advantage of consumer cooperatives over any privately owned retailer. However the operations and management have to be efficient and professional. The above international examples prove that consumer cooperatives can have their place in the sun, even in the most competitive markets.

## 9. Interviews

Chairman and Chief Executives of some of the leading consumer stores were interviewed to know the problems as they perceive and solution they think of, especially in the context of the threat of the large Format Retailers.

- I. Mr. B.D.Pawar who had a long inning as Director Marketing and Additional Registrar of Co-operatives and also who is closely associated with a number of cooperatives stores was also interviewed.
- II. Chairman of Sahakari Bhandar, Mr. Sanjay Shete said that with the capital base, experience and expertise Consumer Co-operatives have, they cannot compete with the large format retailers. Unlike the big Hypermarkets, consumer cooperatives cannot invest half a billion rupees to open a hypermarket, nor can they afford to employ highly professional Managers.

He admitted that Sahakari Bhandar has lost about 15% of sale with the opening of the Supermarkets and Hypermarkets by Biyanis and Damanis. He said that in mid forties and mid sixties when large number of Consumer Co-operatives were organised throughout the country, the mission was equitable distribution of consumer goods and save the consumers from the unethical and unfair trade practices of the Private Traders, then prevailing on account of scarcity. Now things have changed, everything is available abundantly and piety of cooperative objectives have been redundant. So the basic objective of the consumer co-operatives and cooperators have been outdated and lost. They have to find a new purpose and a new mission. This was also repeated by Mr. Suresh Tawde, Chairman Apna Bazaar. Only the words were different.

The views of other people interviewed were almost the same, only the language was different.

Some said that cooperative department is just like torture chamber. They do not have sympathy for the cooperatives or for the ideology.

*“Unless Government intervenes and take some positive steps, most consumer cooperatives will gradually face liquidation.”* This was the opinion of the majority.

## 10. Legislation

### 10.01 CO-OPERATIVE LAWS:

Cooperation being a State subject, every state has its own cooperative law. However, by and large provisions contained in all the laws are similar. There is also a central law for multi state cooperative separately. However, all the laws suffer from the hangover of the first legislation enacted in 1904, basically for credit cooperatives. The provisions are mostly tailor made to suit the requirements for the credit cooperatives.

The biggest hurdle of the cooperative legislation is the area of operation. e.g.:

1. A successful consumer store cannot open a branch beyond its area of operation, which is normally not more than a district.
2. Except for Maharashtra and Gujarat in all other States, all Central and State level Stores are managed by officers of the Cooperative department of the State Government. Obviously they adhere more to the rules, regulations, procedures and systems than to business expediency.
3. Another big hurdle is that for almost everything they require the approval of the Registrar of the Cooperatives, example even if a consumer store wants to buy a building to open a branch, from its own funds, it requires the prior approval of the Registrar.
4. It was also observed that a consumer store of Rajasthan could not dispose of its old vehicle, nor could it buy a new one without the Government's permission.

Some States like Rajasthan and Andhra Pradesh have liberalized government control, but only for the Primary Societies without Government funds.

Now the law in all the States provide for collaboration and joint ventures with the private sector, but cooperators are so far shy in this regard. The problems of some stores are such that by collaboration only they can be solved, in this changed economic scenario. But there seems to be a psychological inhibition.

One good thing is that Apna bazaar of Mumbai, which cannot open a network of branches because of lack of capital and commercial space, has opened a network of about 40 franchise stores. Sahakari Bhandar has also a couple of Franchise stores. This concept is worth emulating by other successful stores in other parts of the country.

### **10.02 OTHER LAWS:**

There is a plethora of labour laws, Taxation Laws, Consumer laws, Shop laws that are uniformly applied to private sector and cooperatives alike. However Cooperatives get only the following concessions:

1. Only the Provident fund Act gives a little concession to the cooperatives, under which a Private organization with a Staff strength of 20 has to abide by this law, in case of cooperative Organization it is applicable only when the staff strength is more than 50 and above.
2. In case of Income Tax law, in case of cooperatives, interest and dividend received by a cooperative from another cooperative is fully exempted from income Tax.
3. The consumer cooperatives of Maharashtra have been given a unique privilege. Shri Ram bazaar Of Phalton applied to the State Government seeking permission to keep their store open all the seven days in a week. The State Government gave a blanket approval to all the consumer cooperatives in this regard.

However these privileges and concessions are neither known nor being availed by the consumer cooperatives.

### **10.03 CONSUMER PROTECTION ACT:**

The consumer protection Act passed in 1986 gave five basic rights to the consumers viz.:

1. Right to information
2. Right to Choose
3. Right to education
4. Right to be heard
5. Right of the grievances to be redressed.

Basically a Supermarket or for that matter a self service stores, Private or Cooperative provides all the rights enshrined in the Consumer Protection act on a plate. Most of them have also the redressal system in the form of Returns/Exchange facility.

## 11. Conclusions And Recommendations

### 11.01 Conclusions:

1. With the age of liberalization, growing affluence and a fast and enlightened middle class, consumerism has come in.
2. The modern , educated customer with global exposure is more demanding and his shopping basket is fast changing. He wants the comfort and convenience of international standards right at his door.
3. This vacuum has been filled up by this new crop of Supermarkets, Hypermarkets, Department Stores launched by the Private sector, which were earlier shy to enter into Retailing because of low margins, low spending.
4. These Supermarkets, Hypermarkets, Department Stores of Private sector Retailers are of international standards. On account of their trade volumes, they are getting a better bargain from the Suppliers and are following predatory pricing policy.
5. These have adversely affected the Consumer Cooperatives especially in places like Chennai, Mumbai, Hyderabad, where these players are more active. They are spreading very fast and the problems of Consumer Cooperatives may be aggravated.
6. In some places where the big players have not arrived some consumer cooperatives are still the biggest retailer in their area of operation. But sooner or latter they will face the same problems.

### 11.02 Recommendations:

1. In some pockets of India specially in Mumbai Western Maharashtra, Tamilnadu, Goa Consumer Cooperatives are strong brand names and there is some amount of cooperative culture. They have also over the years developed a good infrastructure in the form of network of branches. In one city there are more often than two big stores.  
  
It is advisable for them to go for voluntary merger to pool their purchase power, and to develop their competitive strengths.
2. In Europe smaller Supermarkets could survive before the large format stores by improving their supply chain through specialised Distribution Centres. The Dutch firm SPAR is one such organisation. They have arrived in India and in collaboration with Radhakrishnan's Foodland, have already set up a ultramodern distribution Centre in New Mumbai. They do offer supply chain support, technical

support and know how. Cooperatives may consider to avail of this experience and expertise in mutually beneficial terms and conditions.

3. Professionalism, Computerisation and minimum ambience are something like a war cry now. They have to go for computerisation with suitable and proven software, and maintain a minimum level of ambience.
4. It is true that they cannot recruit MBA's from Ace Management Institutes. They can however get their Supervisory and Managerial personnel trained in the correspondence course launched by Apna Bazar's ASOKA MEHTA INSTITUTE OF MANAGEMENT & RESEARCH - VASHI, NAVI MUMBAI, whose students have now well settled with Multinational and reputed private supermarkets/hypermarkets.
5. They should also share experiences of the Private sector by attending seminars and conferences that may be organised from time to time.
6. At the instance of the C&P cell of NCCF interest free deposit scheme was launched by consumer cooperatives and by this process millions of rupees has been collected by several consumer stores. Such funds should not be misused and part of it may be used for renovation and expansion.
7. Wherever there is a well developed infrastructure like in Western Maharashtra, Goa, Tamilnadu and Bangalore, they may jointly seek the support Cooperative Organisations like NTUC Fairprice of Singapore, or Migros of Switzerland or Coop Italia of Italy, who have successfully survived the onslaught of global Retail players with success. ICA can be a facilitator in this regard.
8. Picking up a region of India for turn around of cooperative stores has a higher chance of success. Leadership and success demonstration by an able international retailer or retailers can lift the morale of the entire Indian Cooperative sector.

However, the National Coop Policy approved by the Government of India lays emphasis on development of self reliant and economically viable organisations with emphasis on professionalisation and democratization. Under policy frame work, Government of India is visualizing a phased withdrawal of financial support to the cooperatives.

This is exactly opposite view of the policy of Government of India of sixties and seventies, which then proclaimed State partnership in cooperatives, when with the financial assistance of Government of India, consumer cooperatives developed an infrastructure and employs hundreds and thousands of people sudden abdication of this responsibility by Government of India may lead to large scale closure of Consumer Stores and people losing their employment. Hence the Government has a role to play.

It is important that the consumer cooperatives of India collectively discover a renewed "*Sense of Purpose*" to drive them in the changed times. In our view a large base of consumer members, dedication to consumer welfare, efficient, no frills business model and modest surplus objective make a very purposeful and viable combination even today.

PHILIPPINES





# PHILIPPINES

## Consumer Co-operation in the Philippines: Implications to Policy<sup>1</sup>

By JOEL BEASCA

### Executive Summary

Compared to other countries in the ASEAN community, the economic performance of the Philippines has suffered from a general trend of low output with irregular moments of high growth. Despite being an agricultural country, the agricultural sector has been weak over time. The low growth pattern is further made unsustainable by high consumption in lieu of savings and capital formation. Growth distribution has also been uneven geographically, with concentration in the northern part and least contribution from the southern regions. The current economic situation is however better than before, when inflation rates were unstable and when a brief episode of rice shortage transpired.

Unemployment and low incomes are continuing problems brought about by slow economic progress. Complicated by a high population growth rate, income poverty remains a challenge especially in the agricultural and rural areas. The country is weakest in the income dimension of human development, although its global rank in human development remains at the middle level and has moved at par with most of the ASEAN countries.

The government of the Philippines has a development plan that seeks to address the requirements for sustainable growth with equity. The government is however challenged by fiscal deficit constraints that may curtail the prospects for socio-economic development.

The retail trade sector is currently operating within an environment of liberalization. Foreign-owned retail service has come in, with varying results on their initial operations. Still, the general outlook is toward expansion of the foreign-owned stores. Retail trade in the country contributes substantially to GDP and employment. Although retail service providers are composed mainly by small retail establishments, the larger retail firms dominate the market. There are retail industry associations comprised mainly by the big players. Consumer welfare is promoted and ensured by policies through the Consumer Welfare Act and the Price Act.

There are more than 10,000 co-ops engaged in retail trade in the Philippines as of 1998. However, most of these co-ops can be classified as small-scale retail establishments with a market share of only 2.9%. The development of consumer cooperation in the country has been slow. The level of consumer cooperation is lower than in some Southeast Asian countries because of gaps in government support, a weak agricultural sector and base of agricultural co-ops, and inability of consumer societies to integrate to a higher institutional and business structure. The effects of globalization on consumer co-op societies have

so far been limited to those located in the urban areas.

Policies pertaining to consumer and overall co-op development in the Philippines have not been adjusted to meet the competitiveness requirements brought about by retail trade liberalization. Long-standing policies were relevant when these were introduced in the 1990s but could have adverse effects on the readiness of consumer co-op societies for full market competition.

To strengthen consumer cooperation in the Philippines, the following have been recommended:

1. Co-op retailers and would be wholesalers should be made to operate at full cost basis to determine their true level of market competitiveness;
2. A representative body of co-op retailers should be organized and mainstreamed in the affairs of poverty alleviation, consumer protection, and industry-level activities;
3. Consider the option of forming an alliance or joint venture with an existing distributor, whether local or foreign, in the current plan by some co-op societies to put up a new wholesale distribution center;
4. Merge the plans to establish an integrated co-op mart chain under a modern retail format;
5. Coordinate the programs of various government agencies to enhance the growth of the consumer co-op sub-sector;
6. Discourage the organization and registration of new consumer co-ops and multi-purpose co-ops in retail trade except in regions of low co-op retail density;
7. Conduct an information, education and communication program among co-op retailers to encourage recruitment of more members, especially women, and promote mergers; and
8. Implement a member-education program to promote market competitiveness, consumer welfare, gender sensitivity, poverty alleviation values, and population management.

#### **A. Introduction**

In most Southeast Asian countries, the concept of consumer cooperation gained significance during moments of scarcity in food and other essential items. Governments promoted consumer co-operatives as a means of rationing basic commodities and controlling their prices. The growth of consumer co-operative societies was sustained in succeeding phases of stability in the distribution system through continued government support, linkages with agricultural co-operatives, and integration of the retail/wholesale business. Over the years, consumer co-operative movements having key roles in the retail industry were established in some countries. Co-op retailers were estimated to hold 29% of the retail market in Singapore in 1988. In Thailand, the combined sales by 264 consumer co-operatives was about US\$91 million in 1986. In Malaysia, 240 consumer co-operatives posted sales of M\$140 million in 1988.

The role of consumer cooperation continues to be re-defined in view of changes in the overall socio-economic environment and the emerging themes for development. As part of the global concern for social development, the International Co-operative Alliance (ICA) and the United Nations (UN) System has formally recognized consumer co-operative societies to be instruments for poverty eradication through the provision of affordable goods and basic necessities to those with limited incomes. Co-operative enterprises are also acknowledged to be effective in the matter of consumer protection because of their member-driven systems and purposes. In the current period, the ICA has taken note on the possible impact of globalization on consumer co-op movements.

Consumer cooperation in the Philippines has long existed. For a time, the consumer co-op system served the purpose of rationing commodities after the Second World War. However, the sector is not known to have developed to a level similar to those in other Southeast and East Asian countries. The context of consumer cooperation in the country has also changed due to greater openness of the economy to global trade. The readiness of consumer co-op societies in adjusting to new competitive realities while maintaining its social purposes on poverty alleviation and consumer protection therefore needs to be explored.

This study aims to investigate the main issues surrounding consumer cooperation in the Philippines. The first part presents the broad context of social and economic development. The succeeding section describes the retail trade sector in the country. A review of co-op societies engaged in retail activities, previous and current efforts related to the strengthening of consumer cooperation, and the policy frameworks on co-op development are then shown. The last part sums up the state of consumer cooperation and suggests options for a greater role by co-op societies in view of their social mission and the requirements of market competitiveness.

## **B. Country Profile**

*Geography.* The Philippines is an archipelago of more than 7,000 islands grouped into the northern section of Luzon, the middle part of Visayas, and the southern portion of Mindanao. The total land area of approximately 300,000 square kilometers is distributed about evenly between these groupings, at around 105,000 in Luzon, 100,000 in the Visayas, and 95,000 in Mindanao.

Stretching some 1,850 kilometers, the Philippines is bounded by seas that separate it from Taiwan and China in the north, and from Malaysia and Indonesia in the south. Physical proximities facilitate mainly tourism opportunities with the Chinese up north, while the southern section of Mindanao is considered part of the Brunei-Indonesia-Malaysia-Philippines East Asia Growth Area (BIMP-EAGA).

Due to its archipelagic feature, transport of goods throughout the country is intermodal. While the local road network density of 0.67 per square kilometer is higher than in Indonesia and Malaysia, the paved road ratio is comparatively low at only 0.21. There are 114 points covered by the seaport network. A roll-on, roll-off transport system links the road and seaport networks from north to south. Airports are located in most of the major cities, with at least one major international airport each in Luzon, Visayas and Mindanao.

*Population and Demography.* The population base grew from 60.7 million persons in 1990 to 76.5 million persons by Year 2000 (Table 1).<sup>2</sup> The annual population growth rate of 2.4% is high, compared to other ASEAN countries especially in Thailand and Indonesia where the annual growth rates are about 0.9% and 1.5%.

More than half of the population (55% - 56%) is concentrated in the Luzon regions, particularly in Southern Luzon, Central Luzon, and the National Capital Region. About a quarter are located in Mindanao and some 20% - 21% are in the Visayas (Table 1). Local population growth and possible net migration inflows unfavorably skew population distribution towards Luzon, where the population density could now be around 408 persons per square kilometer, compared to the Visayas and Mindanao, at about 155 and 191 persons per square kilometer, respectively. Latest reports estimate the urban-rural population to be distributed almost evenly, as compared to a mainly rural population of 63% in the 1980s.

The gender ratio of the population remains about even. Those within the productive age group of 15 to 59 years old continue to form more than half of the population. Redistribution in the age group composition

of the population is apparent over time, given an increasing proportion by the economically mature age group or those 25 to 59 years old (Table 2). As early as 1992 however, a market study suggests early development of consumer behavior by the youth (i.e. those between 12 to 21 years old) in the urban sample of Metro Manila [McCann-Erickson Philippines, 1992].<sup>3</sup>

Average household size has been steady, at around 5 members per family.

**Table 1 : Population Size and Annual Growth Rates Per Island Group and Region (Philippines), 1990, 1995 and 2000**

	1990 (persons)	1995 (persons)	2000 (persons)	Annual growth rate 1990-2000 (%)
<i>Philippines</i>	60,697,994	68,613,706	76,464,888	2.4%
<i>Luzon</i>	33,357,887	38,249,776	42,810,872	2.6%
Ilocos Region (Region 1)	3,550,642	3,803,890	4,200,478	1.7%
Cordillera Administrative Region (CAR)	1,146,191	1,254,838	1,365,220	1.7%
Cagayan Valley (Region 2)	2,340,545	2,536,035	2,813,159	1.8%
Central Luzon (Region 3)	6,199,017	6,932,570	8,030,945	2.7%
National Capital Region (NCR)	7,948,392	9,454,040	9,932,560	2.3%
Southern Tagalog (Region 4)	8,263,099	9,943,096	11,793,655	3.9%
Bicol (Region 5)	3,910,001	4,325,307	4,674,855	1.8%
<i>Visayas</i>	13,041,947	14,158,443	15,520,152	1.7%
Western Visayas (Region 6)	5,393,333	5,776,938	6,208,733	1.4%
Central Visayas (Region 7)	4,594,124	5,014,588	5,701,064	2.2%
Eastern Visayas (Region 8)	3,054,490	3,366,917	3,610,355	1.7%
<i>Mindanao</i>	14,298,160	16,205,487	18,133,864	2.4%
Western Mindanao (Region 9)	2,459,690	2,794,659	3,091,208	2.3%
Northern Mindanao (Region 10)	2,197,554	2,483,272	2,747,585	2.3%
Southern Mindanao (Region 11)	4,006,731	4,604,158	5,189,335	2.7%
Central Mindanao (Region 12)	2,032,958	2,359,808	2,598,210	2.5%
Caraga Region	1,764,297	1,942,687	2,095,367	1.7%
Autonomous Region for Muslim Mindanao (ARMM)	1,836,930	2,020,903	2,412,159	2.8%

Source : NSO in PIDS and author's estimates

**Table 2 : Population Distribution Per Age Group (Philippines), census periods of 1980, 1990 and 1995**

Age Group (Years)	1980	1990	1995
14 and below	42%	20%	38%
15 to 24	20%	20%	20%
25 to 59	32%	35%	36%
60 and above	5%	5%	5%

Source: Author's estimates based on NSO data

*Economy.* Over the last three decades, Philippine economic output has lagged behind most of its ASEAN neighbors. In the 1970s, the average annual GDP growth rate was estimated at 6.3%, which was comparable although lesser than in Indonesia, Malaysia, Singapore and Thailand. By the 1980s, economic performance significantly declined to an average growth rate of about 1.0% yearly, due to political and economic crises. By comparison, other ASEAN countries posted growth rates in the range of 5.3% to 7.6%. Some improvements were seen in the 1990s as GDP growth rose to 3.2% per year, although still below the mean growth rate of 5.3% across the ASEAN sample (Table 3). Low economic output is further exacerbated by the high population growth rate of about 2.4% over the period.<sup>4</sup>

**Table 3 : Average Annual GDP Growth Rates in Selected Southeast Asian Countries, 1970-2000**

	1970-1980	1980-1990	1990-2000
Indonesia	7.6%	6.1%	4.2%
Malaysia	7.8%	5.3%	7.0%
Philippines	6.3%	1.0%	3.2%
Singapore	8.5%	6.6%	7.8%
Thailand	7.2%	7.6%	4.2%

Source: Various sources in Balisacan and Hill [2003]

Since the 1970s, personal consumption expenditures in the Philippines account for the biggest and increasing share of from 65% to 72% of current GDP. While personal consumption shares continue to rise despite fluctuations in over-all economic productivity, the proportion of investments have dropped consecutively over time (Table 4). Government data also indicate a low savings rate of 13.8% - 19.1% in 1986 to 1997, compared to a range of 24.2% - 56.4% in Indonesia, Malaysia, Singapore and Thailand. In general, the unsteady and low growth pattern is also largely driven by current personal consumption at the cost of long-term capital formation through investments and savings.

**Table 4 : Expenditure Shares in Current Price GDP (Philippines), 1970-2000**

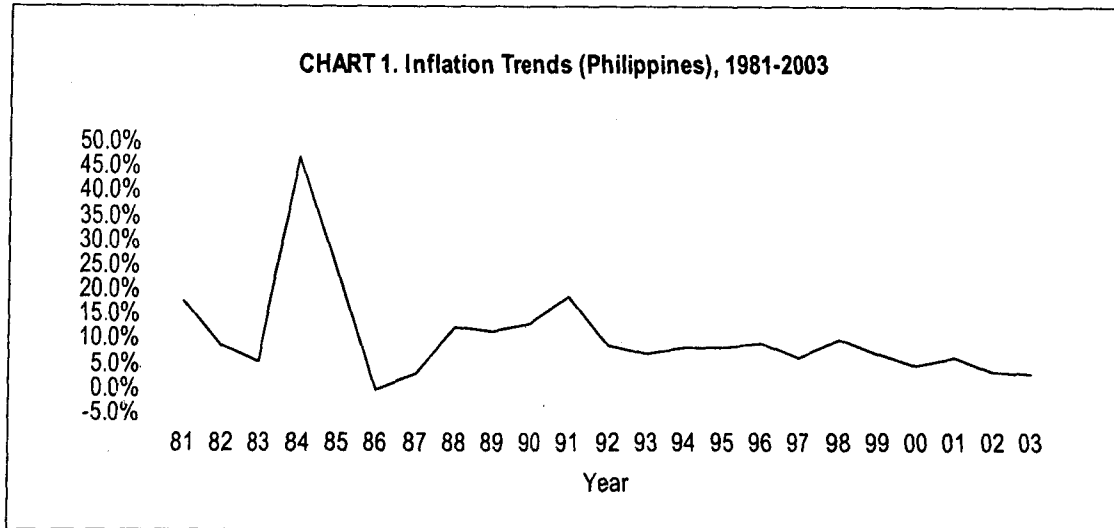
	1970-1980	1980-1990	1990-2000
Personal Consumption	64.6%	69.2%	72.4%
Government Expenditures	9.7%	8.8%	11.4%
Investments	27.0%	22.6%	21.3%
Net Exports	-3.3%	-2.1%	-2.7%
Discrepancy	2.1%	1.5%	-2.3%
Average Annual GDP Growth Rate	6.3%	1.0%	3.2%

Source: Author's estimates based on NSCB data in Balisacan and Hill [2003]

The over-all crisis in the early 1980s caused prices to soar at two-digit levels especially after 1983. Inflation nonetheless eased down to single-digit levels starting in 1992, given the onset of political stability and economic policy reforms.<sup>5</sup> Coinciding with the regional financial crisis in 1997, the price level however significantly picked up in the 1997-1998 period. A second although milder fluctuation

occurred in 2001 during the transition in governance. (Chart 1 and Table 5)<sup>6</sup> Economic planners are currently targeting the inflation rate to stay within the level of 4.5%-5.5%.

A short-lived, although serious food shortage transpired in 1995 when mostly poor consumers queued up to purchase cheap rice from government outlets. The government concluded the shortage to be artificially induced by private sector hoarding, as annual shortfalls in local stocks are bridged by rice imported from neighboring Asian countries. The country had been self-sufficient in rice production from 1980 until 1983 and lately in 1987.



**Table 5 : Inflation Rates (Philippines), 1981-2003**

Year	Inflation Rate	Year	Inflation Rate
1981	17.7%	1993	7.0%
1982	8.7%	1994	8.3%
1983	5.1%	1995	8.0%
1984	46.8%	1996	9.1%
1985	23.2%	1997	5.9%
1986	-0.4%	1998	9.7%
1987	3.0%	1999	6.7%
1988	12.2%	2000	4.4%
1989	11.5%	2001	6.1%
1990	13.2%	2002	3.2%
1991	18.5%	2003	2.8%
1992	8.6%		

Source: PIDS

The agricultural sector as a whole has been contributing less to the national economy over time. Industrial output also dipped in the 1990s after maintaining its share to GDP in the 1970s and 1980s. Services, trade in particular, have consistently and increasingly been significant to economic production for the past three decades (Table 6). Agriculture is nevertheless estimated to employ around half of the total labor force as of 2000.<sup>7</sup>

Across regions, economic activities in Luzon contribute to about two-thirds of total national output. The share of the contiguous areas in the National Capital Region (covering Metro Manila), Southern Tagalog, and Central Luzon account for more than half of total GDP. The local economy in the Visayas islands has been steady and contributes to roughly 16% of GDP. In contrast, the Mindanao regions contribute less to the national economy over time (Table 7). Aside from challenges in local agriculture, peace and order constraints in the Southern Philippines have restricted economic development in the area.

**Table 6 : Share of Sectors to Current Price GDP (Philippines), 1970-2000**

	1970-1980	1980-1990	1990-2000
<i>Agriculture, fisheries and forestry</i>	28.6%	24.0%	19.9%
Agriculture	25.5%	22.3%	19.5%
Crops	16.5%	13.5%	11.5%
Livestock and Poultry	4.0%	3.6%	3.9%
Fisheries	4.9%	4.4%	3.3%
Forestry	3.2%	1.8%	0.4%
<i>Industry</i>	35.1%	36.3%	32.5%
Mining and Quarrying	1.8%	1.9%	1.0%
Manufacturing	25.2%	25.1%	23.4%
Construction	6.8%	7.2%	5.5%
Electricity, Gas and Water	1.3%	2.1%	2.6%
<i>Services</i>	36.3%	39.7%	47.6%
Transport, Communication and Storage	3.9%	5.1%	5.2%
Trade	10.6%	13.5%	14.1%
Finance	3.3%	3.5%	4.2%
Occupied Dwellings and Real Estate	6.6%	5.5%	8.4%
Private Services	6.2%	6.6%	9.3%
Government Services	5.8%	5.7%	8.3%

Source: Author's estimates based on NSCB data in Balisacan and Hill [2003]

**Table 7 : Share of Regions to Current Price GDP (Philippines), 1997-2002**

	1997	1998	1999	2000	2001	2002	Mean Contribution
<i>Luzon</i>	66.1%	66.5%	66.9%	67.3%	67.8%	67.9%	67.1%
Ilocos Region (Region 1)	3.1%	3.1%	3.2%	3.1%	3.0%	3.0%	3.1%
Cordillera Administrative Region (CAR)	2.1%	2.3%	2.3%	2.4%	2.3%	2.3%	2.3%
Cagayan Valley (Region 2)	2.0%	2.0%	2.2%	2.2%	2.2%	2.1%	2.1%
Central Luzon (Region 3)	8.2%	7.7%	7.7%	7.9%	7.9%	7.9%	7.9%
National Capital Region (NCR)	34.0%	34.5%	34.8%	35.2%	35.7%	35.9%	35.0%
Southern Tagalog (Region 4)	13.9%	14.1%	13.8%	14.0%	14.2%	14.1%	14.0%
Bicol (Region 5)	2.8%	2.8%	2.8%	2.6%	2.6%	2.6%	2.7%
<i>Visayas</i>	15.5%	15.8%	15.8%	16.0%	15.9%	16.0%	15.8%
Western Visayas (Region 6)	6.6%	6.6%	6.5%	6.5%	6.5%	6.6%	6.5%
Central Visayas (Region 7)	6.4%	6.6%	6.7%	7.0%	7.1%	7.1%	6.8%
Eastern Visayas (Region 8)	2.4%	2.6%	2.5%	2.4%	2.3%	2.3%	2.4%
<i>Mindanao</i>	18.5%	17.7%	17.4%	16.8%	16.4%	16.1%	17.1%
Western Mindanao (Region 9)	2.5%	2.4%	2.4%	2.3%	2.2%	2.2%	2.3%
Northern Mindanao (Region 10)	4.6%	3.8%	3.7%	3.7%	3.7%	3.6%	3.9%
Southern Mindanao (Region 11)	6.3%	6.5%	6.4%	5.8%	5.6%	5.5%	6.0%
Central Mindanao (Region 12)	2.7%	2.6%	2.6%	2.5%	2.5%	2.5%	2.6%
Caraga Region	1.4%	1.4%	1.4%	1.5%	1.4%	1.3%	1.4%
Autonomous Region for Muslim Mindanao (ARMM)	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%

Source: Author's estimates based on NEDA data

*Poverty and Income Distribution.* The economic trend of short and low episodes of growth did little improvement in the income poverty situation of the country.<sup>8</sup> As of latest survey rounds, the estimated number of poor people in the country ranges from a low of about 21 million to a high of 26.5 million in 2000, from roughly 21.7 million to 26.2 million in baseline year 1985. The best episode in local poverty reduction appears to have occurred in the period of 1994 to 1997 when poverty incidence fell significantly, using both income and consumption expenditure measures. By the end of the millennium, aggregate poverty grew which reversed the periodic decreases registered since 1985 (Table 8).<sup>9</sup>

**Table 8 : Aggregate Poverty Incidence (Philippines) using both income-based and expenditure-based estimates, survey periods of 1985 to 2000**

	1985	1988	1991	1994	1997	2000
<i>Incidence (headcount)</i>						
Income-based estimates	49.3%	45.5%	45.3%	40.6%	33.0%	34.0%
Expenditure-based estimates	40.9%	34.4%	34.3%	32.1%	25.0%	27.5%
<i>Magnitude (persons)</i>						
Income-based estimates	26,231,305					26,500,000
Expenditure-based estimates	21,761,874					21,037,152

Source: NSCB and Balisacan in Beasca [2003]



Despite its dominant contribution to national GDP, the Luzon area hosts the greatest number (41.4%) of poor families, particularly in the Southern Tagalog and Bicol regions. The disparity between local economic output and population growth could be most evident in the Southern Tagalog provinces, where the proportion of poor families is highest (11.2%) while relatively better off than other regions (except NCR) in terms of GDP share. In contrast, poor families are least found in the Metro Manila area (2.6%) although poverty incidence in the region also rose slightly from 1997 to 2000. Poor families in Mindanao constitute about a third of the total, and poverty significantly rose in regions where there was renewed armed conflict between the government and rebels. Collectively, there are least poor families in the Visayas than elsewhere, although poverty size could be considerable in its western section. The magnitude of poor families in the Visayas regions is also larger than most of those in Mindanao (Table 9).

The income poor employed in the agricultural sector constitute more than half (61.3%) of the total number of poor persons in the country while the trade sector accounts for roughly 6% (Table 10). Rural poverty is also more prevalent than in the urban areas; income poverty incidence level was 41.3% in the rural areas and 13.2% in the urban areas as of last count. The disproportion of incomes among rural and urban households tends to widen. In 1997, the average family income in the urban areas was about 2.4 times higher than those in the rural areas (Table 11).

**Table 9 : Regional Poverty Data (Philippines), 1997 and 2000**

	Poverty Incidence of Families, 1997	Poverty Incidence of Families, 2000	2000 Contribution to Total Poverty
<i>Luzon</i>			<i>41.4%</i>
Ilocos Region (Region 1)	31.4%	29.6%	5.7%
Cordillera Administrative Region (CAR)	35.9%	31.1%	1.9%
Cagayan Valley (Region 2)	27.1%	24.8%	3.2%
Central Luzon (Region 3)	13.9%	17.0%	6.2%
National Capital Region (NCR)	4.8%	5.7%	2.6%
Southern Tagalog (Region 4)	22.8%	20.8%	11.2%
Bicol Region (Region 5)	46.9%	49.0%	10.5%
<i>Visayas</i>			<i>25.4%</i>
Western Visayas (Region 6)	37.2%	37.8%	10.7%
Central Visayas (Region 7)	29.8%	32.3%	8.4%
Eastern Visayas (Region 8)	39.9%	37.8%	6.2%
<i>Mindanao</i>			<i>33.2%</i>
Western Mindanao (Region 9)	31.9%	38.3%	5.4%
Northern Mindanao (Region 10)	37.8%	32.9%	4.1%
Southern Mindanao (Region 11)	31.1%	31.5%	7.5%
Central Mindanao (Region 12)	45.3%	48.4%	5.8%
Caraga Region	44.7%	42.9%	4.1%
Autonomous Region for Muslim Mindanao (ARMM)	50.0%	57.0%	6.3%

Source: NSCB and author's estimates based on NSCB data

**Tables 10 : Poverty Incidence by Sector of Employment (Philippines), survey periods of 1994 to 2000**

	1994	1997	2000	2000 Contribution to Total Poverty
Agriculture	49.9%	42.3%	45.9%	61.3%
Mining	37.1%	30.0%	58.4%	2.4%
Manufacturing	16.5%	13.5%	16.1%	4.2%
Utilities	9.5%	9.5%	6.7%	0.1%
Construction	34.5%	23.1%	29.8%	7.7%
Trade	17.8%	13.5%	15.4%	5.8%
Transportation	21.2%	13.7%	18.2%	6.1%
Finance	7.1%	3.0%	9.1%	0.7%
Services	12.7%	9.9%	10.5%	4.3%
Unemployed	17.1%	12.1%	14.0%	7.3%

Source : Balisacan [2003]

The short growth episode in the 1994-1997 period redounded to a national average household income increase of around 33%. Yet, income increases accrued largely to urban families and those in Northern Luzon (except Cagayan Valley), Metro Manila and the Southern Tagalog Region, Central Visayas, and Western and Northern Mindanao. The average family income then fell to about US\$ 3,259 in 2000 owing to economic difficulties near the end of the 1990s, although families in the output concentration area (i.e. Metro Manila, Southern Tagalog and Central Luzon) continued to earn more than the national average (Table 11).<sup>10</sup>

Per capita incomes rose from roughly US\$593 in 1985-1988 to over a thousand dollars in 1997-2000. Relative to other ASEAN countries, per capita income in the Philippines over time has been less than in the more advanced economies of Singapore and Malaysia, and in Thailand (Table 12). The average growth in per capita incomes locally has only been about 16.7% throughout the period, compared to 18.5% in Malaysia, 26.7% in Thailand, and 37.2% in Singapore.

**Tables 11 : Average Annual Family Incomes (current prices) by Regional and Urban-Rural Classifications (Philippines), survey periods of 1994 to 2000 (US\$)**

	1994	1997	2000
<i>Philippines</i>	3,150	4,175	3,259
Urban	4,285	6,038	n.a.
Rural	2,026	2,485	n.a.
<i>Luzon</i>	3,350	4,433	3,464
Ilocos Region (Region 1)	2,505	3,478	2,735
Cordillera Administrative Region (CAR)	2,828	3,809	3,159
Cagayan Valley (Region 2)	2,608	2,943	2,453
Central Luzon (Region 3)	3,564	4,513	3,426
National Capital Region (NCR)	6,576	9,186	6,794

Southern Tagalog (Region 4)	3,319	4,487	3,664
Bicol Region (Region 5)	2,052	2,615	2,019
<i>Visayas</i>	2,166	2,709	2,267
Western Visayas (Region 6)	2,427	2,941	2,480
Central Visayas (Region 7)	2,181	2,889	2,252
Eastern Visayas (Region 8)	1,891	2,297	2,071
<i>Mindanao</i>	2,216	2,875	2,114
Western Mindanao (Region 9)	1,924	2,959	1,949
Northern Mindanao (Region 10)	2,404	3,372	2,496
Southern Mindanao (Region 11)	2,696	3,200	2,540
Central Mindanao (Region 12)	2,321	2,749	2,054
Caraga Region	2,007	2,431	1,801
Autonomous Region for Muslim Mindanao (ARMM)	1,943	2,538	1,844

Source: Author's estimates based on NSCB and PIDS data

**Table 12 : Per Capita Incomes in Selected ASEAN Countries, 1985 to 2000 (Current Price US\$)**

	1985-1988	1988-1991	1991-1994	1994-1997	1997-2000
Indonesia	525	565	728	1,018	730
Malaysia	1,970	2,328	2,983	4,075	3,705
Philippines	593	728	838	1,093	1,078
Singapore	8,268	12,075	18,680	28,373	27,315
Thailand	958	1,443	2,027	2,703	2,225

Source : NEDA

*Employment.* Employment opportunities from an unstable and low-growth economy have not kept up with the growth in labor force. In the 1990s, the unemployment rate stood at around 9% annually as cushioned by the growth years of 1994-1997. From 2000 until 2003, unemployment averaged 10.1%. By ASEAN standards, unemployment in the Philippines is high, considering that other countries (except Indonesia) have managed to keep the unemployment level at much lower single digit levels even after the regional crisis in 1997 (Table 13). The participation of women in the labor force rose is reported to be faster (42% to 49%) than men (78% to 82%) in the 1980-2000 period, and unemployment is known to be higher among women and in urban areas.

**Table 13 : Unemployment Rates in Selected ASEAN Countries, 1993 to 2003**

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Indonesia	2.8%	4.4%	n.a.	n.a.	4.7%	5.5%	6.4%	6.1%	8.1%	n.a.	
Malaysia	3.0%	2.9%	2.8%	2.6%	2.6%	3.2%	3.4%	3.1%	3.7%	3.5%	3.7%
Philippines	9.3%	9.5%	8.4%	7.4%	7.9%	9.6%	9.5%	10.1%	9.8%	10.2%	10.1%
Singapore	2.7%	2.6%	2.7%	3.0%	1.8%	3.2%	3.5%	3.1%	3.3%	4.4%	4.5%
Thailand	1.5%	n.a.	1.7%	1.5%	1.5%	4.4%	4.2%	3.6%	3.3%	2.4%	2.7%

Source : PIDS

*Human Development.* Historically, the Philippines has always been near the mid-point of human development capacities across ASEAN countries and with the rest of the global community. Southeast Asian country rankings in terms of global HDI have remained the same from 1975 until 1999. By 2002, the Philippine HDI was ranked 83<sup>rd</sup> from among 177 countries from 70<sup>th</sup> in the prior periods. However, most of Southeast Asia (except Singapore) also slipped to lower ranks in the same period (Table 14).<sup>11</sup> The country is known to be challenged in the income index (Table 12) while performing well in basic education and longevity.

**Table 14 : Human Development Indices (HDI) of ASEAN Countries, 1975 to 2002**

	1975-1985		1990-1999		2002	
	Rank	Value	Rank	Value	Rank	Value
Brunei	32	n.a.	32	n.a.	33	0.867
Cambodia	121	n.a.	121	n.a.	130	0.568
Indonesia	102	0.526	102	0.654	111	0.692
Laos	131	n.a.	131	0.440	135	0.534
Malaysia	56	0.654	56	0.751	59	0.793
Myanmar	118	n.a.	118	n.a.	132	0.551
Philippines	70	0.673	70	0.733	83	0.753
Singapore	26	0.750	26	0.849	25	0.902
Thailand	66	0.641	66	0.740	76	0.768
Vietnam	101	n.a.	101	0.644	112	0.691
<i>High HDI</i>						0.915
<i>Medium HDI</i>						0.695
<i>Low HDI 32</i>						0.438

Source : UNDP and author's estimates based on UNDP data

*Development Plan.* As of this writing, the national government under the proclaimed mandate given to President Gloria Macapagal-Arroyo is in the process of formulating a new Medium-Term Development Plan (MTPDP) for 2004 until 2010 within an earlier-announced ten-point agenda specifying, among other goals, the creation of 6 million jobs through promotion of entrepreneurship and increase in the amount of government loans for small and medium enterprises. It is expected that the new development plan will not depart much from the earlier MTPDP of 2001 to 2004 that sought to attain equitable growth, modernize agriculture and fisheries, converge social services for the poor, and promote good governance. It is also highly likely that the government will maintain a principle of partnership with the private sector, including co-operatives, in the execution of the medium-term plan.

However, fiscal difficulties continue to pose a practical challenge in the state's ability to raise the necessary resources for a successful implementation of the MTPDP. Government revenue shortfalls occurred in two out of three times while consistently exceeding budgeted expenditure targets. Although government plans to attain a balanced budget by 2006, actual fiscal performance shows difficulties in meeting the stated deficit targets from 2001 until 2003 (Table 15). These current financial problems faced by the

Philippine government are likely to affect over-all efforts to alleviate poverty and other global commitments under the Millennium Development Goals (MDGs). As of late, academicians have publicly raised an alarm on the possibility of a serious crisis in the next three years.

**Table 15 : Philippine Government Fiscal Position, 2001 to 2006 (in billion pesos)**

	2001		2002		2003		2004	2005	2005
	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
Revenues	558.2	563.7	624.3	567.1	711.8	626.6	791.6	903.5	1,042.3
Expenditures	703.2	710.8	754.3	771.9	810.2	826.5	835.4	925.1	1,042.3
Surplus (Deficit)	(145.0)	(147.0)	(130.0)	(210.7)	(98.4)	(199.9)	(43.8)	(21.7)	-

Source : Author's estimates based on various NEDA data

### C. Retail Trade in the Philippines

*Scope.* Retailing in the Philippine context is defined as the “re-sale (sale without transformation) of new and used goods to the general public for personal and household consumption or utilization, by shops, department stores, stalls, mail-order houses, hawkers and peddlers, consumer co-operatives, auction houses, etc.”.<sup>12</sup> The government is currently using the 1994 Philippine Standard Industrial Classification (PSIC) system in its Annual Survey of Establishments (ASE) that now distinguishes retail trade from the sale of motor vehicles/parts and fuel, aside from the direct sale of farm products, manufacture and incidental sale of goods, and sale of food and drinks in restaurants, bars, canteens, and similar establishments. Starting in 1998, the technical interpretation of retail trade (PSIC Code 52) in the country per government statistical data thus covers the following segments:

#### (1) Store-Based Retailers

(1.1) General Retail Stores (under PSIC Code 521). This includes the basic community (i.e. “sari-sari”) stores, groceries, supermarkets, and multi-line department stores.

(1.2) Food, Beverages and Tobacco (FBT) Specialty Stores (under PSIC Code 522). This groups the various stores dedicated to the sale of fruits and vegetables, eggs and dairy products, meat and poultry, baked food, fish and seafood, tobacco products, beverages, cereals and other food products.

(1.3) Non-FBT Specialty Stores (under PSIC Code 523). This consists of stores engaged in the retailing of pharmaceutical and medical goods, cosmetics, textile, clothing, footwear, leather products, household appliances, construction materials and supplies, office/school supplies, agricultural supplies and equipment, sporting goods, and pet animals, among others.

(1.4) Used or Second-Hand Goods Stores (under PSIC Code 524), excluding those involved in the re-sale of second-hand motor vehicles and pawned items.

(2) *Non-Store Retailers (under PSIC Code 525) that cover retail sales transacted through mail, telephone order, and door-to-door methods, and vending machines.*

There is a sixth account in the classification system entitled “Repair of Personal and Household Goods” (PSIC Code 526) which is considered part of the retail trade group. For the purposes of this study, data on such account have been excluded.

*Contribution to Economy.* Over the past 13 years, the value added by over-all retail trade has increased continuously and averaged over P100 million annually (about US\$1.8 million at current rates). In the 1990s, value added grew by some 3.3% annually and contributed 11.2% of GDP. Growth in retailing basically followed the economic trend during the decade, as successive growth rates in the sector were registered within the “boom years” of 1994-1996 although the onset of the regional financial crisis in 1997 apparently affected retail performance starting that year until the end of the decade. From 2000 until 2003, retail value added is reported to have grown further by 5.8% annually at an average of P125 million (US\$2.3 million) and contributed 12.2% of GDP (Chart 2 and Table 16).<sup>13</sup>

**Table 16 : Growth Rates in Gross Value Added (GVA) of Retail Trade and Contributions to GDP (Philippines at 1985 prices), 1990 to 2003**

	Gross Value Added (in thousand pesos)	GVA Growth Rate	Contribution to GDP
1990	77,103	-1.9%	10.7%
1991	79,913	3.6%	11.2%
1992	80,305	0.49%	11.2%
1993	81,757	1.8%	11.1%
1994	85,386	4.4%	11.1%
1995	90,389	5.9%	11.3%
1996	95,816	6.0%	11.3%
1997	99,605	4.0%	11.2%
1998	103,151	3.6%	11.6%
1999	108,601	5.3%	11.9%
2000	115,769	6.6%	12.1%
2001	120,515	4.1%	12.0%
2002	127,746	6.0%	12.2%
2003	135,794	6.3%	12.4%

Source: NSCB in Patalinghug [2001] and Tantoco [2004]

Latest available data based on the current classification system indicate the retail sector to employ some 1.2 million persons in 1998, up by 10% from the previous year.<sup>14</sup> Non-FBT specialty stores contribute to more than half (53%-54%) of the total number of persons employed in the sector, followed by general stores (30.5%), and specialty stores selling FBT items (13%-13.3%). Non-store retailing and used goods establishments do not yet appear to be major employers in the industry as of 1998 (Table 17).

There are more women than men employed in the retail industry, particularly within the segment of community stores, groceries, supermarkets and department stores where the gender ratio is about 1.5 as of 1998 (Table 17). An earlier study approximated a gender ratio of 1.9 in favor of women across the linked sub-sectors of wholesale and retail trade in 1980-1998 time series [Patalinghug, 2001].

**Table 17 : Employment Data in Wholesale and Retail Trade (Philippines), 1997 and 1998**

	1997 (Total Persons)	1998 (Total Persons)	1998 (Average Women to Men Ratio)
<i>Wholesale Trade</i>	214,651	261,706	0.6
<i>Retail Trade</i>	1,053,334	1,158,810	1.2
General Stores	321,731	353,927	1.5
FBT Specialty Stores	140,303	150,547	1.0
Non-FBT Specialty Stores	558,548	620,600	1.2
Used Goods Stores	2,685	2,858	0.4
Non-Store Retailers	716	646	0.9

Source: Author's estimates based on 1998 ASE

*Size and Structure.* Per official government data, the number of retail service providers in the country could be at least 262,084 as of 1998.<sup>15</sup> The size implies a 5.8% increase in the number of comparable retail segments from the prior year. The more relevant players given these numbers would be the non-FBT specialty stores that comprise about half (50.2%-51.1%) of the total mix of establishments, the general stores (27.4%-27.8%), and the FBT specialty stores (21.2%-21.7%). An overwhelmingly large proportion (95.9%) of these providers however employ less than 10 persons each, which qualify their status only as "small" establishments based on the previous classification system (Table 18).

**Table 18 : Number of Retail Establishments (Philippines), 1997 and 1998**

	1997 (Number)	1998 (Number)	1998 (% Employing less than 10 persons)
General Stores	68,730	71,739	96.8%
FBT Specialty Stores	53,765	55,566	98.7%
Non-FBT Specialty Stores	124,267	133,842	94.1%
Used Goods Stores	703	747	98.5%
Non-Store Retailers	188	190	93.2%
<i>Total/Weighted Average</i>	247,653	262,084	95.9%

Source : Author's estimates based on 1998 ASE

While small retailers hugely form the industry base, about two-thirds of the 1998 total sales figure of around P742.9 billion (US\$18.2 billion in 1998) are concentrated among the larger (i.e. those employing 10 persons or more) though much fewer enterprises. Larger-scale retail activities also contribute more to total value added by the sector. Gross margin percentages are comparatively lower among larger retailers, which tend to support earlier findings on premium pricing practices by small shops and low-price, fast

turnover strategies employed by the bigger players [Patalinghug et al., 1994]. There appears to be no significant disparity between the profit margins (0.20-0.21) of the key store-based segments comprising the sector (Table 19).

Non-FBT specialty stores contribute the largest part to aggregate sales and value-added (Table 19). Overall, these stores appear to be most significant across retail firms in terms of sales volumes, share to economic output, and employment. As early as 1994, a shift in product structure has been noted in previous research as the value added by FBT items diminished over time in lieu of dry goods, textile and wearing apparel [Patalinghug et al., 1994].

**Table 19 : Comparative Data on Retail Establishments By Employment Size and Classification, 1998 (Philippines at current prices)**

	Sales (in thousand pesos)	Share in Total Value Added	Gross Margin Percentage
Retail Establishments employing 10 persons or more	480,857,051	54.3%	17.9%
Retail Establishments with less than 10 employees	262,058,352	45.7%	23.5%
<i>Total</i>	<i>742,915,403</i>		
General Stores	253,529,426	31.47%	19.7%
FBT Specialty Stores	50,838,358	7.60%	21.0%
Non-FBT Specialty Stores	437,868,497	60.81%	19.8%
Used Goods Stores	571,288	0.11%	31.0%
Non-Store Retailers	107,834	0.02%	37.0%
<b>Total</b>	<b>742,915,403</b>		

Source : Author's estimates based on 1998 ASE

There is seller concentration in the general store category comprised by the basic community stores, groceries, supermarkets, and department stores. The top 50 groceries, supermarkets, and department stores or 0.1% of the total retailers in this segment held a 28.6% total market share (P72.6 billion or US\$13.2 billion) in 1998. Within the category of large stores employing 10 persons or more, the market share of the retail elite is 37.5% (Table 20).

The spatial distribution of larger retail establishments and contributions to total national sales and value added as of 1998 are presented in Table 21. In general, the geographic spread and outputs of trade are consistent with the country's GDP, population, and income structures. Retail operations in the collective regions of Luzon are considerably dominant in all aspects, as mainly attributed to trade activities in Metro Manila, Southern Tagalog and (partly) Central Luzon. About 86% of establishments, 70% of sales, and 65% of value added emanate from this cluster. Retail service in Metro Manila alone is larger than the rest of the country in all dimensions. Within the Visayas and Mindanao regions, retailing is strong in areas where the major city and urban centers (i.e. Cebu City in Region 7, Bacolod City in Region 6, Davao City and General Santos City in Region 11, and Cagayan De Oro City in Region 10) are found.

A cross-regional comparison of data in Table 21 would however indicate Central Luzon retailing perfor-



mance to be an exception to the rule. Family income, population, and GDP contribution have been higher in this region compared to Central Visayas and Southern Mindanao (Tables 1, 7 and 11). Yet, the latter regions appear to have done better in terms of retail sales and value added. Aside from having slightly lesser establishments, inefficiency in the local distribution system could have affected the results. In 1998, the wholesale sales to retail sales (W/R) ratio in Central Luzon turned out to be at 0.7 compared to 0.4 in Central Visayas and 0.5 in Southern Mindanao (Table 22). Service efficiency by the retail sector would then need to be considered for continued growth and contribution to the economy, aside from advocating for a favorable macroeconomic environment.<sup>16</sup>

**Table 20 : 1998 Sales of Top 50 Groceries, Supermarkets and Department Stores (Philippines at current prices)**

	Sales (in thousand pesos)	Profit Margin (%)
Shoe Mart, Inc.	10,925,807	22.43
Rustan Commercial Corporation	7,686,144	0.72
Pilipinas Makro, Inc.	6,482,000	-
Supervalue, Inc.	6,172,454	1.10
Philippine Seven Corporation	3,238,013	1.12
South Supermarket	3,024,603	1.04
Homeworld Shopping Corporation	2,918,819	1.36
Robinsons Supermarket Corporation	2,755,490	1.40
Manila Southern Associates, Inc.	2,611,451	1.33
New City Commercial Corporation	2,174,303	1.32
Tropical Hut Food Market, Inc.	2,026,769	0.28
Ever Plaza, Inc.	1,407,891	0.76
Multi-Store Corporation	1,364,546	1.69
Value Plus, Inc.	1,353,898	-
Plaza Arcade, Inc.	1,265,409	0.75
Cebu Holdings Unlimited, Inc.	1,050,486	-
Ever Commonwealth Center, Inc.	988,042	0.25
Datu Complex, Inc.	923,843	0.10
Stores Specialists, Inc.	900,698	4.55
Fair Mart, Inc.	862,614	0.24
Davao Central Warehouse Club, Inc.	806,544	0.18
Ever Shoppers, Inc.	748,148	0.32
Gaisano Brothers Merchandising, Inc.	725,428	0.18
Robinsons, Inc.	718,450	5.87
Santa Lucia East Supermarket Corporation	675,711	0.12
First Paragon Corporation	640,364	-
Glorimart Trading, Inc.	638,442	0.01
Ever Emporium, Inc.	574,495	0.47
Anna Lynns, Inc.	551,359	0.78
Waltermart Santa Rosa, Inc.	463,617	0.36
Grocers Central Alliance, Inc.	455,764	-
J. S. Gaisano, Inc.	454,077	0.84

C. Morales Supermarket, Inc.	439,725	-
Felcris Supermarket, Inc.	426,284	0.27
Cherry Foodarama, Inc.	413,643	0.47
Waltermart Supermarket, Inc.	407,929	0.95
Davao Sunrise Investment	407,029	-
Demagus Trading Corporation	403,058	2.11
Cosmos Bazaar, Inc.	401,988	1.63
City Supermarket, Inc.	340,275	0.40
Marketing One Unlimited, Inc.	312,079	-
Right Goods Philippines, Inc.	289,131	0.70
Tabaco Liberty Commercial Center, Inc.	280,874	0.39
Rosita's (Cebu)	198,228	-
RML People's Mart, Inc.	184,895	0.62
Jollimart Corporation	162,522	-
Ad Club, Inc.	144,391	-
RFC Molino Mall, Inc.	80,323	-
Super Grocers, Inc.	60,067	-
S-A Family Corporation	36,185	-

Source : Philippine Business Profiles Top 7000 Corporations in Patalinghug [2001]

**Table 21 : Regional Retail Data on Establishments Employing 10 persons or more, 1998 (Philippines at current prices)**

	No. of establishments employing 10 or more persons	Contribution to Total sales	Share in total value-added
<i>Luzon</i>	<i>7,104</i>	<i>74.0%</i>	<i>68.9%</i>
Ilocos Region (Region 1)	437	2.2%	1.4%
Cordillera Administrative Region (CAR)	141	0.5%	0.4%
Cagayan Valley (Region 2)	180	0.6%	0.8%
Central Luzon (Region 3)	773	4.1%	3.8%
National Capital Region (NCR)	4,061	59.1%	55.2%
Southern Tagalog (Region 4)	1,261	6.7%	6.3%
Bicol Region (Region 5)	251	0.7%	1.0%
<i>Visayas</i>	<i>1,680</i>	<i>10.1%</i>	<i>9.0%</i>
Western Visayas (Region 6)	640	3.5%	2.6%
Central Visayas (Region 7)	802	5.7%	5.9%
Eastern Visayas (Region 8)	238	0.9%	0.6%
<i>Mindanao</i>	<i>2,073</i>	<i>16.0%</i>	<i>22.1%</i>
Western Mindanao (Region 9)	440	1.6%	2.1%
Northern Mindanao (Region 10)	423	2.3%	4.2%
Southern Mindanao (Region 11)	783	10.7%	13.9%
Central Mindanao (Region 12)	223	0.8%	1.6%
Caraga Region	186	0.6%	0.2%
Autonomous Region for Muslim Mindanao (ARMM)	18	0.0%	0.0%

Source : Author's estimates based on 1998 ASE

**Table 22 : Regional Wholesale-Retail Ratios of Establishments Employing 10 persons or more, 1998 (Philippines at current prices)**

	Wholesale Sales (P)	Retail Sales (P)	W/R Ratio
<i>Luzon</i>			
Ilocos Region (Region 1)	12,489,630	10,481,785	1.2
Cordillera Administrative Region (CAR)	504,739	2,226,310	0.2
Cagayan Valley (Region 2)	4,183,017	2,865,077	1.5
Central Luzon (Region 3)	13,444,088	19,841,381	0.7
National Capital Region (NCR)	407,511,945	284,315,353	1.4
Southern Tagalog (Region 4)	15,365,509	32,406,561	0.5
Bicol Region (Region 5)	3,948,103	3,560,747	1.1
<i>Visayas</i>			
Western Visayas (Region 6)	8,997,505	16,874,621	0.5
Central Visayas (Region 7)	12,033,681	27,295,327	0.4
Eastern Visayas (Region 8)	3,810,093	4,157,671	0.9
<i>Mindanao</i>			
Western Mindanao (Region 9)	12,790,748	7,916,085	1.6
Northern Mindanao (Region 10)	9,806,641	11,043,441	0.9
Southern Mindanao (Region 11)	24,851,440	51,229,930	0.5
Central Mindanao (Region 12)	2,804,599	3,863,852	0.7
Caraga Region	1,061,978	2,748,776	0.4
Autonomous Region for Muslim Mindanao (ARMM)	95,988	33,838	2.8

Source : Author's estimates based on 1998 ASE

There are industry associations that have been organized for policy advocacy purposes and overall coordination among retail establishments in the Philippines. The key institutions in this regard are: (1) the Philippine Retailers Association (PRA), which is a group of multi-line retail firms; (2) the Philippine Association of Supermarkets, Inc. (PASI), composed by companies engaged in supermarket and grocery operations; (3) the Drugstores Association of the Philippines (DSAP); and (4) the Retailers Council of the Philippines, which counts the PRA, PASI, and DSAP among its members. The council basically serves as the umbrella organization of retail firms that represents the private sector in policy engagements with the government, having been mandated as such by the Department of Trade and Industry (DTI) through an order issued in 1987. The co-operative sub-sector is represented in this council by the National Market Vendors Confederation of Cooperatives (NAMVESCCO), although the NAMVESCCO group is engaged primarily in financing activities to members.<sup>17</sup>

*Demand and Market Coverage.* In 1997, average family spending rose by 15.7% from baseline year 1994 as GDP grew by about 5.1% annually over the period. Reported expenditures however declined by 21.8% in 2000 as GDP growth reverted to its 1997 level and averaged only 3.1% within the next three-year phase. Per data, family expenditures (and incomes) co-vary widely to a downward pull by the economy compared to an upward movement in growth (Table 23).

The spending pattern by families appears to be changing over time. Expenditures for (primarily) food, beverage, and tobacco (FBT) are forming less of the actual household budget than non-FBT items. The

change in aggregate expenditure composition has been constant and independent of overall economic trends. Nevertheless, the demand for retail FBT is still significant by 2000, composing 45.4% of family expenditures and at an aggregate value of US\$14.6 billion (Table 23).

**Table 23 : Average Annual Family Income and Expenditure Data, 1994, 1997 and 2000 (Philippines in 1985 prices)**

	1994	1997	2000
<i>Real GDP Growth Rate</i>	4.4%	5.2%	4.4%
Average Family Income (pesos)	34,678	40,399	31,169
Average Family Expenditures (pesos)	28,215	32,648	25,535
Composition of Family Expenditures			
FBT Expenditures	50.1%	46.4%	45.4%
Non-FBT Expenditures	49.9%	53.6%	54.6%

Source : PIDS and author's estimates based on FIES data

Market coverage by the retail sector given potential demand was estimated at only 58.1% by 1994. The market in Luzon has been mostly covered (70.8%), although this is mainly due to an oversupply in Metro Manila (143.5%) traced possibly to high visitor expenditures and underreporting of incomes [Patalinghug, 2001]. Only about a third of the market in the Visayas and Mindanao are served by the local retail sector by that year (Table 24).

**Table 24 : Estimates of Retail Market Coverage (Philippines), 1988 and 1994**

	1988	1994
<i>Philippines</i>	37.8%	58.1%
<i>Luzon</i>	45.8%	70.8%
Ilocos Region (Region 1)	19.6%	32.7%
Cordillera Administrative Region (CAR)	35.1%	30.1%
Cagayan Valley (Region 2)	15.8%	15.9%
Central Luzon (Region 3)	22.3%	30.2%
National Capital Region (NCR)	90.3%	143.5%
Southern Tagalog (Region 4)	20.2%	28.1%
Bicol Region (Region 5)	11.6%	20.4%
<i>Visayas</i>	28.0%	34.4%
Western Visayas (Region 6)	27.1%	33.1%
Central Visayas (Region 7)	40.4%	49.9%
Eastern Visayas (Region 8)	11.8%	14.2%
<i>Mindanao</i>	23.5%	34.1%
Western Mindanao (Region 9)	19.7%	31.0%
Northern Mindanao (Region 10)	21.2%	38.8%
Southern Mindanao (Region 11)	30.8%	42.4%
Central Mindanao (Region 12)	18.7%	29.8%
Autonomous Region for Muslim Mindanao (ARMM)	-	4.6%

Source : Patalinghug [2001]

More current estimates of retail market coverage are complicated by the changes in the classification system, and synchronization and accuracy of basic data sources. As earlier noted, retail establishments have been re-classified since 1998. The latest (1998) Annual Establishment Survey (ASE) further excluded the basic community stores without any reported paid employee. The discrepancy arising from a survey bias against small stores could be significant. Results from a parallel Survey of Household Operated Activities (SHOA) to cover such small shops in 1988 indicate an understatement in the total number of establishments reported by the ASE by around 87%. Expenditure data can be obtained from the Family Income and Expenditure Survey (FIES) and crossed with the ASE results only in certain years as the FIES is done tri-annually. In the 1990s, these are available for years 1991, 1994 and 1997. Further, decomposition of FIES data into retail sourced and non-retail sourced expenditures per the current classification system are not easily doable.

Given these constraints, it would be plausible to derive a range of coverage by applying the basic sales-demand ratio, subject to an adjustment factor. A low range estimate,  $r$ , could be represented by  $s_t/D_t$  and a high range estimate,  $R$ , by  $S_t/d_t$  where:

$s_t$  = minimum value of retail sales;

$D_t$  = maximum possible value of retail sourced expenditures;

$S_t$  = maximum possible value of retail sales; and

$d_t$  = minimum value of retail sourced expenditures

all estimated at time  $t$ . In short, a lower limit assumes a relationship of minimum sales to maximum demand while an upper limit presupposes the link of maximum sales to minimum demand.

Further,  $S_t = s_t + x$  and  $D_t = d_t + y$ , where  $x$  and  $y$  are the adjustment factors for sales and demand, respectively. The value of  $x$  could be estimated by the difference in the number of establishments reported in the 1988 ASE and SHOA (i.e. 706,759 units) multiplied by an arbitrary annual sales level by small shops at time  $t$ . Minimum demand  $d_t$  could be set as the sum of the following family expenditures most likely sourced from the retail end, and which qualify under the current PSIC classification: (a) food consumed at home; (b) beverages and tobacco; (c) clothing, footwear and other wear; (d) non-durable furnishings; and (e) house maintenance. Adjustment factor  $y$  would then cover the other ambiguous expenditures classified in the FIES system as: household operations; personal care and effects; medical care; education; and durable furniture and equipment.<sup>18</sup>

Setting  $t$  to 1997 and assuming the mean sales of small shops to be P365,000 (or P1,000 a day), market coverage by the retail sector could be at least 60.7% by that year, which is close to the estimate made earlier for 1994. The high end of the estimate however also means that retail service delivery in the Philippines could have already been oversupplied by about 23.5% at that time, although it follows that the oversupply is likely due to far numerous small shop operations (Table 25).

**Table 25 : Estimates of Retail Sales, Demand, and Market Coverage,  
1997 (Philippines at current prices)**

	Value (in thousand pesos)	Data Reference/s
Minimum Retail Sales ( $s_i$ )	531,260,937	1988 ASE
Adjustment Factor ( $x$ )	257,967,035	1988 ASE and SHOA
Maximum Possible Retail Sales ( $S_i$ )	789,227,972	
Minimum Demand ( $d_i$ )	639,013,414	1997 FIES
Adjustment Factor ( $y$ )	236,736,279	
Maximum Possible Demand ( $D_i$ )	875,749,693	1997 FIES
Retail Market Coverage		
Low ( $r$ )	60.7%	
High ( $R$ )	123.5%	

Source : Author's estimates

*Policy Environment.* The retail trade industry in the Philippines was liberalized starting 2000 when the Retail Trade Liberalization Law (RA 8762) and its implementing rules were approved by the government. Until then, the retail business in the country has been protected since 1954 under the previous Retail Trade Nationalization Law (RA 1180) that restricted the industry exclusively for Filipino citizens and business organizations that they wholly own. The shift towards liberalization was promoted under an overall environment of policy reforms introduced in the 1992 to 1997 period, when the government envisioned the Philippines to advance to the level of a newly industrialized country (NIC) by the 21<sup>st</sup> century.<sup>19</sup> The push for liberalization was further reinforced by findings on low market coverage and inefficiencies by small shop operations, higher demand projections in view of growth patterns and targets, and expected value added by foreign direct investments in terms of capital, employment, modern technology, and product quality.

The law effectively only lowered the barriers to entry by foreign businesses in the retail industry, as protectionist measures through capital, investment, and inventory requirements are embedded in the policy. Partial or full equity by foreigners are only allowed in retail enterprises with a minimum paid-up capital of US\$2.5 million, or US\$250,000 per store in the case of high-end retail enterprises (i.e. those selling jewelry, branded clothing and footwear, wearing apparel, leisure and sporting goods, and electronics). Retail operations by enterprises with paid-up capital of less than US\$2.5 million are still reserved exclusively for Filipino citizens and wholly owned Filipino corporations. A minimum investment of US\$830,000 per branch or store with foreign equity is required for non-specialized retailing. Foreign equity participation is also allowed only from countries that allow entry by Filipino retailers. To protect locally manufactured products, at least 30% of stock inventory in non-specialized stores with foreign investments are required to be sourced from the Philippines until 2010. For foreign-financed specialty stores, the local stock requirement until the period is 10% (Table 26).

**Table 26 : Current Key Policy Features on Retail Trade with Foreign Participation (Philippines)**

	General Retailing	High-End Retailing
Extent of Foreign Equity	Partial to Full	Partial to Full
Source Countries	Those that allow entry of Filipino retailers	Those that allow entry of Filipino retailers
Qualified Business Types	Partnerships, Associations, Corporations, Single Proprietorships	Partnerships, Associations, Corporations, Single Proprietorships
Minimum Paid-Up Capital	US\$2.5 million per enterprise	US\$250,000 per store
Minimum Investment Per Store	US\$830,000	-
Minimum Net Worth of Foreign Parent Corporation	US\$200 million	US\$50 million
Prior Operating Requirements for Foreign Retailers/Investors	Five retail branches or franchises in other countries or at least one store capitalized at a minimum of US\$25 million and five-year track record	Five retail branches or franchises in other countries or at least one store capitalized at a minimum of US\$25 million and five-year track record
Public Offering of Foreign Equity	Enterprises with at least 80% foreign equity shall offer at least 30% to the public within eight years from start of operations	Enterprises with at least 80% foreign equity shall offer at least 30% to the public within eight years from start of operations
Stock Inventory Requirement	At least 30% should be sourced from the Philippines until 2010	At least 10% should be sourced from the Philippines until 2010

Source : RA 8762 and Implementing Rules and Regulations

By 2002, the government reported that 16 foreign-owned stores have been set up in the country under the Retail Trade Liberalization law. In practice, foreign participation in the trade featured some partnership and complementation with local retailers: President's Chain with 7-11; Watson's Drug Store with Shoe Mart, Inc.; and Mini-Stop with Robinson's Department Store. The Philippine Retailers Association (PRA) noted mixed results on the performance of foreign retailers by far, as some experienced losses or closed stores at the early stages while some were able to strengthen their position in the local market. The general outlook however, is that the foreign players will be more aggressive in expansion for the medium-term.<sup>20</sup>

Government and advocates of retail trade liberalization believe that opening up of the market to foreign retailers will also have a positive effect on consumer welfare, as enhanced competition is expected to

result in a wider choice of products and prices for the public. Aside from competitive strategy, consumer protection in the Philippines has been earlier mandated by laws. The Consumer Act of 1992 (RA 7394) was passed to protect the interest of consumers, promote consumer welfare, and establish standards of conduct for business and industry. Its main features include: (a) adoption of product standards for quality and consumer safety; (b) promotion of truthful and fair sales practices including proper weights and measurements, compliance with warranties, compulsory labeling, and factual advertising; (c) seller liability for defective products; (d) regulation of charges on credit transactions; and (e) participation of consumers in welfare-related activities through membership in a National Consumer Affairs Council. The Price Act of 1992 (RA 7581) on the other hand penalizes price manipulation by hoarders and cartels, prohibits price increases in emergency areas, and allows consumer participation in a multi-sectoral Price Coordinating Council.

Consumer representation in certain issues and institutional mechanisms such as the National Consumer Affairs Council and the national Price Coordinating Council are carried out by various groups. The long-standing consumer-oriented organizations are the Consumers Federated Groups of the Philippines (CFGFP) organized in 1961 and the Consumers Union of the Philippines founded in 1962. In more recent times, new issue-oriented consumer formations have come in such as the Coalition for Consumer Protection and Welfare (or Coalition 349) in 1992 that was organized by the aggrieved clients of a disputed promotional program by a beverage firm. A National Association of Consumers, Inc. (NACI) was also formed in 1994 by victims of an unscrupulous marketing scheme known in the country as "pyramiding". A regional consumers group called *Konsumo Dabao* was organized in 1985 among Mindanao-based consumers.

#### D. Consumer Co-operation in the Philippines

*Size and Scope.* The Cooperative Development Authority (CDA) reported a total of 1,019 registered consumer co-operatives as of 1998, from 370 in 1991. About 72% of these co-ops are new, having been organized and registered with the CDA since the new law on co-ops was passed in 1990. The trend of an increasingly large number of new consumer co-ops over time follows the over-all pattern in the co-op sector of the Philippines, which is being comprised by more primary societies of all types at the base. However, the actual magnitude of operating co-ops could be much less. In 1998, this was around 53% of the total listed in the registry. Among consumer co-ops, some 73% of those registered or 742 primary societies were found to be operating at that time (Table 27).<sup>21</sup>

**Table 27 : Aggregate Co-op Data Per Type (Philippines), as of 1991 and 1998**

	As of 1991		As of 1998		
	No. of Registered coops	% of New Co-ops	No. of Registered Co-ops	% of New Co-ops	% of Operating Co-ops
Multi-Purpose Co-ops	10,869	77%	42,960	94%	51%
Credit Co-ops	1,360	20%	3,258	67%	68%
Consumer Co-ops	370	23%	1,019	72%	73%
Service Co-ops	250	29%	1,102	84%	54%
Producer Co-ops	243	51%	791	86%	54%
Marketing Co-ops	270	41%	645	77%	54%
<i>Total</i>	13,362	68%	49,775	80%	53%

Source : Author's estimates based on CDA data



Aside from consumer co-ops, the more numerous multi-purpose co-ops also undertake retailing activities in the country. Per the 1998 Cooperative Annual Report and Information System (CARIS), around 48.1% of the sample of primary multi-purpose co-ops with business activities in that year had retailing functions in accordance with the 1994 PSIC (i.e. excluding those engaged in the sale of fuel and motor vehicle spare parts). It implies some 10,629 groups registered as multi-purpose co-ops to be in retail trade, aside from the 742 consumer co-ops. Collectively then, about 1.5 million member-consumers form the base of the co-op retailers that had sales of P21.4 billion (US\$389 million) in 1998 (Table 28).

However, the combined sales by the consumer and multi-purpose co-ops form only 2.9% of total sales by the overall retail trade sector in that year (Table 19). Minor market share is further associated with low volume of sales at the co-op level, small membership sizes, and narrow equity by members. The average primary co-op retailer in the Philippines sells goods in the volume of from P1.8 million (US\$33,000) to P3 million (US\$56,000) a year, given a membership base of 130 to 200 persons with a per capita equity in the range of P3,030 (US\$55) to P8,635 (US\$157). While a typical consumer co-op would sell more goods than a multi-purpose co-op retailer, average asset sizes of less than P1 million and employment of less than 10 persons would qualify the co-ops only as small establishments in the local retail industry. Hence, while the number of co-op retailers tend to increase over time, most of these co-ops are likely to engage in small-scale retailing.<sup>22</sup> There are also more men than women in the memberships of these co-ops, although women outnumber men in terms of employment (Table 28).

**Table 28 : Sample Data on Co-op Retailers (Philippines), 1998**

	Consumer Co-ops	Multi-Purpose Co-ops with Retail Activities
No. of Operating Co-ops	742	10,629
Total Sales Volume (pesos)	2,278,087,322	19,136,292,812
Average Sales Volume (pesos)	3,070,199	1,800,385
Total No. of Members (persons)	148,400	1,379,773
Average Membership Size (persons)	200	130
Average Women to Men Ratio	0.74	0.97
Total Equity (pesos)	449,622,885	11,913,981,860
Average Equity per Co-op (pesos)	605,961	1,120,894
Average Equity per Member (pesos)	3,030	8,635
Average Paid-Up Capital per Member (pesos)	1,989	4,693
Total Assets (pesos)	679,025,958	23,582,327,578
Average Assets (pesos)	915,129	2,218,678
Total Employment (persons)	6,678	164,163
Average Employment (persons)	9	15
Average Women to Men Ratio	2.02	1.59

Source : Author's estimates based on CDA data

As of 1998, co-op retailers are reported to be operating in all regions of the country although at varying levels and with least participation in ARMM, Caraga, Western Mindanao, Central Visayas, and Cagayan Valley. Co-op retailing appears to be economically positioned in the high-growth, high-sales areas of Southern and Northern Mindanao, NCR, Central Luzon, and Southern Tagalog but could be missing out in the Central Visayas region (Table 29 and Table 21).

From a poverty alleviation perspective, the geographical spread of co-op retailing activities in 1998 generally follows the distribution of poor families across island groupings as of 1997. The concentration of poor families in Luzon, Mindanao, and the Visayas correspond to the proportion of co-op retailers across these areas. However, there could be inter-regional disparities as larger populations of poor families in the Southern Tagalog and Bicol regions may have access to just about the same magnitude of co-op retail service in Ilocos Norte, Central Luzon and even Metro Manila. Southern Mindanao hosts the most number of co-op retailers in the country that far exceeds the coverage in Southern Tagalog, Bicol, and Western Visayas. There are clear gaps in co-op retail service provision to poor families then residing in ARMM and Caraga (Table 29 and Table 9).

**Table 29 : Spatial Distribution of Co-op Retailers (Philippines), 1998**

	No. of Operating Consumer Co-ops	No. of Operating MPCs in Retail Trade	Contribution to Total No. of Co-op Retailers
<i>Luzon</i>	359	5,131	48.3%
Ilocos Region (Region 1)	22	921	8.3%
Cordillera Administrative Region (CAR)	28	405	3.8%
Cagayan Valley (Region 2)	12	647	5.8%
Central Luzon (Region 3)	92	785	7.7%
National Capital Region (NCR)	143	608	6.6%
Southern Tagalog (Region 4)	42	878	8.1%
Bicol Region (Region 5)	20	887	8.0%
<i>Visayas</i>	177	2,169	20.6%
Western Visayas (Region 6)	32	900	8.2%
Central Visayas (Region 7)	56	488	4.8%
Eastern Visayas (Region 8)	89	781	7.6%
<i>Mindanao</i>	206	3,329	31.1%
Western Mindanao (Region 9)	14	503	4.5%
Northern Mindanao (Region 10)	28	603	5.5%
Southern Mindanao (Region 11)	136	1,380	13.3%
Central Mindanao (Region 12)	26	704	6.4%
Caraga Region	2	73	0.7%
Autonomous Region for Muslim Mindanao (ARMM)	-	66	0.6%

Source : Author's estimates based on CDA data

The chances of the poor in accessing benefits from consumer co-operation are nonetheless high, considering that some 83%-84% of consumer and multi-purpose co-ops in retail trade are open-type community organizations. Excluding the peculiarity of consumer co-ops operating in the Metro Manila area, there

are much fewer institution-based co-op retailers in the Philippines that serve only a restricted base of regular income employees in schools, offices, and other work establishments. Yet, small memberships and limited sales by co-op retailers may hinder the likelihood of the poor to obtain goods from co-operatives especially in times of need. Almost all co-op retailers offer Food, Beverage and Tobacco (FBT) items or basic goods to their members and public consumers while 2% are dedicated to the sale of farm inputs, medicines and other items.

*Economy and Competitiveness.* Comparative financial data on consumer co-ops and multi-purpose co-ops in retail trade are presented in Table 30. Multi-purpose co-ops apparently benefit from cost contributions by financing and other concurrent economic activities that enable these retailers to deliver higher profit margins. In turn, effective prices of commodities offered by these co-ops could be lower than in consumer co-op types when adjusted to mandatory patronage refunds and interests on members' capital.<sup>23</sup> Additional cash and other assets from non-retailing businesses also allow the multi-purpose co-ops to hold greater leverage than consumer co-ops.

Lower nominal gross margin percentages by consumer co-ops however imply immediate price advantages to members and public consumers. Also, the benefit of lower effective prices by multi-purpose co-ops is mainly favorable to members since non-member clients are not entitled to share dividends and are not known to claim their patronage refund entitlements from co-op retailers. Consumer co-ops further yield better returns on equity than multi-purpose co-ops, while operating at bigger sales levels and turnover. In general, the data suggest the single-business consumer co-op model to be superior over the multi-business co-op type in terms of public consumer pricing preferences, members' economic interests on their investments, and greater sales offerings to communities (Table 30).

**Table 30 : Average Financial Data on Sample of Co-op Retailers (Philippines), 1998**

	Consumer Co-ops with Retail Activities	Multi-Purpose Co-ops
Nominal Gross Margin Percentage	27.6%	28.7%
Effective Gross Margin Percentage		
Low Estimate	24.3%	23.2%
High Estimate	27.6%	28.7%
Gross Margin (P)	992,687	570,282
Operating Cost (P)	858,479	446,847
Net surplus (P)	134,207	123,435
ROE	18.3%	9.8%
Profit margin	3.7%	6.2%
Turnover	3.3	0.8
Leverage	1.5	1.9

Source : Author's estimates based on CDA data

Per data, consumer co-ops operate at a greater average nominal gross margin percentage than comparable retail establishments in the same fiscal year of 1998 (Table 19). It could be that premium pricing on consumer-member ownership is employed by the co-ops, aside from convenience of location. Average

effective gross margin percentage nonetheless still turns out to be higher than the market rate, which weakens the contention for real price markdowns in co-op operations supposedly due to sales rebates and capital dividends. Price competitiveness in the retail trade sector is hence a challenge for consumer co-ops in the Philippines, apart from the implications of such higher pricing strategy on poverty alleviation.

There is no product differentiation on items offered by co-op retailers with those similarly situated in the small-scale retail market. Consumer co-ops and multi-purpose co-ops with retail activities source commodities from the same distributors operating in each locality. Greater sales by the average consumer co-op than the regular small retail establishment in 1998 however imply a wider array of product choices for consumers.<sup>24</sup>

The effects on co-op retailing brought about by globalization through retail trade liberalization are believed to have been limited so far to those co-ops operating in the urban centers where foreign-owned and joint venture stores have been set up under the modern format. In the Metro Manila area, direct competition between these newer shops and consumer co-ops has not been established as of yet because most of the large and comparable consumer societies in the region are institutional co-ops operating in schools and offices. The University of the Philippines Consumers' Cooperative (U. P. Consumers' Co-op) even acknowledges the complementary role of foreign retailers by occasionally sourcing a portion of its commodities from the nearest branch of Makro. The U. P. Consumers' Co-op is the longest standing consumer co-op in the country, having started in 1947 to distribute commodities in the post-war period. It is also the largest consumer society made up of some 6,000 members in its roster, including academic staff, non-academic personnel, and residents in the main university campus located in Quezon City.

The co-op belongs to the category of large retail establishments given an employment size of 81 persons and an asset base of more than P10 million (US\$182,000) since 1998. Co-op sales have increased and averaged more than P97 million annually for the past six years. Nominal pricing by the co-op appears to be competitive in 1998, given a gross margin percentage of 17.7% compared to an average of 17.9% for similar establishments (Table 19). Allocation for rebates and dividends form 70%-77% of net surplus, which effectively lowers the price margin further by 2.2%-3.9%. Profit margins have been impressive due to tax exemption privileges granted to the co-op under existing policies, plus a low operating cost of 13%-14% of sales (Table 31).

The state university however essentially subsidizes the cost of operations by the co-op by charging only a token lease payment for about 625 square meters of prime property inside the campus. In more recent times, the university and similar academic institutions in the country have adopted revenue measures to make up for shortfalls in the government budget and difficulties in raising academic fees. The university administration proposed a transfer of the co-op from its present location in lieu of a more profitable arrangement with a large conglomerate. In a sense, crowding out of large retailers due to liberalization policy could push them further to the segment of institution-based retailing. Aside from foreseen value added by modern format retailing to consumers, demand for additional incomes by host institutions would shift their priorities away from subsidized support to consumer co-ops formed by their employees and residents.<sup>25</sup>

**Table 31 : Financial Data on U. P. Consumers' Cooperative, 1998 to 2003**

	2003	2002	2001	2000	1999	1998
Sales (P)	113,007,594	111,704,540	102,982,174	89,862,389	85,845,552	80,875,345
Assets (P)	20,882,767	19,241,124	18,279,824	15,922,326	14,110,564	15,174,081
Gross Margin Percentage						
Nominal	17.7%	17.2%	17.9%	18.8%	17.3%	17.7%
Effective	15.0%	15.0%	14.7%	14.9%	14.2%	14.2%
Operating Cost Ratio	0.14	0.14	0.14	0.14	0.13	0.13
Net Surplus (P)	4,242,780	3,531,599	4,267,556	4,651,334	3,878,427	4,001,119
Profit Margin	3.8%	3.2%	4.1%	5.2%	4.5%	4.9%
Allocation of Net Surplus						
General Reserve	10%	10%	10%	10%	10%	10%
Education and Training	8%	10%	3%	5%	10%	10%
Optional Fund	10%	5%	5%	5%	5%	5%
Retirement Fund	-	5%	5%	5%	5%	5%
Rebates and Dividends	72%	70%	77%	75%	70%	70%
Accumulated Reserves (P)	2,158,657	1,849,613	2,937,385	2,607,962	1,985,392	2,024,694
Paid-Up Capital (P)	3,832,736	3,749,116	2,730,510	1,993,640	1,368,660	1,200,730

Source : Author's estimates based on co-op financial statements

The matter of competitiveness by comparably large and urban consumer co-ops as modeled by the U. P. Consumers' Co-op minus subsidy support and tax privileges is explored in Table 32. Income and sales taxes are therein considered per the Tax Code of 1997 and the local tax ordinance of Quezon City. Operating cost ratios are also adjusted to allow lease payments at market value to the university plus incidental costs in modern format retailing. Sales, other cost items, and allocated proportions of net surplus have been retained per actual data. Resulting profit margins would considerably decrease although these would be within the vicinity of profit margins by large establishments listed in Table 20. Lower after-tax incomes would lessen the allocations for rebates and dividends, hence narrowing the gap between nominal and effective prices (Table 32). The results show the co-op model to be still competitive at full market costs, although member-consumers will have to make do with marginal rebates and dividends. It hence requires continued membership patronage to the co-op retailer at final market prices.<sup>26</sup> Information, education and communication to members and consumers would then be key factors in attaining full market competitiveness.

Member re-education could however be a tall order for the U. P. Consumers' Co-op, considering that only about half of its members are estimated to be active in the affairs of the society. Continuous member-education has been a challenge for the co-op since its education program covers only the conduct of a pre-membership seminar. Policy limitations and historical preferences by members in allocating a substantial portion of net surpluses for rebates and dividends over education budgets further complicate the situation.<sup>27</sup>

Financial competitiveness estimates in Table 32 include provisions for an upgrade to modern format retailing. Service and operations efficiency would also need to be enhanced for the co-op to comply with the emerging industry standards in Metro Manila. While members' purchases have been computerized

lately, point of sale and inventory systems have not been installed in the co-op. Overall store quality and storage capacity could also stand improvement, considering that this has been the main facility established way back in 1966.

**Table 32 : Hypothetical Financial Data on U. P. Consumers' Cooperative, adjusted to taxes and operating costs**

	2003	2002	2001	2000	1999	1998
Sales (P)	113,007,594	111,704,540	102,982,174	89,862,389	85,845,552	80,875,345
Gross Margin Percentage						
Nominal	17.7%	17.2%	17.9%	18.8%	17.3%	17.7%
Effective	17.3%	17.0%	17.4%	17.8%	16.6%	16.8%
Operating Cost Ratio	0.17	0.17	0.17	0.17	0.16	0.16
Net Surplus after taxes (P)	663,443	274,239	732,087	1,170,967	854,683	976,805
Profit Margin	0.59%	0.25%	0.71%	1.30%	1.00%	1.21%

Source : Author's estimates

*Organization and Business Alliances.* Unlike credit co-ops, consumer co-ops in the Philippines have not been organized as thoroughly and widely. Multi-purpose co-ops in retail trade but with financial services as its main business line are normally affiliated with the secondary and tertiary credit co-op societies. Secondary and higher formations of consumer co-ops have not been prominent in the affairs of the local co-operative movement, except for the Metro Manila Federation of Consumer Cooperatives (MMAFECCO).

MMAFECCO was organized in 1986 by 18 institutional consumer co-ops operating in the Metro Manila area to engage in both business and non-business activities related to co-op retailing. Its membership base is made up by the large consumer co-ops operating in various universities and offices, including the U. P. Consumers' Co-op. Since most of its members are school-based societies, the federation implemented a youth program patterned after the Japanese model and in collaboration with the Japanese Consumer Cooperative Union (JCCU). Technical assistance was also facilitated by MMAFECCO through the conduct of training courses to member co-ops and tie-ups with foreign consumer co-op organizations.

Wholesale distribution of sugar and other minor items was piloted by MMAFECCO in the 1990s. Floods however damaged its stocks that were then stored in a small storage area located in a leased government property. Initial sales volumes have also been minimal, at most reaching only about P3.8 million (US\$69,000) in 1998, which is roughly 4.75% of the sales capacity of the U. P. Consumers' Co-op at that time. Uncertainty in the distribution business brought about by the experience and complicated by strong competition from other distributors in the Metro Manila area limited the equity contributions of member-societies to less than half a million pesos (US\$9,000) by 1998, prompting the federation to rely on small co-op subsidies taken from their education and training funds.<sup>28</sup> By the late 1990s, the federation was operating at a loss (Table 33). In the current period, MMAFECCO is distributing minor quantities of school and office supplies to members and is planning to put up a co-operative trading center with support from the government. The project concept does not however appear to be related to distribution, as the intention is to put up a physical center on government land for the promotion and sale of co-op products. Further, there already exists a Cooperative Trading Center (CTC) that was organized in 1992 for the initial purpose of rice distribution to co-op societies. Formed by 23 co-operatives at various levels of

organization (i.e. primary, secondary and tertiary co-ops), CTC was planned as a common link to trade between agricultural and non-agricultural co-ops. Although capitalized to a higher degree than MMAFECCO and participated in by the major institutions of the co-op movement, business volumes and sustainability have also been a challenge in CTC operations (Table 33).

**Table 33. Financial Data on MMAFECCO and CTC, 1998 to 2002 (in pesos)**

	2002	2001	2000	1999	1998
<i>MMAFECCO</i>					
Assets	485,974	486,529	631,641	698,792	707,466
Equity	113,290	133,395	82,772	210,256	367,892
Sales	418,506	851,195	1,730,469	1,762,956	3,730,487
Net Surplus (Loss)	2,669	(127,263)	(177,886)	(90,266)	32,969
<i>CTC</i>					
Assets	24,907,028	24,325,555	15,433,585	16,991,936	12,747,157
Equity	10,239,054	9,591,638	(2,892,943)	(1,790,861)	8,997,446
Sales	43,202,209	31,331,597	25,309,292	20,448,113	21,382,800
Net Surplus (Loss)	258,762	29,663	(1,239,935)	(761,370)	(470,336)

Source : Author's estimates based on co-op financial statements

There was a plan to put up a national consumer co-op federation in 1988 as pioneered by MMAFECCO and the Cooperative Union of the Philippines (CUP). Limited support from consumer co-ops in other regions and the feasibility issues related to a national distribution center prohibited the project to advance beyond the planning stage.

At present, there are two new efforts to organize the consumer co-op sub-sector at a higher level. A National Koop Mart Federation (NKMF) was formed and registered this year by 20 primary societies to pilot a co-op retail system, and eventually a distribution system, patterned after the National Agricultural Cooperative Federation (NACF) model in South Korea. A co-op mart prototype similar to a modern chain store was put up in Malolos, Bulacan (Central Luzon) and a second one is set to open in Quezon City adjacent to the campus where the U. P. Consumers' Co-op is located. Apparently, the NKMF strategy is to create a multiplier effect by promoting the co-op mart concept to existing co-ops either intending to expand to retail activities or upgrading their current retail operations to the co-op mart standards. Should plans push through, an expansion target of 100 co-op marts is set for this year at one store per town.

A second plan for a similar Coop Mart Integrated Chain has also been developed this year by the National Confederation of Cooperatives (NATCCO). The NATCCO network is the largest network of co-ops in the country comprised by multi-type societies, although its core membership is strongest among co-ops engaged in financial services. The plan is to organize a chain of coop marts to be piloted in partnership with the big affiliate co-ops of NATCCO in Northern Luzon, Metro Manila, Southern Luzon, Central Visayas, and Southern Mindanao. About 30-32 coop marts are intended to be set up in the immediate period, under joint venture, franchising, and technical assistance arrangements between NATCCO and the participating co-ops. Big volume distribution is also being eyed by the project, to be funded by the network and possible external investors. In line with the plan, NATCCO has already developed the manu-

als for operations, training, and marketing. Retailing standards have also been formulated for small and medium sized operations.

*Consumer Welfare.* The country's inability to produce a sustainable consumer co-op movement over time affects the promotion of consumer welfare policies supposedly guiding co-op based retail operations. Previous and current efforts to develop the consumer co-op sub-sector have been anchored on building the basic organizational mechanisms and businesses by which the consumer societies could converge. Yet, the unrelenting challenge of meeting these requirements hinders the adoption of a national agenda for ensuring the welfare of consumers by co-ops in the retail trade business.

In practice however, primary co-op retailers are governed by the Consumer Act of 1992 that states the omnibus rules on consumer protection and welfare promotion. As member-based organizations, co-ops are further assumed to be inherently structured for consumer participation in governance and business operations. The U. P. Consumers' Co-op for instance, is functioning via a committee system that is mandated to address member-consumer concerns to supplement the regular process held every annual general assembly. Parallel measures are nonetheless lacking at the higher level because of the absence of a permanent and single mechanism for advocacy and policy-making among consumer co-ops. The non-existence of a representative mechanism also inhibits the co-op retailers from participating in the mainstream of consumer welfare promotion through the National Consumer Affairs Council and the Price Coordinating Council. In addition, the congruence of co-op retailing activities, plans and programs to the over-all poverty alleviation effort is unmet by non-representation of the sub-sector in the affairs of the National Anti-Poverty Commission (NAPC).

*Policy Context.* The trend of consumer cooperation in the Philippines is influenced by policies that have governed the co-op movement since the 1990s. There have been two stages of policy development in the country that were determined by the prevailing social, economic and political environment.

Within the context of a newly restored democracy, political policy reforms were introduced starting in the mid-1980s until the early 1990s. These were policies that sought to undo the imprints of authoritarian rule that lasted from 1972 until 1986. These included the assumption of a new Constitution in 1987, and the passage of the Cooperative Code (RA 6938) and the related law (RA 6939) creating the Cooperative Development Authority (CDA) in 1990. The basic constitution was changed to ensure civil liberties, establish democratic values and processes, promote sovereignty, and protect local rights over the economy. The new co-op laws sought to replace the various decrees that then governed the co-op sector and formed a central government agency to be in charge of development and regulation of all co-op types.

Following the democratic principles underlying the 1987 Constitution, the co-op code was formulated under a framework of people empowerment and subsidiarity by which co-op organization and decision-making are regarded as a matter of political and economic right. The barriers to entry in co-op organization and registration were lowered. A membership of 15 persons with a minimum paid-up capital of P2,000 (US\$36) and possessing the basic documents (i.e. a group constitution, by-laws, and a feasibility study) could qualify as a formal co-op. Further, the provision on registration under the code declares applications to be deemed automatically registered should there be no disposition by the CDA within 30 days from filing date (Table 34). The influx of newly formed groups caused a sharp rise in the number of co-ops in the registry over time, by 372% from 1991 until 1998 (Table 27). Yet, the average membership size of these co-ops is small, at around 250 persons per monitored society.<sup>29</sup> Within the segment of co-ops in retail trade, the number of registered consumer co-ops increased by over 3 times at a 73% operating rate in the same period, at about 200 members per co-op. There are also groups registered under the multi-purpose type although functioning with single activities on financing, retailing, marketing, other services, or production.



While allowing the liberal entry of groups in the registry, de-listing on the other hand requires far more complex procedures as guided by a general principle of due process. The CDA estimates the whole process of cancellation of registration certificates to take at least 3 months per case. Asset holdings by the groups in litigation complicate the procedure, as these will need to be liquidated and decisions rendered through the quasi-judicial mandate of the CDA are always appealable to the regular courts. As of 1998, the CDA reported to have de-listed only 3,511 co-ops from its registry. While a merger of co-ops is provided for under the code, such cases have been rare occurrences. In 2000 and 2003, the CDA reported mergers in only 3 and 12 cases, respectively.

The co-op code also granted tax exemption and other privileges to duly registered societies as incentives for organization and in regard for the nature of co-op operations, in which net incomes are not deemed as profits since these are returned to members through mandatory allocations.<sup>30</sup> Originally, closed-type co-ops are fully exempted from paying all kinds of taxes and fees usually required under the internal revenue laws. Co-ops having business with non-members were on the other hand granted tax holidays for 10 years since the law was adopted. Thereafter, these open-type co-ops are supposed to pay income taxes on the amounts allocated for capital dividends and sales taxes on transactions with non-members, if the value of the co-op's accumulated reserves and undivided net savings exceed P10 million (US\$182,000). These departed from the earlier tax privileges under Presidential Decree 175, which simply provided 5-year and 10-year income tax holidays for agricultural and non-agricultural co-ops, respectively. Subsequent tax measures adopted in the economic reform period would include value-added taxes on sales by certain types of co-ops at a paid-up capital threshold of P15,000 per member (Table 34). The concept of internal taxation (i.e. the apportionment of private incomes for the public good) in co-op operations is further supported in the code through mandatory allocations of net surplus. The law sets at least 10% of net surplus to be assigned for reserves, at most 10% for education and training, at most 10% for other purposes, and the rest for patronage refunds and capital dividends. The policy essentially sets a cap on co-op appropriations for education and training and other intents while directing a larger portion of the budget for reserves and members' returns on their capital and actual transactions with the co-op. Apparently, non-taxation and allocation policies at this time were meant to strengthen the business of co-op societies.

As a complementary measure to the co-op code, the CDA was established as the national government agency under the Office of the President with both developmental and regulatory functions over all types of co-operatives. In the prior period, the state function on co-op development was assigned to various agencies attached to the line departments for agriculture, transportation, and environment (Table 34). The dominant view in the CDA is that its current attachment to the presidential office is logical, considering its wide mandate over the whole spectrum of co-ops that requires an authority level higher than the executive departments. A contrary view however holds that such centralization of functions to the top level of the bureaucracy carries a trade-off in the effectiveness of the agency's developmental function, specifically in integrating the role of co-ops within departmental programs. A case in point would be the subsidized food program of the National Food Authority (NFA), an agency attached to the Department of Agriculture (DA). The rice distribution program of the NFA started in 1999 to provide rice at subsidized rates to poor communities. Consumer co-ops and multi-purpose co-ops in the retail business could have been considered in the implementation of the program, aside from the existing outlets and new stores that were set up by the NFA.<sup>31</sup> During the rice shortage in 1995, the promotion of consumer co-ops was also not among the strategic measures adopted by government to avert a similar crisis in the future.

The problem is mainly due to gaps on policy advocacy in governance. The CDA is governed by a board of administrators appointed by the President. Ex-officio members from the DA, Department of Transportation and Communication (DOTC), National Electrification Administration (NEA), and Sugar Regula-

tory Administration (SRA) were included in the board for inter-agency coordination but the law limited this arrangement to be effective for only one year (i.e. until 1991). Hence, coordination is being done through other mechanisms outside of the CDA structure, which in most cases is more than one depending on the functional line of each agency. The policy further indicates geographical representation in the regular board, composed of two (2) administrators each for Luzon, Visayas and Mindanao, in lieu of representation by co-op function. Nonetheless, specialists in financial service and housing co-ops, education, law, and training have been appointed to the board. Consumer co-op representation to the CDA governing board has been restrained by the absence of a strong higher-level formation, unlike the other types that have apex organizations.

A second wave of social and economic policy reforms were adopted in the period of 1994 until 1998. These were now oriented to prepare the economy for greater competitiveness in the phase of globalization, while ensuring equity measures in development. It was during this period when the retail trade liberalization policy was introduced and the country's accession to the General Agreement on Tariffs and Trade (GATT) was approved. Aside from the retail trade liberalization law, the other policies immediately relevant to consumer cooperation and overall co-op development in the country are the Social Reform and Poverty Alleviation Act (RA 8425) and the Tax Code of 1997 (RA 8424).

The social reform and poverty alleviation policy was passed in 1997 and intended as a parallel measure to ensure social equity in anticipation of the country's elevation to the status of a newly industrialized country. It mandated the creation of a National Anti-Poverty Commission (NAPC) to oversee a poverty alleviation agenda across the various programs of the government departments. The co-op sector is included in the policy as one among 13 non-government sectors that have the right for participation in the affairs of the commission. Federated co-op structures comprise the sectoral committee in NAPC, although the set-up naturally excludes the voice and interests of the consumer co-ops that have had no national representative mechanism as of date. The anti-poverty policy is also heavily anchored on micro-finance as a strategy to fight poverty, by which the credit co-ops and co-op banks are functionally affiliated. The possible role of consumer cooperation in poverty alleviation is not elaborated in the policy. Aside from gaps in advocacy, the trend of thinking in community-based anti-poverty intervention is currently focused on the raising of incomes by the poor through micro-enterprises. Security in food and other essential items by the poor is addressed by the traditional subsidized food program of the government through the NFA.

In 1997, the new tax code was adopted to rationalize the tax base and system of the country, also in regard of the changed government revenue requirements under a context of globalization. Value-added taxes on sales are now required for non-agricultural, non-electric, and non-credit co-ops with a per capita paid-up capital share of more than P15,000 (Table 34). The threshold nonetheless effectively exempts most, if not all, of the co-op retailers at least as of 1998. Value-added taxes are charges passed on by the retailer and other covered taxpayers to the consumer, at a cost of 10% of sales. Essentially, consumers buying from retail corporations covered by the law pay 10% more than the cost of purchases from a VAT-exempt co-op.

Within this period, there was a proposal to amend the co-op code that includes the following features: (a) raising the minimum membership requirement from 15 to 30 members and the paid-up capital from P2,000 to P30,000; (b) prohibiting the registration of a group as a multi-purpose co-op; and (c) changing the threshold of tax exemption privileges of open-type co-ops from P10 million of reserves and undivided surplus to P60,000 per member's paid-up capital. These amendments were introduced by the Coop-NATCCO Network Party that won a seat in the party-list elections of 1998. However, the passage of the bill into law had not been successful.

In sum, consumer and other retailer co-ops together with all the other types of co-ops in the country still operate under the original co-op laws. The context of business and social development has however changed since then, and the policies have not conformed to the new requirements brought by a globalized strategy for development and its consequent demand for social equity.

**Table 34 : Comparative Features of Co-operative Development Policy (Philippines), 1973-1990 and 1990 to present**

	1973 to 1990	1990 to Present
<b>Policy Declaration</b>	It is the declared policy of the State to foster the creation and growth of cooperatives as a means of increasing income and purchasing power of the low-income sector of the population in order to attain a more equitable distribution of income and wealth [Section 1 of PD 175].	It is the declared policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere that is conducive to the growth and development of these cooperatives [Par.1, Article 2 of RA 6938].
<b>Mandated State Agencies</b>	<ol style="list-style-type: none"> <li>(1) Bureau of Cooperative Development (BCOD) under the Ministry of Local Government and Community Development, and then the Ministry of Agriculture and Food</li> <li>(2) Sugar Regulatory Administration (SRA) under the Ministry of Agriculture and Food</li> <li>(3) Office of Transport Cooperatives (OTC) under the Ministry of Transportation</li> <li>(4) National Electrification Administration (NEA) under the Ministry of Environment and Natural Resources</li> </ol>	Cooperative Development Authority (CDA) under the Office of the President
<b>Minimum Co-op Requirements</b>		
<b>Membership</b>	25 persons	15 persons
<b>Paid-Up Capital</b>	P5,000	P2,000
<b>Other Requirement</b>	Feasibility Study	Feasibility Study
<b>Tax Treatment</b>	Agricultural and non-agricultural co-ops are not subject to sales taxes. Agricultural co-ops are exempted from income taxes for the first 10 years from registration date. Non-agricultural co-ops are exempted from income taxes for the first 5 years from registration date [PD 175].	Starting in 2000, open-type co-ops with reserves and undistributed net savings exceeding P10 million are subject to income taxes and sales

Source : PD 175, RA 6938, RA 6939 and RA 8424

## **E. Conclusions and Strategic Options**

Compared to the experience in other Southeast Asian countries, the development of consumer cooperation in the Philippines has been slow. The social and economic roles of consumer co-op societies and multi-purpose co-ops in retail trade have not been established because of gaps in government support, a weak agricultural sector and base of agricultural co-ops, and an inability by the consumer societies to integrate to a higher institutional and business level. The situation of consumer cooperation in the country could be unique, in the sense that co-op retailing is entering an era of liberalized trade without meeting the requisites for full and real competitiveness.

Previously enacted policies tended to regard co-op societies as micro versions of infant industries that need to be promoted, by allowing minimum entry and granting tax exemption privileges. Among consumer co-ops, the results suggest a proliferation of small groups of retailers operating on the basis of cost subsidies from the government while adopting premium pricing practices. On the other hand, the fewer number of large consumer societies in the urban areas could be vulnerable to the indirect effects of retail trade liberalization but are unprepared to meet the demands of market competition. It could hold true that co-op policies may have been relevant during the 1990s but may now have strategically negative effects since these also result in under costing of operations and effectively promotes member-patronage on the basis of lower-than-market pricing preferences. When the subsidies are eventually removed as also provided for in the law, the costs of undoing such practice and membership behavior could be high.

The argument for a full costing approach to consumer cooperation is supported by estimates that show a large co-op society to be still competitive in the retail market despite the privileges of tax exemptions and host institution support. The current and critical need to address the government's fiscal deficit through fair tax payments should also be consistent with the social purposes of the co-op movement.

To strengthen consumer cooperation in the Philippines, the following recommendations and strategic options are hereby forwarded:

1. Co-op retailers and would be wholesalers should be made to operate at full cost basis to determine their true level of market competitiveness.
  - a. One option would be to remove the cost subsidies granted to consumer co-ops and multi-purpose co-ops in retail trade under existing and proposed policies. Specifically, tax exemption privileges and all other indirect subsidies granted by government and institutions should be discouraged and terminated.
  - b. A second option would be to adopt financial and operating standards for consumer co-ops and multi-purpose co-ops in retail trade to include profit margins and cost ratios net of tax payments and other hidden costs. Sales volumes and price margins should also be standardized.
2. For the purpose of implementing the preceding option, a representative body of co-op retailers should be organized, preferably at the regional and national levels. The initial formations set up by the NKMF and NATCCO could be merged as one together with MMAFECCO. The representative mechanism could further serve as an initial forum for the establishment of an apex organization for consumer co-operatives that will eventually be responsible for self-regulation.
3. The body should seek representation in the National Anti-Poverty Commission (NAPC) for the purpose of mainstreaming the concept of consumer cooperation in the overall poverty alleviation effort. The body should also seek accreditation and membership in the National Consumer Welfare Council, the Price Coordinating Council, and the Retailers Council of the Philippines.

4. Plans to put up a new wholesale distribution center should be reconsidered, to include an option of forming an alliance or joint venture with an existing distributor, whether local or foreign. National distribution centers should be discouraged. The concept of co-ops needing to put up parallel systems should be reviewed in terms of efficiency and value-added, and engagements with the corporate market should be treated as a real option in upgrading business competitiveness.
5. There should only be one plan to establish an integrated co-op mart chain. The NKMF could consider affiliating with the NATCCO network to consolidate the projects for an integrated chain of consumer co-op stores. The co-op mart chain should comply with the standards of modern format retailing. The business standards already developed by NATCCO could be considered for this purpose.
6. Government programs should be coordinated to enhance the growth of the consumer co-op sub-sector.
  - a. One option would be to reconvene the ex-officio membership by government agencies in the board of administrators of the CDA.
  - b. A second policy option would be for the CDA to delegate the developmental functions over consumer co-operatives to either the Department of Agriculture (DA) or the Department of Trade and Industry (DTI).
  - c. A third option would be to amend the law on the CDA by requiring sectoral representation to the board instead of geographical representation.
7. Organization and registration of new consumer co-ops and multi-purpose co-ops in retail trade should be discouraged except in the ARMM, Caraga, Central Visayas and Cagayan Valley regions. Co-ops registered as multi-purpose societies but with retailing as a sole economic activity should be re-classified as consumer co-ops.
  - a. One option would be to increase the financial and membership requirements for new co-op entrants.
  - b. A second option would be to strictly evaluate the feasibility studies submitted for applications, on the basis of membership and market coverage. In this regard, a technical capacity-building program for the CDA is highly encouraged.
8. An information, education and communication program among co-op retailers should be implemented to encourage recruitment of more members, especially women, and promote mergers among societies.
9. A member-education program should be implemented to promote market competitiveness, consumer welfare, gender sensitivity, population management, and poverty alleviation values in the general membership.

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## Notes :

- 1 This study was commissioned by the International Co-operative Alliance – Regional Office for Asia and the Pacific (ICA-ROAP) through the National Confederation of Co-operatives (NATCCO), as part of a cross-country review of consumers' co-operatives in Sri Lanka, India, Vietnam, and the Philippines. The views and opinions forwarded herein are solely the writer's and may not necessarily be the same as those held by ICA-ROAP, NATCCO, and the other institutions mentioned. Comments and queries on the study may be forwarded to the author at [joelb@pacific.net.ph](mailto:joelb@pacific.net.ph).
- 2 The National Statistics Office (NSO) conducts a national census on the Philippine population every five years.
- 3 Based on a sample size of 500 12 to 21 year-old respondents in the Metro Manila area, the study found one-third of the youth to be doing the marketing and purchases for the family because of time constraints by their parents.
- 4 Economists trace the slump to the political crisis arising from the 1983 assassination of opposition leader Benigno Aquino, Jr. and economic policy weaknesses since the 1970s. In 1986, then President Ferdinand Marcos was deposed through a civilian-military uprising known as EDSA 1. Aquino's spouse took over as President until 1992 under an extra-constitutional government that was subsequently challenged by coup attempts.
- 5 While contested, the election of President Fidel Ramos in 1992 was a constitutional political transition since 1965. Several policy reforms were also introduced in the 1992 to 1997 period.
- 6 In January 2001, then Vice-President Gloria Macapagal-Arroyo took over from President Joseph Estrada as sparked by corruption charges and through an event popularly known as EDSA 2. Unlike EDSA 1 however, the second transition was challenged on legal and political grounds. While the Supreme Court eventually ruled the transition as legal, a political-economic view perspective suggests fundamental weaknesses in national governance that undermines political stability and erodes investor confidence in the economy [de Dios and Hutchcroft, 2003].
- 7 David [2003] estimates agricultural employment to be up to two-thirds of the total labor force, to include those in agro-processing and supply of non-farm agricultural inputs.
- 8 The poverty reduction formula forwarded in this regard is that economic growth should be rapid and at levels of twice or thrice the population growth rate made sustainable throughout at least a twenty year period. This pattern was observed in other East Asian countries that have managed to dramatically reduce their incidences of poverty while advancing to the status of being newly industrialized countries.
- 9 Official and alternative poverty measures in the Philippines are based on the results of the Family Income and Expenditure Survey (FIES), which have been done every three years since 1985. The official government methodology for poverty accounting employs an income approach while academe-based proponents utilize consumption expenditure data from the same survey. In either case, poverty incidence is estimated using certain thresholds. The Social Weather Stations (SWS) also conduct poverty measures using the self-rated approach although based on a smaller sample of the population. SWS survey results show significantly greater incidence of poverty in the country using this approach.
- 10 Average real GDP growth rates in the 1994 to 1997 and 1997 to 2000 periods are estimated to be 5.1% and 3.1%, respectively.
- 11 The global HDI population was increased to 177 countries in 2002 from 162 countries in 1975.
- 12 The government definition of retail trade allows some processing of goods for re-sale (i.e. without transformation) although this should only be incidental to selling.
- 13 The data are apparently sourced from the previous classification system that includes the sale of motor vehicles, parts, and fuel.
- 14 The most recent (1999) Annual Survey of Establishments (ASE) is still up for release by the government statistics office as of this writing. Real employment could be higher, as the survey excluded basic (i.e. "sari-sari") stores that do not employ any single person. In the Philippine case, such small shops are prevalent as these are either family-managed or single proprietorships that operate on the basis of volunteerism or uncompensated entrepreneurship.

- 15 The Philippine Retailers Association (PRA) in August 2004 reported a much larger size of 499,983 retail outlets although this was quoted from a newspaper article.
- 16 Patalinghug et al. [1994] applied the W/R ratio in comparing distribution efficiency between the Philippines, the U.S. and Japan. The measure assumes a multi-layer system to result in higher costs of distribution. Hence, a lower ratio implies a higher efficiency in the distribution system. In 1988, the W/R ratio in the Philippines was estimated at 1.9 for large establishments, compared to 3.4 in Japan and 1.0 in the U.S. Per data, the W/R ratio in the Philippine retail and wholesale industry is estimated by this study to be 1.1 in 1998.
- 17 NAMVESCO is comprised by credit co-operatives operating in the public markets. Its membership base is composed by retailers whose activities can be classified either as specialized FBT retailing or specialized non-FBT retailing.
- 18 Durable items included in the FIES data include transport vehicles, which is no longer part of retail trade under the 1994 PSIC. Further, the inclusion of vehicle expenditures would inflate the estimates, as well as other similar expenditures in medical and education fees that are grouped with expenses in the purchase of books and medicines.
- 19 Newly Industrialized Country (NIC) models that the Philippines envisioned to emulate have earlier opened their retail economies to foreign investments: Malaysia in 1984, Taiwan in 1990, and South Korea in 1991. Singapore is reported to have been ever since open to both wholesale and retail trade [Patalinghug et al., 1994].
- 20 The association reported Pricesmart to have closed a branch in 2003 but opened a new one in 2004. While incurring early losses, the joint venture of President's Chain with 711 was profitable in 2003 and is planning an expansion of 400 stores by 2007. With an estimated sales of P1.9 billion in 2003, Mini-Stop is intending to expand to 322 stores by 2006. Watson's Drug Store has taken a second position to the local drug chain Mercury Drug Corporation with sales of P3.6 billion in 2003, up by 22% from the previous year.
- 21 Indeed, the number of registered consumer co-ops in the Philippines reached 1,326 by 2003 that make up 2% of the aggregate 64,207 primary societies comprising the major types. The CDA however reported only 48% of these co-ops to be operational within that year.
- 22 Reported assets and employment by the multi-purpose co-ops cover all business activities. The data is unable to disaggregate retail assets and employment from the overall accounts.
- 23 The Cooperative Code of the Philippines (RA 6938) sets the distribution of net surpluses by co-operatives in the following order: (1) at least 10% for the co-op's reserve fund; (2) at most 10% for the co-op's education and training fund; (3) at most 10% for an optional land and building fund; and (4) the remaining surplus for interest on members' capital contributions, and patronage refunds for purchases by members and non-members as well. Capital dividends and purchase rebates declared by co-op retailers within the fiscal year could then be deducted from the nominal gross margins to show the effective gross margin percentages in operations. Minimum effective gross margin percentages assume the allocation of net surpluses to be: (1) 10% for the co-op reserve fund; (2) 1% for the co-op education and training fund; and (3) no allocation for the land and building fund, which leave 89% of net surpluses for patronage refunds and capital dividends. Maximum effective gross margin percentages assume no allocation for patronage refunds and capital dividends, in which case it is simply equal to the nominal gross margin percentage.
- 24 Per the 1998 ASE, the average annual sales of a retail establishment employing less than 10 persons would be around P1,043,089 compared to an average sales of P3,070,199 for a consumer co-op.
- 25 A similar situation is reported in the University of Santo Tomas (UST), where the school administration is planning to enter into an arrangement with a commercial chain in lieu of the local consumer co-operative.
- 26 Members and consumers would also have to pay value-added taxes at the full rate of 10% of sales.
- 27 As stated in note 22, the current policy limits the co-op allocation for education and training to a maximum of 10% of annual net surplus.
- 28 The Cooperative Code of the Philippines allows member-societies to remit one-half of their allocated Cooperative Education and Training Fund (CETF) to higher-level co-operatives of their choice. The other half may be used to finance the local education and training activities of the co-op.



- 29 By this time, the number of registered primary co-ops already exceeded the 41,974 *barangays* in the country. A *barangay* is the basic community unit comprising the towns and cities of the Philippines. Hence, it is normal to find more than one co-op in a particular *barangay*.
- 30 The technical term in co-op language is “net surplus” that purport net incomes to be the excess value of goods and services rendered to members and non-members and which are returned to them through the mandatory allocations.
- 31 The NFA reported to have set up 835 new stores in 1999 for the food distribution program. More than 9,000 outlets participated in the program in the first half of 2001.
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SRI LANKA

# **SRI LANKA**

## **Consumer Cooperatives in Sri Lanka - A Critical Study**

**By UPALI HERATH**

### **EXECUTIVE SUMMARY**

#### **1. Socio Economic Conditions of Sri Lanka**

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

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

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

#### **2. Place of Retail Industry in the Economy**

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

Consequently, the wholesale and retail trade had a 5.5% growth during last decade of the last century which lost the momentum in 2001. However, with the change of government, it went up again to 7.3% in 2003, recording a better growth than the GDP. Import of consumer goods had a growth rate of 11.2% in

2003. Domestic consumption in real terms grew by 6.1% in 2003. Growth in 2002 was 6.5%.

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

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

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

### **3. Status of Consumer Cooperatives in Sri Lanka**

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

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

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

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

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

Shop locations of cooperative shops remain more or less the same as established during 1970s which has become a constraint for expansion. Population migration pattern has experienced changes since new developments in the economy under liberalisation. Cleanliness and the observance of sanitary conditions in the cooperative shops are not so satisfactory in comparison to private supermarkets or self service shops. Assortment is limited in cooperative shops due to concentration on the Samurdhi recipients and lack of sufficient working capital. Private sector suppliers have been the main source of supply of merchandise to cooperatives now as against government agencies in 1970s.

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

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

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

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

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

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

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

Out of 5.6 million individual members, 3.74 million are members of MPCs. In terms of employees, 30034 employees are with the MPCs out of a total of 40585. However, the MPCs do not have a systematic approach to human resource development to make these stakeholders more skilled. They depend on the traditional institutions such as National Institute of Cooperative Development, National Cooperative Council and the District Cooperative Councils.

#### **4. National Policy and Legislation on Retail Industry and Consumer Affairs**

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

Consumer Protection Act passed in 1979 has been amended few times and the current legislation of Consumer Affairs Authority Act of 2003 has replaced all these amendments. Although it has been formulated to promote effective competition and the protection of consumers and also to regulate the internal trade, there are misgivings identified by the legal experts for not having effective controls over monopo-

lies and restrictive business practices. Up to May 2004, there have been about 800 complaints to the newly established Consumer Affairs Authority and are in the process of hearing.

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

## **5. Cooperative Legislation and other Legislations Affecting the Growth and Development of Consumer Cooperatives**

Cooperative legislation by and large remains the same as of 1970s when the socialist government wanted to pursue a different path of economic development. Sri Lanka has a common legislation for all types of cooperatives. The modifications made during 1980s and 1990s as well as the Statutes in the provinces have only withdrawn certain powers of the Registrar, but creating more chaos for replacement towards control by the members. After the devolution of the subject of cooperation to Provincial Councils in 1987, the Provincial Councils formulated their own Statutes on Cooperatives, following the early legislation passed in 1972. These Statutes have varying degrees of autonomy given to cooperatives to decide on their business by the membership.

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

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

## **6. Conclusions and Recommendations**

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

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

- Present inadequacy of working capital for consumer business should be met with the internal funding of the cooperatives, giving preference to shares, consumer deposits, debentures and disposal of unutilised assets;

- Current hierarchical structure which is detrimental to take quicker business decisions by the actual stakeholders of consumer business, should be made flat and network organisations, giving more powers to branches of the MPCs to manage their retailing;
- Joint buying processes by the members, branches and the consumer cooperatives should be introduced to have more volumes of business to become purchasing agents for consumer members;
- Procurement arrangements should first be made with the local membership on the basis of an efficient and dynamic merchandising policy and search for other sources in the open market through an efficient market intelligence system operated by cooperatives;
- Consumer cooperatives should adopt Management by Objectives (MBO) concept for managing functions of the cooperatives by the teams of functional groups;
- Sales promotion strategies should be focussed more on the community in the area using their social and cultural events supported by constant information flow on the cooperative society they are attached to and using incentives to frequent buyers and active members;
- Pricing policy should avoid level pricing and follow the techniques of pricing as adopted by the private retailers such as supermarkets;
- Formulation of efficiency norms for retail business is essential as a guidance for consumer cooperatives to follow;
- Consumer cooperatives should adopt an internal HRD system covering members, committee members and the employees which should be systematic and need based enough to develop skills for them to play their roles in a competitive market environment;
- The government should provide support services by having national policy, revising the legislation to create a level playing field for consumer cooperatives, re establishing consultancy services, auditing services and other statutory functions which are to be operated by trained officials for the purpose.

# 1. COUNTRY PROFILE

## Physical features and Climate

### Location

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

### Area

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

### Climate

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

## Key social indicators

### Population and vital statistics

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

### Age distribution

0 – 14 yrs. : 5,125  
15 – 64 yrs. : 12,894  
65 yrs.and over : 1,233  
Urban population : 22.8%  
Population density (2003) : 307 persons per sq. km.



Crude birth rate (2002)	:	19.1 per '000
Crude death rate (2002)	:	5.8 per '000
Rate of natural increase (2002)	:	13.3 per '000
Infant mortality rate (2002)	:	11.00 per '000
Dependency ratio (2003)	:	49.3%
Average household size (2002)	:	4.2

#### **Expectation of life at birth (1996-2001)**

Male	:	70.7 yrs.
Female	:	75.4 yrs.

#### **Literacy rate (1994)**

Overall	:	90.1%
Male	:	92.5%
Female	:	87.9%

#### **Income distribution**

Gini coefficient (2003)	:	0.48
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#### **Poverty**

Population below US\$ 1 a day (1995)	:	6.6%
Population below US\$ 2 a day (1995)	:	45.4%
Mean income (2002)	:	Rs. 13,038 per month
Median income (1995)	:	Rs. 8,387 per month
Average energy consumption over person per day (2002) Kilocalories	:	2120
Percentage of poor households	:	23.9

#### **Human development index**

Rank among 173 countries (2002)	:	89
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#### **Employment**

Employed persons ('000)(3 <sup>rd</sup> quarter 2003)	:	6,973
Agriculture	:	35.0%
Industry	:	21.7%
Services	:	43.3%
Govt. employees (2003)	:	1,043,209
State sector	:	45.8%
Provincial public sector	:	29.5%

Semi govt. sector : 24.7%

#### **Transport**

Length of national roads : 11,650 km.

Length of railway route : 1,447 km.

#### **Water Supply and Sanitation**

Access to safe drinking water : percent 70

Access to pipe borne water : percent 31

#### **Electricity**

Households with electricity : percent 68

Per capita electricity consumption : kwh / per year 322

#### **Communication**

Telephone density

Fixed lines per 100 persons : 4.9

Including cellular phones : per 100 persons 12.1

Internet and e mail peer 100 persons : 4.4

Average population served

by a post office : 4100

#### **Health**

Hospital beds per 100 persons : 3.8

Persons per doctor : 2104

Nurses per 100,000 persons : 123

Govt. expenditure to health : % of GDP 1.56

#### **General Education**

School density

(area covered by a school) : sq. km. 6

Pupil/teacher ratio

(govt. schools) No. : 21

Primary net enrolment ratio

(age 5-9years) : 97.2%

#### **Availability of Housing**

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Category	Percentage of households			
	1981/82	1986/87	1996/97	2003/04
Brick or cement block walls	26.2	35.1	62.5	75.3
Cement, tiled or better flooring	52.6	58.8	74.1	81.5
Tiled or asbestos roofing	46.5	54.7	73.2	78.8

Own well or pipe born water				
Inside home	38.7	32.6	48.9	62.2
Water seal latrine	31.9	43.7	70.1	78.4
Without latrine	29.9	16.9	6.5	5.4
Electricity	15.8	26.5	56.8	73.9
LP gas for cooking	1.1	2.6	10.8	14.5
Firewood for cooking	n.a	95.1	86.6	83.1
Radio	60.7	67.2	73.6	77.2
TV	3.8	19.6	50.6	68.2
Sewing machine	30.7	37.2	41.5	44.9
Refrigerator	2.98	8.1	16.8	28.7
Telephone (land or cellular)	0.9	1.4	4.5	23.9
Motorised transport	4.4	8.5	15.4	25.4

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

### Key Economic Indicators - 2003

#### Demography

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

#### Output

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

#### Real Output (percentage change)

GNP	:	6.4
GDP	:	5.9

#### Sectoral classification

Agriculture	:	1.5
Industry	:	5.5
Services	:	7.7

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

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

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

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

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

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

## 2. PLACE OF RETAIL INDUSTRY IN THE ECONOMY

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

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

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

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

- Entrance of multinational and trans-national companies to essential services such as gas industry, power generation, telecommunication, transport and agriculture: Shell Co., Cargills, Aggreko, Caltex, Indian Oil Co., are some of them.

- Direct and indirect investments by overseas companies such as Prima, AIG, Life Insurance Corporation of India, Taj Group.
- Marginalisation of farmers, artisans and small scale entrepreneurs due to incentives provided by the government for private sector and overseas companies to engage in commercial agriculture which is export oriented, entrance of garment companies and other rubberised product companies through Board of Investments (BOI) projects and importation of goods with better finish and low prices.
- Introduction of machines in the fields where manual operations are common such as small and medium scale industries.
- Emergence of family enterprise system: with the growing consumerism and the availability of merchandise which is imported and locally produced, the families saw the opportunity to enter into the market as entrepreneurs and started using their dwelling houses and small shops for business run by the family members. Food industry is mainly dominated by these entrepreneurs.
- Dictation of prices by the trans-national companies: Shell Company has the ultimate say in gas prices; Prima Company determines the price of flour etc.
- Promotion of over consumption through advertising: Private sector companies generally spend 20% of their total company budget for advertising which is charged from the consumers.

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

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

With the gradual withdrawal of restrictions on the imports and privatisation of many government enter-

prises with the encouragement given to competition in the market by many local and foreign players, consumer market grew in an accelerated manner.

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

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

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

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

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

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

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

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

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

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

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

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

Another phenomenon in the retailing is the emergence of family shops in the rural and semi urban areas. Food stalls run by families are popular in the urban areas rather than grocery shops, due to separation of pre cooked meals from the organised formal retail shop system. On the other hand, except the cooperative retail shops, other shops such as family shops are available in the villages. In urban and semi urban areas, there are also part time shops operated by day workers in offices and companies, which are open in the evenings normally.

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



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

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

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

Consumer behaviour in Sri Lanka is biased towards branding and they have become loyal to their tested brands. Still, due to the curiosity of the consumer, and the availability of limited number of brands they tend to test new products. They basically are driven by electronic advertising. However, there is an age old relationship between the consumer and the branded products in the market. Sri Lankan consumer is also quality conscious to a greater extent after experiencing two decades of open market system. They haven't gone to the sophistication of generic products without branding as in the case of Scandinavian or European consumer societies.

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

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

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

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

### 3. STATUS OF CONSUMER COOPERATIVES IN SRI LANKA

#### (i) Growth Trends:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Throne speech of 1970 laid down the new government's economic policy which gave priority for cooperatives to become economic development agents at the village level. Therefore, the establishment of large primary cooperatives by amalgamating former small MPCs was justified. The area of operation of such MPCs was generally covered local authority areas and the number proposed was 638. However, Estate Consumer Stores Cooperatives were not included in the reorganisation as they were found to be having separate identity with the estate labour. Amalgamation of cooperatives was firstly suggested in the recommendations of the Royal Commission on the Cooperative Movement of Ceylon headed by Dr. AF Laidlaw, but their recommendation was to pursue voluntary amalgamation in the line of Japanese agricultural cooperatives. However, due to the urgency felt by new government, the amalgamation was undertaken through special legislation approved through the Parliamentary Acts No. 34 and 35 of 1970. Through these the government was empowered to pursue involuntary amalgamation by way of gazette notification by the Minister.

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

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

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

Type of coop. society	1997	1998	1999	2000	2001	2002
<b>Multi Purpose Coop.</b>	<b>301</b>	<b>308</b>	<b>311</b>	<b>311</b>	<b>311</b>	<b>305</b>
<b>Thrift and Credit</b>	<b>8576</b>	<b>7876</b>	<b>7735</b>	<b>7658</b>	<b>7091</b>	<b>7186</b>
Tea, Rubber, Coconut & Palmyra	166	166	276	176	171	142
Other Agricultural	197	224	97	103	38	112
Milk Production	188	190	187	187	145	152
Livestock – others	42	42	93	95	50	47
Fisheries	617	591	658	674	673	706
Textile	34	34	31	31	27	18
Small and Medium Scale Industries	141	143	176	200	161	198

<b>School</b>	<b>1121</b>	<b>1051</b>	<b>993</b>	<b>1016</b>	<b>761</b>	<b>887</b>
Hospital	5	5	12	12	7	7
Labour	49	51	51	51	28	29
Housing	246	275	324	328	377	348
Transport	4	5	6	6	12	8
Youth services 173	312	304	304	21	23	
<b>Estate Stores</b>	<b>66</b>	<b>69</b>	<b>62</b>	<b>62</b>	<b>55</b>	<b>62</b>
Garment	-	-	-	-	-	3
Others	587	420	490	507	590	771
<b>Total</b>	<b>12513</b>	<b>11762</b>	<b>11706</b>	<b>11721</b>	<b>10518</b>	<b>11004</b>

*Source: Department of Cooperative Development – Sri Lanka.*

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

**(ii) Types of Consumer Cooperatives:**

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

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

***Multi Purpose Cooperative Societies:***

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

**Activity-wise Classification of Business Turnover of MPCSSs.**

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

Internal services	0.4
Community services	0.005

Source: Presidential Commission Report on Cooperative Movement of Sri Lanka

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

#### Business units of the MPCSSs in 2002

Description	NCP	N/E	Uva	South	West.	Centr.	NWP	Sabara gamuwa	Total
Multi purpose coop. societies	28	90	17	34	38	42	33	23	305
<b>Business &amp; community service units</b>									
Branch shops	423	1304	418	1006	1193	652	993	865	6854
Whole sale depots	33	127	32	69	130	52	61	71	575
Other retail shops	-	69	32	31	730	55	58	57	1032
Building material sales shops	-	11	08	12	06	17	08	-	62
Textile shops	-	29	06	08	01	-	06	-	50
Self service shops	19	-	08	12	64	03	-	15	121
Milk booths	01	-	-	02	40	03	08	06	60
Agricultural shops	-	-	02	01	03	03	09	03	21
Filling stations	19	66	14	29	43	28	35	26	260
Pharmacies	-	04	02	03	04	-	02	02	17
Vehicle service stations	-	07	05	01	02	01	01	04	21
Bakeries	02	15	01	02	07	01	-	07	35
Restaurants	02	26	04	05	03	01	-	05	46
Tourist resorts	-	02	-	-	-	-	-	-	02
Tourist hotels	-	-	-	-	-	-	-	-	01
Grinding mills - grains	29	28	01	08	-	04	16	05	91
chillies	-	01	02	05	06	09	-	05	28
Printing press	01	04	02	06	09	01	09	06	38
Hair dressing	-	-	-	01	-	01	-	01	03
Cinemas	01	-	-	-	-	01	01	-	03
Rural bank branches	77	100	113	529	404	220	263	185	1891
Agency post offices	-	02	01	04	04	04	-	02	17
Vehicle repairing	-	01	-	-	-	-	-	-	01
Tea factories	-	-	-	02	-	-	-	01	03
Rubber factories	-	-	-	-	-	-	-	-	-
Packeting sections	-	05	-	12	24	06	27	23	97
Hospitals - Eastern	-	-	-	-	-	01	-	-	01
Western	01	-	-	02	05	01	01	-	10
Medical channelling centres	-	-	-	-	02	-	-	01	03
Surgical services sections	-	-	-	01	-	-	-	-	01
Milk production sections	-	-	-	-	01	-	-	-	01
Communication services	-	02	-	06	02	02	12	02	26
Information services	-	01	-	-	-	-	-	-	01

Sale of motor cycles	-	-	-	01	-	-	-	-	01
Furniture shops	-	-	-	01	-	-	-	-	01
Handicraft shops	-	-	-	-	-	-	03	-	03
Flower shops	-	-	-	-	01	-	-	-	01
Farms	-	01	-	-	-	-	-	-	01
Villages	-	-	-	-	-	03	-	-	03
Tea plantation sections	-	-	-	02	-	-	-	-	02
Nurseries	17	12	-	01	10	03	12	03	58
Other educational services	-	01	-	-	01	-	-	01	03
Libraries	-	-	-	-	10	-	-	-	10
Funeral services	01	04	-	03	02	03	06	-	19
Others	01	22	-	-	02	09	-	-	34
Sub total	624	1843	651	1765	2708	1085	1531	1296	11503
Lorries	49	187	45	88	135	83	95	98	780
Buses	03	22	05	04	02	12	04	-	52
Vans	03	05	05	17	42	08	28	08	116
Tractors	06	-	11	29	25	03	17	14	105
Bowseers	03	05	07	05	16	05	14	12	67
Three wheelers	01	-	01	06	16	04	04	02	34
Motor cycles	-	01	03	09	04	11	07	07	42
Other Motor vehicles	-	02	-	19	10	03	04	15	53
Sub total	65	222	77	177	250	129	173	156	1249
Grand total	692	2066	728	1942	2958	1214	1704	1452	12756

Source: Department of cooperative Development.

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

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

#### Sale of Consumer Commodities of MPCSSs -2002

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

Source: Department of Cooperative Development – Sri Lanka

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

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

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

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

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

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

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

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

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

Cooperative supermarkets are of recent origin in the consumer cooperatives, but the private sector had the concept for more than two decades now. Influenced by these private supermarkets and the exposure to cooperative supermarkets in other countries such as Japan, Sweden, and Singapore, some of the coopera-



tive leaders and managers introduced the concept in their cooperatives. These supermarkets run parallel to other traditional retail shops in the same cooperative society and they normally confined to cities such as Negombo, Nuwara Eliya and Colombo suburbs.

### ***Thrift and Credit Cooperative Societies (TCCS)***

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

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

### **Business Units and Community Services of Thrift & Credit Coop. Societies (TCCS)-2002**

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

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

### ***Estate Cooperative Stores Societies***

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

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

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

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

### ***School Cooperatives***

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

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

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

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

1997: 1121

1998: 1051

1999: 993

2000: 1016

2001: 761

2002: 887

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

In the year 2000, school cooperatives had 18 permanent shops, collected deposits to a value of Rs. 0.26

million and had a retail turnover of Rs. 0.19 million. This shows a very marginal consumer business by school cooperatives. However, the school authorities normally provide shop space free of charge and sometimes the electricity is free of charge.

There are no secondary or tertiary organisations for school cooperatives.

### ***Other Consumer Cooperatives.***

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

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

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

### **(iii) Competitiveness of Cooperatives:**

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

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

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

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

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

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

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

#### **Key Success Factors of Consumer Trading Activities**

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

Still the cooperative shop is preferred due to many reasons:

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

In Sri Lanka, there are no hyper markets established as in the case of Scandinavia or Europe. One has been tried by the CWE near Colombo city, which was a unique and successful one,

which had substantial sales. It was popular among middle class salary earners and affluent families who were used to buy in bulk for monthly supplies. However, this too was modified to become an average supermarket after privatisation of the CWE.

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

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

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

**(iv) Shop Location:**

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

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

There has not been any attempt to made to review such locations in terms of emerging open market economy after 1977 in order to prepare for the prospective competition. Government continued to attach its distribution of food commodities to poorer sections of the community either through Jana Saviya programme or Samurdhi programme. Dependence on such programmes made cooperatives non responsive to changes in the market environment. As a result, the number of retail shops dropped to 6854 in 2002 from 8846 in 1979. As at present, at least 5% of the MPCs do not operate any retail shops. Some of the others have been given to managers to operate on fixed leased basis. One of the reasons for the closure is the unsuitability of the location which was working during the time of a monopoly. Since 1977, there had been changes in the urbanisation, population migration and new markets which necessitated looking into shop locations seriously.

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

#### **(v) Cleanliness and Sanitary Conditions:**

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

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

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

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

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

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

**(vi) Assortment:**

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

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

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

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

**Classification of Assortment of MPCSS 2002**

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

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

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

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

Province	Description	Quantity in Metric Tons												Value in Rs. Millions											
		Government sector				Private sector				Cooperative sector				Members				Total							
		Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others	Rice	Flour	Sugar	Others				
1 N/E	Quantity	5452	5421	1967	-	7936	4644	3675	-	5703	11066	518	-	437	-	-	-	-	-	-	-	48819			
	Value	235.2	182.5	106.6	189.3	203.0	99.6	144.3	747.3	161.6	331.1	33.5	211.0	8.6	-	-	-	-	-	-	-	1.8	2655.4		
2 NCP	Quantity	-	8820	3037	-	6400	02	8048	135	378	-	67	-	20	-	-	-	-	-	-	-	26907			
	Value	-	158.7	91.1	-	209.4	1.0	241.4	47.0	9.6	-	2.0	-	5.0	-	-	-	-	-	-	-	759.8			
3 Uva	Quantity	-	8476	263	-	3229	-	902	142	297	-	-	-	-	-	-	-	-	-	-	-	13309			
	Value	-	162.2	7.6	-	75.2	-	27.5	7.1	6.8	-	-	-	-	-	-	-	-	-	-	-	286.4			
4 Southern	Quantity	5200	2300	3500	-	15130	7940	26000	-	-	1800	-	-	-	-	-	-	-	-	-	-	61870			
	Value	91.9	37.4	97.3	39.3	232.9	158.8	720.2	686.7	-	28.7	-	3.8	-	-	-	-	-	-	-	-	0.5	2097.5		
5 Western	Quantity	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
	Value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
6 Central	Quantity	251	2529	n.a.	-	1115	14840	1224	-	230	1013	58	-	6	-	-	-	-	-	-	-	21474			
	Value	60.0	64.5	6.2	13.7	267.8	282.0	36.7	279.0	5.5	19.0	1.8	29.8	1.0	-	-	-	-	-	-	-	1012.1			
7 North Western	Quantity	n.a.	n.a.	n.a.	n.a.	n.a.	N.A.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
	Value	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
8 Sabara gamuwa	Quantity	-	-	-	-	15224	12807	2789	-	-	-	-	-	-	-	-	-	-	-	-	-	30820			
	Value	-	-	-	-	304.4	243.3	83.6	-	-	-	-	-	-	-	-	-	-	-	-	-	631.3			
Total	Quantity	10903	27546	8975	-	49034	40233	42638	277	6608	13879	643	-	463	-	-	-	-	-	-	-	201199			
	Value	333.1	605.4	308.8	242.2	1292.7	784.7	1253.7	1767.1	183.5	378.8	37.3	244.6	9.2	-	-	-	-	-	-	-	2.3	7422.5		



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

### Consumer Services of Multi Purpose Cooperative Societies – 2002.

(Value in Rs. Millions)

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

Source: Department of Cooperative Development.

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

Current trend of the village groceries and the urban private supermarkets is to achieve highest stock turnover per month, thus eliminating the need to keep any buffer stocks. Buffer stocks were a phenomenon during the times of scarcity. During 1970s the MPCs were heavily dependent on buffer stocks as there was severe shortage of consumer commodities. The number of stock turns of the MPCs retail shops has gone down to 1-2..

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

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

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

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

#### **(vii) Cooperative Supermarkets:**

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

The market square concept is not yet come to cooperative sector although it is popular with the private sector companies. At least in Colombo there are 5 such shopping malls operating and some of them are specialised in textiles etc. they have all facilities for consumers such as kiddies area, food courts and even mini cinemas.

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

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

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

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

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

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

**(viii) Branding:**

Branding has been one aspect to create an identity and competitiveness tried by private sector supermarkets as well as cooperative from 1970's. The first known brand in the cooperatives for consumer products was 'Pasco' used by Colombo Milk Sales Cooperative Society for pasteurised milk during 1960's. Milk Board took over the monopoly of supply of dairy products and the cooperative was liquidated in early 1970's. Later, branding became popular among cooperatives when Sri Lanka Cooperative Marketing Federation started producing packeted spices, gift packs and other consumer items using 'MARKFED' label. Sri Lanka Industries Cooperative Union used 'Ceyesta' as a brand name for their rubberised coir products which became a symbol of quality and safety in the consumer market. Some competitors tried to imitate the very name such as 'Ceista' but could not survive in the market. These names are still in the market in a limited way. Most recent addition is the 'COOPFED' label used by Sri Lanka Consumer Cooperative Federation for their packeted items such as raisins, spices and canned fish etc. These brands are put to private supermarkets in addition to their own consumer shops to gain more volume of business. Cooperative Bar Soap and coconut oil, products of the Coconut Producers Cooperative Union are also in the open market in a limited way. However, it seems that branding has been followed by cooperatives without giving proper meaning to the exercise that would benefit the member customer. Japanese cooperatives have used the branding with such meaning as following:

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

*(Coop merchandise policy adopted at 32<sup>nd</sup> JCCU Congress in June 1982-JCCU)*

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

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

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

- Reduce producer domination in the market
- Create more dependence on the retailer by the consumer
- Customer sales increase
- An opportunity to differentiate and provide variety
- Customer loyalty in a situation where comparisons are avoided
- Positive image building
- More freedom for pricing
- Positive control over stock keeping inventory
- Better bargaining position in a depressed economy.

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

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

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

#### **(ix) Level of Store Operations:**

##### **a. Shopping hours:**

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

Another difficulty faced by cooperatives for opening late hours or early part of the day is the inability on the part of the sales staff to turn up at the shops early and close during late hours. They are normally recruited through political patronage or personal preferences without considering the areas where they have to serve, hence they may have to travel distances where normal public transport is not available. In one of the projects conducted in Uva Province to rehabilitate loss making consumer cooperatives, con-

sumers preferred early hours of opening and late closure, but the cooperatives were unable to make the arrangement accordingly. Therefore, as an alternative, an attempt was made to provide living quarters to sales staff using the abandoned store rooms constructed during monopoly days.

**b. Patterns of Shopping:**

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

**Patterns of Shopping by Customers.**

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

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

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

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

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

**c) Patterns of Spending by Customers:**

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

**Patterns of Spending by Customers for Consumer Commodities.**

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

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

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

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

**d) Procurement of Merchandise:**

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

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

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

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

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

#### **Purchase of Consumer Commodities by the MPCs based on Supply Sources -2002**

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

\* Details of NWP and Western province are not available.

Source: Department of Cooperative Development.

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

Very few cooperatives have utilised their members potential for supplying commodities to their own cooperatives as seen from the data above. Being a country with different climatic conditions which could

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

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

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

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

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

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

As matter of common practice, procurement is decided by a purchasing committee consisting of few directors and the sales manager who normally becomes the secretary. The assortment is not decided on the basis of a properly identified assortment of branches, but the requirements as expressed by branch managers and the Samurdhi requirements. The quantity too is decided on ad hoc basis, and sometimes at promptness of the directors. No other stakeholders such as housewives or other types of consumers not represented in the committee. In actual efficient cooperative practice, the member consumers should



participate in the process of deciding on the assortment and channels of procurement. Ideally speaking, the procurement should have been on the basis of an efficient assortment policy and also the turnover of the items. Many of these committees would not follow the principle of treating cooperative as a purchasing agent for the consumer.

In order to become competitive, the procurement should be undertaken through assessing of prices and the quality of products offered by various suppliers or manufacturers. For this, the cooperative society requires efficient product information system with supply sources. It appears that many MPCSSs have not been willing to introduce the information systems due to the dependence on the Samurdhi sales which requires only essential commodities and the Samurdhi recipients are prepared to accept the quality and prices offered by MPCSSs, as they only purchase through food stamps. As majority of MPCSS retail shops are having an assortment below 300 items, they may not feel the importance having an information system.

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

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

#### **e) Pricing:**

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

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

Few private sector suppliers have dominated the MPCSSs business, due to their credit sales and commissions. Normally they have three prices: price on cash purchases, purchases for cheques and the purchases on post dated cheques. The variable is up to 30% mark up. Sometimes, they also provide goods on credit, but at a higher price. Such a purchase is prohibitive to cooperatives, but they procure from these few suppliers as they would be able to distribute these commodities for food stamps under Samurdhi Programme without considering the price. Returned cheques are a normal incident in the process, which is tolerated by the supplier.

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

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

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

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

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

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

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

#### **f) Shop Layout and Display systems:**

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

Shop layouts of the counter sales shops are traditional and stick to the basic barriers between the customers and the commodities keeping a counter in between. The salesman is placed behind the counter who normally stands for serving customers. In more improved counters, the top is made with a Formica top and down below glass shelves are constructed for display of goods. The racks behind the salesman are

normally open type, raising up to the ceiling. Some of the valuable items and small items are kept in a covered glass and timber almirah, and they are open whenever a customer wants an item.

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

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

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

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

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

Cooperative supermarkets have learnt the techniques from the private supermarkets in allocating the space. However, there are certain omissions seen in placing the sections such as frozen food section and vegetable section. In certain shops frozen food section faces sunlight, which would result in consumption of more electricity.

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

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

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

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

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

Placing of goods in the racks and gondolas has been observed through observation of other shops rather

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

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

Shops' interior lighting is another area which needs improvements in cooperative supermarkets. Private supermarkets have given a greater importance for colour combination for each section with spot lights and fluorescent bulbs. Sales floor is generally well lit with soft lighting. Cool and warm lighting is another strategy used for goods display.

### **g) Sales Strategies:**

#### **a) Sampling:**

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

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

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

#### **b) Frequent buyer strategies:**

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

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

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

#### **c) Dividends on Purchases and Discounts.**

Consumer cooperatives do not use computer based data bases on members and the only information base is created manually through the records of members on their purchases using their membership number.

The accumulated data is used for offering dividends on purchases at the end of the year based on the allocations proportionately from the profits if any.

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

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

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

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

**d) E Commerce:**

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

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

**e) Advertising:**

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

So called below the line advertising has been popular among the MPCs. Being regionally located, and without organic linkage to any apex organisation, the MPCs normally participate in the trade fairs and exhibitions locally held. The Department of Cooperative Development has been organising national trade fairs occasionally. In the years of 1973, 1987, and in 1992, there were such fairs organised in which the MPCs participated in a big way. These occasions have created goodwill on consumer cooperatives to become low priced consumer oriented enterprises.

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

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

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

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

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

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

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

#### *f) Franchising:*

In order to achieve high stock turnover, franchising has been used by CWE successfully for sometime. The exercise has also brought some more working capital to the organisation in form of deposits by the franchisees. However, due to the narrow approach taken and the subsequent privatisation, the system has not been given sufficient attention. One of the reasons is the relationship that is needed for maintaining goodwill of the franchised organisation has been lacking, for this purpose, certain guidelines for pricing, merchandising and assortment.

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

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

#### *g) Environmental Campaigns.*

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

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

**h) Profitability**

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

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

Undivided administrative cost has not been included.

Source : Department of Cooperative Development.

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

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

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

	1997	1998	1999	2000	2001	2002
Multi Purpose Coop. Societies	301	308	311	311	311	305
Wholesale stores	607	669	612	617	616	575
Retail shops	8037	7478	7733	7839	7072	8140
Total sales	25824.4	28919.6	32073.1	33476.9	38221.8	35755.3
Wholesale business	11373.1	12979.2	9412.8	7835.5	9067.7	7840.7
Retail business	8162.4	9248.6	7787.4	7389.8	8759.5	6700.2
Samurdhi business	4386.7	1886.0	4698.9	4597.9	6404.6	5240.2
Other business	1902.2	4805.8	2525.4	4528.8	2743.6	1087.8
Fuel	-	-	7648.6	9128.1	11246.6	14886.4
Sales of the consumer section without fuel	25824.6	28919.6	24424.5	24352.0	26975.4	20868.9
Sectional surplus	692.0	202.0	314.7	334.6	443.6	220.8

Sectional losses	1086.0	288.7	164.4	135.5	60.8	148.3
Sectional profit	(394.0)	(86.7)	150.3	199.1	382.8	72.5
Societies with profit	174	171	182	162	174	
Societies with losses	127	137	129	143	137	

Source : Department of Cooperative Development

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

#### **(x) Logistics and Information**

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

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

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

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

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

#### **(xi) Organisational Structure of Cooperatives:**

##### **a) Joint Buying Operations:**

After the reorganisation of cooperatives, the supplies to consumer cooperatives were from the state agencies direct to the MPCSSs. These state enterprises had their own go downs and ware houses through which the distribution was made. In turn, the MPCSSs also had their own go downs and wholesale stores catering to their branch shops and also the registered authorised dealers. As the MPCSS managed the branch shops and the entire retail operation, there were secondary unions only for wholesaling that existed prior to the



reorganisation in 1971. The government took action to amalgamate then Colombo Consumers Union and Agricultural Producers Cooperative Union in 1971 and form the Sri Lanka Cooperative Marketing Federation (MARKFED). The idea was for the MARKFED to function as the apex organisation for agricultural cooperatives as well as consumer cooperatives. As the two functions were concentrated in the MPCs at the primary level, MARKFED is basically the apex organisation for MPCs.

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

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

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

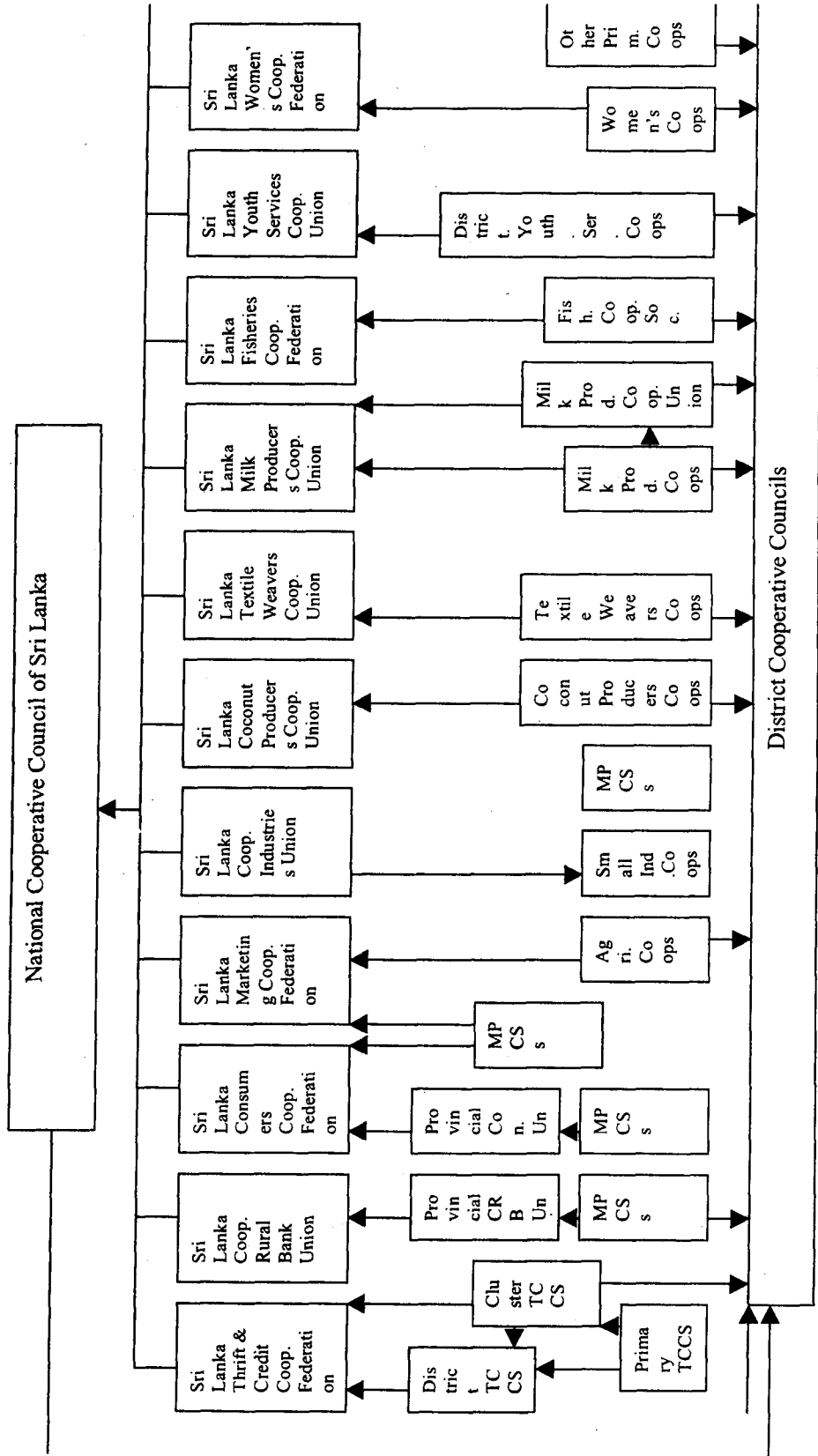
#### **b) Formal Organisational Structure**

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

### **ORGANISATIONAL STRUCTURE OF THE COOPERATIVE MOVEMENT IN SRI LANKA**

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

As the Federations have been taken as separate ventures, there have not been any joint operations, pricing of transactions was undertaken separately. Federations normally operate their own sales and procurement departments and transport systems and wholesale stores or warehouses. Their members buy the commodities from these units and price them covering the cost. In this process, the federations and secondary unions bear heavy overhead costs to maintain the systems and the organisations, which they have to recover from the sales. In contrast, if we consider the systems maintained by the Japanese consumer organisations, the members organise themselves into Han groups and jointly purchase commodities to a greater extent. On the other hand, the primary consumer cooperatives get together and jointly purchase their stocks from the suppliers, which are shared among the members. In such an arrangement, there is no



need to maintain such traditional secondary organisations and could have a cost effective and simple procuring system. Japanese consumer cooperatives operate as purchasing agents for members. “*Cooperatives gathered consumers' demands and took on the true role of purchasing agents for consumers. This position was in direct contrast to manufacturers' sales agents.*” (Takamura- Principles of Cooperative Management)

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

### ***Sri Lanka Consumers Cooperative Federation (COOPFED)***

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

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

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

*Source: Department of Cooperative Development.*

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

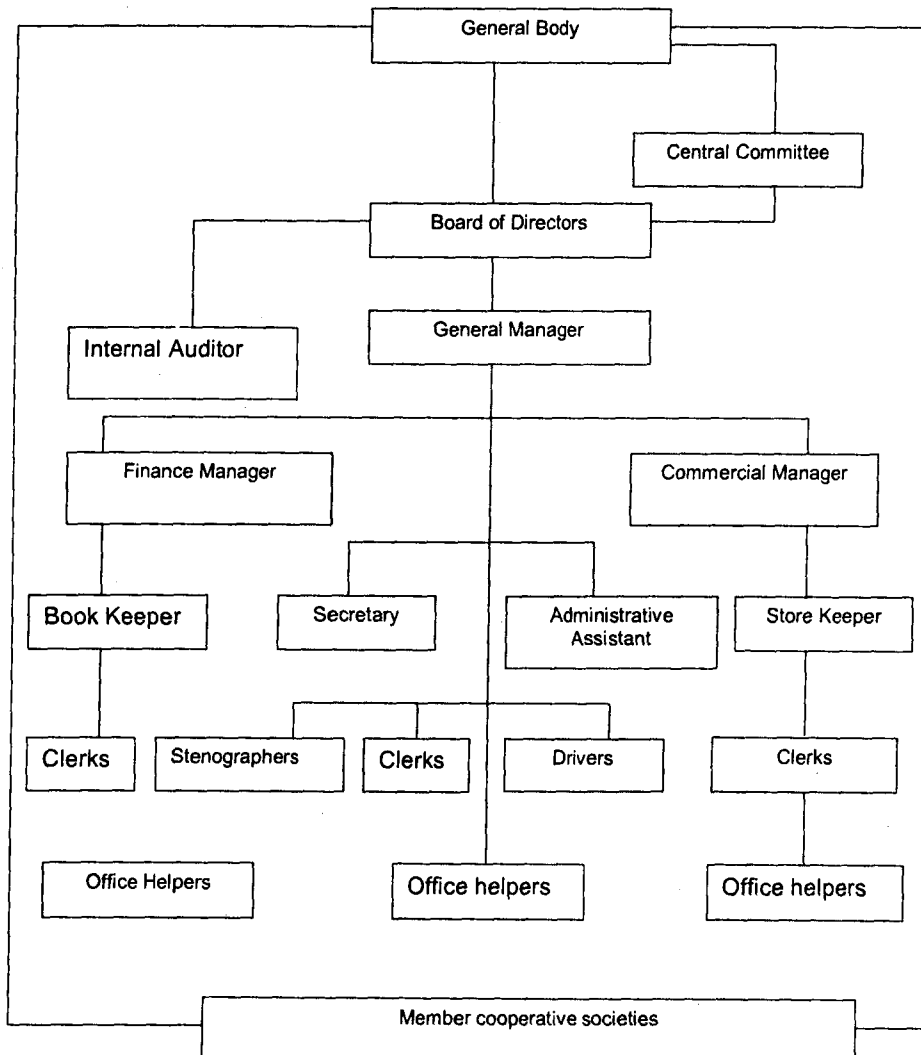
The balance sheet of the COOPFED shows a very weak solvency of the organisation and also a heavy erosion of working capital:

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

Source: Department of Cooperative Development.

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

The organisational structure of the COOPFED is as follows:



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

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

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

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

### ***Sri Lanka Cooperative Marketing Federation (MARKFED)***

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

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

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

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

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

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

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

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

Source: Department of Cooperative Development.

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

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

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

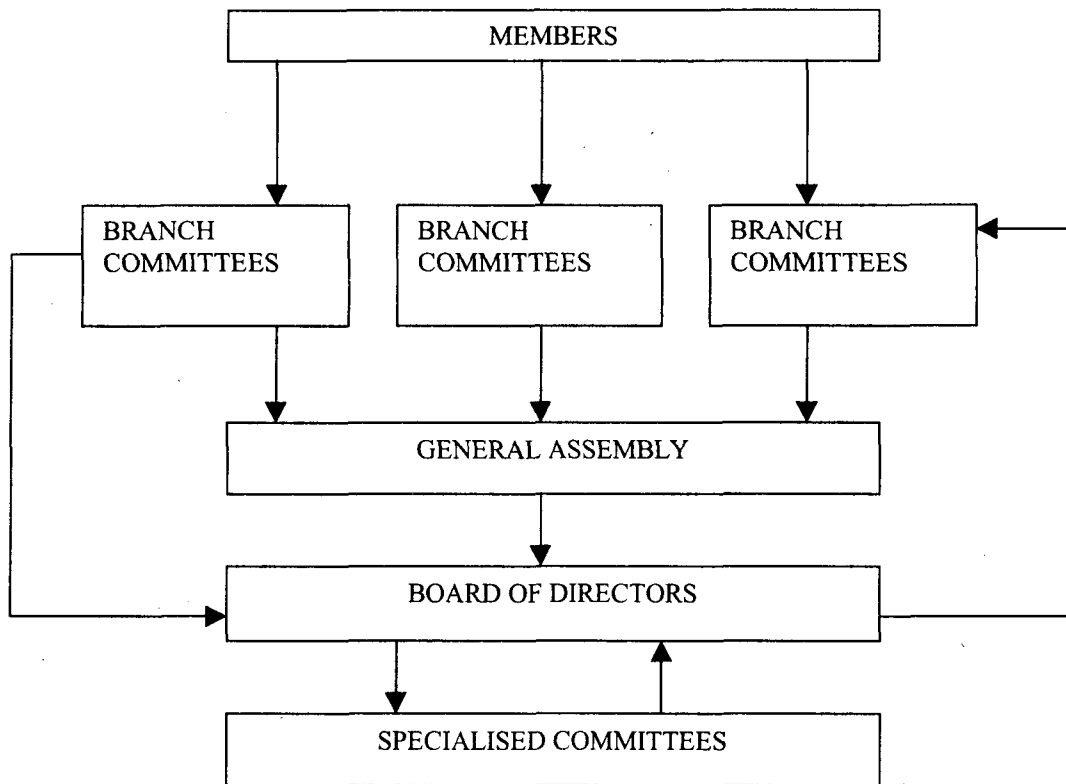
Source: Department of Cooperative Development.

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

#### (xii) Governance System of Consumer Cooperatives.

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

### Governing System of the MPCs



Present governance system of the MPCs is a centralised system where major decisions are taken by the board of directors consisting of 9 members elected by the general body once in three years. The number of delegates to the general body is restricted to 100 irrespective of the size of the membership. At present, average membership of MPCs is 12269. The representation is 122:1 which is not satisfactory. If compared with the representation of consumer cooperatives in Japan, one in every 10 members of the Han group would become a representative in the general body. In the absence of a direct democracy in a cooperative society, the representation should be made along with the decentralisation of authority. In the case of MPCs, each MPC has an average of 23 branches.

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

The business functions such as procurement, disposal of empties, finances, staff discipline and recruitment are supported by specialised committees consisting of few board members each. Respective man-

ager dealing with the subject functions as the secretary to the committee. Once the recommendations are given, the board of directors normally approves the decisions. The entire structure of these committees centres around the board members. Such a system tends to have narrower approaches to the issues. Normally, large organisations such as MPCs should incorporate, in addition to directors, actual stakeholders for taking decisions. As an example, in order to determine the merchandising policies or the assortment, the MPCs should incorporate representatives of housewives or consumer organisations into committee in addition to directors and few branch representatives.

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

Under the existing cooperative laws and the by laws, the Registrar does not have power to nominate directors or to supersede the BOD without going to the general body. It is also stated that once a person is elected as a member of parliament or a local authority, s/he would not have right to remain a director of the MPCs. Therefore, there are safeguards in the law to preserve the autonomy of cooperatives. However, in the actual practice, politicisation has crept into the elections in the MPCs as it is seen as a power base in the village. As the branch general bodies are more or less defunct, in spite of legal requirement to hold meetings, the political parties bring their members to the front at the time of elections and nominate their delegates in order to elect a BOD to their will at the general meeting. Change of government has had an influence in the change of management of the MPCs, and the elections have had clashes among the parties, which led to court cases sometimes. During 2002 elections of the branch committees, 52 societies had to obtain police intervention and there were 7 court cases. There were also 23 incidences of breach of law and order. In the BOD elections, there were 24 instances where the police intervention was sought, 6 complaints to the police and 7 cases filed in courts.

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

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

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



### **(xiii) Strategic Alliances with Cooperatives Outside:**

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

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

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

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

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

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

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

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

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

- Venturing into joint operation of supermarkets;

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

**(xiv) Human Resource Development in Cooperatives:**

***Characteristics of the Human Resources in Consumer Cooperatives:***

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

Breakdown of membership is given below:

**Primary Cooperative Societies membership by province - 2002**

Type of Society	N/E	NCP	Uva	South.	West.	Central	NWP	Sabar Agam.	Total
01 MPCS									
MPCS	575626	252141	219794	443182	958672	195083	539000	558600	3742098
02 Consumer									
Other Cons.	-	-	6321	2308	426	9295	-	4927	23277
Estate stores	-	-	212	-	245	168	130	-	755
03 Thrift & Credit									
SANASA									
(institutional Employees)	1518	4031	3274	6323	16235	5114	n.a.	3173	39668
SANASA (Community)	61209	21924	38029	149159	136402	82019	120000	74051	682793
SANASA Banks	-	-	-	30443	75939	3581	n.a.	32247	142210
Others	8220	-	-	21002	390	825	-	-	30437
04 Coop. Rural Banking Soc.	-	-	-	-	3010	3200	-	-	6210
05 Agricultural & Livestock									
Tea	-	-	-	2469	140	-	-	-	2609
Rubber	-	-	75	68	1821	-	20	1976	3960
Coconut	-	88	1187	60	1243	-	3600	185	6363
Palmyra	27058	-	-	-	-	-	-	-	27058
Agri. Productivity villages	-	145	956	671	77	596	300	120	2865
Other Agricultural	-	1563	1733	1298	405	-	2000	-	6999
Livestock-milk	7072	12901	4079	206	400	19709	5500	4508	54375
Other livestock	8928	235	-	55	221	-	3350	905	13694
Fisheries- Fresh water	4219	1170	1463	1179	1810	1180	150	74	11245
Fisheries- Marine	42007	-	-	13170	6364	-	8600	-	70141
06 Industries									
Textile	2391	216	26	-	1546	13773	450	8031	26433
Carpentry	236	-	78	-	184	84	50	38	670
Pottery	169	-	54	318	-	-	200	117	858

Coir	60	-	-	1817	-	110	30	14	2031
Ready made garment	-	-	-	-	51	20	-	-	71
Others	37	-	114	2152	1063	940	150	-	4456
07 Hospitals	66	-	-	5672	1599	-	1800	-	9137
08 Housing	610	-	1818	5017	1762	13640	300	22210	45357
09 Transport	443	84	-	-	728	-	70	-	1325
10 Labour	505	-	45	61	2364	340	100	65	3480
11 School	15181	10066	22294	33832	12464	65639	24000	33904	217380
12 Youth services	38239	47248	45667	28287	63816	76416	78000	47953	425626
13 Welfare	2813	-	-	275	812	-	1600	252	5752
14 Self employed	171	-	-	1090	9441	-	4400	-	15102
15 Others	535	-	2887	165	44187	219	4000	-	51993
<b>Total</b>	<b>797313</b>	<b>351812</b>	<b>350106</b>	<b>750279</b>	<b>1343817</b>	<b>491951</b>	<b>797800</b>	<b>793350</b>	<b>5676428</b>

It appears that most of the members and leaders are basically of middle age, if not elderly and also literate enough to read and writing. Majority of the members are farmers. Their understanding of the business is marginal. Women's participation at the primary societies is fairly satisfactory:

#### Membership in consumer cooperatives by gender -2002

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

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

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

Description	N/E	NCP	Uva	Southern	Western	Central	NWP	Sabara gamuwa	Total /Average percentage
No. of branches	1401	423	417	1006	1229	551	993	894	6914
No. of branch committees	1267	423	252	987	1008	450	n. a.	773	5160
No. of committee members elected	5244	2060	2294	8883	8045	n. a.	n. a.	4735	3126
Female	391	339	303	1172	1417	n. a.	n. a.	975	4597
Male	4853	1721	1991	7711	6628	n. a.	n. a.	3760	26664

Female/Male percentage	Female	7.5	16.5	13.2	13.2	17.6	n.a.	n.a.	20.6	14.7
	Male	92.5	83.5	86.8	86.8	82.4	n.a.	n.a.	79.4	85.3
No. of delegates to general meeting		2235	3027	1444	3384	*2103	n.a.	n.a.	1855	14048
	Female	196	208	355	281	63	n.a.	n.a.	330	1433
	Male	2039	2819	1089	3103	2040	n.a.	n.a.	1525	12615
Female/Male percentage	Female	8.8	6.9	24.6	8.3	3.0	n.a.	n.a.	17.8	10.2
	Male	91.2	93.1	75.4	91.7	97.0	n.a.	n.a.	82.2	89.8

\* Only Kalutara District.

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

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

Age group (yrs.)		N/E	NCP	Uva	South	West	Centr.	NWP	Sabara gamuwa	Total
18-26	Female	01	02	-	01	1	02	n.a.	-	06
	Male	10	06	-	05	1	02		-	23
27-35	Female	11	08	-	06	1	04		-	29
	Male	05	05	-	01	1	13	n.a.	13	37
36-44	Female	44	12	-	51	04	48		31	190
	Male	49	17	-	52	04	61		44	227
45-53	Female	10	03	-	08	07	11	n.a.	10	49
	Male	115	25	01	72	33	36		25	307
54 & Above	Female	125	28	01	80	40	47		35	356
	Male	07	11	12	20	04	14	n.a.	11	79
Total	Female	178	54	40	76	70	96		36	580
	Male	185	95	52	96	74	110		47	659
Total Female & Male	Female	01	02	23	01	03	15	n.a.	-	59
	Male	169	44	37	10	129	55		40	470
% of Total of each Province	Female	170	46	60	11	132	70		40	529
	Male	24	23	48	31	14	55	n.a.	34	230
% of Total of each Province	Female	516	171	64	214	236	237		132	1570
	Male	540	194	113	245	250	292		166	1800
Age group (yrs.)	Female	4.44	11.86	30.97	12.65	5.60	18.83	n.a.	20.48	12.80
	Male	95.56	88.14	69.03	87.35	94.40	81.16		79.52	87.20
Age group (yrs.)		N/E	NCP	Uva	South	West	Centr.	NWP	Sabara gamuwa	Sri Lanka
18-26		2.03	4.12	-	2.45	1	1.37	n.a.	-	1.66
27-35		9.07	8.76	-	21.22	1.60	20.89	n.a.	26.50	12.61
36-44		23.15	14.43	0.88	32.65	16.00	16.91	n.a.	21.08	19.79
45-53		34.26	48.96	46.62	39.18	29.60	37.67	n.a.	28.31	36.63
54 & Above		31.48	23.71	53.09	4.49	52.80	23.97	n.a.	24.10	29.40
		100.00	100.00	100.00	100.00	100.00	100.00	n.a.	100.00	100.00
Age group (yrs.)		N/E	NCP	Uva	South	West	Centr.	NWP	Sabara gamuwa	Sri Lanka
18-26	Female	9.09	25.00	-	16.67	1	50.00	n.a.	-	17.86
	Male	90.91	75.00	-	83.33	1	50.00		-	82.14
27-35	Female	10.20	29.41	-	1.92	1	26.15	n.a.	29.55	16.30
	Male	89.80	70.59	-	98.80	100.00	73.85		70.45	83.70
36-44	Female	08.00	10.71	-	10.00	17.50	23.40	n.a.	28.57	13.76
	Male	98.00	89.29	100.00	90.00	82.50	76.60		71.50	86.24
45-53	Female	3.78	11.58	23.80	20.83	5.40	12.73	n.a.	23.40	11.99
	Male	96.22	88.42	76.00	79.17	94.60	87.27		76.60	88.01
54 & Above	Female	0.59	4.35	33.33	9.10	2.27	21.43	n.a.	-	8.51
	Male	99.41	95.65	66.67	90.90	97.73	78.57		100.00	91.49

Source: Department of Cooperative Development

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

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

The leadership of the MPCSS by vocation is as follows:

**Members of Board of Directors of MPCSS by Profession  
and Designation -2002**

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

Source: Department of Cooperative Development.

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

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

In the given circumstances, the competitiveness of the consumer cooperatives should become low as the business competencies are marginal in the leadership. As per the existing legislation, the Boards too have executive powers, and they tend to take routine business decisions too.

Except in the MPCSSs, number of persons employed is marginal. All the other types of cooperatives are smaller to the extent they employ handful of employees. The employees' position in 2002 is as follows:

#### **Statistics on Employees of Cooperative Societies in Sri Lanka-2002**

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

Sources: Department of Cooperative Development.

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

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

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

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

Source: Department of Cooperative Development.

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

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

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

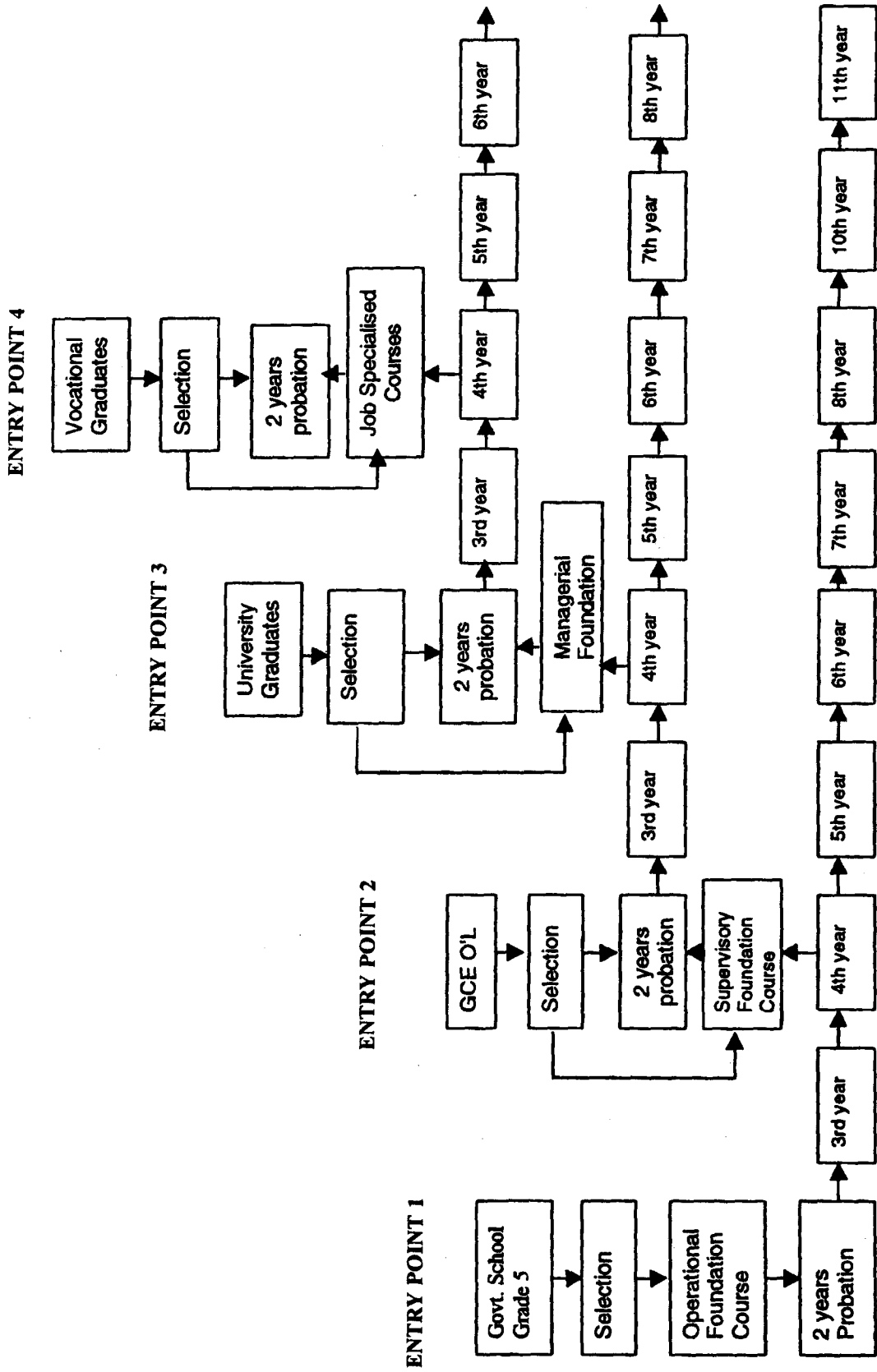
At present, there are three employee levels which have been identified by the CEC:

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

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

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

**CAREER PATH FOR COOPERATIVE EMPLOYEES.**





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

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

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

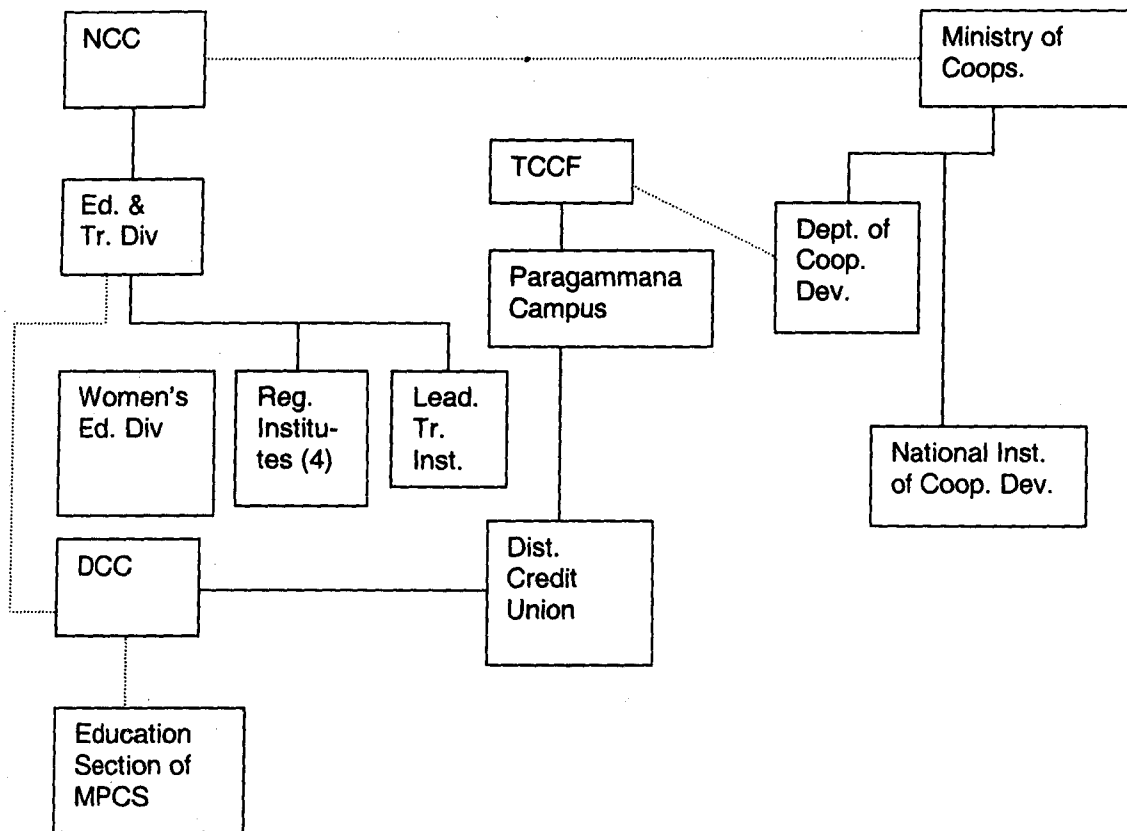
Current organisational arrangements for consumer cooperatives are found in the government sector as well as cooperative sector. Sri Lanka Institute of Cooperative Management (SLICM), which started as an ILO Project in 1973, was later made a para statal institution through an Act of Parliament. This was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

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

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

Current HRD structure of cooperative movement is illustrated as follows:

### Current Structure of HRD in Cooperatives



#### 1. National Institute of Cooperative Development (NICD):

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

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

The School of Cooperation determined the syllabi and conducted examinations for these courses. Junior level course, which was a correspondence course was abandoned in the 1970s. The School has also transferred the responsibility of conducting the examination of the Ordinary Level to NCC in 1988. Therefore, the involvement of the NICD in conducting employees' foundation courses is marginal at present.

The School of Cooperation earlier was a section of the Department of Cooperative Development supervised by a Deputy Commissioner of Cooperative Development (DCCD) located in Colombo. There was

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

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

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

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

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

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

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

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

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

The NCC has a history of promoting of different types of cooperatives and their federations. In addition, it had several projects dealing with cooperative education and training, starting with NCC/SCC/ICA

Project for Training of Cooperative Teachers in Sri Lanka (TTP) followed by the ILO Project on Management Training as well as another project titled NCC/SCC/ICA Project for Women's Consumer Education in Sri Lanka. Which were initiated in 1978 and continued up to 1983.

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

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

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

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

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

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

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

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

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

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

### 3. *Thrift and Credit Cooperative Federation (TCCF)*

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

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

### 4. *District Cooperative Councils:*

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

### *Technology application for HRD:*

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

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

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

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

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

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

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

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

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

The NCC/SCC/ICA Project on Training of Cooperative Teachers in Sri Lanka (popularly known as TTP) from 1978 to 1981 attempted to develop an internal training system with a structural change in the MPCSSs, has put out manuals and materials concerning the subject. It has also developed at least 3 models in the MPCSSs. The concept followed during the experiment is as follows: *"An internal training system in an organisation essentially represents the focus on objectives and the priorities of activities which are set by the management. It deals with the training requirements in bringing about maximum productivity from the resources by using them effectively and economically. Human side in the organisation is the main factor which contributes major portion to this. Development of human resources cannot be achieved by launching a one sided effort from the management point of view, but it should have the committed involvement by the trainee. The organisation should be flexible enough to accommodate the involvement of trainees in deciding training policy as well as learning experiences. The training function is an integral part of an organisation which influences functioning of other components."* (Herath 1982)

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

#### **(xv) Problems faced by Consumer Cooperatives:**

##### **a) Capital Formation:**

Current capitalisation of the consumer cooperatives consists of following:

- a) Owned capital – shares, accrued profits and reserves

b) Borrowed capital – loans from various sources and types, overdrafts and deposits

a) Owned capital:

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

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

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

### Assets and Liabilities of MPCs- 2002

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

### Owners fund and liabilities

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

As revealed above the share capital of the MPCs in 2002 was Rs. 4890 million. The figure of Rs. 42163 million shown as reserves and balances does not belong to consumer operations, but to rural banking operations. Therefore, when compared to turnover of the consumer activities of the MPCs, the turnover in 2002 was Rs. 26975.2 million, which shows a severe inadequacy of the share capital for the consumer activities. During pre reorganisation period, value of share fixed at Rs. 50 was sufficient to provide services to the village, but at present, value of Rs. 100 is insufficient. The average value of a share at present stands at Rs. 73.23 per member. One week's assortment for a retail shop would need substantial cost as the assortment should be comprehensive enough to make all essentials available for the members, as they have inculcated a habit of one stop shop. Therefore, the Presidential Commission recommended that a share value to be increased to Rs.1000 to be paid by instalments.

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

#### b) Borrowed capital



Borrowed capital of the MPCs consists of the following:

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

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

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

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

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

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

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

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

#### ***b) Governance System***

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

- a) Legislative restrictions on the symbiotic relationships among branch committees and the central management, making them subordinated;

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

Efficient governance system that suits the on going open market system is a pre condition for success of cooperative ventures. So long as the MPCSSs depend on the government programmes such as Samurdhi, the current cooperative leadership would be able to hang on and operate with the uncontested competition for Samurdhi business. On the other hand, as the Registrar's powers have been restricted through the legislation, he would not be able to supervise effectively as he could not supersede the BOD who is corrupt. Therefore, the reforms should be multi faceted incorporating not only the legislation, but also the management systems, capitalisation and modernisation of operations.

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

### ***c) Management System***

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

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

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

Inadequate capital has created many difficulties for the consumer cooperatives which have to be sorted out by the stakeholders of the cooperatives. At present, the average share capital for a MPCSS is Rs. 1.6

million for all the activities. Unfortunately, there is no division of working capital into various businesses including the consumer business; hence it is difficult to assess the deficit for consumer section. However, as there is only marginal increase of share capital of the branches since the reorganisation, it could be stated that there is a gross inadequacy of capital for consumer operations. Therefore, accumulation of capital is another issue which has to be settled urgently if the MPCs are to be revived. Cost of borrowed capital makes cooperative less competitive.

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

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

#### ***d) Support Services***

Support services of the government have been of several folds:

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

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

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

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

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

#### ***e) Market Competition***

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

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

#### ***(f) Strategic Alliances***

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

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

#### ***(g) Human Resource Development***

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

With the decline of foreign funded members' development and leadership development models, the member education programmes are confined to ad hoc arrangements with the District Cooperative Councils. The activities are related to legal and other administrative matters, leaving out the roles they have to play in the context of a competitive environment.

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

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

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

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

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

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

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

The objectives of the Authority are:

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

The functions of the Authority are:

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

Unlike the previous legislation pertaining to price controls, the proposed Consumer Protection Authority

is not expected to undertake price regulation, but has authority to issue general directions to the traders and manufacturers in respect of labelling, price marking, packeting, and sale or manufacture of any goods.

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

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

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

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

Another move to protect the consumer from hazardous low quality products was the establishment of the Sri Lanka Standards Institution (SLSI) in 1965. Standards certification is required for number of products which are essentials for the consumer and the balance are optional. The task is becoming a complex one with the globalisation has entered into the country with much acceleration, where many types of goods and services are offered by off shore companies as well as joint ventures and local companies. Especially in the case of local industrial products, the task is challenging due to the protection of local industry expected from the government. On one hand, the goods that have been produced according to international standards are freely imported and sold at competitive prices and on the other hand, local products are required to compete with them on quality and price both. Therefore, it is a challenge to protect the local industry while maintaining international standards, which require mass volumes of production and technology to keep the costs down.

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



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

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

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

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

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

share of a cooperative society or a union on the basis of the intended business.

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

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

However, there had been several attempts to draft a national policy on cooperatives by different governments since 1987 which have not been successful. The most recent attempt is the national workshop

organised by the National Cooperative Council of Sri Lanka with the concurrence of the Ministry of Cooperatives. The workshop held in February 2004 has identified the content of such a national policy as following:

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

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

## 6. CONCLUSIONS AND RECOMMENDATIONS

### (a) General

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

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

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

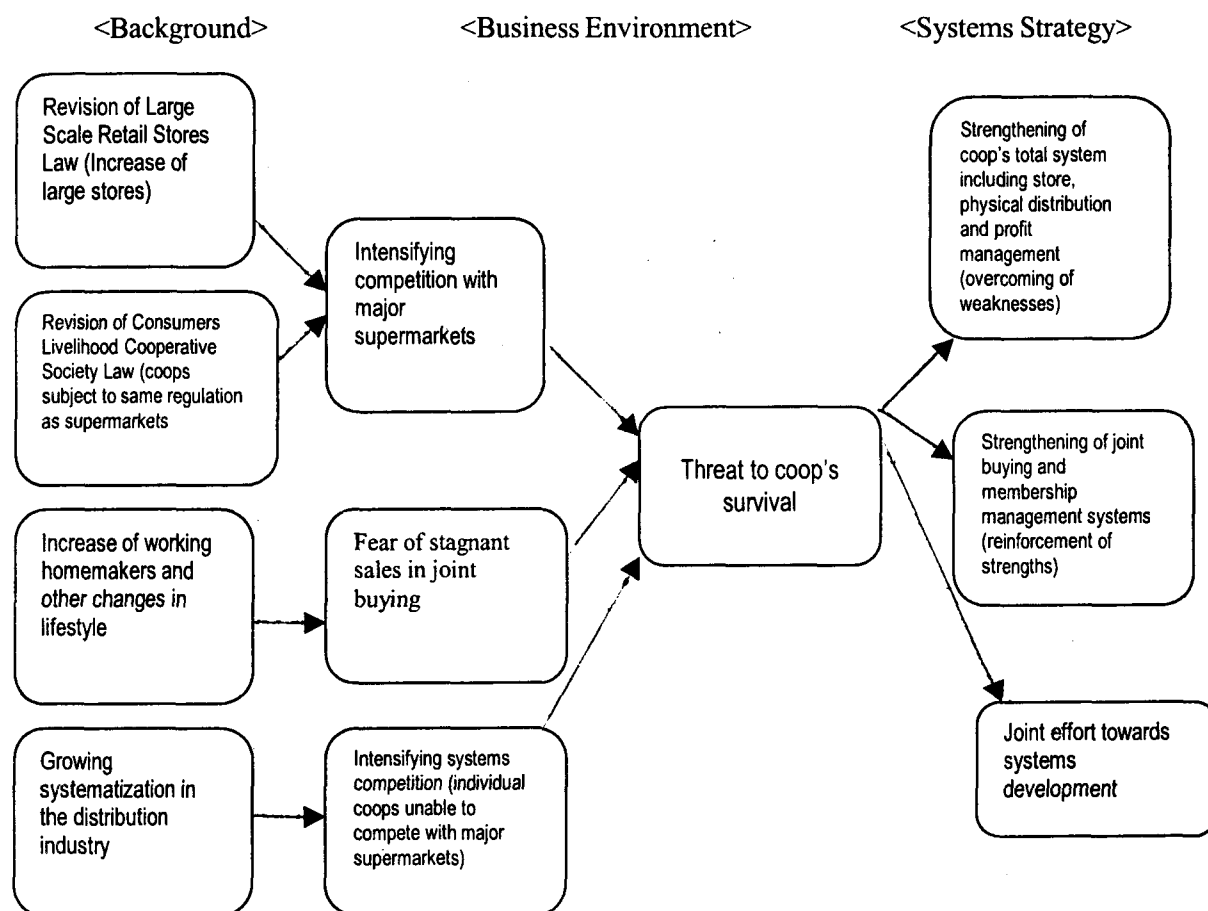
However, there many issues that has to be resolved to make cooperatives more strong in the modern context as discussed already. These need to be addressed, if consumer cooperatives are to survive and grow in the future. Some of the solutions are summarised here with certain models that could be adopted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

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

### (b) Organisational dynamics

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

## Environment of Consumer Cooperatives and their Systems Strategy.



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

Extracted in Seikyo – A Comprehensive Analysis of Consumer Cooperative in Japan

Hidekazu Nomura 1993 – OTSUKI Shoten Publishers.

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

### (c) Management of Retail Business

#### *Capitalisation*

In order to deal with the inadequate working capital for carrying out sustainable consumer business, it is necessary raise owned capital rather than depending on the borrowed capital. There should be an aware-

ness campaign among the members to inform them about the low share capital which has been mainly generated before the reorganisation and the consequent decline in the competition due to costly borrowed capital.

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

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

### *Structure*

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

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

### *Joint buying*

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

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

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

#### *Purchasing*

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

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

#### *MBO and Management systems*

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

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

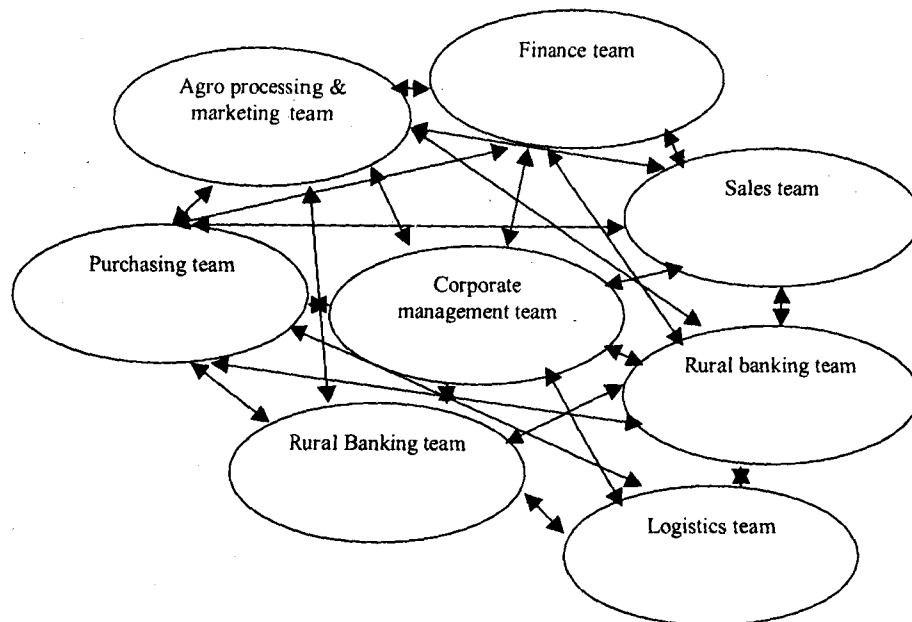
In the area of organisational design, present hierarchical organisation should be replaced with a network organisation in which each department would function as a project and a component of the society network. In such a system, communication flow is horizontal and the network units would work as semi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

An example could be illustrated as following:

#### **Example of MPCSSs as a Network Organisation**

##### *Sales Promotion*

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



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

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

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

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

### *Pricing*

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

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

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



**(d) Efficiency norms for consumer operations.**

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

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

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

*Management of Retail Shops*

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

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

In such a system, the accounting staff of the present MPCSSs which is the highest in numbers could provide book keeping services to the branches, which will bring a creditability to the branch accounts that

are prepared at a cheaper cost levied by the centre. The centre can also undertake procuring commodities required by the branch shops to the specifications given and deliver them to branches in packeted form. The centre normally buys bulk from the manufacturers such as rice, sugar, and grains etc. this arrangement could also bring the quality and also common branding of the commodities.

#### *Management Information System.*

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

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

#### **(e) Human Resource Development**

##### *Staff Development*

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

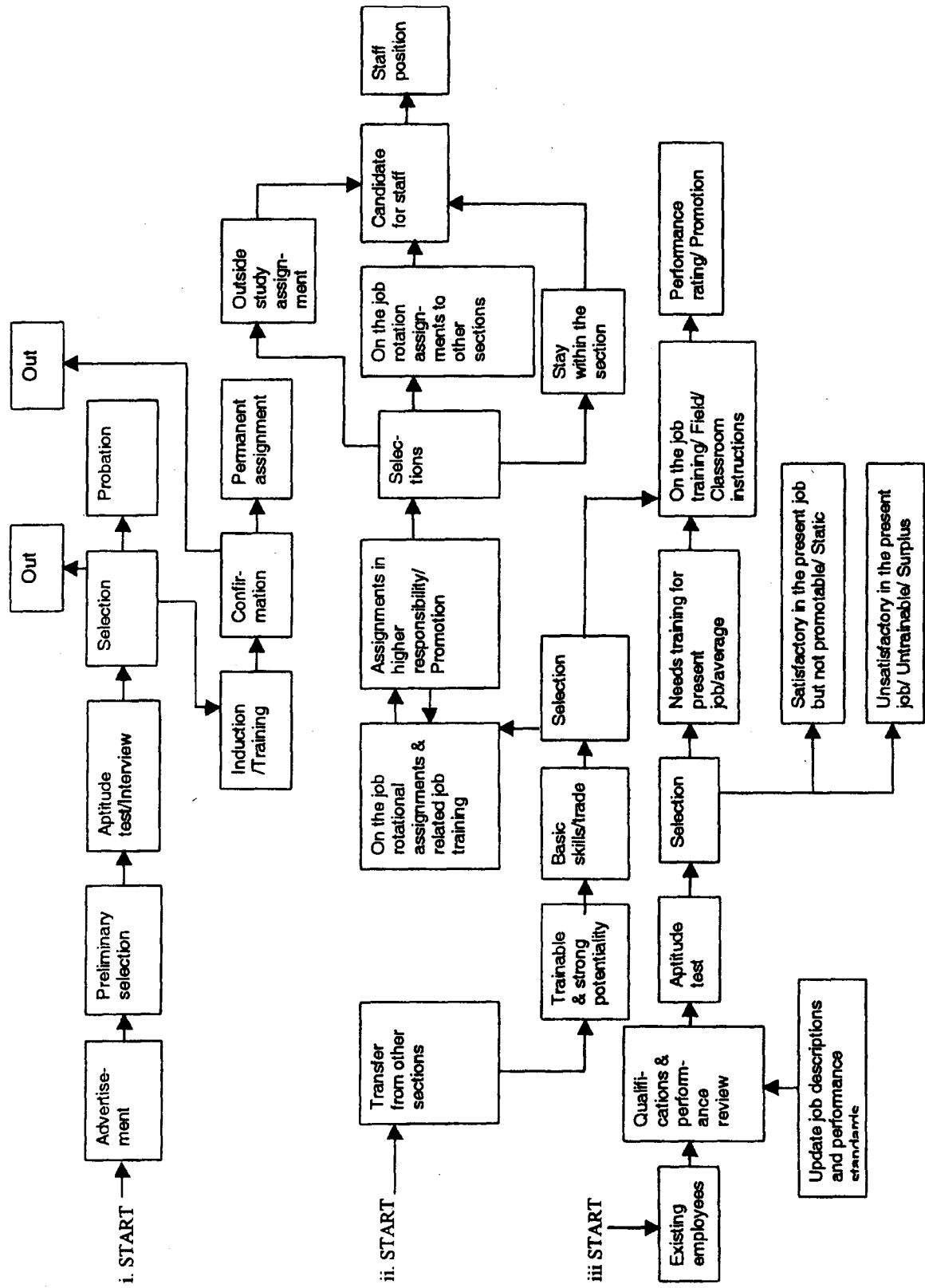
The current arrangements for development of staff through a systematic approach is defective as it does not relate to the career path of the consumer cooperatives and also has adopted a conventional approach to HRD in spite of attempts made to change it. Basic foundation courses are examination oriented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

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

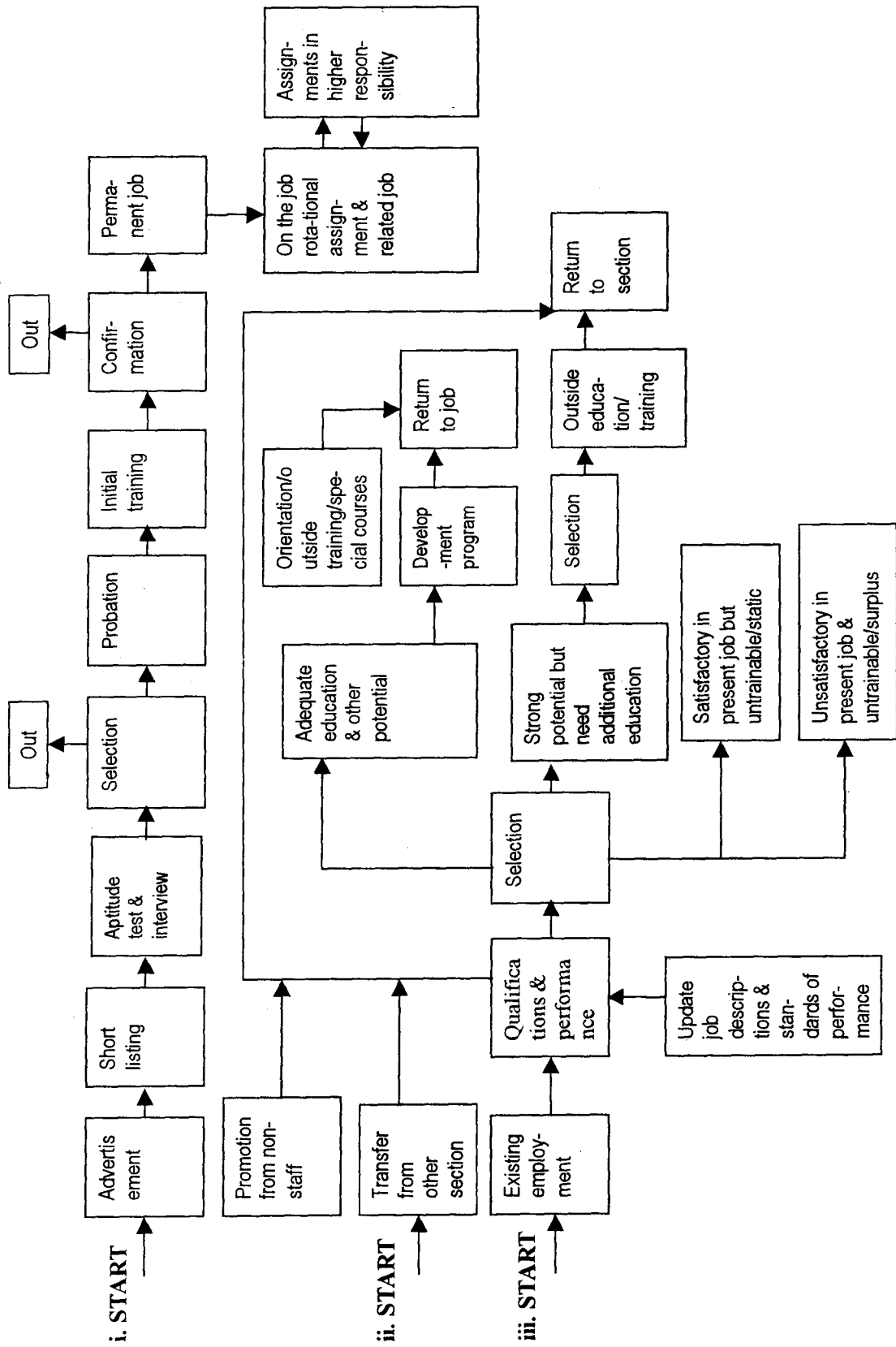
Job rotation at the initial stage of employment would make the employee acquire overall knowledge of the functions on the same level of jobs which are related to his work place.

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

HRD SYSTEM FOR NON STAFF CATEGORY OF EMPLOYEES IN THE MPCSS



HRD SYSTEM FOR STAFF CATEGORY OF EMPLOYEES IN THE MPCSS



#### **(f) Support Services by the Government**

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

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

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

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

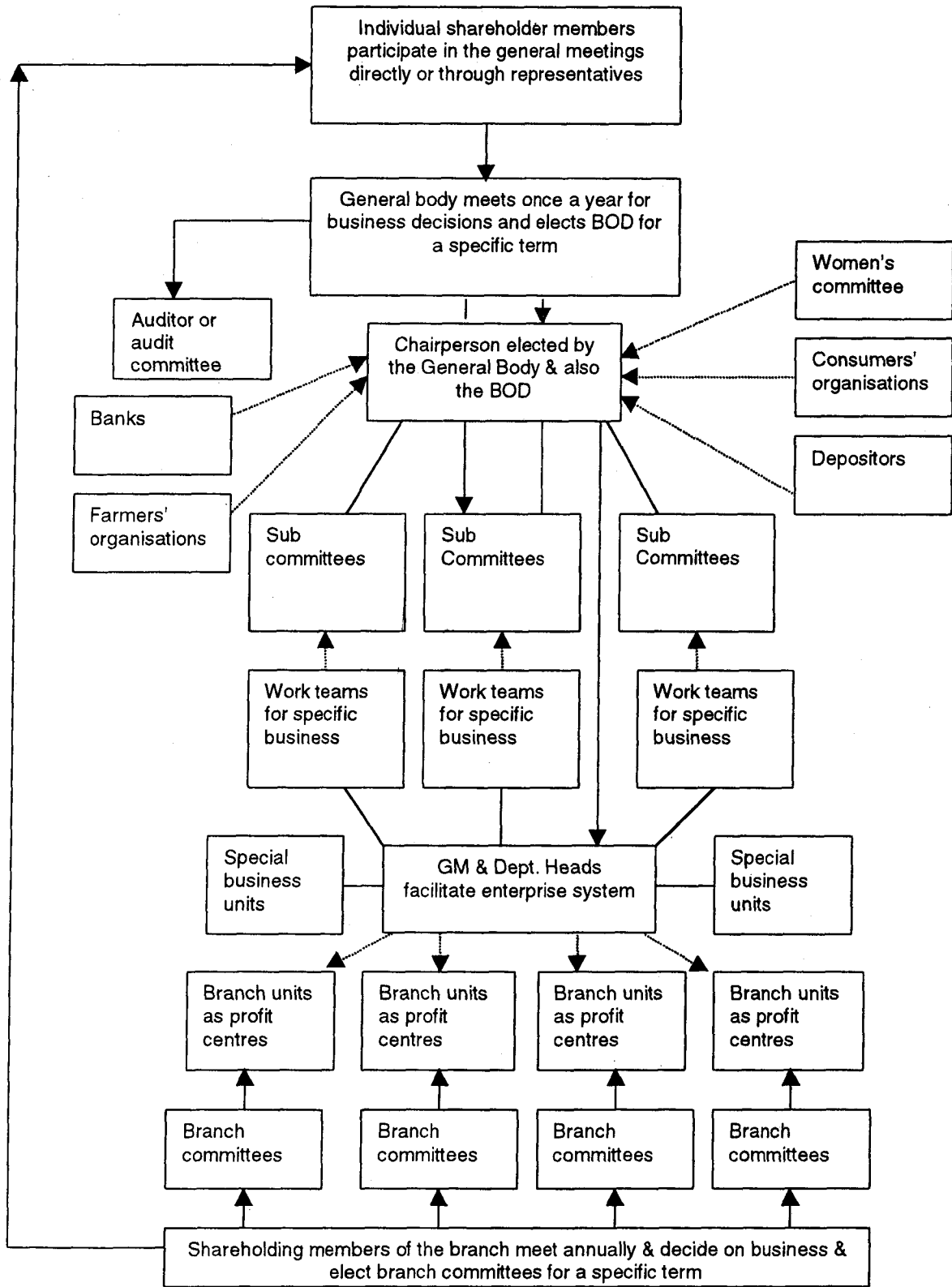
The government once had Sri Lanka Institute of Cooperative Management (SLICM) which provided consultancy services to consumer cooperatives in various aspects of supermarket operations and retailing. It has now been liquidated on the contrary to the recommendations by the Presidential Commission which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

#### **(g) Corporate Governance System**

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

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

### Governance System for MPCs



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

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

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

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

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

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

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

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

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

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

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

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

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

**Project Component 1: Structure of the Consumer Cooperatives Improved.**

**Outputs and Activities:**

<i>Output</i>	<i>Activities</i>
i) Economically viable & flat organisational structure introduced	<ul style="list-style-type: none"> <li>a) Match the current structure with other retailing companies</li> <li>b) Calculate the costs of maintaining the current structure and the proposed structure</li> <li>c) Introduce the revised organisational structure to stakeholders</li> <li>d) Re engineer the present organisation to adopt new organisational structure with the systems.</li> <li>e) Replace traditional counter sales shops with either self services convenient store system or supermarket system</li> </ul>
ii) Networking and strategic alliances with other cooperatives & private companies fixed.	<ul style="list-style-type: none"> <li>a) Review the functioning of the present branches of the MPCSSs in terms of current developments in the socio economic conditions in the area of operation</li> <li>b) Re-demarcate the areas of operation and shop locations of the branches if necessary.</li> </ul>



- c) Adopt the new by law that provides autonomy for the branches and shops
  - d) design and adopt new accounting and management systems for the branches
  - e) Identify the assortment that needs buying from outside other than the members products
  - f) organise joint buying with the other branches through the central office of the MPCs
  - g) Get the MPCs to work out strategic alliances with the producer cooperatives on the basis of forward contract system
  - h) Get the MPCs to enter into contract with the private suppliers for other commodities
- iii) Improved corporate governance system adopted.
  - a) Revise the current main cooperative legislation to accommodate more democracy in the functioning of cooperatives
  - b) Revise the current by law to accommodate control by the members who have more stakes in terms of shares, deposits, transactions by changing the qualifications in the representative system and elections to committee members and BOD
  - c) Establish specialised committees such as purchasing committee by incorporating the stakeholders into the set up
  - d) Establish consultation with the frequent buyers and important customers for improvements in the system.

## **Project Component 2: Development of Consumer Business Management**

### **Outputs and Activities:**

#### ***Outputs***

- (i) Owned and borrowed capital brought to accepted level
- (ii) Strategic Plans formulated & implemented

#### ***Activities***

- a) Calculate the working capital need to provide the assortment that is demanded by the shops
- b) Increase the value of the share and the number of shares that should be procured by members for voting
- c) Recruit new members on the new system
- d) issue consumer deposit certificate to members who want to join
- d) Take deposits for procuring goods free of charge using the interest to be paid
- a) Conduct SWOT analysis with the Logical Framework Analysis (LFA)

- b) Organise workshops with the actual stakeholders to go through the strategic planning process
  - c) Prepare short term and long term plans for the cooperative society
  - d) Prepare budgets and implementation and monitoring mechanisms
  - e) Implement the strategic plans with progress control events.
- iii) Merchandising policies improved
- a) Prepare Assortment based on the members needs in respect of each shop
  - b) Introduce branding wherever possible
  - c) Introduce processing and packaging wherever necessary
  - d) Undertake product development wherever feasible
  - e) Introduce Pricing mechanisms that would bring more turnover & profitability
- (iv) Purchasing system at the lowest prices organised
- a) Organise market intelligence systems
  - b) Establish automated market information system
  - c) Enter into agreements with the suppliers and manufacturers
  - d) Enter into forward contracts with the farmers or agricultural cooperatives for agricultural produce
  - e) Prepare Purchasing time schedules and logistics and ensure that they are followed
  - f) Monitor the progress through committees
- (v) Sales promotion activities organised
- a) Decide on the appropriate sales strategy considering the market segment served
  - b) Prepare and implement a socially responsible advertising campaign on the retail service
  - c) Adopt and popularise key slogans among customers that represent the character of the cooperative
  - d) Arrange improved seasonal bargain sales
  - e) Sponsor major educational, social & cultural events in the area
  - f) Organise consumer awareness programmes on the new products and harmful products such as the ones containing toxic substances and adulterated
  - g) Publish in house bulletin educating the consumers on home budgeting and balance life styles
  - h) Participate in the consumers events organised by consumers associations and improve the assortment accordingly

vi) Efficiency norms introduced

- a) Prepare an appropriate document listing the efficiency norms covering all aspects of the business operations of the cooperative
- b) Test the norms with the actual business operations of the cooperative society
- c) adopt the norms and educate the relevant persons involved in observing the norms
- d) Analyse monthly operations in terms of efficiency norms and prepare reports for the BOD
- e) Take remedial actions when there is a negative result.

vii) Improved Management Information System Introduced

- a) Study the current management information system (F28 and related forms) and modify it to suit the current information needs for decision making
- b) Test the new system with the branches and the other business units
- c) Educate the relevant persons on the preparation of reports accordingly
- d) Establish a committee for monitoring of information flow
- e) Implement the MIS at the management & BOD level for decision making

**Project Component 3: Support Services.**

**Output and Activities**

***Output***

(i) National Policy on Cooperatives established

***Activities***

- a) Create an awareness of the need to have a national policy as per the devolution powers among policy makers and the stakeholders of cooperatives
- b) Establish national and local level working groups
- c) Organise workshops on the national policy at the local level and the national level
- d) Prepare draft national policy
- e) Lobby with the policy makers to adopt the policy
- f) Proclaim the national policy at the parliament level
- g) Adjust cooperative legislation at the national & provincial level according to the Policy declared

(ii) Revise legislation in relation to consumer protection

- a) Organise a campaign among cooperatives and NGOs on the weaknesses in the present consumer protection and anti monopoly legislation
- b) Get the respective government ministries to get the technical expert to propose amendments/ for-

- mulate new legislation to meet the current requirements
- c) Get the legal draftsman to draft revised legislation
- d) Get the parliament to pass the legislation
- (iii) Establish consultancy services for consumer cooperatives
  - a) Lobby with the government to either to revive the Sri Lanka Institute of Cooperative Management (SLICM) to become the consultancy agency or explore the feasibility of establishing new agency
  - b) Organise consultation with the consumer cooperative organisation on the form of agency to be established
  - c) Decide on the form of consultancy agency to be established
  - d) Establish a consultancy agency
  - e) Failing to set up an agency, survey on the other private sector agencies which has potential to provide services
  - f) Contract with private sector agencies for the services
  - g) Conduct a survey of consultancy needs by the national organisation for consultancy services
  - h) Get the consultancy agency to provide services
- (iv) Establish a human resource development
  - a) Establish a HRD group from the consumer cooperatives system (HRD) for consumer cooperatives
  - b) Undertake a survey of the HRD needs of members, employees, leaders and other stake holders of consumer cooperatives
  - c) Formulate systematic HRD system internally covering all target groups and levels
  - d) Establish a data bank for human resources
  - e) Establish an information system to receive information on external training programmes

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

**Structure**

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

**Capitalisation**

- As far as possible, cooperatives should attempt to raise capital for business through the sale of shares to members in order to maintain independence and autonomy in their operations.
- As a rough indicator the value of a share of a primary cooperative may be kept at around Rs. 1000.
- The unencumbered balances of the cooperative funds estimated to be in excess of Rs. 500 million, pooled together in the proposed Common Fund could be utilised to provide loan finance at concessional terms to societies to commence viable projects.
- Short term financial management has to ensure that the cooperatives have adequate liquidity and solvency, that inventory is maintained at ideal level, and matches p to business sector standard requirements, that creditors and debtors ratios are satisfactory and yield optimum benefits to the business.
- The overdraft limit has to be contained to 30% to 40% of working capital needs of the cash-strapped cooperatives.

- As far as possible, financial resources of cooperatives should be augmented by collecting share capital and deposits from members, and also by generating surpluses from business units. If loans have to be raised, they should not exceed 40% of the total working capital of a cooperative.
- Arrangements should be made to tide over short term financial difficulties by means of proper stock control, recovery of dues, use of short term credit facilities extended by dealers and customers, and also by disposing of idle assets.
- Arrangement must be made to impose better financial discipline by operating separate bank account for different business units.

### **Corporate Governance System.**

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

### **Business Management.**

- Multi purpose cooperatives should attract more customers and expand their business in the sale of consumer goods.
- Government should give an advance to cooperatives to purchase goods for sale under the Samurdhi scheme.
- The business of selling consumer goods must be carried out on an innovative and aggressive basis. They must offer for sale all types of goods that are in demand to suit the convenience and taste of customers. Goods must be of superior quality, and priced competitively. Service must be courteous

and reliable. Shops and sales outlets must be modernised and made attractive to make shopping at them enjoyable, relaxing and socially pleasing.

- Purchasing system of cooperatives must be streamlined to avoid the corrupt practices associated with it.
- The cooperative officials and employees should be educated and trained to do business in a competitive market.
- Government must issue instructions to government departments to prevent them from obtaining fuel or other commodities and services on credit from cooperatives.
- Cooperatives should take action to set up supermarkets in selected towns to recapture the market they have begun to lose.
- Cooperatives should provide the passenger transport service to their members and the community in general on a much broader basis than at present.
- Management system in cooperatives should be reorganised to facilitate the planning process.
- The new management system should make provision for decentralised decision making and also effective coordination of the functions of the individual business units and their teams of employees.
- Performance monitoring, evaluation and progress control must be made a regular feature of management at both the central and the business unit levels at least on a monthly basis if not more frequently.
- Information management should receive the attention of cooperatives at all levels. In this regard the use of computer technology is strongly advocated. Information along with their analysis has to be provided by a unit handling this function to enable the management to make correct and timely decisions.

### **Human Resource Development**

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



### **Support Services**

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

### **Cooperative Legislation**

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

- c) establishment of supporting institutions and structures that are necessary for the development of the cooperative movement as indicated in the present report;
- d) giving special protection to cooperative property, operations and activities;
- e) Safeguarding the rights and interests of those involved in the activities of cooperatives especially in situations when cooperatives fail to perform their duties and functions laid down in the cooperative law.

#### **Business Alliances and Partnerships.**

- The principle of Cooperation among Cooperatives in Sri Lanka has been interpreted in terms of vertical integration of cooperatives. This has to be re interpreted to incorporate new forms of alliances that are economically feasible. It is necessary to look into the possibility of having joint ventures across different types of cooperatives and also other forms of business alliances.
- Cooperative in Sri Lanka should actively participate in business alliances with other countries in the SAARC Region, thereby consolidating the strength of cooperatives regionally. They need to keep in contact with other regional forums in order to participate in the global economic alliances.
- Cooperatives should make use of AARC trade agreement to their advantage without waiting to follow private enterprises.
- Technical cooperation should be based on client centred partnership and focussed on achieving sustainability and self reliance at the time of termination of any project. In order to achieve this, partnership with stakeholders of such an exercise should be promoted.
- New forms of partnerships in the form of joint ventures and networking with developed cooperative movements should be promoted. These could be established on the basis of BOI type of conditions rather than those stipulated by donors.
- Trade information network is the major component of developing a coop trade activity among SAARC countries.
- Modern technology should be applied for cooperative trading activities. Much can be achieved through the internet based commercial operations.

## **CASE OF KOLONNAWA MULTI-PURPOSE COOPERATIVE SOCIETY LTD.**

(Regd. No. D/2432 – 24.01.1971)

**01. Address:** 224, Kolonnawa Road, Wellampitiya.

**02. Financial Year:** August 01 to July 31.

**03. Brief History.**

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

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

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

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

### **04. Membership**

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

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

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

### **05. Number of Branches:**

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

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

## 06 Share Capital

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

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

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

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

## 08. Business operations:

<i>Business Units</i>	<i>Units of the Consumer Section</i>	
01. Consumer section	- Retail shops	20
02. Rural Banking	- Wholesale units	03
03. Transport service	- Supermarkets	01
04. Fuel stations	- Self Service shops	06
05. Electricity Billing service	- Fuel Stations	01
06. Dhoby contract	- Purchasing centres	01
07. Bakery	- Garbage recycling	01
08. Packeting service	- Nestle agency	01
09. Contracts	- Super saloon	01
	- Hospital supply	01

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

*Business Results for 2002/03:*

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

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

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

The profit margins maintained by the MPCS are as follows:

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

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



**Kolonnawa MPCs**  
**Trading and Profit and Loss Account of the Consumer Section for the year from 01.08.2002 to 31.08.2003**

Previous year	Description	Rs.	Cts.	Rs.	Cts.	Previous Year	Description	Rs.	Cts.	Rs.	Cts.
9869731.04	Opening Stock	17939526.84		-		515023211.04	Sales	828164491.82		836992301.64	
490769452.89	Add: Purchases	<u>810224964.98</u>		828164491.82		-	Add	1942532.16		-	
320674.51	Deduct: Returns			1942532.16		746363.45	Leakages during the period	826221959.66		1079458.58	838071760.02
500318509.32				826221959.66		515769574.49		16357688.21			
12641534.21	Add: Purchasing cost			16357688.21				842579647.87			
512960043.53				842579647.87				<u>31956679.57</u>			
17939526.84	Deduct: Final stock			31956679.57				810622968.30			
495020516.69	Sales cost			810622968.30				<u>27448791.92</u>			
20749037.80	Gross profit			27448791.92				838071760.22			
				838071760.22		515769574.49					
						20749057.80	Gross profit brought forward				838071760.02
	Consumer Expenses					208157.51	Recoveries of leakages			219549.87	27448791.92
6469944.00	Approved employees	6189912.38									
	Salaries & allowances					900.00	Income from loading			1000.00	
2437147.61	Temporary employees										
	Salaries & allowances	5772491.95		11962404.33		517650.00	Income from rentals			716900.00	
						72668.40	Income from empties			41170.00	
	House Rent	404322.04				3770558.91	other income			13557678.80	14536298.67
238100.00	Stationary	447219.10									
463272.70	Electricity charges	579661.04									
412867.21	Insurance	157602.02									
40039.85	Other expenses	12812160.01									
5003278.06	Depreciations										
	Buildings	36574.85									
133340.09	Equipment	2320334.28									
38461.56	Financial expenses	<u>4033611.46</u>		4093220.59							
1627788.61											
	Surplus			11528501.46							
8424752.85											
25318992.62				41985009.59		25318992.62					41985090.59

## **09. Consumer Business Management**

### ***Sales Planning:***

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

### ***Assortment:***

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

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

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

### ***Shop Locations:***

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

### ***Shop lay out and display systems:***

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

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

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

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

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

### ***Cleanliness:***

Basic cleanliness is maintained by the shops in comparison to shops of many other cooperatives. As the floors and walls are not made of washable material, the cleaning is confined to dusting, sweeping and mopping. Cleanliness in the surroundings is also observed to a certain extent. Garbage disposal is done daily; hence discarded empties are not accumulated except jute bags which are sold.

### ***Pricing:***

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



### ***Inventory Control:***

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

### **10. Corporate governance System**

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

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

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

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

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

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

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

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

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

### **11. Human Resource Development**

#### ***a) Membership:***

There are about 34000 families who are members of the cooperatives society which means the concentration per branch is about 1000. Majority of the members belong to skilled labour class families and others

are from lower middle class families. There are few rich families too are members. Members are drawn to the cooperative as they could receive loans for various purposes at a competitive interest rate with members' guarantees and less hassle.

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

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

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

**b) Employees:**

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

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

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

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

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

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

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

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

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

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

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

## 12. Special Funds and Reserves:

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

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



VIETNAM



# VIETNAM

## Study Report on Consumer Cooperatives in Vietnam

By **HOANG TUAN CUONG**

Country Consultant

### **A. RATIONALE**

The 1992 Constitution of the Socialist Republic of Viet Nam re-confirms that economic collaboration, in which co-operatives are a fundamental sector, plays a key role in Vietnam's multi-sectorial and socialism-oriented economy with market mechanism and the State's regulation.

This is also the socio-political platform on which the target of "Rich people, Strong country, Equitable, Democratic and Civilized Society" is built.

The development of a multi-sectorial economy does not only have economic implications, but also remarkable social significance. Thus, through the co-operatives sector the State implements policies to assist co-operative members in their fight against hunger and poverty as well as in their quest for an equitable and civilized society.

We can therefore restate that the co-operatives sector plays an extremely important role in our country's socio-economic development.

### **B. OBJECTIVES OF THE STUDY REPORT**

- To assess objectively the real situation of consumer co-operatives from the point of time of innovation. Since then, to find out the causes of achievements, limitations and the current urgent problems to be solved as well as problems to be solved in future.
- To suggest some feasible solutions for developing consumer co-operatives in the period of 2005 – 2010.

### **C. OBJECT, SCOPE AND LIMITATION OF THE STUDY REPORT**

- The objects of the critical study are consumer co-operatives.
- The study is covered the whole nation in terms of the general data. But case study is only the limited areas: Hanoi, Hue and HoChiMinh city, in which one symbolic consumer co-operative of each region is selected for analysis.

### **D. METHODOLOGY**

- To combine among theory, analysis and actual survey.

- To interview government officials of Ministry of Trade, Vietnam Co-operative Alliance (VCA), Hanoi Co-operative Alliance (Hanoi CA), Hue Co-operative Alliance (Hue CA), HoChiMinh Co-operative Alliance (HCA) and management level of consumer co-operatives in respective region.
- To have surveys and field-visits at the supermarkets and shops of consumer co-operatives.
- To select and analyse some symbolic consumer co-operatives in each region.

## **E. DATA RESOURCES**

*Data for the Study report will be based on the two major sources:*

### **a. Primary sources:**

- Data collected by conducting surveys (questionnaires and interviews).

### **b. Secondary sources:**

- Data collected via surveys by different organizations: Saigon Co.op, VCA, Hue CA, HCA, Hanoi CA, Ministry of Trade and consumer co-operatives.
- Data collected via reports and other circulations of Saigon Co.op, VCA Hanoi CA and HCA...
- Data collected via published articles in major newspapers and magazines: the National Statistical Book, the Internal reports of VCA, HCA, Hanoi CA...

## **F. TIMETABLE**

- To draw an Outline: Fr 14 to 19, June, 2004
- To collect Data: Fr June 24 to July 08, 2004
- To write and adjust the Report: Fr 09 to 23, July, 2004
- To translate into English: Fr 24 to 30, July, 2004
- To send the Report to ICA – ROAP: 01<sup>st</sup> week of August, 2004

## **G. LIST OF PARTNERS**

- Mr. Nguyen Xuan Chien – Deputy Head of Domestic Market Policy Department – Ministry of Trade
- Mr. Nguyen Huy Thai – Manager of Co-operative Development Department of VCA
- Mr. Pham Van An – Manager of Co-operative Development Department of Hanoi CA
- Mr. Nguyen Van Suong – Vice Chairman cum Manager of Co-operative Development Department of HCA
- Mr. Ngo Viet Quyt – Chairman of Hue CA
- Ms. Tran Thi Kim Quyen – General Manager of Saigon Union of Trading Co-operatives (HoChiMinh city)
- Ms. Hua Ngoc Phuong – Chairman of 8<sup>th</sup> District consumer co-operative (HoChiMinh city)
- Mr. Vu Duc Truong – Chairman of Cuu Long consumer co-operative (Hanoi)
- Ms. Truong Thi Thuyen – Chairman of Viet Hung consumer co-operative (Hanoi)
- Ms. Le Thi Huong – Vice Chairman of Thuan Thanh consumer co-operative (Hue city)



- Supermarkets and shops of consumer co-operatives in Hanoi, Hue and HoChiMinh city

## H. ORGANIZATIONAL FRAMEWORK

1. Overview of Vietnam situation
2. Cursoriness about the Retail Industry of year 2003
3. Roles of Co-operative factor in the multi-sectorial economy of Vietnam
4. The policy and orientation of Communist Party and Vietnamese Government towards the Co-operative factor
5. The real situation of Consumer co-operatives in Vietnam
6. General valuation about Consumer co-operatives and Problems need to be solved
7. Analysis of symbolic Consumer co-operatives
8. Solutions for developing Consumer co-operatives in the period of 2005 – 2010
9. Conclusion

## I. OVERVIEW OF VIETNAM SITUATION

Vietnam is one of the highest populated countries all over the world with approximately 80.67 million inhabitants living on 330,992 km<sup>2</sup> (*Source: the statistical yearbook of year 2003*), of whom 50.8 per cent are female and around 74.6 per cent of the population living in rural areas. The growth rate of the population of year 2003 is 1,18 per cent (compared with last year was 1.32 per cent), this is also a good signal to prove that Vietnam has a good control of population growth rate. Though not a Capital, Ho Chi Minh City (HCMC) is the largest city in Vietnam with a population of approximately 5.63 million people

(*Source: the statistical yearbook of year 2003*).

Vietnam belongs to the poor nations of the world with an annual GDP per capita of USD 485 corresponding to an average of USD 1.32 per day. It is estimated that 32 per cent of the population has an income below the poverty line. During the period of 1990 – 2003, the annual average GDP growth rate was 6.12 per cent, and the GDP growth rate of 2003 was 7.24 per cent.

In 1986 and the start of the “Doi Moi” or “Renovation” program, the inflation rate stood at 774.7 per cent and by 1995 that rate had dropped to 12.7 per cent, and in last year – 2003, the inflation rate was 3 per cent.

### Historical annual rates of inflation

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 (Estimated)
14.4	12.7	4.5	3.8	9.2	0.7	- 0.5	- 0.3	2.9	3.0	2.9

Due to the war and after that rigid economic policy, the development was slow in the 1970s and 1980s. The introduction in 1989 of the “Doi Moi” policies, with far reaching liberalization and introduction of a market economy, has developed Vietnam’s economy favourably in the 1990s with an annual GDP growth rate of over 7 per cent. In the late 1990s, the GDP fell to around 5 per cent and then rose again in 2002 to almost 7 per cent even against the background of global recession. The economy is, however, still based on agriculture, but there has been a significant expansion of industrial production and the service sector.

Despite the successes of the economy reform during the most recent years, the unemployment rate is still estimated around 7 per cent of the labour force (*Source: the statistical yearbook of years 2000 to 2003*). Now, Vietnam is in the progress to be the member of WTO (it is estimated to become the member at the end of 2005) and the Asean Free Trade Association (AFTA) in order to seize the opportunity to integrate in the global market.

For Social development (figures were estimated in 2002), the life expectancy at birth of men and women are 65.5 and 70.1 years; the child malnutrition (percentage underweight) was 30 per cent and the under-five mortality rate was 40/1,000.

For Education (figures were estimated in 2002), the adult literacy rate was 91 per cent of total adults; Net primary school ratio: 92 per cent; Net lower secondary school ratio: 67 per cent and Net upper secondary school ratio: 38 per cent.

For Human development (figures were estimated in 2003), the Human development index (Ranking out of 175 countries) was 109; the Gender related development index (Ranking out of 144 countries): 89 and the Human poverty index (Ranking out of 94 developing countries): 39.

## **II. CURSORINESS ABOUT THE RETAIL INDUSTRY IN YEAR 2003**

In year 2003, retail sales value of goods and services reached 310.5 thousand billions VND, increased 12.1% compared with the same period last year. In which, state economy sector reached 50.3 thousand billions VND, occupied 16.2% and increased 10.4% of the same period last year; individual economy sector reached 187.4 thousand billions VND, occupied 60.3% and increased 11.7%; private and mixed sector reached 60.7 thousand billions VND, occupied 19.6% and increased 14.1%; foreign investment sector reached 8.1 thousand billions VND, occupied 2.6% and increased 14.7%; collective economy sector reached 4 thousand billions VND, occupied 1.3% and increased 13.9%.

According to the statistics of Ministry of Trade, retail sales value of the collective economy has occupied a very small percentage of total retail industry. During the last 5 years (1999 – 2003), the percentage of retail sales value of the collective economy just occupied around 1% of total retail industry. So, in the macro aspect, the role of collective economy in the retail industry of Vietnam is very weak. (*Please see the attached Annex 1*).

## **III. ROLES OF CO-OPERATIVE FACTOR IN THE MULTI-SECTORIAL ECONOMY OF VIETNAM**

Vietnam is an agricultural country with over 75% population living in rural areas. So, the role of co-operative factor in general and consumer co-operatives in particular in the rural areas are very important.

In the multi-sectorial economy, the role of consumer co-operatives is shown clearly through supplying agricultural materials, production instruments and daily goods with quality and reasonable price all over wide rural areas. At the concentrated production areas, consumer co-operatives have assisted farmers in consumption of agricultural products to ensure the benefits of farmers and to limit the debasement and speculation of products of private traders. Consumer co-operatives have also focused on exploitation of advanced competitive products, commodities of respective region, and to do commercial services in order to serve agricultural production and exportation. To develop consumer co-operatives is the good solution to gain the economic benefit clearly, to satisfy the “Input” for production, individual consumption and the “Output” for farmers’ agricultural products. With the supply of production materials, daily goods, and purchase of agricultural products as well as other services which served the manufacturing and life of

farmers, consumer co-operatives have affirmed their important role in speeding up production development, life stability and expanding rural market in particular and domestic market in general.

#### **IV. THE POLICY AND ORIENTATION OF COMMUNIST PARTY AND VIETNAMESE GOVERNMENT TOWARDS THE CO-OPERATIVE FACTOR**

##### **1. The period of central planned mechanism:**

In the period of central planned mechanism, the policy and orientation of Communist Party and Government for co-operative economy was shown in many important documents, such as: the resolutions of the 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> National congresses of Communist Party. After the liberation of Northern of Vietnam, the policy and orientation of Communist Party for consumer co-operatives has mentioned in the resolution of the 7<sup>th</sup> congress of Central Party Executive Committee (term II) promulgated in March, 1995 and Instructions of Secretariat : 47/CT-TW promulgated 24/11/1955, 123/CT-TW promulgated 14/4/1966..... Through above-mentioned documents, some highlights of the policy and orientation of Government for consumer co-operatives are shown as follows::

- The goals of consumer co-operatives are: to reduce the unfair situation of “expensive buying, cheap selling” of people; to recover and develop the production; to lead farmers to interdependent, planned and organized business activities as well as to help workers to improve their living condition.
- In nature, the mission of the consumer co-operative is to serve consumers. Thus, at the same time, it must be implement 02 objectives: to accumulate capital through business activities in order to serve for short and long term interests of members and to ensure to serve effectively the demands of consumers (not focus on making profit so much). So, in a certain aspect, we can say that the consumer co-operative is not a profit organization. And, the consumer co-operative is not a competitor of the system of state trading services but it is the efficient assistant for the system of state trading services (especially in remote, rural and mountain areas), because the consumer co-operative helps the system of state trading services in supplying agricultural materials, equipments and daily goods with reasonable price for residents in rural, remote and mountain areas, as well as to help farmers by buying their agricultural products with good prices.
- The operating norm of consumer co-operatives is to participate spontaneously and to manage their activities democratically.

After the liberation of the Southern of Vietnam, 1975, the Secretariat promulgated the instruction No. 12/CT-TW and instruction of the Government No. 76/CT-CP dated 5/6/1976 to organize the network of consumer co-operatives in order to assist Government to control most of the commodity sources, especially food and agricultural products to meet the requirements of planned daily goods delivery. The main tasks of consumer co-operatives are: to retail industrial products of the Government with prices and methods regulated by Government; to buy food and agricultural products for state trading services and other business entities; to trade consumer goods in order to serve demands of production and resident in local areas.

##### **2. The period of market oriented mechanism:**

In the period of renovation, the policy and orientation of Party and Government for co-operative economy in general and consumer co-operatives in particular have mentioned in many documents: the resolutions of the 6<sup>th</sup> to 9<sup>th</sup> of the National congresses of Communist Party, the 1992 Constitution, the Instruction No. 68/CT-TW of Secretariat, the resolution of the 5<sup>th</sup> congress of Central Party Executive Committee (term

IX)...Especially the Co-operative By-Law dated 20/3/1996 with guiding Decrees. In the commercial aspect, there are Decision No. 194/HÑBT dated 23/12/1988 of Council of Ministers regulated about the organization and operation of consumer co-operatives, Decree No. 41/ÑÑ-CP regulated about the regulation sample of consumer co-operatives...

Herewith some highlight issues of above-mentioned documents:

- To confirm that, in the multi-sectorial economy followed the socialism-oriented economy with market mechanism and the State's regulation, the existence and development of consumer co-operatives is an indispensable objectiveness.
- The consumer co-operative is organized and operated with on the principle: spontaneousness, democratic management, self responsibility, equality and mutual benefits, to ensure the benefits of co-operative members and the development of consumer co-operatives, and to co.operate in community development.
- The Government facilitates all conditions to consolidate and expand the activities of consumer co-operatives effectively: to assist and help in matters relating to capital, information, market, training in order to develop consumer co-operatives.
- The Government creates the legal framework for co-operatives, including consumer co-operatives.

The revised Co-operative By-Law (effected date from 1/7/2004) is based on former By-Law 1996 with some amendments is as follows:

- The revised By-Law is more open and clear for operation of consumer co-operatives than before.
- At present, consumer co-operative is treated **as if** a real business entity, it means that consumer co-operative has a right to receive all the policies of Government for business entity though consumer co-operatives still operate under the Co-operative By-Law.
- To allow legal factors (State own enterprise, private enterprise, joint stock company...), households to participate in the co-operative. This regulation will support and consolidate to power and resource of co-operative effectively.
- To allow civil servant, officers of civil services to participate in the co-operatives as a member (without holding management position).
- To simplify routines and procedures in establishment of co-operatives.
- The consumer co-operative has a right to establish new business entity which is affiliated unit as regulated by Law.
- The co-operative has a right to recruit a Chairman outside to manage their operation.
- To classify the function and responsibility between Board of Management, President and Chairman of co-operative.

## **V. THE REAL SITUATION OF CONSUMER CO-OPERATIVES IN VIETNAM**

### **1. The real situation of Consumer co-operatives before 1997:**

The first consumer co-operative was established in 1955 at Thanh Ba – Phu Tho in Northern of Vietnam. Since that time, consumer co-operatives has developed powerfully in Northern and after 1975 developed nation-wide.

We could say that, year 1988 was the highest development period of time of consumer co-operatives. At that time, there were 9,600 primary consumer co-operatives nation-wide (ward co-operative) with around 50,000 trading outlets and the members increased up to 20.5 millions people.

To establish and develop in the central planned economy mechanism, though there were many limitations, it was affirmed that the establishment and development of consumer co-operatives of Party and Government at this period of time was the sound decision; consumer co-operatives have had good performances to contribute to a cause of race liberation and the country building.

When transferred to market mechanism, due to many influences in which there were many pressures from local governments on consumer co-operatives in order to take their real estates (house, warehouse, land) back to serve for other purposes of local Governments (this is also a consequence of the full subsidy of local Governments to consumer co-operatives, so local Governments have a right to interfere deeply to the activities of consumer co-operatives), and the weakness in competition with other economy sectors, the scope, scale and growth rate of consumer co-operatives were restricted and reduced gradually.

In the period of 1988 – 1991, the Management board of consumer co-operatives of Districts and Cities, Provinces dissolved, some of them were transferred to consumer co-operatives union replacing the role of Trading service co-operatives in business activities as well as to replace the Management board of consumer co-operatives of Districts and Cities, Provinces in playing the role of arranging and mobilizing the co-operative movement.

At the end of year 1990, there were about 3,000 primary consumer co-operatives, in which 52% of these lost their operation. Over 2,300 primary consumer co-operatives transferred to other kinds of co-operative. Affiliated units of district consumer co-operatives (secondary co-operative) also fell in lost operation situation with over 70% of total units lost and could not pay debt. The situation got worse many years after.

When transferred into market oriented mechanism, the result of business operation of consumer co-operatives reduced powerfully. From 12,9% of the total retail sales value of year 1986, it reduced to 2.7% in year 1989, to 2% in year 1991 and under 1% in year 1992.

The process of disintegration of consumer co-operatives continued happening many year after and at the end of year 1994, there were only 403 primary consumer co-operatives (ward co-operative) and 21 secondary consumer co-operatives (district co-operative). In which, only around 40% of total consumer co-operatives reached the break even point or got a little bit profit in business. Basically, most of consumer co-operatives transfigured and disbanded. Most of the rest of existent consumer co-operatives were located in big cities and provinces, such as in HCM city with 87 units, other provinces (Hue, Da Nang, Dong Nai, Tien Giang, An Giang, Can Tho) with 3 – 4 units but most of them has transfigured in nature, organization, goal and mode of operation.

The real situation of above-mentioned consumer co-operatives has reflected for the bankruptcy of consumer co-operative network nation-wide. However, in that situation, some consumer co-operatives has gradually renewed in organization, mode of operation and contents of operation... to create new conditions in order to adapt with new mechanism. Thus, these consumer co-operatives not only have existed but also developed in business activities.

According to the figures of Statistical department, from 1993, the total retail sales value of consumer co-operatives has had a trend in increasing, reached 612 billions VND in 1993, 1,060 billions VND in 1995, and over 1,200 billions VND in 1996.

In this period of time (before 1997), the structure of consumer co-operatives consisted of 03 levels:

- Ward consumer co-operative (primary level): to distribute directly commodity to consumers.
- Trading service co-operative (district level): to be established from the capital contribution of primary co-operatives. However, it was also concerned from Government and got a certain capital and infrastructure conditions of Government in order to implement the distribution of commodity (wholesale) to primary co-operatives and distribute commodity directly to consumers (retail business).
- Management board of consumer co-operatives (city level): to implement the function of State management.

The relationship among 03 levels is vertical; lower level must report the result of business and financial status to upper level. The Primary level (ward co-operative) is the member of secondary co-operative (district co-operative) and secondary is the member of third level (city level – Management board). Management Board of consumer co-operatives manage throughout, including of conduct of contents of operation, personnel and policy & orientation. Management here means to support and guide professional knowledge for co-operatives. Through the reports, Management Board will find out the weak co-operatives in order to have suitable assistant solutions. And when levels of consumer co-operatives have violated in business, the superior of co-operatives just has a right to petition to People Committee levels for solving.

## **2. The real situation of consumer co-operatives after 1997:**

After the Co-operative Law and other guidance documents were promulgated, including the Decree No. 41/ND-CP dated 29/4/1997 about the regulation sample of consumer co-operative, the renovation process of consumer co-operatives has had a legal base to follow, co-operatives have had more democracy and liberty in business, and a right of self responsibility in front of law for their business activities.

To compare with other fields, the conversion of consumer co-operatives was the most difficult because this model deformed and disintegrated from the initial years of market mechanism. In the conversion process, some consumer co-operatives continued to disband or go to bankruptcy due to not suitable with the contents of Co-operative Law. However, under the positively influence of the authorities, the conversion process and new registration of consumer co-operatives in many city and provinces to adapt with Law has achieved many satisfactory results.

At the beginning of year 2004, there were around 500 consumer co-operatives and 04 unions of consumer co-operatives. In which, HoChiMinh City has 03 unions and 85 co-operatives, Hanoi City 01 union and 60 co-operatives, Haiphong 22 co-operatives, Haiduong 20, Da Nang 15, Can Tho 18, and the rest of consumer co-operatives arrange in the other provinces, cities.

From that time, the operation method of consumer co-operatives has also been more diversified, flexible and self control. Main business form of consumer co-operatives is to trade commodity to serve consumption and production, beside that, there is around 15.48% of consumer co-operatives doing services, 16.77% of consumer co-operatives combining both trading and services, 7.7% of total combining trading and production & processing.

Besides, there are co-operations among consumer co-operatives themselves and co-operations with other economic sector:

- For state own enterprise, some consumer co-operatives selected to be the agencies of selling gas, fertilizer, pesticide, daily goods... and agencies of buying agricultural and forest products for do-

mestic consumption and exportation. For this form, the state own enterprises supported consumer co-operatives capital, infrastructures and equipments in business activities.

- To co-ordinate between consumer co-operatives and agricultural co-operatives in supplying material means, consumer goods and buying, processing agricultural products.
- To co-ordinate among consumer co-operatives and private enterprises, individuals to expand sales network, production, processing and agricultural product buying...
- To co-ordinate between consumer co-operatives within the union of consumer co-operatives.

At this period of time, the consumer co-operatives were not arranged according to gradation in the structure anymore. Now, there is only one level with 02 forms (consumer co-operative form and union of consumer co-operatives form which established by consumer co-operatives). Both 02 forms are equal, same level with each other.

At this period of time, both trading service co-operative and management board of consumer co-operatives were disbanded. Instead of these, there is the co-operatives alliance form to play a role of supporting, guiding policy, orientation and professional knowledge for union and co-operative. Now, their relationship is just based on the consent and spontaneousness.

## **VI. GENERAL VALUATION ABOUT CONSUMER CO-OPERATIVES AND PROBLEMS NEED TO BE SOLVED**

### **1. General valuation:**

#### ***Strength:***

- Consumer co-operatives still continue to affirm the important role and position in the multi-sectorial economy in Vietnam. At the rural areas, consumer co-operatives have supported very efficiently to the economic development of household both in production – service and trading. However, it is affirmed that consumer co-operatives only exist and develop when they receive adequate help, concern and facilitation from Party, local authorities and other relevant organizations.
- The implementation process of the Co-operative Law has created a good awareness in mind of members, staffs and people about the new model of co-operative. Through symbolic consumer co-operatives in production, trading and services, the faith of people in this model is getting increased. Since, members of co-operatives have recognized better about their right, responsibility and duty in build and development of consumer co-operatives.
- Though there are many difficulties, consumer co-operatives have contributed in stabilizing price of consumer goods in the market to serve consumers (but this rate is still very small). At the same time, to actively participate in many social activities and community development.
- Consumer co-operatives is in the progress of renovation both in contents, structure and management method in order to adapt with market mechanism gradually. The Co-operative By-Law and other legal documents related to co-operatives which promulgated in the renovation period of time, have contributed to complete the legal system of co-operative economic sector. Based on this, new consumer co-operatives which conversed or brand new established, has implemented all basic principles of co-operatives, equality and self responsibility about the result of business activities like other economic sectors.
- Most of the human resource of consumer co-operatives have had practical experiences and ability to adapt with market mechanism, majority of cadres have good enthusiasm in building and devoting for

co-operatives and members. So, if these cadres are trained to upgrade knowledge of economy, management, professional work, they will be the precious resource of co-operative economy sector in the development process.

**Weakness:**

- The capital scale of consumer co-operatives is very small; the operation of co-operative is still disconnected and inefficient. Each consumer co-operative is organized as a separate fief without any co-operation with other co-operatives so the consumer co-operatives do not have enough power of competition in the market, and this situation has led to leave the whole work to other entities, to work perfunctorily, or surface leasing. Big consumer co-operatives are independent in operation, and just implement profitable business activities in their local areas, not setting up a good business strategy in nation-wide country.
- The staffs of consumer co-operatives still do not meet the development requirements of co-operative, weakness of professional skills, to lack of practical experience and spirit to do business in tough competitive market. Beside that, due to the low income, many skilled cadres have left consumer co-operatives and this directly influences the development of consumer co-operatives.
- To lack of capital for technical infrastructure investment and to lack of the support in technology are the two urgent problems at this moment.

**2. Problems need to be solved:**

*2.1. The position of consumer co-operative is still small, not adequate to its position in the multi-sectorial economy:*

In general, co-operative economy at this moment has not enough power to attract other economic sectors to participate or to co-operate with co-operative. In a part of resident and business entities, including state own enterprises, there is still a hesitant and allergic feeling when hearing the word of co-operative. The joint-venture and co-operation activities among co-operatives and other economic sector, especially the state own enterprises, are still embarrassed.

*2.2. The policy in promotion of the co-operative development:*

Though this policy is mentioned in the Decree No. 15/CP, in practice, some relevant Ministries and Departments do not have any concrete guidance documents. So, up till now, most of consumer co-operatives have not received preferential policies of Government, such as:

- *Land policy:*

The current land of consumer co-operatives has established from different sources. Some lands of co-operatives were distributed by Government from subsidy period, some were distributed due to compensation for town master planning; other lands were transferred or contributed by co-operative members.... So, it is necessary to have a current land classification of consumer co-operatives in order to have a suitable policy for each kind of land.

- *Tax policy:*

Though the Circular letter No. 44/1999/TT-BTC of Ministry of Finance dated 26/4/1999 about guidance of tax preferential policy for co-operative has many amendments, it does not solve completely the problems, such as:

- ♦ the regulations about tax exemption is very difficult for implementation. there is a situation that



in some areas where have received tax exemption (remote, mountain areas) there is not any co-operatives or just have a few co-operatives and vice versa. So, most of policies of tax exemption for consumer co-operatives did not develop their effects. In addition, the policies of tax exemption have just applied for each kind of co-operatives (consumer co-operative, agricultural co-operative,...) not applied for kinds of business activities. So, there is a situation that with a same business activity, there is a tax exemption if it is implemented by agricultural co-operatives not consumer co-operatives and vice versa. And VAT tax is not guided in implementation for consumer co-operatives.

In general, tax preferential policies for co-operatives are still limited and most of them not yet applying for consumer co-operatives, and this is an obstacle for the consolidation and development process of consumer co-operatives.

- ♦ Do not have a separate tax policy for consumer co-operatives in remote areas of rural region and flat country.
- ♦ Do not have a concrete guidance for VAT and Income tax exemption for consumer co-operatives operating in difficult areas as stipulated in the Decree No. 20/1998/NÑ-CP dated 31/3/1998 and revised Decree No. 02.

- *The Credit policy:*

Article 9 of Decree No. 15/CP stipulated that co-operative has a right to borrow a loan from commercial banks or funds of econo – social programmes, national fund for solving employment, national development support fund and other development funds, but there is not any concrete guidance from relevant ministries, departments about this right of consumer co-operatives.

In current practice, most of consumer co-operatives are very difficult to get loan from banks because of lack of mortgage asset. In case of mortgaging land, the consumer co-operative does not have certificate of right of land use or certificate of house ownership to submit to banks.

- *Support policy about market research and marketing information:*

This issue has mentioned in the Decree No. 15/CP but could not implemented at this moment due to lack of concrete guidance documents.

- *Social insurance policy:*

The guidance and implementation of social insurance contribution for co-operative members is not only slow but also wrong to regulation...

*2.3. The Management of Government for consumer co-operatives:*

There is insufficient in organization structure, contents and operation methods as well as the professional skills of cadres. So, the management is still weak.

*2.4. Personnel policy:*

- Must mobilize the internal resources of team and member if consumer co-operatives would like to have a good development. Consumer co-operatives must promote the ability, capital and power of members, especially in define of organization structure, orientation and contents of business activities of co-operative. Consumer co-operatives must rely on key members who have capital or practical experience in manufacture and trading.

- The consumer co-operatives must have a skilled team (chairman, vice chairman) of professional knowledge, good management and especially to have enthusiasm with co-operative movement. So, the key cadres of consumer co-operatives must be concerned, trained and upgraded about professional knowledge, management ability.

## VII ANALYSIS OF SYMBOLIC CONSUMER CO-OPERATIVES

### 1. Cuu Long Trading – Service Co-operative (Hanoi):

#### 1.1. Establishment and development process:

Formerly, Cuu Long co-operative was a chemical manufactured co-operative, due to the environmental pollution and a backward technology, then Cuu Long co-operative transferred to the form of Cuu Long Trading – Service Co-operative (CLTSC) in Dec 31, 1997 with the total capital of 1.9 billions VND which was contributed from 58 members. After that, due to many reasons, some members withdrew their money from CLTSC. At present, CLTSC only has 20 members.

#### 1.2. Situation of business activities:

- a) Business activities: At present, the core business field of CLTSC is wholesale/retail. Beside that, CLTSC also does business in food & beverage services (F&B). The structure of wholesale, retail and F&B services are: wholesale, 20 – 30%, the rest is retail and F&B services. It is estimated that in the near future, CLTSC will increase percentage of retail to improve turnover and profit, and to keep the same percentage of wholesale. At present, CLTSC has 03 supermarkets in Hanoi (1,200 m<sup>2</sup>), Thanh Hoa (1,200m<sup>2</sup>) and Thai Binh (300m<sup>2</sup>). The current locations of 03 supermarkets are being leased of other companies, so most of profit of supermarket business is used to pay for leasing locations.

In year 2005, CLTSC will construct a shopping center costed 20 billions VND and open one new supermarket (3,000m<sup>2</sup>) in Hanoi.

For the Price and Assortment strategy, CLTSC is implementing the unifying price strategy for 03 supermarkets, price is suitable with the average income level of residents in local areas; For assortment, at this moment, there are around 24,000 SKU divided into category, group of products,...

Competitors of CLTSC are small retail shops (small retail shop with fully daily goods to serve for local residents), and big retail shops (to compete both in wholesale and retail). Besides that, there is a competition from unprompted wet markets in resident areas and also a competition from other supermarkets.

- b) Labour: At present, CLTSC has around 141 staffs, in which 30 staff at Head office, Hanoi supermarket 56, Thai Binh supermarket 15 and Thanh Hoa supermarket 40. The average income of each staff is 1 million VND per month.

During the past 5 years, 1999 – 2003, the turnover of co-operative has increased well with the average growth rate of 5 years, 11%, in which, year 2003, total turnover of the Cuu Long co-operative was 200 billions VND, increased 11% compared with the same period last year; the average growth rate of net profit of 5 years was 20%; and the average rate of return of 5 years was 0.1% (*Please see the attached Annex II*).

- c) Recruitment activities and labour policies: there are limitations in recruitment, training and promotion for staffs at CLTSC. The build and implementation of labour policies is very weak. In next period, the management level of CLTSC will consider to reform labour policies absolutely in order to get efficient business operation.

- d) IT work: To applied IT softwares in supermarket management (Formerly, to use the IT software similar with the former software of Saigon Co.op; now to use other IT software programmed by a domestic IT company) but the efficiency of IT still does not meet the demand and expectation of management level of CLTSC.

### *1.3. The development strategy of Cuu Long Trading – Service co-operative in period 2004 – 2008:*

Up till now, the CLTSC has not set up the business strategy for long term development.

### *1.4. Comment and Valuation:*

#### *Strength:*

- To have a good wholesale network in cities and provinces with more than 100 big clients.
- To familiar with modern business methods.

#### *Weakness:*

- Though the co-operative has achieved satisfactory results in operation and development, this development is just based on the demand of an unsaturated market, not based on the internal power of co-operative. So, in next period, if the management level of co-operative does not consolidate their business activities, they can not keep a stable and lasting development in future.
- The recruitment, training and promotion of cadres is weak, not set up any concrete procedures, just follow the practical experience and opinion of management level.
- To limit in personnel standardization, staffs and cadres do not really have enthusiasm with co-operative movement.
- Not focus on social activities, just focus on doing business. Thus, the co-operative does not show the spirit of co-operative.

## **2. Thuan Thanh Trading – Service Co-operative (Hue):**

### *2.1. Establishment and development process:*

To be established in 1976, the co-operative has experienced 04 periods of time:

- Subsidy period, 1976 – 1989: to be the leader in consumer co-operatives in province.
- Conversion period, 1990 – 1992: to have a standstill in business because of the influence of the failure of a join-venture between co-operative with other partner. Loan of co-operative from bank was transfered to outstanding debt (with higher interest rate), co-operative did not have money to pay interest rate for banks, labour force must work under the form of part time due to the bad business situation. In 1992, the co-operative must sell some assets to pay debt for banks.
- Recovery period, 1993 – 1995: the co-operative re-contacted former partners to apply for agency. At this period of time, co-operative had a lot of difficulties because they did not have working capital, and had to borrow outside working capital with high interest rate in order to buy commodity then to use this commodity as an asset to mortgage at bank to get loan with lower interest rate, then this loan was used to pay the high interest rate and principal outside. This was also the period of seeking and building the faith from clients.
- Development period, 1996 – now: at this period of time, co-operative has got a good prestige, and attracted a lot of companies and factories to co-operate and invest to the co-operative in order to expand markets, develop infrastructures, transportations and personnel resources.

## 2.2. *The situation of business activities:*

### a) Business activities:

At present, co-operative is operating in fields, such as: wholesale and retail of daily goods; ice production; to run a vocational training and employment solving center for the disabled and special children (this is also the social activities of the co-operative). In Hue, the co-operative has occupied a very good position with around 30% of market share. At present, the co-operative is in the progress of establishment of modern model of retail business, such as: one supermarket is constructed in Hue and it is estimated to put in operation at the end of year 2004.

In the above-mentioned fields, wholesale and retail are still core business with the structure of wholesale/retail, 70% and 30%. In next period, to try to upgrade the structure with 40% and 60%.

For the Price and Assortment strategies, the co-operative has a policy in building a price strategy which is suitable with the income level and consumption situation of local residents; most of commodities of Assortment are daily goods. In 2005, when launching the first supermarket, the co-operative will supplement some more categories, including daily and non-daily goods. Up till now, the co-operative has had 30 suppliers with around 1,000 SKU.

During the past 5 years, 1999 – 2003, the turnover of co-operative has increased fairly well with the average growth rate of 5 years, 4%, in which, year 2003, total turnover of the Thuan Thanh co-operative was 75.6 billions VND, decreased 1% compared with the same period last year due to hard competitions in the market; the average growth rate of net profit of 5 years was 13%; and the average rate of return of 5 years was 0.1% (*Please see the attached Annex II*).

- b) Labours: At present, the co-operative has 100 staffs, and it is estimated that in 2005, when launching new supermarket, the personnel will increase up to 125 staffs. For recruitment, the co-operative has a public recruitment through newspapers and television when having demand of labour. The selection and promotion of key cadres is incharged of and decided by Party cell of the co-operative. At this moment, the average income of one staff of the co-operative is from 700,000 to 800,000 VND per month, highest income is 2 millions VND per month.
- c) Training activities: to participate in the training courses of KFPC (Swedish NGO) and training courses organized by Hue Co-operatives Alliance.
- d) IT work: At present, the co-operative is using 02 IT softwares of suppliers (Unilever and Perffecti – Italia) to manage their commodity. Besides, the co-operative is also equipped an own IT software to manage their business activities, however, this software is still simple.

## 2.3. *The development strategy in the period of 2004 - 2008:*

According to the resolution of the member congress, in period of 2004 – 2008, the co-operative will implement:

- To set up and develop a modern supermarket chain.
- To set up a good firm name and a concept of quality services.

## 2.4. *Comments and Valuations:*

- At present, the main competitor of the Thuan Thanh co-operative is private business because the private business has many competitive advances compared with the co-operative, such as: the cost of management of private business is lower, private business just pay a lump sum of money in

taxation (the co-operative must pay 10% VAT), and the private business is always more dynamic in their business operation.

- With the confirmation of the 5<sup>th</sup> Central Resolution that the consumer co-operative model continues to play an important role in the socialism-oriented economy with market mechanism with multi-sectorial economy, the co-operative has continued to receive an effective supports, concerns and helps from local authorities, Party and local People Committee.
- The co-operative knows how to develop their internal power, especially in difficult periods, so at this moment the co-operative has had a solid position in economic platform.

### **3. Saigon Union of Trading Co-operatives – Saigon Co.op (HoChiMinh):**

#### *3.1. Establishment and development process:*

Saigon Co.op was established in May, 1989. At this period of time, Vietnam was implementing the opening door policy followed the socialism-oriented economy with market mechanism; the system of state trading services played a decisive role in im-export activities and trading; the private sector kept the wholesale activities in wholesale markets and to have many retail activities in retail markets and shops. The consumer co-operatives with small sale network did not have enough power to compete in the market. Some weak consumer co-operatives could not adapt with the market economy so most of them got lost in business and series of co-operatives went to bankruptcy quickly. The rest of co-operatives were very embarrassed in operation and faced a lot of difficulties due to lack of capital and personnel who can adapt with with new mechanism.

In this situation, with the responsibility of hub unit of consumer co-operatives in HCM city, Saigon Co.op has bravely restructure and rearranged the organization structure, focused on the im-export activities and joint-venture with foreign partners in order to get profit to maintain the existence and to support to the field as well as to learn experience from foreign partners. The im-export turnover of Saigon Co.op from 4.5 millions USD in 1990 increased to 40 millions USD in 1995 – 1996, Saigon Co.op was one of four import hubs of motobike in HoChiMinh City at that time. In period of 1995 – 1996, Saigon Co.op also implemented many investment projects with foreign partners, such as: to co-ordinate with Pepsi (USA) to establish an IBC joint-venture company, to co-ordinate with Gillette (USA) to establish an Oral – B joint-venture company, to co-ordinate with Hasegawa (Japan) to establish a joint-venture in office leasing field, to joint-venture with Singapore, Thailand,... The relationship between Saigon Co.op with foreign partners has helped Saigon Co.op to approach with new management methods, valuable experiences so that Saigon Co.op could learn and upgrade the management skills as well as to create a new good image for Saigon Co.op in the market. Besides that, in the manufacture and processing field, the trademark “Black Cat” of Saigon Co.op has been selected as a Vietnamese high quality product many continuous years and at this moment this trademark is a popular product which is consumed nation-wide.

However, a dream of a strong retail chain, to connect closely with members and people and to have an ability to serve essential demands of city resident was still an affliction and ponderation of management level and staffs of Saigon Co.op. Through studying the experience in retail business of co-operative movements of Singapore, Malaysia, Japan, Sweden... Saigon Co.op has decided to change the business orientation of their operation, from im-export activities to transfer to focus on retail business activities as a core business, especially the retail business under the form of supermarket. This is an important decision influenced to Saigon Co.op in particular and HoChiMinh City consumer co-operatives in general. So, it forced the management level and staffs of Saigon Co.op must strive all the best to meet the demands of new tasks.

The date of 09/02/1996, after many considerations and surveys... Saigon Co.op decided to launch the first supermarket under the name of Cong Quynh Co.opMart. With the determination, enthusiasm and responsibility of management level and staffs of Saigon Co.op, the Co.opMart has achieved a very good performance just one year in operation.

Up till now, Saigon Co.op has launched other 11 Co.opMarts and during the process of business operation, the idea of establishment of Co.opMart chain has also taken shape in mind.

### 3.2. The situation of business activities:

#### a) Business activities:

During the past 5 years, 1999 – 2003, the turnover of Saigon Co.op has increased very well with the average growth rate of 5 years, 29%, in which, year 2003, total turnover of Saigon Co.op was 1,187.4 billions VND, increased 26% compared with the same period last year; the average growth rate of net profit of 5 years was 52%; and the average rate of return of 5 years was 0.12% (*Please see the attached Annex II*).

The quick development of Loyal customer and Individual Member programmes (at the end of year 2003, the number of Individual member was 21,372 members and Loyal customer was 171,779 people) and the big investment for advertising and promotion activities have helped Co.opMart chain maintaining the regular customers and attract more new customers, and on the average to serve over 50,000 customer times.

The Co.opMart chain is also the partner and the meso-linkage between “Vietnamese High Quality Product” companies and consumers; as well as to contribute in generating the employment for over 2,000 labours at Saigon Co.op. the Co.opMart firm name has gained the highly trust of residents in HCM City and provinces where Co.opMart located.

In year 2003, Co.opMart chain developed fairly well, launched more 04 new Co.opMarts so that current total number of Co.opMarts is 12. The grand opening ceremony of 02 provincial Co.opMarts has an very important meaning because it means that Co.opMarts have expanded their services outside HCM City area and to attract more the enthusiastic supports of customers in provinces.

The central purchasing has got a good improvement, to be better in selection, approval of assortments, to have a good management of input, to purchase at the original place and also receive commodity from provinces flexibly. The percentage in central purchasing has reached up over 90% and central ordering over 50%. Saigon Co.op established Distribution Center (DC) in order to input and deliver commodity to affiliated units. Due to the shortcoming of IT system and the lack of personnel and equipments, there are still many limitations in DC activities. However, DC has had positive efforts in doing and improving, to strive step by step to meet promptly the commodity demands of affiliated units, especially for Co.opMarts in provinces.

General Soles Distribution (GSD) has actively exploited new labels and markets. At present, GSD has established nation-wide distribution channel system with 45 suppliers in provinces. For HCM City, GSD has directly distributed commodity to supermarkets, bookstores, wholesalers, retailers and shops. Thus, the turnover has increased 22% compared with the same last period of time and exceeded 7.24% of plan.

The import – export activities has also had many improvements, to restructure the organization structure, to exploit new product lines, with the total growth rate in 5 years, 94.92%. In year 2003, the turnover reached up 5.6 million USD, increased 28% compared with the same last period of time and exceeded 14.3% of the plan.

b) **Manufacture:**

Nam Duong soya sauce factory is going to move to the suburb but it is still stable in production in order to supply products for export and agent system. The factory has completed the assigned plan and continue to gain the name “Vietnamese high quality product” during continuous 08 years which is elected by consumers. The total growth rate in 5 years is 95.63%.

c) **Finance:**

To face with the hot competition, Saigon Co.op must invest a lot of money for A&P activities and discount programmes, to upgrade equipments, to repair and expand Co.opMarts area in order to increase sales area. The construction investment for new Co.opMarts, especially for Co.opMarts in provinces is a long term business strategy in order develop and popularize Co.opMart trademark and to help consumers to be familiar with modern purchasing form.

d) **Labour:**

At present, total labour force of Saigon are around 2,194 people, increased 26.38% compared with the same last period of time, in which females are 1,280 people, occupied 58.3%; total labour force of 12 Co.opMarts are 1,687 people, occupied 76.9%. The average income of staff is 2.05 million VND/month. Saigon Co.op continues to deploy implementing the personnel standardization in recruitment, promotion and training. All regulations and policies of salary, allowance, bonus, medical and social insurance are fully implemented on time.

e) **Training:**

During the past 5 years, Saigon Co.op has co-ordinated with the Swedish Co-operatives Center (SCC) and other organizations (Vietnam Chamber of Commerce and Industry, Quacert, Trade and Investment Promotion Center,...) in order to organize successsfully 115 training courses with 5,728 staff times participated. The internal training team was also established and organized some training courses for new employees, to organize 27 classes of compulsory education, professional skills and ISO trainings with 3,095 staff times participated. Saigon Co.op has organized and sent staffs to go abroad to participate in short – long term training courses, study visit trips about warehouse, supermarket activities...

f) **IT work:**

With the strong development of Co.opMarts chain especially expanding to provinces rapidly as the same time with the requirements of management and supervision of daily business activities of affiliated units fully and completely, Saigon Co.op is in the progress of selecting ERP solution for business management and customer services.

g) **Supports for local member co-operatives:**

Saigon Co.op has supplied commodity with basis price and offered the late payment form for 26 local member co-operatives; to offer preferential loans for local member co-operatives in order to develop their business; to act as a guarantee for local members to become the distributor of other business entities, to support capital to member co-operatives for building,repairing and upgrading Co.op stores (up till now, there are 7 Co.op stores established by members).

h) **Social activities:**

To implement the spirit of co-operative, besides of business activities, SG Co.op is also concerned in social and charitable activities and has distributed over billion vnd per year to such social activities.

### 3.3. *The development strategy of SG Co.op in the period of 2004 – 2008:*

#### a) Strategies for Co.opMart chain:

In the future, mixed strategies can be used for Co.opMart chain as follows:

- Market development strategy: To strive for end of year 2008, Saigon Co.op will have at least 25 Co.opMarts in HCM City (priority in establishment of big Co.opMart), the average increasing speed of Co.opMart network is 2-3 Co.opMarts per year. Next 05 years, Co.opMart will be present at other 07-10 provinces, especially in provinces which belong to main point economic region. Average turnover of chain will increase from 20% to 25% per year. At the same time, to be concerned in developing Franchise model.
- Product development strategy: Continuously look for unique product resources, to apply new services in order to increase the customer's satisfaction and attract more customers. To stimulate marketing activities in order to introduce to target customers new products and services of Co.opMart chain, then to create the specific characteristics for Co.opMart chain. Especially focus on the development of Saigon Co.op's website. And the central distribution for Co.opMart chain will increase averagely 20% per year.

#### b) Strategies for Import – Export activities:

In the future, mixed strategies can be used for import – export activities as follows:

Market development – Market penetration – Product development. To do this, the im-export department has to take the initiative in exploitation of new markets, to increase the consumption of current markets by marketing activities. To take the initiative in finding unique product resources in order to import and distribute to Co.opMarts, General Sole Distribution ...

#### c) Other activities:

- Wholesale activities: the Purchasing department must implement the private label strategy for Co.opMarts; to increase annual turnover of product delivery for local cooperatives from 15% to 20% in average; to improve the activities in checking the assortment. Distribution Center continues to expand the area of DC and to increase the percentage of product delivery for Co.opMart chain.
- Personnel and Training activities: Human resource development; to train for inheritable generations; to upgrade knowledge of foreign languages, microsoft offices and other professional skills; to set up recruitment and training plans, especially in Co.opMart system; to improve income policy in order to maintain and increase human resources, to set up extra policy for labours working in profile product areas at Co.opMart system.
- Finance activities: To continue to expand Co.opMart networks in HoChiMinh City and other provinces (including joint-venture and franchise form) by mobilizing the loans from banks, other investment funds and from staffs of Saigon Co.op.
- IT activities: to deploy the implement of ERP solution in year 2005 in order to achieve central management effectively; to upgrade and invest hardwares, equipments; to increase the training of informatic applications.
- Investment activities: To invest in real-estates, houses and offices for lease; to invest in shopping center, joint – venture projects.
- Marketing activities: To spread brand of Co.opMart – Nam Duong; to set up added value services –



to set up A&P programs for Co.opMart chain and Nam Duong factory; to consolidate and improve Loyal customer and Individual member program regularly.

- Member activities: To consolidate and increase number of local co-operatives as members of Saigon Co.op; to increase buying turnover of local co-operatives and Individual members; to stimulate the unification of local co-operatives to increase the strength.
- Social and Community activities: To continue to implement the current social programs.

#### 3.4. *Comment and Valuation:*

- Through the development process, the Co.opMart chain is getting familiar with consumers and also gain the trust of HCM City and provincial residents. The management and business experience in supermarket field is more and more professional, accompany with the implementation process and application of Co.opMart concept and business strategies.
- To accompany with the establishment process and implementation of quality management system ISO 9001:2000, the work of selection and approval of assortment is more and more better, so it helps the quality of commodity is often checked and to ensure the safe and hygienic sources of food.
- Other activities of GSD, im-export, Nam Duong soya sauce factory... are developing well, stably and firmly.
- The living of staff is improved, the internal solidarity is unified and consolidated, the public movement is often promoted under the leadership of Party via the core role of Youth and Trade Unions. All of these has contributed to stimulate the exciting emulation environment, hard working and creation in order to fulfil targets of the annual plan.
- However, the construction and implementation of business strategies, private label strategies are still slow, the A&P programmes for firm name do not bring about the good results as the expectation of management level. IT strategy is in the progress of construction and perfection so that it is not stable, and still limit in satisfying the requirements of business activities and management. The Nam Duong soya sauce factory is not really the strong firm name, the marketing activities and distribution system should be invested and consolidated centrally. Though the work of creating human resource, personnel training has had some efforts, it does not satisfy the development speed.
- According to the Co-operative Law, the Individual could not become the member of Consumer Co-operative Unions. So, this issue has limited Saigon Co.op in development of their Individual member programme.

## **VIII. SOLUTIONS FOR DEVELOPING CONSUMER CO-OPERATIVES IN THE PERIOD OF 2005 – 2010**

### **1. General forecasts:**

#### *Agricultural and Industrial manufacture:*

In the period of 2005 – 2010, along with the development of national economy, the rural areas will have some basic changes. The activities of manufacture will be increased, farm economy will be developed, many resources of rural areas will be developed under the trend of industrialization and modernization. Series of construction projects which were completed in the last period of time, will contribute to create a new image for rural areas of Vietnam. All of these changes will be the key factors to create a “Demand stimulation” for both investment and consumption in rural areas.

In this period, there will be some glad signals in the industrial manufacture field. The industry of Vietnam will develop in the trend of diversification of commodity, upgrade quality and reduce price, to create premises for a plentiful and diversified market. And through this, we can stimulate the domestic consumptive demands, especially the rural market.

*Market:*

Trade liberalization is still the decisive trend in export and commerce development, but in a sharper competitive level. Competition is drastic not only in export market but also in domestic market. The development of trade liberalization process will be the important factor influenced to economy and commerce of countries, especially the developing countries.

Due to the high social consumptive demands in next period of time, it is required that the commodity must have a high quality, plenty and diversity in models and assortments; the percentage of industrial processing products and high value added products will be increased; the form of payment and services after sales are getting modern and convenient.

Through the above analysis, there are some forecasts as follows:

- In the period of 2005 – 2010, the development of agricultural – industrial manufacture will create premise to expand the domestic market, especially rural markets.
- The consumer co-operative economy sector still plays an important role in the market, especially in rural areas. So, this sector must escape the current weak situation in order to develop its role in the multi-sectorial economy.
- The consumer co-operative economy sector will face new opportunities, to have more new conditions to develop internal ability. Beside that, in the situation of global competition and integration, there will be many difficulties and challenges occurred in the development process that must be put in consideration.

## **2. Some groups of solutions for developing consumer co-operatives in the period of 2005 – 2010**

In the situation of globalization and the participation into WTO of Vietnam at the end of 2005, in order to utilize the benefits of globalization and to strengthen the competitive ability for consumer co-operatives when participated into WTO, it is required to have many synchronous development solutions and these solutions must be consistent, constant during the implementation process.

Hereinafter, there are some groups of solutions for consolidating and developing consumer co-operatives:

### *2.1. Group of solutions about legal framework:*

To consider in order to have suitable amendments and supplementations for the legal framework of consumer co-operatives because it is still limited. Such as:

- The law system of Vietnam is in the progress of renovation so it is still limited, not synchronous, and lack of important laws to create an essential legal framework for the business operations in the market mechanism.
- Some legal articles are still not adapt with the real situation of consumer co-operatives though it was being implemented during the last period of time.
- To suggest that the Co-operative Law should be changed in order to permit an individual to become a member of Consumer Co-operative Unions so that Consumer Co-operative Unions can develop their individual member programme effectively (ex: the case of Saigon Co.op).

## 2.2. *Group of solutions for stimulation and help the consumer co-operatives:*

At the same time with the amendment, supplementation of Co-operative By-Law and relevant legal documents in order to create legal framework for the consolidation and development of consumer co-operatives, it is necessary to set up and complete policies of stimulation and help for consumer co-operatives. To do this, the consumer co-operatives feel secure about their future and focus on investment and setting up long term business strategy.

### *Group of solutions:*

- *Investment policy:* To invest in the infrastructures such as supermarkets, warehouses, distribution centers, shopping centers are a physical condition and a very important premise to push development of co-operatives. So, the Government should have suitable policies to support consumer co-operatives in investment in infrastructures.
- *Land policy:* At the present, the lands of consumer co-operatives are from different resources. So, it is necessary to distinguish kinds of land according to concrete resources in order to have suitable policies. The Government should have suitable land policies in order to support for consumer co-operatives in building infrastructures (supermarkets, warehouses, distribution centers, shopping centers) so that consumer co-operatives can develop their business activities effectively.
- *Credit and financial policy:*
  - ♦ To establish the economic development support fund for consumer co-operatives of which the capital resource is from Government budget and from the sponsorship of domestic and foreign organizations. To suggest the Government to allow extracting a certain percentage of taxation from co-operative economy sector to put in this fund periodically. The principles of this fund are to preserve capital, cost compensation, and tax exemption. This fund is to give preferential loan for development projects of consumer co-operatives in particular and co-operatives in general.
  - ♦ To allow consumer co-operatives to get loan from funds (development support fund, poverty-alleviation fund, development investment fund,...) if they have feasible projects.
- *Tax policy:*
  - ♦ At present, the rate of income tax applied for consumer co-operatives is fairly high (28%). So, this tax rate is suggested to reduce more because the business performance of majority of consumer co-operatives is still low.
  - ♦ To suggest to have a tax reduction policy for consumer co-operatives directly doing services of supplying materials for agricultural production and buying agricultural products of farmers in remote and difficult areas of flat country (ex: mountainous region).
- *Policies of product consumption and import-export activities:*

To create a suitable mechanism to stimulate consumer co-operatives to supply materials and processing products for big companies.

### - *Policies of Personnel and Training:*

At this moment, the professional knowledge of management level and staffs of consumer co-operatives is weak, especially in mountainous regions or remote areas. Thus, this personnel resource need to be trained and updated knowledge of economic policy, market economy, law, professional skills, finance... Such as:

- ♦ Local authorities need actively in training and strengthen the management level of consumer co-operatives about management skills and professional knowledge. Beside that, there should have a good policy to attract qualified cadres to work for co-operatives.
- ♦ Ministries, Departments and Vietnam Co-operatives Alliance should unify the contents of training programmes and budgets for training cadres of co-operatives.
- ♦ To open more some training centers for co-operatives in the south of Vietnam to facilitate co-operatives to upgrade qualities of their labour forces.

- *Market information and Science – Technology:*

The co-operatives lack of information about market, technology, law, client, partners... So, the Government must support establishing the information system for co-operatives. Such as:

- ♦ To facilitate for good consumer co-operatives to approach, research, survey and participate in fairs in order to introduce products, to get economic contract with domestic and foreign partners.
- ♦ To establish data banks of co-operatives about market, science – technology and then to sell this data to consumer co-operatives in particular and business entities in general with a suitable price.
- ♦ To establish clubs, occupation associations for consumer co-operatives to exchange their experience about management issue, technology application, manufacture and business activities.

2.3. *Group of solutions for strengthening the economic relationship between consumer co-operatives and state own enterprises and other economy components:*

- *With state own enterprise:* State own enterprise can directly participate in co-operatives (by capital contribution or by representative), to support infrastructure (construction of warehouse, shop, processing factory), to propagate technology and business experience... to contribute to the development of consumer co-operatives.
- *With other economy components:* to strengthen the exchange ways of materials, consumer goods of consumer co-operatives to get agricultural products and other products of farmers, households; to use traders as an agency for consumer co-operatives in buying agricultural products or to utilize the processing factories of traders; to use individuals, households in towns and wet markets of rural areas as an agency of materials, consumer goods to expand the sales network.

2.4. *Group of solutions for upgrading and developing the role of Co-operatives Alliance:*

- ♦ To make clear the function, responsibility, scope of operation of Co-operatives Alliance, especially the relationship between this organization and local authorities related to co-operative economy, including Ministry of Trade and other Departments of Trade. Especially to establish the co-ordination mechanism between Co-operatives Alliance and relevant Governmental authorities in setting up strategy, plan, policy for co-operative economy.
- ♦ The organization structure of Co-operatives Alliance of City and province should be constructed based on characteristics, social-economic conditions and the development of co-operative movement at respective area.
- ♦ To have more consolidation of the relationship between the Central Co-operatives Alliance and Co-operatives Alliance in cities, provinces and member co-operatives. To build and implement

an effective system in supplying and settling information, especially the information feedback from bases about policies of co-operative in order to gradually upgrade the quality of information and to lead to establish a WAN network among Central Co-operatives Alliance with other co-operatives alliances in cities, provinces.

- ♦ Ministries, Departments and levels of People Committee should help and facilitate for co-operatives alliances in development of their ability in operation, especially helping co-operatives alliances to establish consulting – training centers...

## **IX CONCLUSION**

The co-operative is an economic entity, objective existence in market mechanism. In which, consumer co-operatives is an economic entity of consumers, a spontaneous associate form of consumers to combine power of each member with the collective power in order to solve effectively the problems of manufacture, business activities... the consumer co-operative plays an important role in goods circulation and service activities in domestic markets.

At present, the co-operative economy in general and the consumer co-operative in particular is still limited in many aspects, internal power is weak, just occupy a low rate in GDP and not corresponding to its role in the national economy.

Thus, this critical study is a necessary work in order to have an accurate recognition about the indispensable objective aspect of the development of consumer co-operatives in Vietnam. In the other hand, through these mentioned-above solutions, to hope that these groups of solutions will contribute more to the consolidation and development of consumer co-operatives in Vietnam.



# ANNEXURES





## **Broad Framework of Action Plan to Strengthen Consumer Co-operatives in Asia**

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### **PRESENT SITUATION**

- SPORADIC EXAMPLES OF SUCCESS
- DECLINING INTEREST OF GOVERNMENT IN CONSUMER COOPS.
- INABILITY OF CONSUMER COOPS TO KEEP PACE WITH GLOBALISATION.
- INCREASED PURCHASING CAPACITY OF RURAL CONSUMER
- GROWING URBAN MIDDLE INCOME GROUP.
- YET PREVALENCE OF A LARGE POPULATION OF POOR CONSUMERS
- GROWING CONSCIOUSNESS FOR ENVIRONMENT, HEALTH & HYGENE.
- EXPANSION OF SUPER-MARKETS & SHOPPING MALLS IN URBAN AREAS.

### **POLICY ISSUES**

- GOVT. DIRECTION & CONTROL VIS-À-VIS INDEPENDENCE, AUTONOMY AND COMPETITIVE STRENGTH.
- ADEQUACY OF COOPERATIVE LEGISLATION TO STRENGTHEN CONSUMER COOPERATIVES.
- CORPORATE RESPONSIBILITY.
- CONSUMER PROTECTION: ROLE OF CONSUMER COOPERATIVES.

## BUSINESS ISSUES

- PERCEPTION ABOUT CLIENTALE: WHOM TO SERVE.
- MAINTENANCE OF SUPPLY CHAIN.
- MOBILISATION OF WORKING CAPITAL.
- BUSINESS PRACTICES.
- STRATEGIC ALLIANCES WITH PRIVATE SECTOR
- DEVELOPMENT OF COOP. BRAND
- COST EFFECTIVENESS OF SERVICES.
- BUSINESS INFRA-STRUCTURE
  - COMPUTERISATION & AUTOMATION
  - COMMUNICATION WITH MEMBERS

## INSTITUTIONAL ISSUES

- ADHERENCE TO COOP. PRINCIPLES.
- INTER-COOPERATIVE RELATIONS.
- ROLE OF FEDERATIONS AT HIGHER LEVEL.
- MEMBERS' LOYALTY.

## MANAGERIAL ISSUES

- PROFESSIONALISM IN MANAGEMENT.
- RELATIONSHIP BETWEEN BOARD & MANAGER.
- ADEQUACY OF BYELAWS OF CONSUMER COOP. TO BE COMPETITIVE
- HUMAN RESOURCE MANAGEMENT.

## ROLE OF GOVERNMENT

- ENABLING POLICY.
- ASSISTANCE TO DEVELOP SUPPORT SERVICES.
- SUPPORT TO DEVELOP INFRA-STRUCTURE.

## ROLE OF ICA

- MAKE INTERACTIONS IN CONSUMER COMMITTEE MORE FOCUSED & BASED ON FIELD STUDIES.
- PROMOTE COLLABORATION AND SUPPORT FROM DEVELOPED CONSUMER COOPS. FOR DEVELOPING COUNTRIES.
- ORGANISE HRD PROGRAMMES FOCUSING ON SPECIFIC BUSINESS & FUNCTIONAL ASPECTS OF CONSUMER COOPS.
- ADOPT SOME CONSUMER COOPS IN SUB-REGIONS FOR INTENSIVE DEVELOPMENT ON PILOT BASIS.

*THANK YOU !*

## **Recommendations of the National Workshop on Strengthening of Consumer Cooperatives**

Mapusa, Goa, 21-22nd November, 2004

The problems and prospects of Consumer Cooperatives with reference to policy, organization, management and institutional issues were discussed and the recommendations of the action plan being similar to the action plan submitted at the Colombo Workshop were read out and endorsed.

The additional recommendations made by the Workshop were as follows:-

- i) The Government of India and the State Governments vis-à-vis the Metropolitan authorities/Corporations may decide norms for granting permission for opening of Super Markets and Hyper Markets. The population criteria recommended are:
  - a. Super Market with floor area 4000 sq.ft. and lakh population - 1
  - b. Hyper Market(s) with 50000 sq.ft area and above for every 15 lakh population - 1

Setting up of more such Units will create unhealthy competition and wastage of resources. Further, it is also felt that they will kill the small Retailers and smaller Consumer Cooperative Stores and, therefore, needed to be avoided/curbed.

- ii) The Government of India, the State Governments and the Urban authorities should give preferential treatment in allocation of land and building (commercial premises) to Consumer Cooperatives for opening Retail outlets of bigger size as well.
- iii) The Government of India and State Governments should give preferential treatment for allocation of privileged business like distribution of Petrol/LPG and Medicines to the Consumer Cooperative Stores to improve their sales and profitability.
- iv) Consumer Cooperatives needs to be given concessional rates for payment of Sales tax. The exemption limit for payment of Income tax be also enhanced.
- v) National Seminar of Consumer Cooperatives be organized by the NCCF every year.
- vi) In the changing economic scenario when liberalization is the accepted policy seeking departmental approvals on petty matters like opening of branches, purchase of new vehicles etc. needs to be removed. Similarly, arbitrary powers enjoyed by the Governments need to be removed by amending the Cooperative Societies Acts and Rules both by the Government of India and State Governments.
- vii) Consumer Cooperatives should associate themselves with modern Super Markets and share their experience and expertise and have a continuous process of SWOT analysis for updating their efficiency.
- viii) Outstanding Consumer Cooperatives like NTUC FairPrice of Singapore, COOP. ITALIA of Italy and MIGROS of Switzerland etc., who have developed considerable experience and expertise for survival and expansion in competition with the MNC Retailers, may be requested to collaborate with some selected Cooperative Stores for setting up of a few modern and model Super Markets in

India. These Units can serve as a nucleus for demonstration before the other Cooperatives to replicate their experience. The ICA may be requested to extend all help in this regard.

- ix) NCCF should collaborate in getting the requirements of manufactured goods of common use, by developing a Coop. Brand by the MNC's.

## **Report on the National Workshop on the Strengthening of Consumer Co-operatives**

Quezon, Philippines : November 18-19, 2004

### **A. Overview**

In his address before the Sub-Regional Workshop on the Strengthening of Consumer Co-operatives held in Ho Chi Minh City, last 27 October 2004, Mr. Shil Kwan Lee, Regional Director of the International Co-operative Alliance Regional Office for Asia and the Pacific (ICA-ROAP), reported the Philippines and Vietnam to be focus areas by the ICA for the development of consumer cooperatives. Country studies commissioned by ICA-ROAP and completed by consultants were also presented before the sub-regional workshop.

The delegates from the Philippines prepared an interim action plan based on the country study and workshop discussions. To follow through the action plans, the assembly committed to hold national workshops in their respective countries. ICA-ROAP provided the logistical support and implementing guidelines for the conduct of the national workshops. Being the local affiliate of ICA in the Philippines, the National Confederation of Cooperatives (NATCCO) organized and convened the national workshop for the country.

From the 18th to the 19th of November 2004, a National Workshop on the Strengthening of Consumer Cooperatives was held at the NATCCO Hostel in Quezon City, Philippines. 25 delegates representing 17 cooperatives attended the workshop. Discussions arising from inputs by resource persons facilitated the adoption of an action plan by the assembly. It was agreed that the said action plan would be presented before the Board of Directors of NATCCO for formal resolution.

### **B. Participation**

Primary cooperatives operating in the 3 island groups of Luzon, Visayas and Mindanao participated in the workshop. 11 cooperatives were based in Luzon, 3 in the Visayas, 1 in Mindanao, and 2 were nationwide federations. Aside from NATCCO affiliates, there were also 3 non-NATCCO affiliated co-ops (i.e. NKMF, UP Consumers Cooperative and BBCCC) that participated in the workshop.

The presence of delegates from NKMF and UP Consumers Cooperative are especially noted, considering that the country study recommends the integration of the co-op mart programs between NKMF and NATCCO, and that the UP Consumers Cooperative is the largest and oldest primary consumer co-op in the country.

However, the Cooperative Development Authority (CDA) was invited but was not able to send a representative to the workshop. Rep. Guillermo Cua from the parliament also attended only the second day of the activities. The discussion of policy issues on the strengthening of consumer cooperation in the Philippines, as included in the country study, was hence limited to the managers and officers of the co-op societies.

### **C. Highlights of the Workshop**

The workshop was organized into 3 main sessions. Ms. Lou Hernandez, Chief Operating Officer of NATCCO's Cooperative Enterprise Development Division (CEDD) opened the activity by facilitating the introduction of participants and discussing the background, objectives and schedule of activities. Reference was made to prior and on-going processes at the international level through ICA-ROAP.

The first session covered a presentation and discussion of the country study entitled "Consumer Co-operation in the Philippines : Implications to Policy". Mr. Joel Beasca, Country Consultant of ICA-ROAP, presented a summary of his findings and recommendations. A briefing on the Sub-Regional Workshop on the Strengthening of Consumer Co-operatives held in Ho Chi Minh City last October 27 to 28 was also shared to the participants. The interim action plan prepared by the Philippine delegation to the said workshop was also referred to in the discussion.

The main issues arising from the discussion covered the following points:

- 1) How co-ops can balance the requirements of global competition with its social mission in poverty alleviation and consumer protection;
- 2) How co-ops can be fully competitive in view of current policies on tax privileges and other forms of subsidy;
- 3) Why co-ops appear to offer higher prices of commodities, especially in view of service to the poor;
- 4) Why the consumer co-op movement in the Philippines is slow to develop vis-à-vis the experience in other countries;
- 5) On the sustainability of consumer co-ops without tax privileges, subsidies, and rebates to member-consumer;
- 6) How consumer co-ops are consistent with the internationally accepted norms of cooperation when most of its clients are non-members;
- 7) How consumer co-ops and other co-op retailers can be strengthened in terms of policy, organization, business, and programmes.

In general, the participants tended to agree on the findings and recommendations of the Consultant except for the lifting of tax exemption privileges and subsidies currently granted to cooperatives.

The second session was presided over by Prof. Vicente Valdelleon who presented some business findings on 4 primary co-op retailers affiliated with NATCCO. The main points raised in the discussion were:

- 1) The need for a clear project concept in the retail business
- 2) For co-ops to be relevant in their operations by servicing a significant percentage of members' purchases
- 3) To consider value added, skills requirements, capital budgets, returns, and focus in retail operations
- 4) The possibility of bulk buying by co-op retailers in terms of volume

The third session involved the formulation of an action plan in consideration of the discussions from the first two sessions and the interim action plan. The action plan was thereafter presented to Mr. Cresente Paez, NATCCO CEO and Rep. Guillermo Cua of Coop NATCCO who both agreed to support the group's efforts to strengthen consumer cooperatives in the country.

In closing, Ms. Lou Hernandez thanked the delegates for their participation in the workshop and informed the group that the workshop outputs will be presented to the NATCCO Board for formal resolution.

## **D. Action Plan**

The main workshop output was an action plan formulated as follows:

### **1) Consumer Co-op Program Development**

#### **a. Business Issues**

- Draft a new vision that will define the vision of a consolidated consumer business of the different national/regional co-op federations;
- Have a clear and sharp business concept based on the new vision including primary target market, market positioning, image (intangibles) and physical attributes; (study Co-op Mart concept for reference);
- Professionalize business by standardizing/improving, operations, merchandizing, POS system, pricing (including pricing policies), HR system, customer service, product quality and store layout and interiors (study Co-op Mart standards for reference);
- Recommend financial and operating standards for consumer co-ops and multi-purpose co-ops in retail trade to include profit margins of not less than 3%, market share of 20%, RIO of 18% and cost ratios net of tax payments and other hidden costs;
- For consumer co-ops to adopt this trading framework/model: Velocity, Spread, Float and Leverage;
- Consolidation of Business: Start a regionalized distribution scheme starting with NCR and Southern Tagalog to be followed by other regions based on current trading volume;
- Develop own co-op brands for items that are not brand sensitive to start maybe with the following basic items: rice, sugar, cooking oil and other basic items; and
- Support and sell products of products of producer co-ops like rice, sugar and other basic items in consumer co-ops

#### **b. Management Issues**

- Define consumer co-op standards in all areas of operations: HRD, Financial, Sales and Marketing, Management;
- Run the business allowing for a well-defined competitive advantage/added value of co-ops to be more competitive and attractive to members and potential members;
- Provide information, education and communication programs among co-op retailers to encourage recruitment of more members and promotion of gender equality; and
- A member-education program should be implemented to promote market competitiveness, information technology (awareness and proficiency), consumer welfare, gender sensitivity, population management, and poverty alleviation values in the general membership.

#### **c. Institutional Issues**

- Establish a separate National Consumer Co-op Federation starting with this group as the interim body;
- For this body to seek representation in the National Anti-Poverty Commission (NAPC) for the purpose of mainstreaming the concept of consumer cooperation in the overall poverty alleviation effort. The body should also seek accreditation and membership in the National Consumer Welfare Council, the Price Coordinating Council, National Food Authority and the Retailers Council of the Philippines;



- There should only be one plan to establish an integrated co-op mart chain. The National Koop Mart Federation (NKMF) could consider affiliating with the NATCCO network (including MMAFECCO) to consolidate the projects for an integrated chain of consumer co-op stores. The co-op mart chain should comply with the standards of modern format retailing;
- Study the company structure (Swedish Coop Model) as a guide;
- Advocate for new coops to adopt the new strategic concept as part of the integrated chain;
- Implement the above consumer coop development program using the CETF of this interim body and program grants that can be sourced by NATCCO (from CIDA through CCA and from SIDA through KFPC), and ICA-ROAP; and
- Promote mergers among consumer coops.

## 2) Policy Issues

### *a. Co-op Tax Exemption*

- Maintain existing policies on tax exemption
- For the following developmental and social costs expended by co-ops to be considered as the tax in-kind of co-ops: scholarships for poor and deserving children of members or for the member itself, infrastructure such as feeder roads, telecom, etc. and other community development programs.

### *b. Government*

- Government programs should be coordinated to enhance the growth of the consumer co-op sub-sector by reconvening the ex-officio membership by government agencies in the board of administrators of the CDA or to amend the law on the CDA by requiring functional/sectoral representation to the board instead of geographical representation
- For CDA to recognize these consumer co-ops' performance standards (financial and operating standards) for monitoring and regulation purposes
- Co-ops registered as multi-purpose societies but with retailing as a sole economic activity should be re-classified as consumer co-ops
- Increase the financial and membership requirements for new co-op registration or strictly evaluate the feasibility studies submitted for applications, on the basis of membership and market coverage

## 3) Role of Government

### *a. Role of CDA*

- For CDA to recognize these consumer co-ops' performance standards (financial and operating standards) for monitoring and regulation purposes
- Policy advocacy and lobbying functions in support of privately initiated policies of recognized consumer co-op federations
- Promote and recognize by way of certification/accreditation consumer co-op education programs

### *b. Role of Department of Trade and Industry (DTI)*

- Promote trade policies in support of consumer coops

- Policy advocacy and lobbying towards growth and development of consumer co-ops
- Promote programs towards consumer co-op development

**4) Role of ICA-ROAP**

- Provide policy guidance and implement programs across countries (while respecting the uniqueness of each country)

**5) Role of Federations**

- Assist in setting-up a new sectoral federation for consumer co-ops by providing technical assistance and facilitate linkages with national (GOs/NGOs) as well as international co-op partners
- Promote merger/consolidation of consumer co-ops.

## **National Project for the Development of Consumer Cooperatives in Sri Lanka**

Colombo, Sri Lanka : November 2004

### **EXECUTIVE SUMMARY**

#### **Background**

The International Cooperative Alliance Regional Office for Asia and The Pacific (ICA-ROAP) initiated a critical study on consumer cooperative movement in selected countries in Asia in order to launch a programme of development. A study of consumer cooperatives in Sri Lanka was conducted by Mr. Upali Herath (former Advisor on Consumer Cooperative Development, ICA-ROAP). As a consequence to these studies, the Consumer Cooperative Federation of Sri Lanka hosted a Sub Regional Workshop on Consumer Cooperative Development in Colombo, in October 2004. As a follow-up to this workshop, COOPFED has also conducted a national workshop to prepare a strategic plan for Sri Lanka, with the support given by the ICA-ROAP in November 2004. This project proposal is a result of the national workshop.

#### **The Project**

The project proposal has been made on the basis of the findings of the national workshop in relation to problems and issues confronted by the consumer cooperatives in Sri Lanka. The alternatives were considered carefully and it was felt that the programme of total development in terms of policy, legislation and other development aspects would take a longer period. As the market is getting more turbulent, it was also the consensus of the group that a demonstrative project should be launched by taking consumer business aspects.

The discussions in the workshop also revealed that the market share of consumer cooperatives is gradually declining at present, giving way to village grocery shops and private supermarkets. The consumer cooperatives suffer from the problems such as under capitalization, lack of modern technology and marketing strategies for retailing, erratic policy and legislative framework and also the absence of professionalisation. The Project has been formulated to address these problems.

The objectives of the Project are as follows:

**Goal:**

Supply consumer needs of the members on sustainable basis while achieving a high rate of profitability

**Purpose:**

Maintain sustainable profitability by consumer cooperatives

**Outputs:**

01. Working capital increased to required levels for financing consumer activities
02. 20 Coop supermarkets established in the country.
03. 50 Modern convenience stores established in the country
04. 5 Hypermarkets are established converting wholesale depots
05. At least 10 coop brand products are produced
06. Packeting centres at each coop where supermarkets are located established
07. Mobile sales units established in Selected 20 cooperatives
08. 50 franchise shops made operational
09. Pre-order and delivery systems established in 20 selected cooperatives
10. 40 joint buying members groups organized in 20 selected cooperatives
11. 10 autonomous coop branches in each selected cooperatives buy merchandise jointly
12. Trade information units established in 20 selected cooperatives
13. Price mechanisms improved in selected cooperatives
14. Forward contracts with producers entered into
15. Efficient assortment and merchandising systems are created for selected cooperatives and their branches
16. Logistics in selected coops improved
17. Supply sources in selected coops diversified
18. Social marketing introduced in selected cooperatives
19. Internal IIRD system established in selected cooperatives
20. Interim arrangement to give controlling powers to branch committees/working groups is made until the by law revision is made
21. Stakeholders participate in the working committees
22. Profit centers introduced
23. TQM concept introduced
24. Advanced HRM practices introduced
25. Business ethics as per the UN guidelines and coop principles introduced
26. Simple and effective accounting system as per the accepted accounting standards adopted
27. New MIS system introduced

**Implementation Strategy**

The Project has to locate at the COOPFED premises as a separate identity with the seconded staff from the COOPFED supported by a full-time Project Manager and part time consultant. The Project is directed

by a steering committee represented by the participating sponsoring agencies and the beneficiaries. The Steering committee would approve work plans and monitor the activities.

The selection of MPCSSs for the project would be on the basis of the positive responses to the notification and also based on the capacity to participate in the Project by contributions in terms of capital, people and also the other physical facilities. At the first stage, 20 MPCSSs will be selected for the project activities. It is necessary to spread the locations to 8 provinces in order to have a demonstrative effect, so that the other cooperatives would learn out of this experience.

The period for the project will be 2 years.

Project Component	Coop Soc. Contribution Rs. Mill.	External funding Rs. Mill.	Total Rs. Mill.
3.01 Working capital increased to required levels for financing consumer activities	20.00	-	20.00
3.02 20 coop supermarkets established in the country.	10.00	15.00	25.00
3.03 50 modern convenience stores established in the country	25.00	25.00	50.00
3.04 5 hypermarkets are established converting wholesale depots	2.50	5.00	7.50
3.05 At least 10 coop brand products are produced (branding only)	1.00	-	1.00
3.06 Packeting centres at each coop where supermarkets are located established	5.00	5.00	10.00
3.07 Mobile sales units established in Selected 20 cooperatives	10.00	10.00	20.00
3.08 50 franchise shops made operational	-	-	-
3.09 Pre-order and delivery systems established in 20 selected cooperatives	1.00	1.00	2.00
3.10 40 joint buying members groups organized in 20 selected cooperatives	2.00	6.00	8.00
3.11 10 autonomous coop branches in each selected cooperatives buy merchandise jointly	1.00	-	1.00
3.12 Trade information units established in 20 selected cooperatives	0.50	1.00	1.50
3.13 Price mechanisms improved in selected cooperatives	0.50	1.00	1.50
3.14 Forward contracts with producers entered into	1.00	-	1.00
3.15 Efficient assortment and merchandising systems are created for selected cooperatives and their branches	2.00	2.00	4.00
3.16 Logistics in selected coops improved	10.00	10.00	20.00
3.17 Supply sources in selected coops diversified	1.00	1.00	2.00
3.18 Social marketing introduced in selected cooperatives	1.00	2.00	3.00
3.19 Internal HRD system established in selected cooperatives	2.00	4.00	6.00
3.20 Interim arrangement to give controlling powers to branch committees/working groups is made until the by law revision is made	1.00	1.00	2.00

3.21	Stakeholders participate in the working committees	0.50	0.50	1.00
3.22	Profit centers introduced	0.50	0.50	1.00
3.23	TQM concept introduced	0.50	1.00	1.50
3.24	Advanced HRM practices introduced	0.50	2.00	2.50
3.25	Business ethics as per the UN guidelines and coop. principles introduced	0.50	1.00	1.50
3.26	Simple and effective accounting system as per the accepted accounting standards adopted	1.00	1.00	2.00
3.27	New MIS system introduced	10.00	10.00	20.00
Grand Total		110.00	105.00	215.00

## Promoting and Developing the Consumer Cooperatives of Vietnam

### ACTION PLAN

In implementation of the development orientation of the consumer cooperatives in Vietnam, Vietnam Cooperative Alliance has formulated the Action Plan as follows:

#### I. Objectives:

To the year of 2010, the consumer cooperatives will be completely escaped from the weakness and small scale as the present status. The new consumer cooperatives will be established more and especially concentrated on its development in the rural areas. The expansion of the size and operational scale of the business and services, high proportion of the marketshare and improving the production and living standards of members and the communities will be implemented gradually.

#### II. Action plan:

- *Bringing into full play the internal strength of the cooperatives:*
  - Expanding the participation of members in the cooperatives including both individuals (individuals, private business households, farming households) and legal entities (enterprises under the different economic sectors) in order to gain capital and human resources for the business and service expansion and to encourage the youths to involve the cooperatives.
  - Pushing up the training managerial officials, specialized staff, building up the skilled and committed young officials to work in the cooperatives.
  - Gradually increasing the income of laborers in the cooperatives, formulating the working disciplines and reward system in order to encourage the professional skilled staff to work for the cooperatives.
- *Developing the business aspect:*
  - Base on the specific conditions, the consumer cooperative unions will be established in term of appropriate size and scale in order to pool the capital and human resources and technical aspects for promoting jointly purchasing directly from the producers to take the advantages of prices, assortments and quality.
  - Setting up the new cooperatives and developing the consumer cooperatives in rural areas, establishing the model of multi-purpose cooperatives in term of supplying the goods and services for farmers and marketing the agricultural products as well.
  - Building up some supermarkets and creating the comfortable and modern selling environment.

- Formulating the projects on investing some wholesale markets, establishing some cooperatives for managing and controlling these markets, especially paying attention on developing this model in towns and communes to become a focal point of purchasing of agricultural products and selling consumer goods for farmers.
- Pushing up the joint-ventures and networking between the cooperatives and the unions themselves, the cooperatives and the unions with other enterprises under the different economic sectors.
- Strengthening the international cooperation relations and pushing up the commercial activities in the region and in the world.

***Managerial aspect:***

- Supplementing the professional and experienced officers in the leadership and managerial position and in the Control Dept. of the cooperatives.
- Promoting the implementation of internal auditing system in the cooperatives.
- Expanding the democratic management and regularly getting the views of members relating to managing the affairs of the cooperatives.
- Bringing the informatics technology into the daily operations of the cooperatives.

***Role of the Government towards the cooperatives:***

- Consolidating the State's management and organization system towards the cooperatives, setting up the specialized body to direct the consumer cooperatives from the central to local level. Defining clearly the managerial roles of the State towards to the cooperatives under the Law on Cooperatives and no external interfering into the internal affairs of the cooperatives.
- Training and refreshing the young officials who have knowledge, capability and devotion to the cooperatives so that they can become the professional officials in managing the consumer cooperatives.
- Revising and supplementing some policies relating to the cooperatives:
  - ~ Approving and directing the organization and implementation of the project on setting up the Fund for promoting and developing the cooperatives.
  - ~ Defining and directing the implementation of auditing system in the cooperatives.
  - ~ Concretizing the favorable policies towards the consumer cooperatives -in term of land, training, credit and finance, market information, scientific technology....

***Role of ICA:***

- Organizing regularly the regional workshops for the cooperatives in the countries so that they can have a chance to approach, learn and exchange experiences.
- Conducting training for the managers and auditing officials of the cooperatives to improve their knowledge in the developing countries.
- Facilitating the cooperatives between the countries in exchanging experiences, promoting joint-ventures and import-export in favorable conditions.
- Assisting VGA to implement the project on promoting and developing the consumer cooperatives in Vietnam with the support of international organizations.