

SURVIVAL IN THE OPEN MARKET

A Critical Study on the
Co-operative Movement of Sri Lanka
within the Market Economy

R.B. Rajaguru



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Foreword

The International Co-operative Alliance, Regional Office for Asia and the Pacific is conscious and concerned with the changing economic and social environment of the Region, which affects the survival and growth of co-operative movements. It has undertaken studies on the current situation in Vietnam and South Pacific which have enabled the leaders to decide on the future strategies. The review of government-co-operative relationships and consequent Co-operative Ministers' Conferences held in Sydney, Jakarta and Colombo too have helped co-operatives to promote new relationships and alliances with their respective governments. The reference made in Mr. Rajaguru's study on Sri Lanka is one such example.

The emerging economic changes in the Asia-Pacific region and Sub-Regional alliances too would affect the economic activities of co-operatives. After three decades of economic liberalization, Asia has emerged as a megatrend for 21st Century. Therefore, it is vital to reflect on the role of co-operatives so far played in developing economies and to assess the impact and the development level in order to re-engineer the co-operative movements to undertake future challenges.

The study on the impact of economic liberalization on the co-operative movement in Sri Lanka undertaken by Mr. Rajaguru is an attempt towards such a direction. Sri Lanka, being a country subject to economic liberalization since 1978, would provide rich experiences to newly emerging open economies in the Region. Mr. Rajaguru being a former Commissioner of Co-operative Development in Sri Lanka and former Regional Director of the ICA, offers many such ideas based on the experiences in Sri Lanka. He takes a detached and critical review of developments in Sri Lanka and poses critical issues for co-operative leaders and government authorities for consideration. He sums up the history in the current perspective.

I have no doubt that the study would provide food for thought and action for all concerned about survival and growth of co-operatives in developing countries.

New Delhi,
Sept. 10, 1996

G.K. Sharma
Regional Director

Preface

The ICA has felt the need to undertake a Review of Current Status of Co-operatives in the Open Market Economy and this study on Sri Lanka is the first of its kind in the Region, in order to create an awareness among co-operative leaders on the opportunities created by increasing market economies, notwithstanding the changing situation in socialist countries.

Liberalisation process is an inevitable and irreversible trend. With the collapse of Soviet Union, this process has accelerated in the socialist economies and also in the mixed economies. With the emergence of ASEAN, SAARC and APEC organizations in the Region, economic alliances among different sub-regional groupings have been introduced. Economic and political inter-dependence thus collated has led to upset the early theory of self-reliance and self-sufficiency in the national societies.

The on-going transition has seriously affected traditional co-operative movements with the entry of trans-national companies. They have dictated the market without sparing even the communication systems. Even though these companies are increasingly adopting customer-oriented 'modernization' policies in their corporate systems, the co-operatives still have a competitive advantage over capital-based private enterprises. The critical study undertaken in Sri Lanka shows the agonies and ecstasies of survival of co-operatives in a turbulent market.

Sri Lanka is one of the earliest example of the liberalized economies in South Asia. It had adopted such policies since 1978, gradually privatizing consumer and service sectors as well as the industrial sector. Privatization of commercial plantations in 1980s was a radical departure from early policies of mixed economy. The state gave up many of its heavy industries and allowed the private banks and insurance companies to enter into the market. The basic welfare facilities such as health and education are being made open to entrepreneurs. Vital corporations which influence major services such as telecommunication and electricity are also gradually being privatised.

If we take the examples from other countries on insurance, electricity, housing, telecommunication and health co-operatives, many of these changes create greater opportunities for co-operatives. The study conducted on Sri Lanka shows that these opportunities have never been tapped by co-operatives.

Another conclusion one could arrive at is the introversion of co-operatives to retain the traditional forms of enterprises. The sectors such as consumer, dairy, textile and fisheries have never considered alternative strategies for their survival, and entering into new ventures. However, they have been able to retain their market share through stable clientele, village networks and also through the agency services provided for the government. The growth of credit co-operatives has been one remarkable achievement. Nevertheless, these credit co-operatives and co-operative rural banks feed the capital for private enterprises, in the absence of a strong inter-lending system and a co-operative bank.

Agricultural sector has so far been left to co-operatives as multi-nationals have not been interested in the rural economic sector. However, with the joint venture in the dairy industry, the picture may change directly in the future.

Mr. Rajaguru raises questions to leadership as to the future of many types of co-operatives - dairy, textiles and multi-purpose co-operatives. It seems that these co-operatives lack vision and long-term strategic plans.

The government, however, has loosened its control over the management of co-operatives in the process of transition by withdrawing from nominations to the committees with the changes in co-operative legislation. The co-operatives were allowed to observe democracy and other co-operative principles. The co-operatives in Sri Lanka has been observing the new principle 'Concern for Community' through its services to the community at times of disaster and calamities.

The emergence of new national level federations in the areas of dairy, textiles and consumers has shown new directions for better consolidation but they are still undergoing growth-related problems.

The study has also reviewed the historical and current aspects of government co-operative relationships. It conveys the primacy of governments in the British colonies promoting controlled co-operatives, a legacy which still runs through ex-British colonies in Asia.

The author talks of 'dependency syndrome' which has become a sickness for many types of co-operatives. The co-operatives need to review their relationship with the government and should enter into a new arrangement within the market economy. They no longer can afford to automatically accept agencies of government services, but to advocate more business contracts without compromising on profitability.

The study also reveals the current chaos in the rural development activities competed by government agencies, commercial banks, farmers' organizations, co-operatives and NGOs. It is a message to say that time has come for co-operatives to review their own economic operations in the villages and create new markets through users' initiatives.

Some of the phenomena analyzed in the study are common to many co-operative movements in changing economies such as India, Bangladesh, Pakistan and Vietnam. The study will provide sufficient lessons for others to learn from Sri Lankan experiences as not to repeat the same historical mistakes.

New Delhi
September 10, 1996

W U Herath
Advisor - Human Resource Development

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Executive Summary

Growth of co-operatives in developing countries should be appreciated within the context of socio-economic and political environment in which the co-operative members are drawn to a 'dependency trap' represented by government subsidies and development programmes. Sri Lanka is no exception to this in its 80 years of history. In a changing market place towards the end of the century, we could look back and ask whether co-operative system in Sri Lanka has become a movement which is member-driven and professionally managed.

The co-operative system as it stand today has been introduced during the first decade of the 20th century by colonial rulers as an answer to the agitation of peasantry who were at subsistence level. Although the advocates had misgivings about the ability of semi-literate farmers to manage themselves, credit co-operatives were introduced with the Co-operative Societies Ordinance of 1911. With an amendment in 1921, the institution of a Registrar has been introduced. Capital formation of these co-operatives was assisted by local Loans Development Fund, which was supervised by the government. The elaborate extension and education programmes saw the expansion of co-operatives which led to the establishment of a separate department in 1930 looking after the registration and improvisation of the functioning of co-operatives. During pre-war period, the co-operatives expanded in number and types. The co-operatives grew vertically too by the establishment of secondary level unions.

De-officialisation of co-operatives was a subject, way back from 1914, which continued the credit-limited and unlimited - Co-operative Development Fund and supervised by village headmen at the village level. Notwithstanding the important services rendered at the village level to promote savings habit and liberating peasantry from money lenders, the members depended on government officials for education and guidance. The new generation of co-operatives did not represent the local tradition of working together.

With the outbreak of the second World War, consumer co-operatives were introduced by the government to deal with food short-

ages and distribution problems. The positive result was the recognition of co-operatives by the state and the masses although these stores co-operatives outlived its existence after independence. The co-operatives supported post-independence drive towards self-sufficiency in food production, through agricultural production and marketing co-operatives as well as fisheries co-operatives. During this period, the co-operatives achieved its total vertical integration with its own banking system which has also been federated into a Federal Bank. The Department of Co-operatives expanded its own parallel structure interlinking with district unions and the Co-operative Federation of Ceylon, whose interests were mutual and could not be separated.

With the radical government change in 1956, a holistic approach to co-operatives was introduced by the state through multi-purpose co-operative society concept. The rationale was to serve the village through one co-operative institution, instead of several single purpose co-operatives, in which villagers have been members. This has also had linkage with the government's national development policy of total development of the village, irrespective of non-member or a member of a co-operative. The government set upon introducing multi-purpose co-operatives with a target of one per village, i.e., 17,000 villages. With the government funds and services pumped into the co-operatives, MPCSSs grew in number during the next decade out of necessity rather than conviction on the part of members or leaders. Government policy also helped diversification of co-operative institutions into many types. However, successful co-operative systems were subject to nationalisation as evident from multi-purpose co-operative unions being taken over by the government as the milk board. Likewise, the Fisheries Sales Co-operative Union was taken over by the Fisheries Corporation and the Federal Co-operative Bank by the Peoples Bank. The then government control over co-operatives strengthened in the process of introduction of government schemes, which degenerated the character of co-operatives. As a result, majority of MPCSSs went into losses and eventual bankruptcy.

The Royal Commission appointed by the government in 1966 found that many co-operatives have got into liquidity problems due to the structure and the government interference and suggested voluntary amalgamation and formation of large primary co-operatives as well as de-officialisation.

The new government introduced, in 1970, a policy of co-operated- based economic development at the village level, which led to

compulsory amalgamation of co-operatives to become large primaries. The new legislation in 1970 and 1972 increased the government control over co-operatives. The large primaries formed in the process having several branches under its management alienated members from their co-operatives as the representative system did not have democratic spirit. The owned capital became only 20% and borrowed capital dominated the capital formation.

The volume of trade of large primaries was dominant in the village areas and the government distribution system and credit for agriculture were managed by these co-operatives in the context of socialist development policies of the government. With the reduction of share value and the attached essential services of the government, these co-operatives expanded the mass base and the membership increased to unprecedented levels in order to get those services. In addition, development co-operative concept has been introduced to undertake agricultural projects and light engineering projects supported by the government. Import substitution is one of the key elements which supported these activities. Thus, the co-operatives served the nation at a time of difficulty for the survival of poorer sections of the community. The economy was attached to socialist ideals in which government-related activities became major components of GDP. In order to sustain the management capability in the reorganised large primaries, the co-operative training institutions under the government, as well as centralised national co-operative councils were strengthened with manpower and finances to carry out training and educational activities. By and large, this exercise was another government drive to strengthen co-operatives.

With the change in government policy towards more liberalised economy in 1978, by the new government, many development co-operatives collapsed and multi-purpose co-operatives got into entrepreneurial problems. They accumulated trading losses and lost the liquidity.

Even with the accelerated open market economic policies, some of the vital functions such as distribution of essential commodities to poorer sections of the society remained with co-operatives. Therefore, the government continued to provide marginal support to such co-operatives as multi-purpose co-operatives. With the collapse of other development co-operatives, alternative institutions emerged such as export villages and regional rural development banks in order to

fill the vacuum. However, the rural banking system created by the co-operative rural banks and the thrift and credit co-operatives remained strong and continued to grow in size and volume of business.

The formation of Provincial Councils, after the 13th Amendment to the Constitution in 1987, opened a new chapter of co-operatives with a devolved administrative structure. Co-operatives became a decentralised subject under provincial councils. The Department of Co-operatives too got decentralised under provincial council ministries. Small farmers co-operatives sprang up after devolution and a separate agricultural co-operative sector is in the making.

The influence of foreign partners is a dominant factor in this change. The Swedish Co-operative Centre (SCC) promoted agricultural co-operatives and invested in capacity building in the existing co-operative training institutions under the National Co-operative Council. They too are engaged in environmental projects. The Canadian Co-operative Association (CCA) supported the credit co-operative sector in institution building and inter-lending programmes.

Under the transitional market economy, many co-operative types under industrial sector got into difficulties. Textile weavers co-operatives is a hardly hit sector. They continue to have problems in the supply of raw materials and marketing. Liberal import of textiles and private sector powerlooms aggravated the problem. The impact of this development on the survival of members is disastrous. In order to salvage the situation, the government has introduced subsidised capital and services in marketing which will take time to show any result.

Labour co-operatives were a growing sector. Under the government patronage of MPCSSs, which had contracts with government supplies. Employment generation was a goal in contracted labour co-operatives which functioned in the construction industry. However, with the diminishing role of government corporations and construction programmes, labour co-operatives are in the process of obsolescence.

The fishery co-operatives, which remained small and marginal co-operatives at the early stages, were given assistance by the government as well as through foreign organisations. When the reorganisation came in 1970s, they were amalgamated and made viable and had temporary growth in the Seventies. With the introduction of open market economic policies, this period ended with few co-operatives

doing well. Once again the government introduced subsidies and the Swedish co-operatives introduced credit schemes, which led to the resurrection of many co-operatives in the 1980s. The Committee set up by the government to study the problems in fishery co-operatives in 1989 recommended small but viable co-operatives at the village level. Once again large co-operatives were divided into small co-operatives and the number increased to 793 in 1994 and reached an all-time higher membership of 95,000. With the support of the government and some NGOs, the co-operatives seem to be doing well in terms of turnover, credit recovery and even women's participation, which amounts to 20% of the total membership.

School co-operatives have been popular since early 1940s and used to enjoy the highest membership with highest number of co-operatives. With the socialist government in 1970s, the number has increased to 2,500, with a membership of 320,000. These co-operatives had limited functions in consumer services to the school community. With the introduction of mid-day meal in the schools in 1989, these co-operatives continue to serve and be active.

Traditionally managed small credit co-operatives were confined to provide credit facilities to their members until the 1980s, when they undertook to support the 'Million Housing Scheme'. By then, the co-operatives have grown vertically at different levels up to a national federation. It has been steady by accelerated growth from the late 1970s. The number of co-operatives have increased to 5,885 in 1988 with a membership of 568,325.

This movement has been actively supported by international agencies, specially the CCA, Community Aid Australia, Swiss Intercoop and HIVOS at the secondary and tertiary levels. The support came in the form of funds and institution building. SANASA (Co-operative Credit Society) Federation established its own training complex and introduced inter-lending programmes. New strategies of savings and insurance have been adopted and cluster development programmes introduced. By 1994, the number of co-operatives increased to 7,681 with a membership of about 900,000. Institutionalising SANASA banks and entering into trade are some of the new programmes. However, horizontal integration with other credit co-operative systems such as co-operative rural banks is a problem still unresolved. In the final analysis, credit co-operatives had an isolated steady growth during the open market economy.

With the set back of dairy co-operatives with the nationalisation of Colombo District Dairy Co-operative Union in 1950s, the dairy co-operatives were stagnant up to the 1970s, although they served their members without much problems. The government introduced monopoly of milk collection and processing for Milk Board in 1972 and made dairy co-operatives and MPCs as collection agents. This had a temporary accelerated growth in business and formation of co-operatives but declined after 1978.

The momentum gained during this period never failed in spite of open economic policies and entry of multi-national companies. Dairy co-operatives formed district unions and eventually attempts are being made to form a Dairy Co-operative Federation. Dairy Farmers' Association and the tie-up between MILCO and the NDDDB (India) will pose a challenge to these dairy co-operatives, who still think small and unwilling to diversify their dairy products with one exception - the Coconut Triangle Dairy Co-operative Union. Dairy farmers face their own identity crisis and would not venture into new areas of processing, unless their present arrangements get disturbed.

MPCs remains the single largest sector in co-operatives claiming 90% of its turnover and largest membership. They have weathereed occasional losing ventures of agricultural enterprises under land reform programme in the 1970s and survived poverty alleviation programmes in the 1980s. The business of MPCs was mainly confined to consumer trade and credit. The supply sources have been shifted from government agencies to private sector suppliers.

With the deregulation policies of the government in 1980s, the MPCs suffered from re-introduced added taxation of Business Turnover Tax. The MPCs no longer function in a level playing field as the private sector is at a competitive advantage due to legislation and maneuverability of business strategies. In order to counter this situation, the government introduced rehabilitation programme for sinking MPCs which has met with limited success. Shopping malls in the cities have by-passed the development level of MPCs self-service shops. One of the major problems of MPCs has been the low margins at 4% and losing profitability with increasing overheads.

The MPCs were made to participate in disaster management activities by the government due to ethnic war and refugee services thrust upon them. Therefore, the government makes it a point to keep them alive out of compulsion. Carrying a burden of poverty allevia-

tion programmes such as Jana Saviya and Samurdhi gave them more importance than before.

Due to heavy concentration of government programmes, wholesale trade has gained 65% of the total turnover and saw a gradual decline of other businesses of agricultural marketing and input supplies. However, the Co-operative Rural Banks (CRBs) under the MPCs did not lose their business and saw a trend of increase in long-term loans over the short-term loans in 1980s. Reinvestment of surplus fund has increased to 53.3% in 1994, with additional interlending through newly formed District Co-operative Rural Banks.

Some MPCs have taken steps to salvage the situation by adopting several measures: incentive schemes to staff; mobile services; discount on bulk purchases; rebate to members; greater autonomy to branch committees; rice processing; agricultural marketing; and increased training and education activities to members and staff.

The 11 national level co-operative federations and unions do not have close collaboration with their affiliate members, except the SANASA Federation. However, they serve the members in some form of services but, by and large, not strong enough to expand their activities. Their role of lobbying is rather insignificant.

The co-operative organizations in the context of market economy have been drifting without sense of direction, except the thrift and credit co-operatives, which are substantially supported by international NGOs. Some of the new initiatives taken by few sectors are based on the guidance by officials rather than co-operative leaders themselves. The representative system in the MPCs has distanced the desire and aspirations of the membership.

In regard to the devolved structure of co-operative departments and ministries under Provincial Councils (PCs) a confusion remains on the legislation to be adopted and the appointment of agencies and officers to look after co-operatives. Some have their own legislation and separate department, whereas others have appointed district authorities to oversee co-operatives. Consequently inexperienced public servants are appointed to supervise co-operatives. In the process, audit of co-operatives has gone into arrears.

The National Co-operative Council, which is the alternative for providing such services to its members, is unable to provide such support. The co-operative would have prepared themselves for the changes to achieve sustained growth, when the first signals of de-

regulation came in the 1970s, but were unable to take a proper grasp of the situation. They would have known that the challenge came not only from the private sector, but also from the export promotion villages and farmers' organisations. The banking sector too was affected by the entry of other government and private banks in the rural area.s MPCSS could no longer depend on Paddy Marketing Board to market their paddy. With the withdrawal of subsidy on fertilizer, MPCSS withdrew from supply of fertilizer to farmers.

There had been many attempts to review the situation by ILO, ICA and SCC at the national and regional levels during this period. These forums have presented many ideas for implementation at the national level. Some action in the areas of legislation and training has been taken, which again is inadequate. After the Act of 1992, politicians have been withdrawn from the management committees of co-operatives and participation of youth and women has increased. The registrar has withdrawn from routine administration of co-operatives. There had been attempts by MPCSS to restore direct democracy. The political influence has been indirect. With all these changes, the basic importance of member control and fulfilling their needs remain as the key factors for sustainability.

With the new government in command in 1994, the co-operatives had a misconception as to the government policy, which they thought would go back to previous socialist era. Many have been unrealistic to the market situation, which continued in its accelerated pace.

It appears that with these problems, the co-operatives still have the credibility as expressed by many sections of the society during shortages and glut period of vegetable seasons. In the meantime, CWE has entered into franchising 10,000 shops and collection and sale of agricultural products from farmers. The Agricultural Ministry has organized Govi Sevanas for input supplies and marketing of products. Several small scale farmers' associations have come up to fill the vacuum created by the problems of co-operatives.

Many NGOs are entering into the areas of environment protection and sustainable development. This would mean more problems for co-operatives in their survival struggle. Therefore, the future role of co-operatives requires to be closely assessed. Some NGOs reinforce the attitude of dependency by providing free facilities.

Many events organized by the ICA on Government-Co-operative Relations have resulted in a new outlook, but unfortunately many political leaders who were exposed to these events have left co-operatives due to various reasons. However, a committee has been appointed by the new government on Co-operative Legislation with a view to change the co-operatives into member-driven organizations. In addition, the co-operatives themselves should become user organizations by practice. Therefore, the question that should be asked is what type of services they need?

The vital answer to these problems lies in sorting out between dependency and self-reliance. The co-operatives do not function in a level playing field as major sector of population, they should belong to people below the poverty line. The poverty alleviation programmes they served had dependency character on the part of recipients. Therefore, the members may need to go through a soul searching exercise.

The basis of new forms of co-operatives to be considered should have the features of user organizations, which are both organizations and enterprises, managed collectively by members, taking into consideration the market conditions. They need new character in leadership to guide the co-operatives. Mutual and self-help are the basic values of primary importance today. Co-operatives becoming an effective partner in development is another concern at present.

Chapter 1

Introduction

Co-operative growth and development, in many situations, are dependent on a multiplicity of factors, both environmental, socio-economic, and especially in developing countries, also political, with many a developing country's co-operative growth being initiated and influenced by government plans and programmes. To what extent the co-operatives that emerge reflect the felt needs of members, and to what extent, the member realises that the success of 'his' co-operative depends on his/her commitment and loyalty, are indeed very difficult to assess. In many situations, the attraction the co-operative have on the average member is the possibility of getting government subsidies and concessions, which are generally dangled before the many 'would be members', in the many 'drives' that usually take place to achieve pre-set government targets. It would appear that from the very inception of any co-operative programme, the would-be-member is drawn into a 'dependency trap', and all too often, no alternate support systems are developed by the members themselves, to face up to the situations that would arise when the support system provided by the government is no longer prevailing.

Co-operative growth and development in Sri Lanka provide many examples of the 'dependency trap' and the repercussions on the co-operatives, when support systems are withdrawn. Sri Lanka has had over 80 years of co-operative development, starting in the early Nineteen hundreds, during the British colonial rule. Is Sri Lanka, now in the last decade of the twentieth century, able to say that it has live, vibrant and dynamic co-operatives responsive to member needs and aspirations? Has Sri Lanka an effective co-operative system, a Movement, which plays a significant role in socio-economic development, if only in so far as the many persons with limited means are concerned? Are there co-operative leaders at various levels, able to plan for co-operative growth and development? Do they constitute an effective co-operative forum, able to influence government plans and policies in regard to co-operatives? Has Sri Lanka a co-operative mem-

bership, striving towards self-reliance and aware of their respective roles and responsibilities to make a success of co-operative approaches? What role has co-operative legislation played in promoting self-reliance and in the professionalisation of the management systems within the co-operatives? Does the ever recurring quest of the co-operative employee for a 'Transferable Service' controlled and managed by the government, reflect clearly the ever present 'dependency syndrome' within the co-operative set up in the country? For that matter, are co-operators, the general public, co-operative and government bureaucrats and the co-operative leaders agreed on what constitutes 'Good Performance'? How many of the 4 million odd members, who today adorn the co-operative sphere, are concerned with the many problems faced by the co-operatives in an ever-changing market place, and the ever-changing political priorities?

To assess the growth, development and impact of co-operatives, over the many past decades, it becomes necessary to give careful consideration to the many imperatives that have led to growth and to find suitable answers to the many questions that arise vis-a-vis the member, his/her understanding and loyalties, the role of government and what role politics has played in the emergence of a system as prevails today in the country.

An attempt will be made in subsequent chapters to examine critically the various phases of growth and the varying influences within these phases of growth, and also the factors that led to 'growth' or 'collapse' and against this background, to see why the 80s and the 90s appear to offer such formidable challenges to the very survival of co-operatives in the country.

Towards this end, the development and growth of co-operatives in the country will be divided into several phases:

- i. The Colonial Era,
- ii. The Second World War and its aftermath,
- iii. Towards Multi-purpose, as a partner in a planned economy,
- iv. Amalgamation for viability,
- v. The liberalised economy and the challenges of the market place.

An attempt will be made to critically evaluate many factors affecting co-operative growth and development, during these various phases, and to assess how far the hopes and aspirations of the members have been achieved in the long run.

It will be appropriate here to add my grateful thanks to ICA ROAP and, especially to Mr. Sharma, the Regional Director and Mr. Upali Herath, advisor of HRD for the opportunity provided for to get involved in a critical evaluation of the growth and development of Sri Lanka in the attempt made to assess the response of the Co-operatives of the changing economic environment, brought about by the 'open economy' in the late 70's. Many are the times that the effort was given up in desperation, but the support guidance and encouragement provided by Sharma and Upali, have finally helped in the conclusion of the present study, which one sincerely hopes, will stimulate debates and discussion among those involved in the difficult task of the assisting co-operative growth and development, and such discussion will lead to the growth of a better co-operative owned, used, managed and controlled by members, aspiring to a better quality of life through their co-operative efforts.

I am deeply indebted to the late Mr.G.Kurukulasooriya, one time Principal of the School of Co-operation, Polgolla, for the information contained in his monumental work, "Co-operation. Its rise and growth in Ceylon" published by the Co-operative Federation of Ceylon in 1971. I have drawn freely from the monumental work and I am deeply indebted to Kurukulasooriya for making the task of getting reliable facts so easy.

I am deeply grateful to many Commissioners and Registrars whose excellent Annual Administration Reports have been a source of valuable information in regard to the problems and achievements of the co-operatives in Sri Lanka. I regret very much that many a detail that I have drawn from Kurukulassoriya and the Administration Reports are not acknowledged in the text itself.

I have had the benefit of the close collaboration and the support in regard to this study from the President of the National Co-operative Council, Mr Lionel Samarasinghe, from Ms. Sushila Palihakkara, the then Acting Secretary, Ms. Jayanthi Nawaratne, Librarian and Assistant Director International Relations and the Director of Education Mr.Madduma Banda.

I am grateful to the Secretary and Additional Secretary of the Ministry and the Commissioner of Co-operatives for making it possible for me to have access to many co-operative institutions and documents, and especially to the Information Unit of the Commissioner, and its Officer-in-Charge, Mr. K.S. Perera.

I have to thank most profusely the Principal of the School of Co-operation, Polgolla and in particular the Librarian, Mrs. Ranjani Morapaya, for making the Library freely accessible, and for allowing me to do reference work and also to borrow many a book and document from the Library, and also for the time they spared to clarify many an issue that emerged during the study.

I wish to thank the Chairman of the Sri Lanka Institute of Co-operative Management and its Librarian Mrs. Anula Nanayakkara, for the willing assistance provided towards this study.

I have also to mention here that, at the initiative of Mr. Madduma Banda, Director-Education, National Co-operative Council, a detailed questionnaire was prepared and sent out to around 30 societies of different types to get some vital field level information. Though the response was not all that encouraging, I have freely drawn on the information contained in the responses. I thank Madduma and the many societies who responded to our request. I must make special mention of Mr. R.P.P. Rajapakse, former Deputy Commissioner and of Mr. K.N. Tharmalingam, former Assistant Commissioner and presently President of the Kalmunai District Co-operative Union for their valuable comments and suggestions, born out of their long experience in the movement in Sri Lanka.

While thanking all of the above and many others, who took time out to discuss some aspects of development, I must take full responsibility for the various approaches and interpretations, and for the many mistakes, be they of fact, perception or prognostication, and I do hope that the reader will bear with me in this regard.

If what is contained in the text will stimulate at least a modicum of discussion and debate, such as would lead to the emergence of better, 'member-driven' co-operatives in the country and elsewhere, that would be ample reward for the efforts of the many who helped in seeing the conclusion of this study.

Kandy, Sri Lanka

R.B. Rajaguru

Chapter 02

Co-operative beginnings in Sri Lanka (Ceylon)

The first decades of the twentieth century saw concerted efforts being made in India, especially in Bengal and the Madras Presidency, to find co-operative solutions to the many problems faced by the bulk of the peasantry, most of whom were deeply indebted and living at near subsistence level. A study done by eminent persons like Sir Frederick Nicholson, came to the conclusion that co-operative credit societies would be able to provide some relief, and so the operative words in this context were, 'find Raiffeisen'. The Government of India proceeded to provide legislation to facilitate the setting up a co-operatives. The co-operative Credit Societies Act No.X of 1904, provided the background for co-operative development, and was in vogue in the Madras Presidency.

In Sri Lanka (Ceylon) at that time, the conditions of the peasantry were very similar to those prevailing in the Madras Presidency. Rural indebtedness was of a high order, and many were living at near subsistence level. Several initiatives were taken by persons like O. Murty, the Government Agent of Badulla and later by Sir Henry McCallum, the Governor, to introduce credit co-operatives and to set up a Government Fund from which co-operatives could borrow....but these proposals were turned down by the Colonial Secretary. However, it is interesting to note that by about 1906, two credit co-operatives were functioning informally, one in the Dumbara Valley in Teldeniya, close to Kandy, and the other at Telijjawela, in the Galle District, and these were concerned with the promotion of savings and thrift, and also providing limited loans for mostly agricultural activities.

The Government appointed a Committee in 1910, called the 'Agricultural Banks Committee', "to consider the whole question of agricultural banks, whether they are required in Ceylon, and how far banks, on the models introduced in India and other countries, are suited to the conditions now existing in Ceylon." and at the same time, "to examine the conditions presently existing in Ceylon between the ag-

ricultural landowner and the tenant cultivator: how far the customary terms are fair and equitable to the tenant; whether his status of indebtedness is temporary or otherwise; whether he stands in need of assistance, and if so, to what extent and in what form."

Many of those who appeared before the Committee were from the landed gentry and the social elite from urban and rural society, and many of them were of the view that the problems faced by the peasantry were not considerable, and in any event, the literacy level of the peasantry would stand in the way of active participation in co-operatives and their management. The Committee, however, after considerable deliberations, decided that "the difficulties in introducing co-operative credit societies are considerable. Left to themselves, it is extremely unlikely that the villagers would establish societies; the co-operative principles are not understood among the agricultural population." They also concluded that, "What is needed is an impetus. We recommend the introduction of an Ordinance on the lines of the Co-operative Credit Societies Act No.X of 1904, introduced in India. This addition to the Statute Book is in itself sufficient, but it will then be possible for such societies as may be formed to be incorporated and registered, as in the case of the Dumbara and Teljijjawela societies. Other societies may be formed by the enterprise of leading headmen and others and further incentives and encouragement must be given if these are to be started. Both the Dumbara and Teljijjawela societies owed their inception to the work of the agricultural society. Encouragement, of course, could be given by the officers of the government, by their headmen, and there will undoubtedly be a tendency on the part of the people to do nothing until some outside influence is brought to bear upon them." They were also of the view that co-operative credit societies "would be of great value and benefit to the villager, enabling him to borrow at reasonable rates of interest, for his agricultural needs, which offered him an inducement to invest money on his land, in manure and improved agricultural machinery etc., all of which would give him a return more commensurate with the expenditure incurred." (Sessional Paper VIII of 1910).

The committee was also of the view that government assistance should not be encouraged as this would make them dependent on government, but that assistance should be provided through private sources. They were agreed, however, that there was a need to assist in the formation of credit co-operatives and in their audit by Government officers.

The Co-operative Societies Ordinance No.7 of 1911 was promulgated on the 15th May, 1911. The preamble to the Ordinance reads as follows: "Where it is expedient to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means, and for that purpose to provide for the constitution and control of co-operative credit societies; be it therefore enacted by the Governor of Ceylon, by and with the consent of the Legislative Council thereof, as follows....."

The 1911 Ordinance provided for the registration of only credit societies of unlimited liability. The initiatives for the formation, operation and control of the co-operatives lay with government, with many an initiative being taken by the agricultural society. The Registrar General of the country was the Registrar of co-operative Societies too. Later, these functions were handed over to the Director of Agriculture, and his field offices provided the advice and guidance to set up credit co-operatives. Many of the village level initiatives came from the village Headman. Progress was slow, as only credit societies of unlimited liability could be registered, and those coming together were quite choosy as to who was admitted as member.

The Co-operative Societies Ordinance No.34 of 1921 removed these restrictions and provided also for the appointment of a Registrar of Co-operatives, as also other officers to assist him. The Law now permitted the registration of various types of societies with limited or unlimited liability, and also the setting up of secondary societies to facilitate the operations of the primaries. A Local Loans Development Fund was also initiated to provide funds for the co-operatives. The initiative for co-operative formation was still in the hands of the government officers with the provincial chiefs and the village headmen recommending the loans to be granted to the members by the concerned societies. There was however, a strong emphasis on the need for members to understand the ideology and the practice of co-operation, before a society could be registered. Education was given great emphasis and the members had to understand their responsibilities and duties prior to registration. Though the numbers involved were still very limited, there was increasing awareness of the concept of co-operation and the capacity of the co-operatives to help the members in their economic activities. Further, co-operatives gained recognition and respectability with the Governor himself presiding over the All Island Congresses (1914, 1921, 1929, 1932, 1935), while the Government Agents presided over the Provincial Congresses.

The increasing interest in co-operation led to the establishment of a separate Department of Co-operatives in 1930. The Department was first located in Kandy and was later shifted to Colombo in 1932, to be closer to the Minister in charge of agriculture and co-operation, Mr.D.S. Senanayake. Mr. W.H. Campbell, who was Deputy Registrar from 1926, was appointed as the first Registrar. He was to be assisted by several other officers at various levels.. There were by the 459 co-operative societies with a membership of 22,416 and a paid up share capital of Rs.471.223. By this time, there were several types of societies, including Supervisory Unions, the Jaffna Central Bank, the Galle Kulangana Society, (the first women's society in the co-operative sector), the Kandy Rickshawmen's society, besides the many thrift and savings societies within Government Departments, and the Credit Unlimited societies at the village level. Although by then 690 societies had been registered, as many as 231 were cancelled as they had been hastily got up and had little chances of success.

Though failures were fairly frequent, it was becoming increasingly evident that there was much enthusiasm for co-operative approaches and that there was a satisfactory understanding of the nature of co-operatives and their capacity to satisfy member needs. To cope with the increasing needs of the co-operators and the co-operatives, the Co-operative Societies Ordinance No.16 of 1936 was promulgated. There was a rapid increase of the number and the types of societies registered. The table below would indicate the growth during this period.

Table I

<i>Year</i>	<i>No. of Societies</i>	<i>No. of Members</i>	<i>Paid-up share capital Rs.</i>
1913-14	37	1,820	8,200.00
1921-22	169	19,957	156,354.00
1929-30	495	22,416	471222.00
1942	2036	91,988	n.a.

Table II
Types of Co-operative Societies

<i>Type</i>	<i>1930-31</i>	<i>1941-42</i>
Central Banks/Unions	02	07
Credit Unlimited	540	1,519
Credit Ltd.	18	103
Thrift & Savings	18	164
Supply/Stores	03	52
Credit Unions	15	59
Others	02	132
	598	2,036

The majority of the co-operatives were credit unlimited. However, there were several other types both at primary and at secondary level. The 'others' under 1942 would include:

- 11 Coconut Sales;
- 11 Agricultural Produce and Sales;
- 06 Goat Farming Societies;
- 01 Jaffna Island's Motor Boat Society.

Several school co-operatives and better living co-operatives.

The Better Living Co-operatives worked closely with the medical authorities and their sanitary inspectors, to provide health education at village level and to get the membership interested in constructing pit latrines and protected wells. An interesting feature of the growth process during this period was the appointment of 28 Honorary Supervisors and the setting up of Supervising Unions, to assist the Registrar and his staff. The Northern Division Co-operative Federation employed 11 Sub-Inspectors, out of the total of 55 Sub-Inspectors working at that time.

In 1934, the Government set up a Banking Commission to look into the general economic and financial conditions in the island and to make recommendations. Many of the representations made before the Commission referred to co-operatives... some of the references were quite appreciative of co-operative performance, while there were a few who were highly critical. One submission maintained that the

Co-operative Movement was "a government money lending department," because many of the decisions about loans, etc. were made by the Registrar and his staff. Even the Honorary supervisors were appointed by him and were removed by him and were answerable to him. The Banking Commissioners, however, observed that "on the whole the movement has developed at a good rate and on sound lines," but were of the view that in regard to co-operative credit policy, the inelastic credit limits set by the Registrar were really not necessary in the case of societies with unlimited liability.

Registrar Lucette, in his Report for 1936/37 was to comment as follows: "our co-operative societies are composed of people drawn from the best elements in the village - and too frequently co-operation is unknown to those who have a hard struggle to earn a living."

At the All Island Co-operative Conference held in 1914, the then Registrar (Director of Agriculture.. Mr. R.N. Lyne) had outlined the government policy in regard to co-operatives, which was to create an independent movement, "when the societies will no longer be under any control by government, but will be wholly managed by the people themselves, in conjunction with the banks." After 30 years of development and growth it would appear to be difficult to say whether in fact the co-operatives had achieved the degree of independence Registrar Lyne had desired in 1914. The initiative for development was by and large in the hands of the many government officials, including the provincial chiefs and the village headmen. Until 1942, most of the societies were financed from the Local loans and Development Fund, and the concessions in regard to the limit of loans itself depended on the government officer. Credit Unlimited remained the dominant sector of the movement, and certainly played a useful role in promoting savings and financing agricultural and other activity. Loans were granted mostly for cultivations, purchase of land and cattle, for supporting trading activities, repair of houses, payment of old debts and sometimes to provide expenditure for ceremonies.

It has, however, to be admitted that the growth of co-operatives was not confined to areas where the government was mainly interested and for which loans were provided. That the co-operative form of organisation could provide a means to satisfy member needs was understood by many, and some of them ventured into many an enterprise, as evidenced by the emergency of diverse types covering coconut sales, agricultural marketing, consumer stores, ferry boat serv-

ices, etc. The commend made by Registrar Campbell would be a fair assessment of the place of co-operatives in this early phase of co-operative development:

“There appears to be at present in Ceylon, in the few places where I have seen anything of co-operation, a tendency to over rate the degree of education and intelligence necessary for the running of a society and to regard with consternation the idea of attempting to run a society without headmen or other government officers for the members to lean against. Much deofficialisation will be required in these cases, coupled with much fuller education and closer supervision than an inadequate staff has so far been able to provide....”

Looking back on co-operative growth during this period, one notices the following characteristics:

- i. many a co-operative depended on government initiative,
- ii. many a decision was made by the government officer concerned and the officer exercised a fair amount of control and supervision,
- iii. concessionary financing made available by government was generally the attraction to join a co-operative,
- iv. some members thought that loans available by government, need not be repaid (as evident from the failure of Paddy Banks in Batticaloa district),
- v. Leadership remained in the hands of the social elite,

There certainly was a long, long way to go before Ceylon realised the expectations of Registrar Lyne in regard to a ‘member driven’ movement.

Many familiar with the growth of co-operatives in the country, over the past many decades, may conclude that there is not much difference in the characteristics of the co-operatives as they prevail today from those of the early phases of growth. Perhaps they may add that co-operatives have acquired another distinct characteristic, somewhere on the way, that of ‘political interference’, and that was something totally absent till quite sometime after gaining Independence.

When one looks at the aspect of ‘dependency’ on government initiative and on government concessions, one would be justified in questioning whether the generality of co-operators understood the ‘concept of co-operation’ in its real sense.

The question has often been asked whether in fact the Sinhala word 'Samupakara' really brings out the concept of 'working together' as understood by the word 'co-operation'. The literal translation of 'Samupakara' would mean 'mutual help', and this certainly does not go the whole way as 'working together'. It has also to be noted that in the earlier Co-operative Law, the word used was 'Eksath Sahakara' or 'samupakaa' 'samithiya'. Since then the word preferred was 'Samupakara', and the doubt remains whether in fact this was understood to mean 'working together'.

At many a meeting convened to set up a new co-operative society, there would be references to the cultural traditions of the people where people would help each other at times of distress, disaster or calamity, or at ceremonials, or in such activities like ploughing, harvesting, transplanting, etc. Generally, those getting involved in such activities know that when members had such things to attend, others in the family and the village would come to their assistance, and so this mutual support system goes on, on an ad hoc, occasion-oriented basis. But all too often this practice is referred to, to emphasise the fact that 'samupakara' is not alien to the people and that therefore the practice of 'co-operation' is not an alien concept, and was endemic in the culture.

The question is, does the aspect of 'helping each other' in certain situations help in the understanding of the need for 'working together' on a continuing basis with commitment and responsibility in a 'mutually developed enterprise' which is intended to satisfy some identified member needs. Has the concept of committing one's money towards the 'enterprise' and thereafter taking the responsibility for 'working together' on a continuous basis, been understood by the many persons joining the co-operatives? or does one join a co-operative because he/she can, if he/she wants, get a loan from the society or buy some subsidised fertiliser from the society, or get his/her rice ration through the society, where the understanding would appear to be, well our society is there, and I can use it at my convenience. It is mentioned by some that the Tamil equivalent of Co-operation, 'aikkiya' or 'kuttaravu' conveys a meaning closer to the concept of 'working together' and in any event, conveys a meaning which is more than mutual help. However, this may be, in every day practice, the aspect of a member using his co-operative more as a convenience, rather than one where his commitment is needed on a continuing basis is more evident.

An interesting question to ask is, "What if there was No second world war? How would the co-operatives have developed? Would the Movement be 'stronger' or 'weaker' than at present? It is certainly a rhetorical question, but has its own validity, as the approach to co-operative developed changed substantially as a result of the exigencies arising out of the War in Europe.

Japanese bombs over Colombo resulted in many a wholesaler and retailer of consumer goods, among others, to put up their shutters and seek refuge in heir village situations. This led to a near collapse of the public distribution system of basic commodities like rice, flour, sugar, etc. Further, imports were both difficult and restricted, and government was compelled to bring in Rationing and also to set up a dependable system to ensure equitable distribution of the basic commodities.

Perhaps it was the satisfactory functioning of the 38 consumer co-operatives at that time that gave the Government the idea to depend on the co-operatives to undertake this responsibility, as basic commodity rationing needed people's participation, and the co-operatives provided the best means by which the people could be involved in the difficult times ahead. Whatever the 'rationale' for the move was, the government launched a massive 'store drive' to set up consumer co-operative societies islandwide, and thus supplementing the small number of private authorised dealers who were still around. The intensity of the 'store drive' can be measured from the fact that, from the 38 consumer societies in the early 40s, the number of 'store societies' had risen to 845 by the end of 1943 and to 1,600, with a membership of over 500,000 in 1944.

By the end of 1945, the figure stood at 4,004 with a membership of 1.1 million. When one compares this phenomenal 'leap forward' during the three years, 1943-1945, with the growth of co-operatives from 1911 to 1942, one realises the massive effort made by the government, to ensure that all persons got their basic rations on an equitable basis, thus avoiding mass starvation, as happened in some other countries at the time.

The growth during the early thirty years, 1911 to 1942, was 2,036 societies with a membership of 91,988. The 'store drive' resulted in 38 consumer societies around 1942 to increase to 4,004, with also growth in other areas of co-operative activity. There were:

Credit societies	1,782
Agricultural production and sales	17
Banking and credit unions	76
Wholesale co-operative unions	92

with the total membership in the movement rising to 1.2 million.

The 'drive' necessarily meant that the government machinery to support the 'growth' had also to be increased considerably. The intake of a very large number of co-operative officers at various levels also necessitated the provision of initial training to the new employees, both in the ideology and the practice of co-operation, as also in accounts and auditing, especially as auditing was a statutory function devolving on the Registrar, and which was performed at no cost to the societies and the membership. The School of Co-operation was set up in 1943, with a limited staff, in temporary buildings in Kandy, and was later shifted to Polgolla, where it continues to function even today.

To the credit of the co-operators, the co-operatives and the Registrar and his staff, it must be mentioned that the co-operatives acquitted themselves of the onerous and demanding task of ensuring the equitable distribution of the rationed commodities commendably and earned a reputation as organisations that could be entrusted with such responsibilities in any eventuality. Whether it be a drought, a flood or a refugee situation, to this day the co-operatives are called upon to take on the responsibilities of delivering the goods equitably and fairly.

In answer to the rhetorical question raised earlier, some answers can be provided now. The 'war' did help in co-operatives getting recognition and acceptance on a country-wise basis. Members and the public got satisfactory services through their co-operative. The concept of 'drive' to achieve targeted objectives was entrenched in the mindset of the government. There was also an emerging view that government could use co-operatives to achieve development goals of government. The pertinent question is whether government thought of co-operatives as a 'partner' in the development process, or as a 'means' to get the programme implemented. Another interesting aspect of the growth during this period is that, for the first time, Credit co-operatives lost their position as the co-operatives with the largest number, the consumer co-operatives far exceeded the number of credit co-operatives.

The 'war' also meant that there was an increasing emphasis on 'self-sufficiency' and the development theme of the government was 'grow more food'. This resulted in another 'drive', though not of the same intensity as the first one, and thus emerged the 'drive' for the setting up of 'Co-operative Agricultural Production and Sales' (CAPS) societies, to get the peasant farmer directly involved in the drive towards self-sufficiency. The country achieved its Independence in 1948, and the major efforts of the Independent Nation was geared towards achieving 'self-sufficiency' in food in the shortest possible time. The intention of the government was to set up a network of CAPS Societies in all the major paddy growing districts, and with the help of the CAPS and the assistance of the department of Food Production, to provide the farmer with good seeds, subsidised fertiliser, and other necessary inputs and advice and guidance, and also to procure the farmer production, especially paddy, under the government's internal purchase scheme, through the CAPS. There was also a Guaranteed Price Scheme (GPS) initiated by the government for various agricultural products, and the CAPs were expected to implement this in their day-to-day activities. The number of CAPS rose from 47, with a membership of 13,525 in 1947 to 498, with a membership of 116,604 in 1952. According to S.C.Fernando, Registrar and Commissioner for Co-operative Development (CCD & RCS), "An intensive drive has been launched to step up the number of societies to over 1,500, and membership of at least 500,000." He was also of the view that the CAPS should at best cover 10 villages and that the member should not be compelled to travel more than three or four miles to his society. There were different views on the 'size' of the society. A later CCD & RCS, P.E. Weeraman, was of the view that a CAPS should at best cover three to five villages, and consequently, several CAPS were divided into smaller societies, with the result that there were in 1957, 995 societies with a membership of 246,776. The consumer co-operatives were in line, with a high of 4036 societies in 1946, with a membership of around a million, had now decreased to 2569 in 1957, with a membership of around 689,000. The credit sector, however, had grown steadily from around 1600 in 1945 to around 3,500 in 1957, with a membership of around 150,000.

The post-war period saw the emergence of the country as an independent nation in 1948, with the new government seeking numerous ways to increase the pace of development, with an emphasis on 'self-sufficiency'. The role played by the co-operatives in many

sectors was significant. In many sectors, the primaries were supported by secondary and apex unions, while the co-operative sector worked in close collaboration with the many development-oriented departments of the government.

The consumer supply situation, both during and after the war, was maintained through a network of consumer co-operatives, both primary and secondary, as also a number of private authorised retail and wholesale dealers. The Civil Defence Commissioner, who also functioned for some time as the Food Commissioner, was responsible for the import of the necessary consumer goods, chiefly rice, flour and sugar, and for their distribution. The Co-operative Wholesale Purchasing Agency was set up under the Civil Defence Commissioner to meet these needs. This was later converted as the Co-operative Wholesale Establishment (CWE), in 1943, and functioned as a branch of the Department of the Registrar of Co-operative Societies.. (later termed as the Department of Co-operative Development). The CWE made wholesale issues of the scarce commodities to both the consumer unions and the private wholesale dealers. The expectation then was that the CWE would eventually become the Federation for Consumer Supply, with the over 80 co-operative unions forming the membership of the federation. As things turned out, however, it was converted as a Statutory Corporation by Act No.47 of 1949 and has continued to expand its services, both as an importer and as a local purchaser and distributor, with a network of wholesale and retail outlets spread all over the country, with the retails also offering quite some competition to the co-operative retail outlets at the village level.

This period also saw the emergence of the Co-operative Federal Bank in 1948, and of the Co-operative Federation of Ceylon, which went on to become a member of the International Co-operative Alliance (ICA), in 1955.

The word 'co-operative' had become a household word, whether in Sinhala, Tamil or English, and co-operative presence was evident in many areas of economic activity, be it agriculture (production and sales), fishery, textile and other cottage industries, milk, plantation based crops like coconut, rubber, tea, savings, thrift and loans, co-operative banking and finance, and also at the level of the school going child through school co-operatives. It is true that there were several 'black sheep' within the co-operative fold, who had let the side down and had earned a 'bad name' for the co-operatives, but the

overall general reaction was one of respect and acceptability, with the government showing a 'preference' to co-operatives, when launching the many development programmes of the government. The attendance at the All Ceylon Co-operative Congress in January, 1950, would alone indicate the level of acceptance of the co-operatives at that time. The Congress was opened by the Rt. Hon. D.S. Senanayake, Prime Minister, with the Minister for Food and Co-operative Undertakings, Hon. A. Ratnayake, and the CCD and RCS Mr. E.J. Coray, and several senior co-operators like Messrs. Abeyasinghe and V. Veerasingham, the first president of the Co-operative Federation of Ceylon, in attendance. Mr. G. Krukulasooriya, in his monumental work, 'Co-operation, Its Rise and Growth in Ceylon', has this to say on page 142:

"On the second day, besides the continuation of the Congress discussions, there was a Co-operative Pageant on Wheels. This mobile exhibition with attractive floats brought the co-operative ideology and practice in a picturesque manner to the masses in Colombo. In the evening, His Excellency, the Governor General, visited the Congress and was received by the Hon. Minister and the Congress Officials. His Excellency addressed the Congress and a large gathering of the public at a Grand Rally, estimated at over 25,000 people. The occasion was graced by the Ministers of State, Members of Parliament, Members of the diplomatic corps, public officials, and prominent members of the public. A notable foreign visitor was the British Minister for Commonwealth Relations, Rt. Hon. Philip Noel-Baker, who had arrived in advance for the Commonwealth Foreign Ministers Conference due to be held in Colombo the next week."

Overall, the government-co-operative relationship was a cordial and healthy one, with the government playing the promotional role and providing advice and guidance, plus at times infrastructure support by deputy government employees, to work very closely with the co-operatives, and at times even holding responsible positions in the co-operative, like e.g., the Food Production Officer holding the post of Administrative Secretary in the CAPs, or the Textile Demonstrator functioning as Hon. President of the Textile Weavers' Society.

The overall growth of co-operatives could be seen from the following:

The number of societies which stood at around 6,500, with a membership of around 1.2 million had increased to 10,500 primaries,

271 secondary unions and two apex level federations, the Co-operative Federal Bank and the Co-operative Federation of Ceylon, and the membership was around 1.5 million. On the production and marketing aspects, there were by 1957, around 2,126 societies as follows:

CAPS	995
Coconut	32
Fishery	100
Dairy	40
Textiles (handloom/powerloom)	801
Others	158
Total	2,126

The consumer societies had declined in number to 2,569 with a membership of around 689,000 and sales at primary level were around Rs.190 million, while the 94 wholesale unions had sales of around Rs.370 million. However, the principal items handled by the consumer co-operatives were still rice, flour, sugar, and textiles, which constituted around 90% of the turnover, with rice and sugar adding up to around 80%.

On the production and marketing area, the concerned co-operatives had expanded the items for purchase and sale to include paddy (90% of transactions), gingelly, maize, kurakkan, mustard turmeric, green gram, red onions, tamarind, chillies, pepper, sorghum, cow pea, vegetables, etc. with the annual turnover being around Rs.140 million. Many co-operatives with the assistance of the Federal Bank, the provincial banks, and till 1949, the Local Loans and Development Fund had provided finance to the members to the tune of around Rs.25 million, with the credit co-operatives making village level small loans of around Rs.9 million.

The purpose for which the members borrowed from their various types of co-op societies, including the credit co-operatives, were cultivation, buying cattle, including milch cows, purchase of or improvement of land, buying nets and other equipment for fishing, trade, repair of house or building a new house, buying a cart for transport purposes, buying food for consumption, and also for such purposes as settling old debts and for expenditure on ceremonials, etc. It would thus be seen that the loan facilities available to members covered quite a spectrum of needs at village level. However, most of the borrowing was for cultivation purposes and to support trade and fishing.

It has also to be noted that a number of government departments worked closely with the co-operatives. Some of the departments were Agriculture, Lands and Land Development, Fisheries, Rural Development and Cottage Industries, Food Production, the Coconut Board and the Rubber Research Institute, etc.

The Department, and especially the School of Co-operation, to which was attached the Extension Division of the Department, in collaboration with the District Unions and the Ceylon Co-operative Federation, and the Northern District Co-operative Federation looked after the extension and education aspects of the members, while at the same time providing certificate-oriented training courses and ad hoc professional courses for those in management and in the committees and the board of directors of the many societies concerned. The training of the departmental staff, at all levels, and also providing orientation courses for officers in other departments working with co-operatives were all undertaken by the School of Co-operation.

Chapter 03

Towards Multi-purpose Co-operatives

The general practice followed thus far in organising co-operatives was to set up a society for a single purpose, reflecting the felt needs of the members. By the mid-fifties, there were around 75 different types of co-operatives, ranging from credit, consumers, CAPS, School Co-ops, textile weavers, carpentry, fishing, youth clubs and women's guilds, tea, rubber, coconut, citronella, goat farming, better living, better farming, poultry farming, basket, rattan, twine, brass, lacquer, gold, silver, mat weaving, transport, printing and publishing, cigar making, hospitals and even an arrack distillery. The range was extremely wide, and all too often, the societies were small and often not viable, with at times one village having about seven or eight different types of societies. There was also the situation where in some villages the same set of persons held positions in the committees of several societies. Many of the smaller co-operatives could not afford qualified management and often had to depend on the good offices of the government officer from the department, which was supporting the development of that particular type of society.

At the secondary level, there were unions to support credit, banking, stores, CAPs, coconut, milk, fish, textiles, pottery, palmyra products, carpentry, tobacco, as also provincial and district unions and banks. Many of these societies and unions were operating at low levels of efficiency.

In the Gal Oya valley, a newly developed area, there was a deviation from the practice of 'single purpose'. The societies, 30 in number, were termed General Services Co-operatives, and these were expected to service both the consumer and production needs of the members. These had functioned fairly satisfactorily, to the satisfaction of both the members and the authorities. Elsewhere, the basic pattern was one of 'single purpose' co-operatives.

A new government took office in 1956. A minister with considerable leftist leanings was appointed the Minister for Agriculture and Food, with the subject of Co-operation also coming under this Ministry. Going on the recommendations of a Committee appointed to look

into the present position and needs of co-operatives, the minister enunciated a radical policy for co-operative development - radical vis-a-vis the approaches to co-operative development made so far. In his directive dated 1st July, 1957, he stated as follows:

“The Co-operative Movement of Ceylon is 45 years old, but unfortunately it does not possess the stability and maturity normally associated with such long years of experience. I attribute this to two fundamental defects which have prevented the growth of a virile and healthy movement.

The first defect is from a fault of ideology. Modern co-operation has its beginnings in a period in which the dominant political philosophy was one of non-interference by the State in the economic and social life of the community. A necessary part of the paraphernalia of such a philosophy was the notion of ‘self-help’ as opposed to ‘state help’, of God helping those who helped themselves. The Co-operative Movement was one of the forms in which this idea manifested itself.....In short, the co-operative movement of today, if it is to fulfil its legitimate role, should rid itself of the antiquated conception that its task is done when it has catered to the parochial interests of select groups of people. Its role today, particularly in the less-developed countries, is a very much more important one; it is one of being an active partner of the State in the task of national development, in the course of which the parochial interests of the various groups organised in the Movement would be automatically furthered....

The second defect referred to above relates to the question of organisation. The Co-operative Movement of Ceylon, I believe, is unique in its apparent variety of forms. The 10,500 odd co-operative societies that exist today are of about 70 different types.....The re-organisation I envisage is the replacement of the varied types of the co-operative societies by a single multi-purpose co-operative in each village. The Ministry of Agriculture Planning Committee and the recently set up Special Committee Agricultural Co-operation have both recommended this step. The main functions of the village co-operative 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 co-operative and only to or from its members.....

The village co-operative 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. (Co-operatives where the members had pooled their means of production, credit unlimited were not to come within the reorganisation).

I have set the Co-operative Department the target of establishing a multi-purpose co-operative society in each village within the course of the next three years.....”

(the full text is quoted in Kurukalasooriya's 'Co-operation, Its Rise and Growth in Ceylon' pp.147 to 149).

Thus it would appear that the very ideology on which co-operatives had been built up so far, that of self-help and mutual responsibility, based on members voluntarily working together, was in challenge and that this was being substituted with state help and working with government in the process of national planning and development.

This indeed was a formidable task. There were around 17,000 villages in the country and the target was that within three years, each of these villages would have an MPCS (Multi-purpose Co-operative Society), either by conversion of existing societies, other than credit, into MPCSSs, or by setting up new MPCSSs. A massive effort was made the Department of Co-operatives, and the attraction to the would be member were the various benefits and subsidies on offer by the government. By April 1958, there were 1,498 MPCSSs, of which 607 were new registrations.

With the expansion of the movement and the increasing involvement of government in the activities of the co-operatives, it became necessary to update the law relating to co-operatives. Several amendments to the 1936 Act and several Special Provisions Acts were passed, all of which increased the powers of the Registrar and at the same time provided more legal safeguards to a rapidly expanding movement.

Over the next decade or so MPCSSs continued to advance, though in actual operation, they were neither multi-purpose nor were able to come to expectations of the Minister, vis-a-vis being active partners in national planning and in the development process. The target-oriented, time-bound approaches did not provide adequate time for the orientation of the would be member to the new concepts and roles, nor was there sufficient conviction and support from the village level

leadership, to ensure sustainable progress. Many a society remained multi-purpose in name, and was primarily concerned with the distribution of rationed commodities, while some also made purchases under the guaranteed price scheme, and also granted some loans to the farmers, etc. There were only a few societies that had ventured into a 'development role' based on an identification of member needs and organising themselves to meet such needs. The highest figure reached by the MPCs was 5,108 in 1968, but even then, very many of these were operating at very low levels of efficiency, for very many reasons.

The increasing focus on co-operatives by the government, however, led to a considerable increase in many types of co-operatives. The idea that the MPCs would carry out many activities at the village level, remained a fond hope, and there were many who set up their own co-operative to meet specific member needs.

Alongside the growth at the primary level, there was also increasing numbers of support structures at the secondary and apex levels, with a very useful role being played by the MPCs unions, most of which were conversions from the old consumer stores unions. At the same time, the Co-operative sector lost some of their secondary and apex unions to the government's programme to set up government corporations to service commercial and industrial needs.

Thus the Colombo District Milk Union lost out to the Milk board, the Co-operative Federal Bank was the base on which the People's Bank was built, and the newly established Fishery Corporation took over the commercial facilities and functions of the Fisheries Federation.

There had been several changes of government since 1956, each change leading to different emphasis in the field of co-operative development, with some of the changes being dependent also on the Ministry to which the subject of co-operation was assigned. There were ten different assignments, varying from agriculture and food in 1956 to Defence and External Affairs: Trade and Commerce: Food and Shipping; Agriculture, Food and Co-operatives; back to Agriculture and Food in 1966 and in 1970 to the Ministry of Foreign and Internal Trade.

The developments in the movement could be seen from the following:

General Progress 1958-1969
(primary societies)

	<i>1958</i>	<i>1959</i>	<i>1969</i>
Total Registered membership	1,327,273	1,956,794	1,937,518
Paid-up share capital (Rs.'000)	27,084.1	50,408.3	60,184.4
Statutory Reserves	19,692.8	42,214.9	44,552.7
Other Reserves	4,155.9	9,513.9	11,233.7
Profits carried forward	11,491.1	27,895.2	30,098.1
Total	62,423.9	130,032.3	146,058.9

Change in number of Societies : 1958-1968

	<i>1958</i>	<i>1967/68</i>
A. Primary Societies:	3680	3593
Credit Unlimited	163	273
Thrift	411	365
Land Mortgage Banks	2	0
Consumer Stores	1260	645
School Co-operatives	1553	2042
Coconut Sales	28	19
Agricultural Production/Sales	424	120
Fishing	108	279
Diary	38	34
Cottage industry/Industrial co-ops	868	1203
Other Production/Sales	201	446
Multipurpose	3897	5108
Other Primary (incl.Trnprt, Labour)	138	341
Total	12,771	14,468
B. Secondary /Apex		
Provincial/District Banks	12	7
Whole Sale Stores Unions	93	0
Production/ Sales Unions	53	51
Credit Unions	86	70
Other / District Unions	53	51
Co-op Federal Banks	2	7
Co-op Federal Bank	1	0
National Co-op Federation	1	1

These figures would show that there was considerable growth in the number and type of co-operative from around 12,000 in 58 to 14,000 in 68. Many of the societies however would be viable, poorly managed and struggling to survive. The Commissioner of co-operatives had this to say in this International Co-operative Day Message on the 5th of July 1969.

“A survey carried out of the multipurpose co-operative Societies which are now the most important type of society in the movement showed that:-

- a) there were 5188 such societies;
- b) 731 of them defunct;
- c) of the balance 4377 societies, 1775 societies had less than a hundred members each, 2959 had over 100 up to 500, and only 243 had 500 members each.

The average MPCSS had retail sale of about Rs.87,300.00 per year. This amount is inadequate to run a MPCSS efficiently, or pay satisfactory wage to its employees, and a small uneconomic societies cannot afford to pay high salaries, they are compelled to carry on with inefficient, poorly trained and dishonest management.”

Of the 22,797 employed in the MPCSS around 8,362 employees received RS.100.00 a month as wages, while around 2300 only received wages of over Rs.200.00 per month.

However the growth pattern within the co-operative movement showed a distinct cleavage between what came to be termed as “main stream” co-operative and “others” which the “main stream” co-operatives being the co-operatives which depend mostly on government programmes and consequently were given preferential treatment to enable the government plans to be implemented. With food rationing and the guaranteed price in co-operatives, MPCSS were always main stream. At the same time Textile Weavers Co-operatives and Fishery Co-operatives also came into the “main stream” as and when government had a specific development programme in these sectors.

Many of the other co-operatives, like credit, coconut, tea, rubber, small scale enterprises-oriented village level societies like carpentry, mat weavers, etc., were not in the immediate focus of the government and tended to have a greater degree of self reliance, though within the government support culture, they too took every opportunity to get government blessings and support and may be subsidies.

Dr. R.C.Dwivedi, a consultant of the ICA, New Delhi in one of his documents prepared for the South Asian Co-operative Ministers' Conference says: " Most governments in Asia are now 'welfare states' - far more concerned with the socio-economic life of the people. All policies and programmes are developmental in nature approach so that peoples' welfare would increase. Any government which fails on people's general and economic welfare carried the risk of getting voted out of power".

Is this a background conducive to co-operative growth? Is it the vote bank aspect that determines the consideration shown towards the co-operative development?. Do these decisions reinforce self-reliance, or are they bound to perpetuate the "the dependency syndrome"? Alternatively, is there a need for any move towards 'self-reliance', when the 'vote bank' clout can assure the many in need of continuing attention and support? Do the many political parties and the many politicians agree that what is desirable is "self-reliance" or would they prefer to depend on the "promise of support" towards self-reliance and thus ensure a vote for the exercise of the power?.....?

Structural adjustment for better co-operative service

When the government introduced MPCCS there were great expectations that at long that there would be an economic institution accessible to most of the at the village level, which would perform a multiplicity of the needs of the member, and which would also be a focal point for identifying development possibilities at the village level and which would thus help in the national planning process for economic development. The minister responsible for the introduction of the MPCCS idea left the government in the early 60's, and since then the MPCCS became mere functionaries in implementing government plans and programmes. No longer where they expected to be the focal points to get the generality of the membership and the general public involved in the process of identifying needs and the planning for action. They remained the 'main stream' co-operatives making equitable distribution of rationed commodities and playing also some roles in the production process, especially the production of paddy, its purchase and delivery to the Paddy Marketing Board.

The members too were not left to themselves to best determine who should manage their co-operative. Very often there was quite some "political pressure" brought to bear on members at "election time to the committee", with may an attempt being made by contend-

ing political parties to capture 'power' in the co-operative. Often there was interference also in the appointment of staff of the society. There were numerous instances where the membership of a MPCS increased by the hundred on the eve of a General Body Meeting to elect the Board of Directors or Committee. In many situations, contesting candidates themselves advanced the entrance fee and the share value or the first instalment of the shares, and who ended up as a member of the committee, even if he has had little or no contact with the society and its operations. The member was enrolled, not because he expected to get his needs satisfied through the society, but because he could use his vote to support the politically-backed candidate.

The new government, which came to power in 1965, decided that there was a need to take stock of co-operative growth and development. This intention was announced by the Governor General in his Throne Speech of July 1967. Consequently, a Royal Commission was appointed, with Dr.A.F.Laidlaw, the eminent Canadian and International Co-operator as its Chairman. The other members of the commission were:

1. Mr.K.Alvapillai, (former Permanent Secretary, Ministry of Agriculture and Food, and also the chairman of several government corporations)
2. Mr.R.H. De Mel, (with extensive experience with co-operatives - President of the Co-op Federal Bank, Provincial Bank, etc.)
3. Mr.T.B.Panabokke (Chairman, People's Bank and President of several co-operatives)
4. Mr.S.S.Puri (Formerly Registrar of Co-op Societies, Punjab, and Joint Secretary Ministry of Co-operation in the Union Government and later in the Planning Commission of India).
5. Mr.T.D.L.Pieris (Ceylon Administrative Service, former Principal, School of Co-operation, Polgolla and Deputy Commissioner in the Co-operative Department) functioned as Secretary.

Miss Margaret Digby of the Horace Plunket Foundation for Co-operative studies and well-known International Co-operator functioned as a Consultant.

The subject areas assigned for examination and report were comprehensive and wide-ranging, with a request made for recommendations necessary to revitalise the movement to enable it to be an effective instrument of national development.

After two years of extensive enquiry and discussion, the Commission submitted its Report to the Governor General on 28th August, 1969.

The Commissioners in their Report (Sessional Paper II of 1970) observed that the Co-operatives in Ceylon played a very important role in many economic activities e.g., about 30% of the agricultural credit required by cultivators, (excluding the plantation sector), was supplied by co-operatives; co-operative supplied essential food commodities (often under rationing schemes to cover 65% of the population; they also handled about 50% of the paddy bought by the Paddy Marketing Board, (the volume of the transaction fluctuating considerably depending on the government policy, e.g., rice ration reduced in 1966, affecting turnover of the co-operatives). They also assisted in the development of cottage, small industries, fisheries etc. The involvement once again depend on the government programmes.

The Commissioners also observed that there had not been comprehensive, long range planning for co-operatives. "Instead the movement has been subjected every few years to abrupt changes in policy and organisation resulting largely from official directives associated with emergency situations and political considerations".

Among the findings of the Commission were references to the weak operational management levels of the MPCs and the fact that nearly 65% of the MPCs were MPCs only in name. They also emphasised the deleterious effect on co-operatives arising out of political interference. They also emphasised the fact that the secondary and the apex organisations remaining and did not in fact play the leadership and supporting role they were expected to play: their recommendations went into several hundreds under 20 headings.

The commission also observed as follows:

"But we must underline our conviction that minor changes in the present system will not be enough to effect the new prospective.

The Co-operative Movement in this country need something more than a slight adjustment here and a shift of emphasis there. Increasing the dose of "aspirin" would not do when surgery is called for.....

A new prospective would start from fundamental change and not superficial modification."

Before my serious discussion brought into the way, the government changed and a new United Front Government came into power in 1970 may. In the first Throne speech of that government, the following references, amongst otherw we made in regard to co-operatives:

- the co-operative movement will play a large role in the economy of the country especially in the rural development. My government will recognise co-operatives into large and more economically viable units.
- a transferable service for co-operative employees
- corruption in the co-operatives to be eliminated
- retail trade to be carried out by Ceylon's retail traders, co-operatives and state shops.
- the heavy and capital goods industries will be state owned. Other industries will be owned assigned to co-operatives and private enterprises.
- cottage Industries and Crafts and Industrial workshops will be run by co-operatives and by small private industries.
- comprehensive schemes for housing including co-operative housing will be undertaken."

Where did the Royal Commission's recommendations stand in the face of the policy declaration of this nature? The commissioners had observed that the "one village, one MPCs" plan of the mid-fifties had resulted in may unviable and uneconomic units and this was so not only among MPCs, but the same situations, buy the same situation prevailed also among fishery societies and textile weavers societies. Their recommendation was gradual amalgamation of neighbouring societies, after due discussion and understanding among the members of the amalgamating, or merging societies. They had also highlighted the need for the amendments to the low to facilitate diversified activities and to reduce government and political interference. and they emphasised the members to take responsibility for their co-operatives.

The approaches made by the United Front Government towards the implementation of the Commission's recommendations where substantially different from the expectation of the commissioners. Far from making suitable steps to make the members responsible for their own co-operatives, the government set about doing things in a way

that enhanced the role of the government vis-a-vis the co-operatives. Whereas, the intention of the commissioners was that the several weak and uneconomic societies should seek viability by common decision and agreement among themselves, the government took a path which meant that co-operatives were fashioned in the way the government thought fit. Similarly in regard to the Co-operative Law, whereas the intention was that the amendments to the law would reduce the power of the Registrar and enhance member involvement and control, the government resorted to the enactment of several special provisions, which give immense power to the Registrar.

The Co-operative Societies (Special Provisions) Act No.35 of 1970 was promulgated and this gave the Registrar the power of amalgamate, merge or divide societies, in the manner he thought fit that there was no need for him to consult the members, or even to inform them of his plans and programmes. This the 5800 odd MPCs and 120 MPCs were all amalgamated in to 371 large primary MPCs, the 272 fishery co-operatives were amalgamated into 45 large fishery co-operatives, and some time later, the 450 odd textile weavers co-operatives and their 15 unions were amalgamated with the intention of reducing the number to 41. The intention was that the each society would have around 300 handlooms, or that there should be at least one textile society per district. Of the 94,700 handlooms functioning in the country at that time, about 40,300 were with co-operatives. By the 1976, however, there were 30 newly registered large size primary textile weavers co-operatives.

In the case of MPCs, the management committee was to be both elected and nominated, and all to often those who nominated were not from a co-operative background, but mostly from among those who had the trust of the government and the nominees were generally recommended were the member of the Parliament of his coteries in the electorate. The board was to consist of 15 persons, and whom only 5 were to be elected, but in fact in many cases, there was hardly any elected persons representing co-operative interests, and where elections did take place all, all to often they represented the political interest rather than member - co-operative interest.

The amalgamated societies were generally very large, often covering 10 to 20 villages, and member interests were served by several branches, with the number of branches averaging around twenty per large society. Each branch was to have Branch Committee, which till

very recently, was to have been elected, not a General Meeting of the membership, but by a process of nominations and election by secret ballot. Once elected, unfortunately, the Branch Committee had a little or no decision making power. They were required to send at least one, and more, depending on the membership with the area of operation of the Branch, delegates to the Representative Body which consisted of 100, however large the membership of the large society was. The Branch Committee also recommended loans, and also convey the views of the members to the Board. They did not have any meaningful control over the Branch Manager, who took his orders from the General Manager and the Board. As the branch committees had little or no decision making power, there was a little interest among members to even stand for election, unless there were outside pressures, which were not related to member interests.

The kind of structure that emerged the larger MPCs was such that the member felt completely distanced from his society was through the retail outlet, which gave him his rations, and which sometimes made arrangement to buy his produce under the Guaranteed Price Scheme (GPS) of the government. Most of the retail transaction were done through the children who went to the outlet to get their ration. The only time the member got directly involved with the Branch and its Committee was when he was seeking a loan for his agricultural or other purpose or when he went to sell his produce under GPS.

The representative body of the centre had nothing to compare with the general body meetings of the past era, where quite often the members of the committee were quite apprehensive of attending the general body meeting, when their record of service as Committee members was not all that commendable. Now with the representative body far distanced from the membership, and with the nominated board members being in the majority, there was little or no enthusiasm or vitality to protest the society and the membership, and with the elections generally taking political overtones, the member record from centre stage, and was satisfied if he got his rations in this time etc. The MPCs were expected to satisfy the member needed in respect of his (i) consumer, (ii) agricultural production and marketing, (iii) savings and credit, (iv) industrial, and (v) educational needs. In fact many performed primarily the consumer function, which was related to the rationing schemes of government some also performed some services towards agricultural production and they also operated co-operative rural bank, to cater the savings and credit needs of the mem-

bership. By and large to opportunities for increasing member involvement and responsibility were all but lacking and the hand of government was evident at every turn.

By 1972, there were 371 large primary MPCSSs in operation, with a total working capital of Rs.352.4 million, of which only around 20% were owned funds, which the rest was either from Bank or government sources. There was a member of around 900,000 and the societies employed around 22,000 persons around various levels.

What ever the expectations were the Royal Commission in regard to the development responsive to member needs and with greater number involvement and responsibility, the approach of the government towards co-operative development, left little or no chance for members to realise that in fact they owned the co-operative and that they should be the decision makers in respect of what the co-operative should do and how their interests should be served through their co-operatives. In the very early stages itself, the government decreed that the value of a share in MPCSS should be reduced to Rs.1.00, and this was at the time that the shares were around Rs.50.00, with the persons borrowing being allowed to borrow only up to ten times the value of the share held. The role of the share in capital formation in the co-operative was not given any recognition, instead the message that emerged was that every one had a right to becoming a member, even if the opportunity to exercise such rights was rare.

On the other hand there was an upsurge of co-operative activity, depending on government programmes, as the first preference was given to get involved with such activity. The economy was a highly regulated one with the Government playing leading roles in many roles in the economic activity. Already stated in the Throne speech of the government. Thus co-operatives emerged in many areas of economic activity, hitherto not covered by co-operatives. The land reform programme of the government saw the emergence of many types of agricultural co-operative, to get that excess land into productive use; for that matter many an MPCSS becomes managers of considerable extends of plantation crops like tea, rubber and coconuts; several co-operatives of skilled and unskilled labour emerged to take government contracts in the construction industry. In the industrial sector, several light engineering, and medium-scale engineering co-operatives were established, while there were a considerable number of co-operative in such activities like garment manufacture, beedi, leather,

toddy, ceramic, gems, printing, carpentry and furniture and also in housing. The upsurge of co-operative activity was tremendous depending primarily on Government, who were themselves using a policy of import substitution, through a highly regulated economy. Even if the word "co-operative" has to be used with inverted commas, the growth of the co-operative was considerable.

At the beginning of 1970, there were around 14,277 co-operatives of which around 5000 were defunct. The number of functioning societies were 7045, with a membership of around 1.5 million. At the secondary level there were 148 unions covering activities like credit, agricultural production and sales, fisheries, textile weavers, consumers, etc.

The Special Provisions Act, which enabled the amalgamation of societies, etc., are followed by two enactments:

1. The Co-operative Societies Law No.5 of 1972. (this Law, with several amendments, still remains the Principal Co-operative Law of the country); and
2. The Co-operative Employees Commission Act No.12 of 1972 (which gain is still operative vis-a-vis co-operative employees).

The table on page 44 will indicate the pattern of growth during this period.

DDC Projects: District Development Council Co-op Projects

The following will give a general idea of the prevailing co-operative situation and the role of the co-operative during this period.

Rationing was very much in force, with rice being rationed on the basis of 4 lbs. per person per week, of which two pounds were issued free. A pound of rice cost 0.75 cents at first and later raised to Rs.1.00 per pound. The issue of free rice to income tax payers are withdrawn in Dec.72. Other items issued on the ration were dried chillies, maldivian fish, sugar, textiles, milk foods, and massor dhal.

The co-operatives were responsible for the distribution of the rationed commodities to around 80% of the population. The 371 large MPCSS had 760 whole sale points and 6728 retail branches for the distribution. 134 other small MPCSS and 125 consumer societies also supplemented this effort.

Type of society	1970	Mbrs	1972	Mbrs	1976	Mbrs
MPCSs	4011	913,700 (large)	371	880,653	275	1,300,000
MPCS (other)	0	0	134	21,011	35	15,195
Credit Unlimited	1580	77,700	3282	135,004	2445	104,136
Credit Limited	164	30,500	280	56,829	331	62,638
Textile Weavers	535	52,000	530	51,000	28	44,883
Industrial	119	33,300	617	65,830	527	36,112
Thrift & Savings	197	62,500	311	65,335	254	64,000
Consumer Stores	452	161500	150	67,199	110	62,000
CAPS	50	16,500	22	3,500	0 Coc't	0
Coconut Sales	7	4,600	13	5,113	115 Tea	14,191
Tea	11	2,500	12	3,294		
Rubber	4	200	18	503		
Tobacco	47	3,800	86	9,363	82	9,200
Dairy	10	1,000	45	2,328	43	5,111
Other Agricul.	27	2,400	298	19,276	41	2,915
Fishery	143	4,400	252	11,775	46	14,578
Labour	71	6,900	155	11,742	110	9,520
Schools	1,513	187,100	2,029	245,388	2,506	318,208
DDC Protects	00	00	00	00	196	13,875
Young Farmers	00	00	00	00	80	7,861
Hospital	n.a.	n.a.	n.a.	n.a.	11	10,612
Others	99	37,000	193	67,167	418	66,986
	9040	1597600	8798	1722310	7653	2162021

The staff of the MPCsS was around 36,000 and their salaries and other allowances added up to about Rs.64 million year. In the MPCSS about 52% of the employees were paid between Rs.101 to 200 a month while only 398 employees were paid over Rs.400 a month.

The total purchase by the larger MPCSS for 1972 were Rs.1573 million.

<i>Commodity</i>	<i>Value Rs.M.</i>	<i>As a % of total</i>
Rice,Flour.and Sugar	1,005.3	57.3
Subsidiary foodstuffs	183.4	10.5
Dried Fish	59.8	3.4
Milk foods	64.3	3.6
Textiles	137.9	7.9
Misc	302.8	17.3
Total	1,753.5	100.0

The principal sources from which the principals brought were:

	<i>Source</i>	<i>Value % of Total</i>
Food commissioner	1005.3	57.4
C.W.E.	339.3	19.4
Salu Sela	118.3	6.7
Other Govt.Co-operations	61.4	3.5
Co-op consumers union	71.2	4.0
Private Trade	158.0	9.0
Total	1,753.5	100.0

(The Colombo co-operative consumers union was the sole distributing agent for the National Milk Board. The MPCSS bought their requirements of milkfoods, including lackspray, vita milk, condensed milk from the union.)

The total wholesale trade of the MPCSS to the private trade was for Rs.614.2 million.(mostly flour, rice, sugar, subsidiary food stuffs, dry fish, textiles and milkfood.) The MPCSS made their retail sales through 6728 retail outlets, to the value of Rs.1,040.3

million. Details are as follows:

<i>Commodity</i>	<i>Value Rs.M.</i>	<i>% of total</i>
Rice flour sugar	459.2	44.1
Subsidiary food stuffs	183.1	17.6
Dry fish	52.8	5.1
Textiles	153.6	14.8
Milk foods	45.4	4.4
Miscellaneous	146.2	14.0
Total	1040.3	100.0

The co-operatives were called upon to taken an active role also in the fall aspects of work:

- i. There was a total ban on the import of red onions. The Ministry of Agriculture and Lands launched a scheme to expand red onion cultivation. Loans were provided for this purpose from the people bank from the MPCSS.
- ii. There was a ban on the import of chillies. MPCSS were entrusted the task of purchasing chillies from farmers. Loans were provided from the Peoples Bank.
- iii. All imported textiles were distributed through the MPCSS. Imports were by Salu Sela. Peoples bank provided the necessary accommodation for such purchases.
- iv. MPCSS were appointed as agents of the tractor co-operation, to sell/provide on loan, tractors to farmers. necessary accommodation was provided by the Peoples Bank
- v. The activities connected with the Agricultural Development plan necessitated to purchase and sale of chemical fertilizer, agro-chemicals, sprayers, dusters, seed paddy etc. plus the granting of cultivation loans to members.
- vi. MPCSS were appointed to the sole agents by the Paddy Marketing Board, for the purchase of paddy under the GPS. They also purchased maize, mustard, chillies, green gram, pepper, coffee, potatoes.
- vii. In addition to above, some of the MPCSS purchawed and sold vegetables and other agricultural produce from the farmers.

The MPCSS brought 455 of the paddy produced in 72, on behalf the PMB. They also granted cultivation loans to farmer members to

the value of Rs. 68.7 M. and Rs.12.1 M for subsidiary crops.

There were several other co-operatives involved in assisting the development process. The diary co-operative(21) collected over 5.3 million pints of the milk and delivered 96% that to the Milk Board.

A new area where co-operatives were called upon to play an important role was that of the Palmirah palm. The palmirah toddy producers were subjected to a tree tax. This was abolished and co-operatives were set up to tap the palms and sell the toddy (both sweet and fermented), and also to work towards processing the toddy into arrack. 31 co-operatives were set up originally but were later amalgamated to form 11 viable societies with a membership of 8587. These societies ran 245 taverns which employed around 450 persons in varying capacities like manager, clerk, accountant, etc. It was expected that the Government, would be able to collect venue of around Rs.5M, and in the first eight months of '72, the coops collected for the Government Rs.1.45 M, which was far more than what government would earlier collect under the tree tax system.

Another area in which co-operatives were called upon to play a development role, arose out of the excess lands devolving on the government, resulting from the land ceilings imposed by the government under the Land Reform Laws. No.1 of 1972. Some of the MPCs became managers of a quite considerable extent of tea, rubber, and coconut, till they were eventually taken over by the corporations set up in this sector. In addition, there were several Ministries concerned with land, other than the Land Reforms Commission. The Ministry of Lands and Land Settlement, the Ministry of Planning and the District Development Councils (DDCs), etc. Several types of co-operatives were set up, such as the Young Farmers Co-ops. Under the Land Ministry, the Janawasa and under the Land Reform Commission, the gammanasa under the Ministry of Agriculture and Lands, etc. The ownership of the land varied from one type to other, with some being collectively owned, while some the plots of land were individually owned, the development was done on group basis, in accordance with a mutually agreed development plan by the membership.

The District Development Council Co-operatives (DDC), coming under the purview of the District Development Councils, under the overall purview of the Ministry of Planning were used to encourage regional development, by providing opportunities for the people to work in collaboration with government in the development proc-

ess. Various projects, both agricultural and other, were identified by the co-operatives. The cultivation committees and other village level leaders take their proposal to the DDC, who in turn get these approved by the Ministry of Planning. The 502 agricultural projects identified by end of 1972 and early 1973 covered an area of 10,623 acres. Crown land or acquired private land was used as the base of these projects. The area entrusted to one society varied from 25 to 100 acres, depending on the availability of land. Around 11,250 jobs were provided.

The DDC co-operatives were worked also in other areas, like medium scale and light engineering, various construction works etc., all of which were intended to provide employment at the village level.

Another field in which there was considerable co-operative growth was in the field of labour, both skilled and unskilled, who were formed into co-ops, to undertake various construction and other works for the Government, with the government giving these co-operatives special preference.

The 45 large fishery co-operatives, with a membership of 12,100, had total sales of around Rs.7 million in 1972. These societies worked in close collaboration with the Director of Fisheries, who made loans available to members for the purchase of mechanised boats, which helped to raise the number of mechanised boats owned by the fishery Society members to 499. The Ceylon Co-operative Fish Sales Union performed mostly extension and education functions after its commercial functions were taken over by the Fisheries Corporation. However, the Northern Province Fishermen's Co-operative Societies' Union made much progress in the area of export of exotic varieties of fish like beche de Mer, which enjoys a popular market in countries like Japan and Hong Kong.

In addition to the above, there were also co-operatives covering the main plantation crops like tea, rubber, coconut, and also tobacco. There were co-operatives also in the gem industry and also covering export of exotic plants and flowers like anthurium and orchids.

The activities in the savings, thrift and loan sector performed by the Credit Co-operatives, Limited and Unlimited, however, did not show much progress. Of the 2831 credit unlimited, 1652 were said to be inactive. Of the total of 115,617 members, over 60,000 belonged to the defunct societies. The credit limited fared better, with 298 societies with a membership of 59,853. These were mostly in Govern-

ment departments and other commercial institutions. Of the 290 thrift and savings co-operatives, 90 belonged to public servants. Of the total membership of 71,570, 6,500 were public servants. Of the total number of societies, about 98 were inactive.

In the co-operative rural banking (CRB) sector, however, the growth and expansion was considerable, with the number being around 300, and these had member savings of Rs.23 million, while they had also granted Pawn Broking Loans to the value of Rs.6. million. In addition, they had granted short term loans to members in a sum of Rs.8.2 million.

In the small scale industrial sector, there was considerable growth of co-ops. Hitherto, the main co-operatives in this sector were the textile co-operatives, the carpentry co-ops, and a few other village level small scale industrial types.

In the textile sector, the 454 co-operatives were eventually amalgamated into 30 large textile weavers co-operatives. Of the 94,000 handlooms then operating in the country, around 44,000 were with in the co-operative sector, and in forming the large societies, it was hoped that they would each have around 3000 handlooms, which was supposed to make these societies viable. But when actual setting up came up, smaller societies with less than 3000 looms had to be set up to provide for the needs of many villagers concerned. It was hoped that with the larger size offering grater opportunities, that the average textile weaver would be able to increase the monthly income from around Rs.60 to Rs.80 as it was then, to at least Rs.120.00 per month.

The carpentry societies got a big boost up as the government gave them preferential treatment in the execution of government contracts for school, office and hospital furniture, etc. The other small scale industrial societies covered such areas of activity like garment manufacture (53), coir (24), beedi wrappers(89), plus 49 DDC industrial, 48 light engineering, 7 medium scale engineering, all of which had a membership of around 50,000.

There were 13 co-operative hospitals with membership 10,133, and also 7 transport co-ops with a membership of 1,150. In the school co-operative sector, the total number was around 2,500 with a membership of around 330,000.

The question can well be asked, were these really co-operatives arising out of the felt needs of members, or were they co-ops in name, set up to implement government policies and progress?

The hand of the government was conspicuous in several areas of economic activity, with around 30 to 40% of the GDP coming from government related functions. The spread and growth of co-operatives in many sectors were primarily the result of government support and directives, with many a new member looking at the co-operative, either to get his rations equitably, or to find employment through the 'co-operatives', which now covered a multiplicity of areas of economic operations. Many were the members who had no idea of what co-operative efforts entailed. When government reduced the value of the share in the MPCSSs to Re.1/-, the member responsibility in regard to member equity was relegated to the background. The co-operative was only a 'means' to get whatever they wanted through it, and many of the co-operatives did not even cast on the members the responsibility of 'managing their own affairs', as in many types, like MPCSSs, the many Land Reform Co-operative, etc. That responsibility was to be shouldered by mostly 'nominated' Committee or Board of Directors, who for all intents and purposes were 'not' answerable to the general body, as many who were nominated had political backing, and consequently, it was difficult for the member to tell them that they were responsible to them, the members of the society.

However to, at least in some form, minimise the alienation of the member from his co-operative, the co-operative department, and in particular, the School of Co-operation and extension division, as also the National Co-operative Council and its regional and district education centres, carried out several education and extension programmes. While some effort was made to get the new member of understand the ideology and the practice of co-operation, concerted efforts were made to improve the managerial capabilities of the staff, and where possible, the members of the committees in various types of societies. The advanced level and the ordinary level employee training courses, which were certificate oriented, were conducted on a regular basis, and these were popular, while the junior level courses had only about 190 following the course in 72. In addition to these regular programmes, the School initiated also a "crash" programme, for the 600 odd graduates who were assigned to the co-operative sector, under the graduate employment programme of the government. These "graduate employees" were assigned to the larger MPCSSs, and other large sized co-operatives and it must be said at this stage, that not many of them stayed with the coops in the years that followed.

These efforts were backed several continuing radio programmes, focusing on the various activities of the co-operatives, and the attendant problems and successes. There was also the mobile cinema, which went into the remote areas of the country, trying to project the concept of co-operation and the success he have had both here and abroad.

Supplementary efforts both made through the media, daily and weekly, to focus on co-operative effort, and to get the support of the general public for what was being done within the co-operative sector. One must admit that given the government priorities and the favoured treatment extended to the co-operatives, all such efforts, at best, would have only limited results, as the bulk of the membership were more concerned with what they could get out of their "co-op", than to be concerned of how they could use the co-operative for their sustained development and growth.

Overall, it can now be said that the period 1970 to 77 was once again one of government initiated drives,(like the stores drive, the CAPS drive, the MPCS drive, the many fishery drives), with the expectation that, where as the other drives were focused on one area of economic activity, this effort was many pronged, with a whole spectrum of activity being focused at one and the same time.

To the government co-operative provided a dependable institutional from where the general too could brought in a partners in the development effort,and they were hopeful that those who came in would make a success of their co-operative. Unfortunately the mechanism used, like the nominated board, and not holding general body elections, etc., gave the impression may that the co-operatives where only an extended hand of the government. To the many who joined as members, there was an expectation of getting what they wanted out of the co-operative. There was hardly an understanding of "working together" for their common benefit. This said, it has to be admitted that, among the many with the kind of outlook and expectation, there were a few co-operatives where the members got a better understanding of the opportunity, and where the co-operatives started in that era, still function very effectively, having provided the members with sustained growth over the many years of effort. Unfortunately, such instance were few, and as would be seen, soon after the era of "liberalisation" of the economy commenced with the government changing of mid 77, many of the "co-operatives" based on the

“dependency syndrome” ceased to function, with the members all going their several ways, in search of new pasture opening up the market economy.

The figure relating to 1978 will show that some of the mushroom co-operative had ceased to function, almost immediately after the concessions and preferences were withdrawn. In the case of some of the agricultural co-operatives, like, “Janawasa” or “gambians” or the young farmers coops, where the land was being commonly held, or where the land was worked on a ‘group’ approach, the moment options were offered for the members to own and work separate plots, even if the plots were not necessarily economic units, most opted to go along with individual ownership and co-operative effort based on the aspect of “working together” for both individual and common benefit. In the socio economic environment individual ownership remains a status symbol, this move by the members is not surprising. In regard to the labour co-operatives too, with the change of government and the advent of the open economy there was no preferential treatment noted out to the labour co-operatives and faced with the competition from private organised sources, many had no option, but to give way, as they had themselves to enable them to stand up to competition, with the inner strength of collective responsibility and will.

The experience of many of the nascent co-operatives developed under some elements of protection, would be similar, and the sad fact is that apart from persisting in the demand for special privilege for the various co-operative, there appears to have been no concerted efforts, both from the co-operative concerned, and from within the co-operative movement as a whole, to take stock of the changing scenarios and to develop appropriate programmes of action, as would have been enabled the co-operative had a fighting chance of survival. As has been pointed out earlier, the fault lies not entirely with the member. Over the many years of the active government intervention, the member had little or no involvement in the decision making process, where the committee/board, consisted mostly of “nominees”, and also because the member stake in the enterprises was dismally low, for eg. in the MPCSS, the value of the share had been reduced to Rs.1/- and this was merely a “stake” to talk off.

In the highly regulated economy of the '70 to '77' period, notwithstanding these many shortcomings, co-operatives played a domi-

nant role in the economy, because the government wanted them to do so, but when the supportive hand of the government was withdrawn, then the co-operatives, each left to its own devices, as their certainly was no united "movement" action, their individual capabilities to overcome the many challenges were certainly unequal to the task.

A question that can be posed in this contest is, in the development and growth of the co-operatives, has government support, patronage and preferential treatment, helped in the emergence of strong and viable co-operatives with sufficient inner strength and resilience based on the understanding among members of their duties and responsibilities and their own inner strength? As it happened in the '70 to '77' period, the government support also meant many a nominated board or committee, where the choice of nominee was depend more on political affiliation than adequate competence in the selected area of activity of the co-operative.

Of course, all the nominees were expected to discharge their responsibilities with the concern for the co-operative, its members and the development effort of the government, but actual practice, none of these priorities seem to have influenced their day to day functioning. In fact a very highly placed person with government was said to have remarked, " these nominees are neither loyal to the co-operative nor to the development effort, or even to those who nominated them they are only loyal to their own private interests."

It is no wonder that the department of co-operatives, immediately after the change of government in mind '77, initiated around a thousand stationary enquiries under the law, the probe into many an irregularity committed by the nominated boards.

The situation in regard to co-operatives in the post 1977 period can be seen from the following table:

Type of society	1978	1982	1986	1990	1994
MPCS	283	290	283	287	300
Credit (Ltd&Unltd)	1,296	1,570	5,885	6,380	7,681
Tea,Rubber,Coconut	32	76	73	67	84
Diary	30	89	154	226	263
Fishery	49	90	68	739	731
Labour	59	66	57	48	40
School Co-ops	969	1,156	775	1,234	1,387
DDC	129	69	n.a.	n.a.	n.a.
Young farmers	08	30	19	n.a.	n.a.
Other agricultural	42	77	50	94	252
Textiles	34	33	31	27	29
Hospitals	09	99	07	09	07
Small Industrial	251	272	190	197	320
Animal husbandry	n.a.	n.a.	17	24	20
Electoral	n.a.	n.a.	38	n.a.	n.a.
NYSC	n.a.	n.a.	n.a.	25	25
Others	210	163	162	183	887
Total	3,401	3,990	7,809	9,540	12,026
Members	2,626,820	3,023,987	3,141,163	4,118,600	4,549,800
Staff of Co-ops	52533	48,818	30,140+	29,978+	28,892 +
Business Performance of Multi-purpose Co-operatives					
Total turnover (approx. Mil.)	6364.6		11,500	17,100	32,000
MPCS Turnover (approx. Mil.)		9726	10,614.4	16,180	22,085
Rural Banks (Nos)	558	804	929	1,039	2,126
Savings Banks turnover (Rs.Mil.)	222	542	1,295	2,601	6,756
Loans Turnover (Rs. Mil.)	63.7	122.5	657	992	2,017
Credit Societies' Savings (Rs.Mil.)	13	20	30	56	140
Credit Societies' Loans (Rs.Mil.)	13.6	18	28	59	120

Note: The above figures are NOT adjusted to inflation. It is hoped that the following details will help to get a better view of prevailing prices etc.

1. US\$ = Rs. 15.00 (1978); 23.55(1982); 28.52(1986); 40.06(1990); 44.10(1994)
 Colombo Consumer Price Index: 670(1978); 1232 (1982); 1745(1986); 2834(1990)
 Index.1952 = 100

CCPI, Feb. '96: 1761

Chapter 04

Co-operatives and the Open Economy

After seven years of the highly regulated economy during the period of 1970 to 1977, where the role of the co-operatives, especially the MPCSSs, was prominent and accepted, the country emerged in mid-1977 to an era of liberalisation of the economy, with deregulation and de-licensing, thus paving the way towards a market economy.

In yearly years of the market economy, the government was still geared to the system of food rationing and price control, as prevailed earlier. Further the GPS for farmer produce like paddy, green gram, cow pea, etc., was continued. The government was still dependent on the co-operatives for the equitable distribution of the rationed commodities, and other welfare measures that the government adopted. These functions, as mentioned earlier, were carried out by the MPCSSs, who and about 80 to 90% of their turn over in handling these commodities. This continuation of the rationing scheme etc acted as a cushion for the MPCSSs, from the challenge of the open economy. But what of the other co-operatives? Especially those co-operatives which were got up to implement specific programmes of the government. Were they prepared and geared to meet the challenges? Where the co-operative leaders, at society, district and national levels consciously making attempts to take stock of the situation and to develop strategic plans and at the same time to voice co-operative concerns about the challenges ensuring? Approaches, if any, appear to have been ad hoc and sector wise, with no co-operative opinion. The attitude of the government decision makers appears to have been, " it's an open economyit is an open playing field, and co-operatives are welcome to actively participate in the efforts being made for rapid economic development, within the liberalised economy."

In the absence of an overall strategy for strengthening co-operatives and co-operative performance, it would be interesting to see how some of the more favoured sectors of the co-operatives, during the period of the regulated economy, fared in the face of the challenges of the open economy.

I. Agricultural Sector

As mentioned earlier, this sector was one where increasing co-operative approaches were made during the earlier period in the field of land management and production. The gammanas, janawasas, young farmers co-ops, and the DDC agricultural co-ops under the patronage of several government ministries and departments, numbered around 700 with a membership of around 80,000. By 1978, the figure had come down to 270 societies, with a membership of around 30,000. The plantation crop oriented societies covering tea, rubber, coconut and tobacco stood at 115 with a membership of 14,191, but by 1978, the numbers had come down to 32 societies with membership of 6,547. By 1984, however, these crop related co-operatives have had some recovery and risen to 76 with membership around 10,000.

However, the agricultural societies are down to around 100, with membership of around 21,000 by 1984. It is interesting to note that the earlier classification like gammana, janawasa, electoral, DDC etc disappear from the schedules of the commissioner in the annual administration reports. They are also classified under, other agricultural, and not much details is available in respect of the nature of activities undertaken by them, except perhaps the amount of loans granted to the members.

An interesting development during this period is the emergence of what is still known as 'export promotion villages', most of which were organised by the private sector, and often coming within the areas of operation of already established co-operatives, to undertake the production and export of vegetables, primarily 'gherkins'. While the specialised agricultural co-operatives were becoming less active, the MPCs during their own selves seem to have been concentrating more on their consumer, wholesale, and retail functions, and may have gradually withdrawn from playing an active role in the agricultural production sector. The EPVVs were private sector organisations, with some of them being registered under the company laws. By 1985, there were 25 EPVVs in place and already exporting 'gherkins' to several countries.

Another interesting development is the enactment of the Regional Rural Development Banks (RRDB) Act No.15 of 1985, with the RRDB coming under the auspices of the Central Bank, perhaps, here too, the MPCs which had been servicing the rural sector over a long period, was probably not performing at the levels of emerging

demand, and it became necessary and it became necessary for special RRDBB to be set up to meet the requirements of the law income groups in rural society. By early 90s, 17 districts have been covered these RRDBB, with the number of operating Banks numbering 170. They had a clientele of around 1.2m to 1.5m persons, most of whom were the law income category.

Loans were provided through these banks for such purposes as agricultural activities, betel growing, anthurium and other small scale enterprises, and the banks worked in collaboration with the National Development Bank (NDB), the Industrial Development Board, the Asian Development Bank sponsored perennial crop division of the Department of Agriculture, etc.

Perhaps it was the inability of the several MPCs to meet the agricultural needs of members that saw the emergence of several small size farmers' co-operatives in the late 80s and the early 90s. This was so especially in the Mahaweli Development area, where small farmers societies with membership of around 200 to 400 were being set up, to service the agricultural needs of the members. These societies had also the Swedish co-operatives assisting them in their efforts, and in time a union of 20 odd societies were also set up to look after the interests of the member societies and to set up a rice mill to cater to the needs of the member farmers. The total membership of the 20 societies is around 10,000.

The 13th amendment to the Constitution of Sri Lanka resulted in the formation of provincial councils, and the evaluation of many powers that were all alone with the vested with the Provincial councils, and these councils had a minister who was assigned the subject of Co-operatives. Each province appointed also a Provincial Commissioner for Co-operative Development, in whom all the powers that were earlier vested with the Registrar at the Centre, were vested. Several of the provincial councils took special interest in the agricultural sector and as a result the number of co-operatives functioning in the agricultural sector steadily increased. Here again, it may well be that even the provincial councils may have felt that the MPCs were NOT paying the necessary attention to the agricultural sector, and hence across the need for smaller sized farmers co-operatives. From 1994 in 1990 in the number went on increasing to 109 in 1991, to 206 in 1992, 229 in 1993, and to 252 to in 1994, and the membership rose from 10,000 in 1990 to 20,000 in 1994.

In the plantation crop sector, tea, rubber, and coconut the number of co-operatives increased steadily to 84 in 1994, but here the membership declined from the earlier 14,000 to 8,000.

An overall review of the experience of this sector would show that most of the co-operatives which had their origin because of government support, ceased to function with the members opting to own land and to attend the cultivation of their own. In the case of the DDC Electoral Co-operatives, they ceased to function when the projects they were working on failed to get any government support and privileges.

Was it the open economy that led to the demise of these societies? Or was it that the societies did not satisfy a felt need of the member, and in any event, very few of the members fully understood the nature and practice of co-operation, and consequently, without external stimulus and support, they had no inner strength to survive. However, it must be mentioned that a very few of these societies are still surviving, though their overall performance is not all that satisfactory.

II. Textile Weavers' Co-operatives

Perhaps, these were the first co-operatives to face the full blast of the open economy. De-regulation and delicensing, coupled with the relaxation of foreign exchange restrictions meant that textiles, specially from China and Hong Kong, would flood a starved market, thus causing severe marketing problems for the textile weavers' co-operatives. In the early 1970s, there were around 460 textile weavers' co-operatives, with a membership of around 90,000 and annual sales of over Rs.43.5 million. Many of the societies, however, were not functioning at any appreciable level of efficiency, and the average textile weaver was earning only around Rs.50/- to Rs.70/- per month. Of the 94,000 odd handlooms operating in the country, around 40,000 were in the co-operative sector. Some of the co-operatives also had some powerlooms under their control... around 800, producing around 12 million yards of cloth a year. At this time, there were also 21 textile unions with a sales turnover of Rs.48 million a year.

Subsequent to the Laidlaw Commission Report, steps were taken to amalgamate these societies and unions into larger units, and the plan was to have a large society for every 3000 looms, though not necessarily all housed under one roof. In the actual implementation of this programme, 34 large societies were set up, and many of them

had very much less than 3000 looms originally intended. It was expected that the large societies would be able to procure and supply yarn to the members more economically than in the past, and that they would help the member with design, colour schemes and eventually in the marketing of their products. The 34 large societies had a membership of around 63,000 and in the late 1970s, they had sales of around Rs.140 million annually. Until the advent of the open economy in mid-1977, handloom products had a ready market, with sales being to government hospitals and other departments. In the open market, handloom sarees were popular and had quite a demand, especially as the import of textiles was regulated and all imports were mainly by Salu Sela.

With the market opening up to more and more textile imports, the textile co-operatives had both a marketing problem as also some difficulties in getting regular supplies of yarn. By '984, the number of functioning societies had dropped down to 32 with a membership of 62,000, and by 1988, the number was reduced to 29, with a membership of 50,000. By 1994, the membership was down to 31,000.

The problems faced by the co-operatives were many. The societies were unable to ensure a satisfactory monthly income to their members, and due to lack of capital, they had considerable difficulty in getting yarn in time, and even after the yarn was made available, the sale of the products were becoming increasingly difficult. Further, with better employment opportunities becoming available, both within the country and outside, many of the members opted out for better pastures.

Faced with these problems, the Ministry handling the subject of Cottage Industries, was taking many steps to rehabilitate the industry. With the assistance of the Department of Co-operatives, a separate co-operative unit was set up in that Ministry, under the charge of an assistant commissioner of co-operative development. This unit worked in close collaboration with the officials of the Cottage Industries Ministry to provide advice and guidance to the co-operatives and their members. By 1990, the number of handlooms in the sector had dropped down to 2250. A Five-Year Plan for Handloom Development was drawn up for the period 1990 to 1994, and this plan envisaged the setting up of 70 textile co-operative villages, and the members would be given grants, etc. and thus help the rehabilitation of the industry. The setting up of the Provincial Councils and the

consequent devaluation of powers, however, the support system that was envisaged, could not be put into practice, as the priorities of the Provincial Councils varied, and there were no uniform approach to this problem. The Administration Report (page 25) of the CCD & RCS for 1991 says as follows:

“These societies which showed remarkable progress during the year 1990 failed to show a satisfactory progress in 1991. This was mainly due to non-receipt of grants under the 1990-1994 five-year development plan of textile industries. In 1990, these grants were paid by the Textile Department. As the monies were allocated to the Provincial Councils, the Textile Department was able to pay only a small sum as grants to the textile co-operative societies in 1991. Due to this reason, only 11 textile villages could be opened during this year. The structural changes that took place in the administration also had a strong effect on these societies. Up to the time of Provincial Councils, these societies functioned under the supervision and guidance of the Department of Textiles and the Department of Co-operative Development. After the devolution of power to Provincial Councils, it does not appear that these co-operative societies have been properly supervised. This factor too has contributed to the decline of activities. During the year 1990, these co-operative societies had 5000 handlooms in working order. By the end of the year, this number had dropped to 4000 due to the shortage of working capital to purchase raw materials and lack of marketing facilities.”

During the year, 12 textile societies owned 811 power looms and several societies continued their operations on a ‘commission weaving’ basis.

The apex level textile societies union, which became operative in 1989, has been able to assist the member co-operatives in a very limited way, by way of timely supply of yarn and other accessories. By 1994, the membership for the union had dropped to 19. Among the support activities carried out by the union are the arrangements for the sale of the produce of member societies on credit basis to government and corporation offices. They have had sales of around Rs.5.8 million on this basis. It also hopes to increase the import of yarn, making use of the subsidy granted by government for such imports. Many a primary textile co-operative functions with great difficulty, with a bulk of their work being ‘contract’ work for private businessmen, who supply the yarn and the designs.

The prospects for the textile societies certainly looks bleak at present, and success in the future will depend mainly on the support that will be given to the industry by the government. Already a rehabilitation programme is being talked about with the Salu Sela taking a lead in both improving the products of the societies with better designs, colour schemes and the use of better yarn, as also the marketing of the produce through the retail outlets of Salu Sela and the thousand franchise holders of Salu Sela. How successful these moves will remain uncertain.

III. Labour Co-operatives

Labour co-operatives were functioning mostly in the government warehouses for rice, flour and sugar and also in other corporations and institutions and were concerned with handling and transport. In 1970, there were 71 such co-operatives with a membership of around 6,900. During the period 1970 to 1977, there were several programmes initiated by the government, aimed primarily at finding employment for skilled and unskilled labour, especially in supporting the construction industry. Several co-operatives were formed for this purpose and the government gave them preferential treatment in allocating work without following the tender procedures, etc. The number of labour co-operatives rose to 110 with a membership of around 9,520. By 1978, however, the number had come down to 59 with a membership of 5,680, and by 1994, the number of such societies was down to 40, with a membership of around 5,100.

It would thus appear that once again the co-operatives, which were mainly dependent on government programmes and support, had no chance of survival, once the special treatment was withdrawn, and the members themselves were not adequately convinced of the capacity of the co-operative to function effectively, if the members had the capacity to control and manage the enterprise. The labour co-operatives still functioning are those concerned with the handling and transport services at government warehouses, and those of the CWE, etc., and with the role of government also declining in these particular areas, the need for such services also declines and number of co-operatives and the members will also decline gradually.

IV. Fishery Co-operatives

The fishery sector of the economy is one where there has been a continuing focus of government from the early 1940s. The Fisheries

Ordinance No.24 was enacted in 1940 and a Department of Fisheries was set up in 1941, with a director of fisheries in charge and with several levels of officers to assist him. The first fishery co-operative was formed in 1942 and by 1952, there were 111 societies with a membership of 4,405. In time, three district fishery co-operative unions were also formed in Chilaw, Kalmunai and Jaffna. The All Island Fisheries Union was formed in 1952, to assist the societies in the purchase and repair of fishing boats and gear, to provide cold room and refrigerating facilities, to import nylon nets for the member societies and also to help in the marketing of the catch, especially in the City of Colombo. By 1959, the number of societies had increased to 228 with 5,874 members.

Fishery Credit and Sales societies	55
Fishing co-operatives	106
Fishery Production and sales	67
	<hr/>
	228

The ownership of the boats and sometimes the nets too remained with the member in many societies. However, there were few societies where the boat and nets were owned by the society itself.

By 1956, a separate division was set up in the Co-operative Department, with an Assistant Commissioner in charge, and supported by several staff, to assist more effectively in the development and audit functions. This division worked in close collaboration with the Department of Fisheries.

The fishery co-operatives have had their haphazard growth throughout, with many ups and downs, but has always been at the receiving end of aid and assistance, both from the government as also from external sources. The Canadian co-operatives were supporting co-operative education and extension in the mid-fifties, while Japanese co-operatives were involved with the government around 1959, promoting a ten-year development plan for the fisheries co-operatives. In 1964, the government established the Fisheries Corporation, and this took over all the commercial functions of All Island Fisheries Co-operative Union, leaving only education and extension activities to be performed by the Union. By 1968, there were 279 societies with a membership of around 7,424.

The fishing sector of Sri Lanka has always been one dominated by the few who used their capital and position to exploit the day to

day fisherman, who remained indebted in perpetuity. The co-operative fishing embraced only a small percentage of these evolved in the fishing industry, and each government always had special assistance programmes to help the day to day fisherman to improve his economic status and to get away from the debt trap he had his fellow members were involved in. The government had programmes providing subsidies on the purchase of nets, boats, and other equipment, and all too often, each assistance programmes invariably resulted in the "write off" outstanding loans, to be followed by a regular program of regular assistance. The department of fisheries was directly involved with the department of co-operatives with the implementing the many schemes of the government and the loans often came as direct loans from the department of fisheries to the co-operatives remained weak and often not viable, often operating at very low levels of efficiency. At best only around 20% of those involved in the industry were members of the co-operatives.

The Laidlaw Commission was the view that the fishery societies were weak mostly because they were small units, and their view was that the many small societies should talk to each other and see whether they could agree to the formation of larger, viable societies by voluntary merger. What really happened was a merger by government fiat, with little or no consultation with the membership. Thus by 1972 the 292 societies then existing were amalgamated into 45 large societies, with a membership of around 20,000 and an annual turn over of around Rs. 10 million. By the early 1980s only around 07 societies were running at the a profit.

The large societies were expected to assist the department of fisheries on their programmes to supply boats, engines, and out board motors to the members; to assist in the loans programme of the department, and to take over the facility available in the fishing harbours and supply gasoline, nets and other equipment to the members.

The Swedish co-operative centre, with the assistance of SIDA, initiated a collaborative programme with the fisheries union to upgrade the training education facilities and to improve the services provided to the members. During this period, because of the internal disturbances in the country many of the better functioning co-operatives and their district unions in the North and the East functioned only occasionally. There had been some growth in the number of co-operatives in the early 80s, but by the 88 of the 64 societies only 10

were functioning satisfactory. Thus once again, notwithstanding the many concession and subsidies, and notwithstanding the efforts of the department of fisheries, of the co-operative department and the many international NGOs, the fishing co-operatives were again in a very weak situation, with a very low level of member involvement and dialogue.

In 1989, a committee was set up by the ministry of fishery and the aquatic resources to examine in the depth of problems faced by the co-operatives and see how best the small time fisherman could be helped through the co-operatives to increase production and improve their living conditions. This committee has direct contact and consultations with many members, their co-operatives and the supporting agencies and were of the view that strategic, structural adjustment programmes were necessary to meet the aspiration of the members. The ADB assisted development programmes and the Hambantota District integrated rural development programme were to be active partners in implementing the programme envisaged by the committee.:

- i. Village level co-operative to be set up to ensure better member participation. However the co-ops must be viable with at least 100 members and the general basis would be that the Gramma Niladhari division will have at least one society. if the member of members is less than 100, then two adjoining GN divisions will get together to form the village level co-op.
- ii. Both the men and the women, fisherman and others involved in the first industry would be eligible to the members.
- iii. The co-operatives would attend to matters like savings, loans, production assistance, harbour facilities, provision of equipment ie, gasoline etc.
- iv. The fishery department would provide the necessary advice and guidance.
- v. The structure would be primary society at GN level, a pradeshiya sabha union, a district level union, and a national federation.

The underlying intention was that the primary co-ops would act as an intermediary to make benefits envisaged under the plan to the members. The member share value was to be Rs.100/- and a number of government departments, District development bodies, would assist the co-operatives in breeding fish, and in catching fish and in several self employment programmes.

The society would provide as a sale floor for members; would supply gasoline, spare parts, other equipments, and gear and also would provide restaurant facilities, would undertake the sale of the basic consumer needs, and also provide the member with information in regard to weather, price of fish etc.

A number of welfare activities were to be carried out through the co-op:

- help members to get land for housing.
- to provide drinking water for the families under the village,
- to work with the authorities to get electricity for the village,
- to collaborate with the health authorities to ensure health,
- to work towards getting insurance and pensions facilities for members,
- provide beacons etc to ensure safety,
- to undertake conciliation activities to settle disputes etc.

The district unions were perform supporting functions like the provision of the cold rooms, ice plants, obtaining necessary gear and equipment in time, and to undertake programmes for the women for self employment as also training programmes for the membership.

The federation was expected to co-ordinate supporting functions including centralised sales and processing.

There was a rapid increase in the number of societies and the members;

	1989	1990	1991	1992	1993	1994
No. of Societies	163	488	690	700	769	793
No. of Members	17,195	59,830	60,520	78,939	86,000	88,000

There were about eight functioning large societies and when one adds the membership of the large societies too, the total number of members in the fishery co-operatives in 1994 was around 95,000, with about 20% of the membership being women.

The question can and will be asked, given this scenario, are the fishery co-operatives now suitably structured to meet their challenges to the open economy? How they now got the understanding and the inherent strength to sustainable development through co-operative effort? Or will there be a need for a further effort of rehabilitation and recycling of subsidies with in a few years, possibly with the next change of government?

Only time will tell, but already there are mounting concerns, as once again the entire approach has been a target oriented one, with many of the members being told mostly about the various subsidies and concessions available through the government programme, assisted by ADC, etc., and not adequate information about their own responsibilities and the need for dynamic leadership and professionalised management, or in regard to new approaches in marketing and processing.

V. The School Co-operatives

School co-operatives with the membership being primarily of senior students, but with teachers taking on management responsibilities of President, Treasurer, etc., have been popular from around the early 1940s. They are of two types: recognised co-operatives, where the bulk of the membership is below 18 years and consequently being unable legally to become members of a registered co-operative, and the registered co-operatives, where there is no such legal disability. However, they will be jointly referred to as school co-operatives in this document. There were 46 school co-operatives in 1945, and by 1976, the number had risen to over 2,500, with a membership of around 320,000.

School co-operatives were recognised as the training ground for future co-operators, with the school co-operative providing the members the opportunity of acquainting themselves with the ideology and the practice of co-operation. However, the fortunes of the school co-operatives depended on the emphasis placed on these by the Ministry of Education (as an extra curricular activity), and the priorities of the Co-operative Department in assisting and guiding these co-operatives. The school co-operatives played a significant role in providing training and orientation opportunities both for the students as also for teachers, working with co-operatives. Many of the school co-operatives run their own book shops, providing books and other stationery to the members and other students and many of these societies also functioned in collaboration with the local MPCs who acted as their wholesale suppliers. There were some school co-operatives that ran canteens and also provided barber saloon facilities, and at times, the school garden was cultivated with vegetables, etc. with the active assistance of the Parent-Teacher Association of the school.

By 1978, the number of active societies had dropped to 969 with a membership of around 220,000. In the 1980s, the numbers fluctu-

ated from a high of 1,249 in 1981 to a low of 779 in 1989. However, with the introduction of the 'mid-day meal' for school children, and with the school co-operatives being given responsibilities in this regard, the figure rose to 1,387, with a membership of around 294,000. Now that the mid-day meal is not a continuing programme, the chances are that school co-operatives will once again decline, unless the co-operative departments and the education departments, both at the centre and at provincial levels, work together on an agreed developmental programme in this regard. There is an ongoing process of including some aspects of co-operation into school co-operatives to be set up as they would provide a practical experience to the lessons learnt in the school room.

The open economy, however, poses a severe challenge to a successful practical experience as there is severe competition in the field of school supplies such as text books, exercise books, other stationery and equipment. Strategic planning backed by competitive wholesale supplies and better inter-co-operative collaboration would certainly be necessary to make school co-ops meaningful and effective.

VI. Credit Co-operatives

As has been seen earlier, credit co-operatives of unlimited liability were the first co-operatives to be introduced to the country. They have had a somewhat chequered growth and development over the past many years. Except in the mid-1980s, when they also got involved with a Government Million Housing Programme, they have always maintained a position outside what was earlier referred to as 'main stream co-operatives'. Consequently, their progress has been affected to some extent on the emphasis placed by the several governments on various programmes, placing emphasis on various aspects of co-operative activity, depending on their programme priorities. During the War period, e.g., when the emphasis was on consumer distribution, the credit societies played a relatively low key role, with the numbers around 1,696 in 1945. But when the government initiated programmes to support food production and self-sufficiency, the credit co-operatives rendered valuable service by making available short-term loans to support agricultural activity, etc. The credit co-operatives were backed in their education and extension activities by their credit unions, while the many co-operative district banks provided the finance necessary for their loan operations.

By 1948, the year in which the Co-operative Credit Bank was

set up, there were around 1,800 credit unlimited societies, with 77 credit unions and 4 provincial/district co-operative banks. The credit co-operatives reached a peak of around 3,784 in 1964, while the number of credit unions stood at 75. By this time, the Peoples Bank had been established on the foundations of the Co-operative Federal Bank, and 10 out of the then existing 17 district co-operative banks were merged with the Peoples Bank and the government owned Peoples Bank was expected to service the requirements of the co-operatives. The credit co-operatives went into a period of decline once again, with the government introducing the New Agricultural credit Scheme, through the Peoples Bank and the MPCSSs. By 1970, the numbers were down to 1,580, with a membership of around 77,000, with member savings amounting to Rs.4 million. The loans provided by these co-operatives were mainly of short-term duration, and were primarily to support agriculture, trade, repair of houses and for redeeming old debts. The average loan per member stood around Rs.209. A scheme of Rural Banks within the MPCSSs had been initiated in collaboration with the Peoples Bank around 1964, and by 1978, the number of rural banks had increased to 558, with many of the also undertaking pawn broking activities. The village credit sector was greatly influenced by these rural banks and it may well be that their impact was felt adversely on the credit co-operatives, which were small and serving a small clientele within the village society. The rural banks at this time had member savings of around 222 million, pawn broking activities of around Rs.61 million, and short-term loans of Rs.63 million. The excess of deposits was deposited in the Peoples Bank.

Around the time that Sri Lanka was entering into an era of liberalised economy, the position in regard to the credit unlimited was that the number had dropped to 935 with a membership of around 85,000. These societies had shares to the value of Rs.10 million and had granted loans to the extent of Rs.13 million. The member savings were, however, only Rs.3 million. Of the loans granted, about Rs.12 million had been repaid.

The Credit limited societies which were mostly in Government departments, corporations and private sector institutions, had increased to 363 with a membership of around 147,000.

In the early 1980s, however, there was increasing attention on the credit unlimited, both by the Department of Co-operatives and by

the leaders in the credit sector. The revitalisation programme had as its main focus, the reactivating of the dormant societies and to improve the image of the credit unlimited co-operative at the village level. The normal situation with the credit unlimited societies was that many of them had no regular office, and access to the committee members was often in their homes or at a public place like the temple or some such. In trying to improve the image of the co-operatives, societies that were economically viable were encouraged to have an office which would be open at agreed times. Meanwhile, the better functioning societies were to be raised to a 'bank' status, which would be open during the normal office hours and the members could transact business with the society at their convenience. The leaders also agreed on a 'name plate' and a 'symbol', which would be displayed by all societies with the word 'Sanasa', in Sinhala or Tamil would be displayed prominently in the name board. 'Sanasa' was the Sinhala acronym from the first letter of the words for 'Co-operative Credit Society'. To further motivate the members and their leaders to improve the performance of their societies, a system of 'classifying' societies on agreed criteria was worked out, with the better societies being classified as Class A. There were also B, C and D class societies and the endeavour of all would be for them to strive to get into the next higher classification in the shortest possible time.

While these efforts were ongoing at the primary level, action was also taken to register district credit co-operative unions, which would undertake both commercial activities and education and training activities to support the primary level co-operatives. A systematic approach was made to train staff and also to introduce an updated appropriate accounting system, to enable the primaries and the unions to ensure proper and up-to-date accounting in respect of all the day-to-day transactions. By 1982, there were 14 district unions and the National Federation of credit Co-operatives (popularly known as the Sanasa Federation) was formed.

The developments achieved in this sector are indeed spectacular and there was increasing confidence in these village level co-operatives, both among the members and the general public. In 1982, the bye-laws were changed to enable the societies to also accept savings deposits from non-members, thus confirming both to the members and the general public the confidence they had in regard to the savings and their custody.

By 1985, the number of societies increased to 4406, with a membership of around 265,000. While the credit co-operatives were making steady progress, their effective work in the rural economy, especially in regard to housing development, came to the notice of the government and the Federation was persuaded to join the Government's Million Housing Programme (MHP), which was being funded by the USA, under their PL-480 programme. There was much enthusiasm and perhaps also some political pressure, especially where several credit co-operatives sprang up almost overnight to work in this programme. The pressures came especially in regard to the selection of the members who would be given the loan facilities first. Perhaps this was the first time that the credit co-operatives came into a government-sponsored scheme after the World War II era. By 1988, the number of societies had increased to around 5,885, with a membership of around 568,325. These societies had total deposits of Rs.388 million and loans to members had risen to Rs.594 million. 41,250 of these loans, amounting to Rs.43.1 million were under the MHP.

The enthusiasm of the members of the credit co-operatives and the vision and commitment of their leaders led to a healthy collaboration with several international NGOs, working at village level in Sri Lanka, such as HIVOS, Swiss Inter-Coop, CCA (Canada), Australian Community Aid Abroad. This collaboration has been useful, as this has led to increasing professionalism in the society approaches to savings and loaning activities, especially as many a society started to work with a regular office, open during normal office hours. To ensure member interest and commitment, a decision was made that a members should own at least one share, whose value was fixed at Rs.240/-, and this was at a time when the MPCSS themselves had share values of Re.1/-, and some with Rs.50/- and some with Rs.100/- . In the credit co-operatives, a member, if he so desired, could pay his share in 24 instalments of Rs.10/- each month. Regular general body meetings were held, and the bye-laws required that a member must attend at least 50% of the meetings if he was to have any benefits such as loans from his society.

Elections for the committee were held every year, with the Committee electing the President, Secretary, etc. At the same time, continuing education and training programmes were initiated for the members and the staff of the societies, and the initiatives were taken by the district unions and the Sanasa Co-operative Education Cam-

pus at Paragammana. This Campus had several training staff and had residential accommodation for about 40 persons, along with other facilities and soon became quite a popular place for co-operators to meet and discuss their several problems and try to find solutions.

From the various programmes adopted by the credit co-operatives, it would appear that one of their main aims was to get their societies accepted by the community, as one of their own institutions, working for community welfare.

To achieve these objectives, the credit societies adopted several strategies such as developing special support programme schemes for the low-income groups, who were entitled to loans at concessionary rates; encouraging members to have long-term fixed deposits, as against the usual savings accounts; special saving schemes for children; providing some accident/life insurance cover in respect of some special savings schemes; compulsory deposit schemes for member borrowers; encouraging non-member deposits, etc.

Many of the credit co-operatives were small and are generally confined to one or two villages. To enable such co-operatives to get wider knowledge and also to increase their awareness, a Cluster Programme was devised, whereby 6 or 7 neighbouring societies were brought together in a Cluster Committee, which in fact was a Forum for discussion of their problems and achievements, under the guidance of a Cluster officer. HIVOS came forward to support this programme, providing funds to support the salaries of the cluster officers recruited, the funds being made available on a retreating basis...full salary in the first year, 2/3 salary in the next year, 1/3 salary in the third year, and the district union to meet the full salary of these officers thereafter. While, there is some doubt about the capacity of the district unions to bear the full salary costs of these officers, the scheme itself has been of tremendous advantage to the co-operatives, with the loan recoveries improving all the time, while at the same time, the volume of savings has gone up. Exchange of ideas at the Cluster Forum has helped many a society to benefit from the experiences and practices of their neighbouring societies and has also helped them to undertake many community oriented activities with collaborative support from each other.

By 1994, the number of societies had increased to 7,681, with a membership of around 899,700. Further, there are now 27 district unions, all affiliated to the Sanasa Federation.

The Sanasa Movement has ventured into several new areas of activity in the commercial field, with a well developed inter-lending programme; promoting inter-district trade, with collaboration from even the MPCSS; conduct of pre-schools and creches through primary co-operatives; developing Green Clubs among school children to make them aware of co-operatives and their capacity to help the community; developing training courses at the Campus to train pre-school teachers, thus providing self-employment opportunities to the young educated women of the community. They have also extended their activities to the Tea Estate areas and set up credit co-operatives among the tea estate workers in the Badulla, Nuwara Eliya and Kandy districts, and this programme is actively supported by HIVOS (Dutch NGO).

The success these co-operatives have had at village level has been recognised by several activists and many an Integrated Rural Development Programme has sought to work with the credit co-operatives at the village level.

As mentioned earlier, the Sanasa Federation, in consultation with the district unions, has taken necessary steps to develop various accepted criteria for the classification of societies, and this has acted as a strong incentive to many a co-operative to strive to improve their classification. The many support programmes, both of the district unions, the education campus and the Federation, help the member co-operatives in their effort, by improving performance and by devising various schemes to ensure better member involvement and satisfaction. Further the Federation holds periodical congresses of the credit co-operative membership to evolve plans for development and also to review the progress made. One of the items in the ongoing Five-year development plan of the federation is to convert all credit unlimited societies to Credit Limited by the year 2000.

The Progress of the Credit Co-ops:

<i>Item</i>	<i>Unit</i>	1983	1987	1991	1994
No. of societies	No	1,685	5,608	6,763	7,681
Members	No.	220,700	547,000	702,200	891,777
Share Capital (millions)	Rs.	40.9	120.0	n.a.	316.3
Member Deposits(millions)	Rs.	113.4	232.4	588.0	926.2
Other Deposits	Rs.	13.8	36.0	78.0	493.1
Loans to Members (mlns)	Rs.	139.9	516.3	608.0	993.0

The general pattern of lending was agriculture 50%, animal husbandry 9%, housing 11%, trade 9%, and others 11%.

Classification of Societies, 1994

Grade I	1,016
Grade II	2,364
Grade III	3,246
Inactive/Dormant	1,055
	<hr/>
	7,681

Thus, it would appear that the credit co-operatives do play a significant role in the rural economy. The role played by co-operatives (both credit and MPCSS) in the rural sector can be seen from the following:

Rural Savings in 1991 (excluding Post Office/NSB)	Rs.4,694 million
Co-op Rural Banks	73%
Credit Co-ops	13%
Regional Rural Development Banks	9%
Agrarian Service Centre Bank of Ceylon	5%

But if one looks at the National Level Savings situation, it would appear that the Credit Society Savings would be around 1% of the total, while that of the CRBs would be around 8%. The National Savings Bank collects about 26% and the balance constitute savings through the commercial banks'/institutions.

With the rapid expansion of the banking sector in the country after liberalisation, the network of branches of several banks has also expanded, with many a bank opening branches even in small towns. In addition to the banks, there are also several other financial institutions, competing actively for the savings of the people at all levels. The electronic media and other media advertisements in this regard show the tremendous competition in this field and the variety of incentives being offered to the savers. These incentives range from life/accident/family/ insurance cover, to attractive trips abroad, with all expenses met by the sponsoring organisation. One significant factor is the total absence of any advertising in any media by co-operatives. The challenges in this sector are certainly increasing daily, and it would

become necessary for the co-operative to develop suitable strategies to maintain their position in the sector of savings, if only to maintain their present share in the market. Action is ongoing, both by the credit co-operatives and their unions and the Federation, while the CRBs too have taken steps to develop district level unions to lend support to their activities. But whether present efforts will be adequate is a matter that has to be seriously considered by all co-operatives in this sector.

VII. Dairy Co-operatives

Dairy co-operatives continue to play an effective role in raising rural incomes and the standard of living at rural level. This role they have played for quite some time. Back in the fifties, if one were to mention the Bomiriya Dairy Co-operative, that was a co-operative well known both locally and internationally. In fact at that time, it was the Colombo District Dairy Co-operative Union, which supplied the bulk of the requirements of milk in Colombo, in spite of the stiff competition it had from several private enterprises. Unfortunately for the dairy co-operatives, the government of that time set up a Milk Board, and eventually practically all the activities of the dairy union were taken over by the Milk Board. The unfortunate aspect of this development was that, till recently, dairy co-operatives remained primarily 'collectors' and at the same time providing some help to the member farmers to increase their milk yield, e.g. in 1973, there were 43 dairy co-operatives, and there were also several MPCSSs in Polonnaruwa, Kandy, Badulla and Nuwara Eliya, all of whom did this 'collection' function.

	<i>By MPCSSs</i>	<i>By Dairy Co-ops</i>	<i>Total</i>
Purchases in pints	15,771,449	10,918,802	26,690,251
Value in Rs.	7,650,911	4,136,425	11,787,336

The channels of disposal of the milk were as follows:

	<i>No. of Pints</i>	<i>Value in Rs.</i>
1. Milk Board	24,359,551	9,703,121
2. Households	653,099	437,532
3. Milk Centres	1,748,695	755,769
4. Others	82,039	104,256
	26,843,384	11,000,678

(CCD Admin Report, 1973)

The average price of a Pint of Milk was 00.49 cents.

By 1978, the number of active dairy co-operatives had come down to 30, with a membership of 4,124. But it is interesting to note that the dairy co-operatives have taken advantage of the market economy to improve their performance, both by extending to several areas, hitherto not covered by dairy co-operatives and also eventually going in for joint venture approaches, as in the Coconut Triangle, and also into processing, thus giving the dairy farmer the benefit of value addition. The following table illustrates clearly the increasing role of the co-operatives in this sector, during the period 1984 to 1988:

No.	Item	Unit	1984	1985	1986	1987	1988
1.	Total Cattle and Buffalo population	000	2,689	2,749	2,747	2,816	n.a.
2.	Production of Milk	M..Lt.	73.7	180.8	178.0	221.5	n.a.
3.	NMB/MilcoM.Lt. Collection.	57.0	67.1	67.2	68.7	n.a.	
4.	NMB/Milco collection as % of total	%	32.8	37.1	37.7	31.0	n.a.
5.	Milk Collection Co-operatives	M.Lt.	24.2	30.6	31.7	35.8	34.3
6.	Milk Collection as % of NMB	%	42.4	45.7	47.2	52.1	n.a.
7.	No. of Co-ops	100	112	146	173	184	
8.	Members	2,130	24,963	25,462	35,393	40,869	
9.	Curd Pots	000	-	83.8	129.8	174.3	232.6
10.	Yoghurt Cups	000	-	1,046.1	1,136.8	1,445.6	2,098.4

(Source: Statistical Handbook, Co-op Dept., 1989, pg.34)

By 1994, the number of dairy co-operatives had increased to 263, with a membership of 58,600. There are also five secondary level district unions functioning in this sector.

The collection as at 1994 was around 36.7 million litres, of which around 90% was being sold to Nestles/milco companies. However, there has been quite some expansion in the range of processed products, but with many a co-operative undertaking the processing on an individual basis, which must necessarily be small scale.

<i>Product</i>	<i>1993</i>	<i>1994</i>
Curd Pots	374,016	474,809
Yoghurt cups)	4,055,725	4,870,775
Ghee (Bottles)	18,180	47,594
Butter (Kgs)	505	915
Ice Cream Cups (60 ml)	205,251	141,874
Pasteurised Milk 180 ml.	211,852	304,688
Bottles 500 ml.	-	16,485

(CCD Admin. Report, 1994, pg.18)

The primaries in collaboration with their unions have made some effort to improve the breeds with loans to members, and they also supply the various requirements of the members in respect of cattle feed, farm equipment, medicines, veterinary services, A.I. facilities and also credit facilities. By 1992, the Kandy District Dairy Co-op Union had ventured into a project with foreign assistance for Calf breeding, while the dairy co-operatives and their union in the 'Cocunut Triangle' had made considerable progress into large scale operations, also with Canadian assistance.

However, all in all, it would be correct to say that the thinking among very many of the primaries and of some unions is as yet 'thinking small', and as a result, each society produces a limited number of processed items to satisfy a limited local market. There has been no attempt so far to 'invade the market' which is dominated by the private sector, and to increase the amount of processed product as against the sale of liquid milk, and to get a better advantage to the farmer through the value added in the process. For that matter, as yet, there is no national level union for the dairy industry, which could be an effective forum to voice dairy co-operative opinions and also to give publicity to dairy co-operative activities.

It has to be mentioned that the co-operatives face quite some challenges also from Dairy Farmer Associations, some of which have a membership of around 6 to 7 thousand, and who are gradually going into large scale operations. In the case of Yoghurt, e.g., while many of the Dairy Co-ops are still in the manual stage, some of the dairy farmer associations have already gone into mechanisation of the processes, and they are now using the media to advertise their

products...an aspect which has as yet not engaged the attention of the dairy co-operative.

In the recent past, there have been quite a few discussions and moved to get 'Amul' in Ahmedabad, India, to provide assistance to the dairy co-operatives in Sri Lanka, to improve the dairy co-operative industry. Unfortunately, due to a number of reasons, this move has not borne fruit and it would now appear that 'Amul' would be entering into a joint venture with Milco. In the Policy Statement made by the President in mid-February, 1996, she said:

"Milk produce will be doubled in two years, through a joint venture between the Governments of India and Sri Lanka. This project will generate income for 10,000 families within two year and will increase up to 30,000 families within five years."

As a consequence, very recently a joint venture has been registered with the NDDDB of India holding 51% of the shares, and institutions like Milco, and other private enterprises also will be able to buy shares in this venture. The co-operatives too, will be able to buy shares in the enterprise, but the main question to be asked and answered is, will this joint venture oust the dairy co-operatives from the processed milk market and will the dairy co-operatives have to remain as 'collectors and suppliers'?

If the dairy co-operatives continue to work in isolation, possibly this may happen, but if they all get together and co-operate to strengthen their place in the market, they will still have a possibility to play an effective and influencing role in the dairy development sector. The need of the hour is to 'work together', and to strengthen inter-co-operative collaboration and relationships.

The future for the dairy co-operative will certainly pose quite some challenges, and will require a considerable amount of dialogue and understanding between the various entities in the field. The question then is, are the dairy co-op members and their leaders alive to the changing situation in market place and are they seriously considering the strategies they should develop to remain an effective influence in the market?

Most of the future will depend on the dairy co-ops and their leaders and also others in the co-operative sector, taking serious note of ICA's 6th Principle of 'Collaboration among Co-operatives' and from their graduating to meet the needs of the community, as enshrined in the 7th Principle.

VIII. The Multi-purpose Co-operative Societies (MPCSs)

The MPCSs have been the dominant sector in co-operatives since the mid-fifties. They were responsible for around 90% of the total turnover the co-operative sector during most periods, except perhaps the 1970 to 1977 period, when there were many types of co-operatives, some even managing some of the tea, rubber and coconut lands that were vested with the Land Reforms Commission, while there were other co-operatives in construction and light engineering sectors. During the period of strict rationing and state controls on the purchase and sale of locally produced commodities, under Guaranteed Price Schemes (GPS), around 90% of the MPCS turnover was in respect of the rationed commodities and purchases under GPS. Most of the purchases of the MPCSs were from government sources. CCD's Administration Report for 1972 states as follows: "Wholesale trade: After the reorganisation, the 371 large MPCSs handled the entire wholesale distribution trade in foodstuffs within their respective regions. These large MPCSs operated 760 wholesale outlets to handle the wholesale distribution of goods. The total purchases by the large MPCSs during 1972 amounted to Rs.1,753.5 million.

The break is as follows:

<i>Commodity</i>	<i>Value in Rs. (million)</i>	<i>As % of Total</i>
1. Rice, Flour, Sugar	1,005.3	57.3
2. Subsidiary Foodstuffs	183.4	10.5
3. Dried Fish	59.8	3.4
4. Milk Foods	64.3	7.9
5. Textiles	137.9	7.9
6. Miscellaneous	302.8	17.3
	1,753.5	100.0

The Co-operative Wholesale Establishment (CWE) ranked next to the Food Commissioner as the supplier of goods.

<i>Source of Purchase</i>	<i>Value Rs. (million)</i>	<i>As a % of Total</i>
Food Commissioner	1,005.3	57.0
CWE	339.3	19.4
Salu SelaI	18.3	6.7
Other Govt. Corporations	61.4	3.5
Colombo Co-op Cons. Union (Milk Foods)	71.2	4.0
Private Trade	158.0	9.0
	1,753.5	100.0

A new government, committed to a policy of liberalisation of the economy was in place by mid-1977 and a process of deregulation and de-licensing, accompanied by the relaxation of the strict foreign exchange regulations, was initiated. But the co-operatives, especially the MPCs, who were handling the rationed commodities, perhaps did not feel the impact of the ongoing changes, and many in fact not considered the changes to lead to that much of a challenge. In 1978, e.g., there were 283 MPCs functioning with 635 wholesales and 8,510 retail outlets. They had 7,725,773 rice ration books attached to them while they were the wholesale distributors of the rationed commodities to private traders who handled 1,123,593 ration books and to the Estates, which handled 600,597 token cards of the Estate workers. The total of rice ration books in use were around 9.5 million after the revision of the rationing scheme, and the MPCs had a turnover of around Rs.2,658 million, selling mostly rice, flour, sugar, dried fish, textiles and milk foods.

The MPCs then had around 558 CRDB and had deposits of Rs.221 million and Pawn broking of Rs.61 million. The loans to members were Rs.63 million and the excess was deposited with the Peoples Bank.

The continuation of the rationing schemes, and the decision of many to continue to draw their rations from the co-operatives, even when they were provided with a chance for change to private dealers made the MPCs complacent about the ongoing changes and they were lulled into a false sense of security and consequent inaction. There is no evidence of any kind of urgency for alternate action in the face of the rapidly changing scenario, and the often heard comment from the MPC sector was that the government should give them the monopoly rights of handling certain basic food items and that would alleviate any problems the MPCs had to face.

Such hopes and aspirations were heard right into the 1990s, and the fact that the MPCs were given the monopoly handling of flour gave them the hope that things would work out O.K. and all would be well. The numerous emergency occasions like those of 1983 and the many situations of supplies to refugee camps, etc. mean that it was the co-operatives to which the government would turn to, to ensure the availability of supplies, and so the MPCs continued to perform a more consumer-trade oriented activity, with many an MPC performing only marginally in regard to cultivation loans, supply of inputs

like fertiliser, insecticides, etc. and very many did not whole-heartedly enter into the paddy purchasing activity for supply to the Paddy Marketing Board.

The 1980s saw also the end of the rationing scheme based on a specified quote of foodstuffs to each individual on a weekly rationed basis. Instead, the Food Stamp Scheme was introduced where the Stamp had a particular value, and the FS holder could decide what he/she could buy with the FS value. Food stamps were issued to 7.2 million persons while the Kerosene stamps were issued to 1.5 million persons. There was an increasing change in the patterns of purchases by MPCSSs, as would be seen from the following:

<i>Sources of Supply</i>	<i>1980</i>	<i>1984</i>
	<i>(Value Rs. million)</i>	
Food Commissioner	3,957	4,237
CWE	836	740
Salu Sala	242	102
Other Govt. Corporations	588	492
Co-op Marketing Federations	93	51
Others	3,795	2,911

There is now a noticeable shift towards purchases from the private sector as more and more goods became available in this sector, and also as many a government corporation reduced its activities as time went on. The increasing use of the private sector also meant the opportunity for some to commit various misdemeanours and it then became necessary to safeguard the interests of the co-operatives by a Special Provisions Act of 1983, wherein the punishments for misdemeanours was considerably enhanced.

It is necessary to mention here that co-operatives had been subjected to taxation for quite some time, but the introduction of the business turnover tax (BTT), affected the co-operatives considerably, as they were among a few business organisations which recorded every single transaction, whether it be retail or wholesale. The tax burden coupled with the low margins they were operating on severely affected the viability of many a co-operative.

The position of the MPCSS was critical and it became necessary for the Department in collaboration with the Sri Lanka Institute of

Co-operative Management (SLICM) to undertake a continuing rehabilitation programme for the MPCSS which were affected badly. The government provided a grant for this purpose.

During the period 1985 to 1994, 117 MPCSS have been helped out under this rehabilitation programme. The programme involved an in-depth study of the concerned MPCSS's activities by the SLICM, the identification of the problems faced, feasibility studies for the diversification of the activities of the MPCSS, provision of loan funds to undertake the agreed rehabilitation programme, and the training the concerned staff to facilitate the proper implementation of the programme.

There were other steps also taken to improve the efficiencies of performance of selected societies. As many a MPCSS was faced with increasing transport costs, an attempt was made to 'pool' the transport of selected societies, which also meant coordinated buying by several societies. These attempts met with limited success, and except in very few situations, each MPCSS now looks after its own transport and also do their buying individually.

The problem of 'empty' running is still quite a drain on the finances, and suitable solutions have not been found in view of the time constraints on lorries which go to several suppliers for required goods, and delays arising out of agreements arrived at to transport 'others' goods on the way for buying, always creates pressures on delivery and receiving times.

Another step taken by the MPCSS with the collaboration and advice of the SLICM has been the process of modernising the various retail outlets with a view to giving the outlets an attractive appearance as would increase the number of customers at the retail point. In addition to this step, some societies have also introduced 'self-service' shops, thus going away from the traditional 'counter service' system, which however still prevails in a vast majority of the outlets.

The self-service shops have had limited success, especially as the capacity of the MPCSS to provide a wide range of choice of consumer goods is critically restricted by the amount of capital available for such outlay. With every modern 'shopping malls' coming up within the private sector, where the choices available to a customer would be in the thousands, the competition the co-operative self-service shops can offer remains minute.

In spite of the many attempts at rehabilitation and at diversifica-

tion, the pattern of trade of many an MPCS remained the same as it was in earlier times, where competition was not that much of a factor to be concerned with.

The following table will give some idea of the situation of the MPCs in the 1980s.

MPCs Operations - 1980 to 1988

		1984	1985	1986	1987	1988
1.	Total Turnover (Rs. million)	9,716.9	6,657.3	10,614.7	11,346.2	11,118.0
2.	Rice, flour, sugar	5,360.0	5,021.0	5,621.8	7,132.3	6,683.2
3.	% 1/2	55.2	58.0	53.0	62.9	60.4
4.	Surplus (Rs. million)	41.5	56.0	57.9	78.4	n.a.
5.	Rehabilitation	-	66.0	22.0	09.0	20.0
6.	Sales per individual (Rs.)	623.0	548.0	659.0	693.0	670.0
7.	Paddy Purchases metric tonnes	120,755.0	18,431.0	21,560.0	6,820.0	n.a.
8.	Total Salaries (Rs. million) Staff	312.6	314.6	365.7	372.5	n.a.
9.	Average salary per employee per month (Rs.)	670.0	747.0	957.0	1,030.0	n.a.
10.	Sales on Food & Kerosene Stamps (Rs. million)	1,700.0	1,640.0	1,720.0	1,800.0	1,995.0
11.	% of Sale of Food & Kerosene stamps on Total turnover	17.5	18.9	16.2	15.9	17.9

(Source: CCD's Admin. Report for 1988, pg.34).

Ten years after the liberalisation programme commenced, the Central Bank Review of 1987 has this to say about the Co-operative Sector: (pg. 186 of 1987 Review)

“The Co-operatives continued to perform their traditional role of ensuring fair and equitable distribution of essential consumer items throughout the country. As in the recent past, the co-operatives have attempted to adjust their trading policies and practices in the face of strong competition from the private sector. In particular, the chang-

ing market conditions under the liberalised trade policy emphasized the necessity to diversify their activities. As a result, co-op}ratives attempted to enter new trading activities as in the previous years. Nevertheless, they heavily relied on the distribution of basic consumer items such as rice, flour and sugar under the Food Stamp Scheme (FSS). During the year under review, the value of items distributed under the FSS was Rs.1,467 million, while that of Kerosene Oil Stamps Schemes was Rs. 418 million. According to estimates based on Central Bank surveys, gross profits of the co-operatives remained unchanged at 4%, while turnover increased by 8%.

The relatively low profit margin was a major constraint which depressed their trading activities, in the face of the strong competition from the private sector. Furthermore, the number of retail outlets of co-operative societies declined from 8,644 to 8,634, while employees declined from 38,457 to 34,712.

However, the importance of the co-operative sector as an essential part of the national distribution system in overcoming shortages of essential consumers items was evident during the period of internal disturbances. The services extended by co-operatives in certain northern districts, even in the face of unsettled conditions were commendable. In this context, the co-operatives should be assisted or rehabilitated to enable them to play a vital role in the distribution of food and other essential commodities, even in the context of a free market economy.”

A commendable certificate indeed for disaster and emergency management, but this only shows how the others in government and outside looked at the co-operatives and the system, and the achievements if any made by the co-operatives in the context of the free economy.

The many programmes initiated by government in the later years, in respect of ‘poverty alleviation’ (the Janasaviya Programme and now the Samrudhdhi programme), the School Mid-Day meal Programme (MMP), all depended on the MPCSSs to implement the distribution part of the programme in regard to food items, etc.

The Mid Day Meal Programme was introduced by the government to improve the nutrition and health of the school going population of around 4.3 million, attending 10,710 schools. The MPCSSs were required to distribute the food items under this programme. However, as a further development from this scheme was the increase

in the number of school co-operatives, which took on these functions, in collaboration with the MPCSSs. The total value of items supplied for student mid-day meals was Rs.3,166 million and this constituted about 14% of the total turnover (CCD's 1994 Admn.Report).

Janasaviya or the Poverty Alleviation programme (JSP) was introduced by the Government in 1989, with the objective of raising all these below the poverty line (around 1.5 million) to mainstream sustainable development in a period of 11 years, with a selected segment being 'empowered' during a period of 24 months.

Under the JSP, the Janasaviya Recipients (JRs) were to be provided with Rs.2,500 monthly by the government. Of this sum, Rs.1,000 would be used for consumption purposes with the necessary consumer goods being made available through the nearest MPCSS. A further sum of Rs.458/- was available monthly, also for consumption, if necessary, or this amount could be saved in the Co-operative Rural Bank (CRB) of the MPCSS. The balance of Rs.1,048 was saved on behalf of the JR by the government at national level, with the assurance that at the end of the 24-month period of support, each JR would be entitled to Rs.25,000/-, which would be deposited in a designated bank, and against which the JR could borrow to undertake any meaningful feasible project. The programme of 'empowerment' had a 'nutrition' content, a savings component to support capital needs for self-employment, plus a skills development programme undertaken with the assistance of specialists and with the collaboration of the concerned MPCSS, who were also expected to help in identifying needs and potentials and the type of skills needed.

The Samrudhdhi programme which was introduced by the new government in 1994 has some what similar objectives, but with a different emphasis.

Given below are some extracts from the Administration Reports of the CCD and RCS, which will give some details in this regard:

1. *(from Admn.Report of 1991, pg.18/19)*

"This programme was started in 1989 October. 110,076 families in 28 AGA (Assistant Government Agents) Divisions came into the first round of this programme.

The second round was started in 1990 and was implemented in 1991. The first and the second rounds of this programme were implemented through 48 and 31 MPCSSs. The co-operative movement played a dynamic role in helping the poorest of the poor through this pro-

gramme by supplying consumer items, encouraging savings and granting loans for self-employment....The total sales of consumer items to the JR during this year was Rs.2,152 million, which is 10% of the total turnover of the sector.

Total savings from funds allocated for consumption was Rs.986 million. This is 26% of the total savings of the CRB.

32,598 loans to the value of Rs.227 million were to the JRs to market their produce. Rs. 51 million worth goods were purchased by the MPCs from the JRs.

In addition, rice processing villages have been opened by 42 MPCs employing Janasaviya beneficiaries.”

2. (From the Admin Report for 1994, pg.20)

“The fifth round of the JSP commenced in June, 1994. Consumer goods assistance was provided to 119,548 families in 26 Divisional Secretariat Divisions, by 33 MPCs. The number of savings accounts of the JRs is 85,329 and their savings amounted to Rs.156.7 million. Credit facilities amounting to Rs.62.7 million were provided to 9,734 JRs.

The Janasaviya Trust Fund has granted loans of Rs.25.3 million to 17 MPCs with the aim of improving the economic conditions and nutrition standards of the members of the societies. Out of these loans, the co-operatives have settled Rs.11.6 million:.

The liberalisation of the economy and the resulting changes in the market place, plus the recently introduced programmes of the government made a distinct impact on the pattern of trading of the MPCs. The details below will illustrate this aspect:

MPCs Changing Patterns of Trade

Items	(Value in Rs. million)							
	1991	%	1992	%	1993	%	1994	%
1. Wholesale	8,555	41.0	9,146	46.0	6,986	41.1	5,637.6	25.6
2. Cash Sales	5,565	27.0	4,135	21.0	5,606	32.9	8,039.1	36.5
3. Mid-Day Meal	1,650	8.0	1,688	8.0	1,243	7.3	3,166.7	14.5
4. Food Stamps	2,557	12.0	1,397	7.0	1,831	10.8	3,181.2	14.4
5. Janasaviya	2,152	10.0	3,096	16.0	1,228	7.2	1,762.0	8.0
6. Others	301	2.0	383	2.0	126	0.7	299.0	1.0

(CCD Admin Reports, 1991, 1992, 1993 and 1994)

From the above, it will become quite clear that as yet the bulk of the trade of the MPCSSs depend on government programmes, and on wholesale, and here too, about 90% of the wholesale consisted of the wholesale of flour, on which item the MPCSSs enjoyed a monopoly status at the time.

Cash sales are only around 1/3 of the total turnover and it has to be recognised that the cash sales will constitute the service by the MPCSS to the member and to the general public. Even if we assume that these cash sales are only to members and if we assume that the MPCSSs have 2.5 million members, then the consumer service the member gets from his society is only to the value shown below:

	1991	1992	1993	1994
Member Cash Sales per month (Rs)	185.5	137.8	186.8	267.9

When one considers the rate of inflation in the country, which is around 10%, the increase in sales in 1994 is not a matter for that much of satisfaction.

One has also to take into consideration that as the government programmes like the Mid Day meal, Janasaviya, Wholesale Flour Monopoly, etc. are terminated, the MPCSSs' turnover is likely to decrease rapidly and will have serious repercussions on the structure and the staff of the MPCSSs. Already the amount of trade involved in servicing the present 'Samrudhhhhhi Programme' is very much less per MPCSS than it was in respect of the 'Janasaviya Programme'.

From the figures provided earlier, it would appear that many an MPCSS seems to concentrate only on the consumer trade aspect and that many are not actively engaged in even servicing and marketing the paddy produced by the member. The handling of paddy by the MPCSSs has dropped from a near monopoly situation to around 20% of the purchases made by the Paddy Marketing Board.

There is hardly any significant purchases made of other grains or of vegetables, onions and potatoes produced by the members and others. Thus the challenges faced by the MPCSSs in the field of trade, where they once had a dominant role, seems to be mounting, with many a competitor, stealing a march over the MPCSSs. Even the service that is now being performed has only a marginal relevance to the member who owns the society. It must be mentioned here that many an MPCSS hardly breaks even on consumer trade.

The consumer trade of the MPCSSs, dependent on government programmes, have their attendant drawbacks. The CCD & RCS in his Admin Report for 1994, has this to say of this problem: (pg.69)

“A major problem faced by the societies is the delay in receiving payments from the government in respect of essential consumer items distributed in implementing the welfare schemes of the government. On several occasions this matter was discussed with the respective officers in the Ministry and the Treasury. But it has not been possible to avoid this delay. It has to be recorded that the societies have not shirked their social obligation of implementing government-sponsored welfare schemes, even though they had to face financial difficulties. The societies were compelled to obtain financial facilities, to implement these programmes without a break down. These financial facilities from commercial banks have been obtained at heavy cost to these societies. My general estimate is that the societies had to incur an additional cost of Rs.125 to 150 million annually. This additional financial cost is not incurred by the societies in their normal day-to-day consumer business. This is one of the contributory factors for the financial difficulties faced by the societies. Though the government had created a source of turnover to the societies, the advantages resulting from it had to be passed on to the banks as overdraft interest, due to the delay in the receipt of money due from the Treasury....”

The situation referred to by the CCD has caused quote some cash flow problems for many an MPCSS. It is correct that as a measure of relief, the government has made available funds to meet the extra interest due on the moneys outstanding to the banks, but it is the shortage of capital which seriously affects the trading activities of the MPCSSs concerned.

The other major activity which is common among most MPCSSs is that of the Co-operative Rural Banking (CRB) function. This is a function which is both common to most MPCSSs and also at the same time some what profitable - even if the MPCSSs are not fully geared to make good economic use of the funds collected from both members and non-members, by way of savings deposits and a small percentage of fixed deposits of medium-term duration. The CRBs are also the banks through which the members obtain their loans for various activities, such as agriculture, house repair and construction, trade, etc. As in the case of credit co-operatives, there has been quite some dynamism in the CRB sector, mostly in respect of savings promotion, as would be seen from the following :

	1978	1988	1992	1994
No. of CRBs	588	970	1,152	1,216
Savings (Members & Non-members) (Rs. millions)	222.1	1,908	1,470	6,756.8
Loans to members	63.7	408	913	1,743.7
Pawn Broking	61.3	420	970	543

It is important to note that loans are for members only and that:

- a. *Loans in the 1990s were both short-term and medium term, with some long-term loans being granted against fixed deposits/fixed assets of members:*

	1993	%	1994	%
Short-term loans (Rs. mil.)	1,074.0	69.9	1,050.5	60.1
Medium-term loans (Rs. mil.)	285.6	18.6	441.5	23.8
Long-term Loans (Rs. mil.)	177.1	11.5	278.7	16.1

The pattern of lending and the composition of loans have changed in keeping with the changing demands of the market place.

- b. *Savings and fixed deposits are both member and non-member. Some details are given below:*

Year	No. of Accounts	Total Deposit (Rs. mil.)	% Member deposits	% Non-member	% Demand	% Fixed
1993	3,595,410	5,526.1	35.0	65.0	89.0	11.0
1994	3,922,981	6,756.8	21.1	78.9	86.3	13.7

The situation in regard to mobilisation of savings seems encouraging, even though the larger proportion of the deposits are non-member, which of course re-affirms the confidence the general public has in the CRBs of the MPCSSs. However, when one looks at the utilisation of the deposits for development activity via member requests and other investments, one cannot be equally satisfied. What in effect seems to be happening is that the CRBs are collecting agents for the commercial banks, as all the excess of deposits over loans have necessarily to be banked, as co-operatives have as yet not got accus-

tomed to 'investment' to support 'working together' activity. The following comments of the CCD in his 1994 report (pg.23) are relevant and interesting.

<i>Year</i>	<i>Loans and Pawn Broking</i>	<i>%</i>	<i>Investment in Banks</i>	<i>%</i>
1993	2,914.8	52.7	2,284.3	41.3
1994	3,372.8	49.9	3,604.2	53.3

The Report adds: "The surplus financial resources lying in the CRBs after utilising for loans to members and pawning advances on jewellery pledged as security, are invested in financial institutions such as Peoples Bank, National Savings Bank, Rural Development Banks, Central Bank, Bank of Ceylon, and District Co-operative Rural banks. In addition, surplus resources have been invested in the Agricultural Development Fund of the Co-operative Department, and the Sri Lanka Consumer Co-operative Societies Union Ltd." Of the surplus savings, around 60 to 70% is invested with the Peoples Bank, about 10% to 15% with the Central Bank and about 20% to 25% with the District Co-operative Rural Banks. Investments in other institutions are quite small.

It is interesting to note that in 1988, the first rural banks co-operative society was registered, where the MPCS in the area was not sustainable and where the poor performance of the MPCS would have seriously affected the confidence of the members and of the general public, in the CRB run by the MPCS. Since then, several such societies have been registered, thus separating the savings, lawn and pawn broking functions from the commercial activities of the MPCS.

As would be seen from the above figures, the MPCSs have been able to use only around 50% of the deposits, in their own areas of operation, with about 50% being deposited in banks, etc. and where the MPCS has no control over the investment of these funds. The surplus thus invested in 19914 was around Rs.793 million.

The question of how to use these funds for MPCS level development had for long engaged the attention, chiefly of the department. In 1992, the department, in collaboration with the MPCSs int he area, set up the first District Co-operative Rural Bank in Gampaha, in the hope that the district bank would be able to make better use of the funds for development activities within the region in collaboration

with the MPCSSs and other co-operative societies. Since then 10 such DCRBs have been registered, and the value of the deposits with these banks was Rs.920 million. These district banks have granted Rs.210 million as loans and these loans are granted at 18% as against the commercial bank lending rate of around 21%. However, even here, the DCRBs are left with surplus funds, and these are once again invested in the Peoples and other banks.

It is interesting to note that the DCRBs have the following plans for the future:

- a. the supply of equipment and stationery to the member MPCSSs;
- b. support surveys, research, feasibility studies and project formulation; and
- c. assist in training courses ~or several levels of leaders and functionaries to stimulate activity for the better use of the savings.

While the RBs and DCRBs activities do show that there is encouraging confidence of both the member and the general public in the savings and loan and pawn broking functions of the MPCSSs, the MPCSS activities in other areas, especially the consumer function, shows clearly the 'dependency syndrome' on which most of the commercial activities of the MPCSSs have been built on and, as was seen earlier, neither the MPCSSs nor the movement as a whole has been able to find alternative activities that would have relevance to member needs and aspirations.

A brief reference will also be made to some actions taken by some MPCSSs to remain competitive in the market place, especially in regard to their consumer functions and actions to diversify their activities. Reference was made earlier to such action as modernisation of retail outlets, setting up of self-service shops, etc.

- i. Several societies have introduced certain 'incentive schemes' to the staff, to encourage them to promote sales, and other co-operative activities;
- ii. Several societies have developed mobile services, and discounts on bulk purchase;
- iii. A few MPCSS pay substantial rebate to members;
- iv. Several societies have tried to provide greater autonomy to their branch committees in matters concerning to branch and the mem-

bers with in that branch area, and quite a few have shown both greater commitment as also grater participation. Thus rasing the question whether the MPC as they are today are to large to invite member interest and commitment;

- v. Inter co-operative and inter district trade:- here to the access so far has been limited, but it clearly shows that there are advantages in “ working together” with in the movement;
- vi. Rice production through hand pounding and through small hullers/ mills, have given the member and opportunity to get directly involved with the activities of the society and at the same time he has given the opportunity to make sure that the rice supplied by his co-operative is both pure and nutritious. 85 MPCSS are in this scheme and the total rice production in '94 by this method was Met.Tonnes 14,870 bringing the participating members a sum of Rs.15.5 million. There are today 6056 persons from 957 villages in this scheme, and in addition to hand pounding, some of them at least, have set up 95 small scale rice mills;
- vii. At least 3 MPCSS are in the certified seed paddy production business, and in '94, they have produced over they have produced over 1000 metric tonnes of seed paddy, bringing the three societies a net surplus of around RS.500,000. These societies work with the agricultural department and recently that department has donated to seed paddy purification plants worth Rs.2.7 Million to two of these societies. At least one MPCSS have ventured into producing seed big onion, which is in vary high demand.
- viii. Several MPCSS have set up ‘purchasing centres’ for the purchase of member produce, such as dried chillies, big onions, red onions, green gram, cow pea, rice, paddy, coconut, maize and vegetables etc. There are 108 such centres and in '94 they brought produce the value of Rs.375 Million. outs. The department has set up the Agro-marketing Development fund with the objective of providing funds for the purchase of agricultural produce and the funds are available at concessionary rates. In '94 the fund has around Rs.25 Million, and its loans amounted Rs.18 M.
- xi. The Sri Lanka Institute of Co-operative management/ is also working with 20 selected MPCSS, with a view of getting the societies to diversify their activities to meet member needs other than those of consumer supply and savings and loans. In depth

feasibility studies are done and society leaders and officials are being trained for the identification of the member needs and in the formulation of projects to satisfy such needs. This activity is still at its nascent stages, and it would be appear, that there some difficulty in getting persons who have been working in an exclusively consumer supply area, now to think of doing other things in consultation with their members.

- xii. In addition to all these varied efforts to make co-operatives, especially the MPCSS more viable and competitive, mention must also be made of the massive efforts being made in the field of education, training and activities. Here the efforts are being made by the co-ops departments in the various provincial council areas, by the CCD at the entre, by the School of Co-operation, by the National Council and District Council, and the sanasa federation and the district level federations, by the individual societies concerned and also by the SLICM.

In addition to all these, the people's bank has set up a special fund which they actively participate in activities concerned with the profesionalisation of the management and target groups oriented training activities.

Overall the efforts in this area are considerable, perhaps overlapping, and one can only hope that these massive efforts will lead the substantial change in the approaches to co-operative functions and performance.

Apex Organisations

A brief mention will be made here of the national level co-operatives, with a view of ascertaining the roles, if any, they have played in supporting of their members in their various activities, and in consolidating co-operative efforts in the country. There are at present 11 national level unions/ federations inclusive of the National Co-operative Council, which is the non-official apex of the movement. It is also technically a non-commercial organisation, and provides several services to the members to strengthen their co-operative activities.

However, it must be said that many a national level commercial union, by and large functions with little or no close collaboration with their members. Mention has already been made of the dynamic role played by the Sanasa federation and its district level unions in supporting credit co-operative activity. Perhaps there is no other national

level apex which works so closely with its members.

The national council has 27 district level councils as its members plus 8 apex unions 9 federations. It performs several functions, in the following areas: education, women's activities, Insurance, banking consultancy, architectural services, income tax assessing services and foreign collaboration.

Of the other unions/federations, a substantial amount of work is done by the coconut, rubber, fisheries, and textile weavers apexes, to support member activity. The Sri Lanka National Union of Youth services co-operative societies does provide a noticeable leadership role, but here there is a very close influence of the Ministry concerned with youth and whatever achievements have been made would have been shared by the Apex and the Ministry.

Overall, it can be said, that many an Apex, functions in a manner far too distanced from their members, and do not really play a supporting role as would help the members to improve their performance and effectiveness in the market place.

Another matter that needs mention, is that the notwithstanding the functioning of the NCC and the various Apexes, their composite role to function as a forum of a lobby for co-operative activity, has been rather insignificant. Their capacity to influence opinion at the higher levels and to influence decision making for co-operatives development has been minimal, and this may well be because there is quite a gap between general membership and their supporting structure at the national level.

Chapter 05

Dynamism - Growth - Survival....?

The question may well be asked: are the the Co-operatives satisfied with the present day co-operative performance or are they working on plans for growth and development and better service? The details narrated in the previous sections may give one the impression that co-operatives have drifted with the tide, and have not seriously made any effort to develop suitable strategies to improving performance and sustainable growth. In a sense the above observations would be true, but not necessarily in regard to all sectors of the co-operatives. As mentioned earlier, the credit co-operative actor has taken by the opportunities provided by an open economy, to improve their services and also to project a totally new and generally expected image, with continuing efforts towards constant contact with the membership, and with a new strategies being developed, some times with the assistant of the International NGOs, to respond adequately to member needs and aspiration.

Perhaps the Dairy co-operatives sector too, there have been ongoing efforts to upgrade their performance, but they would as yet, appear to be in the initial stages of being aware of/the need for close collaboration between the co-operatives at the various levels, and also the need for a national level apex, even as they get ready to face up the many challenges that would be posed by the MNCs more firmly entrenched in the milk production sector.

The question pertinent for the movement is, does the movement take adequate notice of the progress made in some sectors, and they do they review other performance with the view to get a correct perspective of the problems. and thence to devise strategies that would be commonly accepted all concerned at all levels?

Many of the references to new approaches and the activities mentioned earlier would appear to be arising out of bureaucratic sources and decisions. How far have the co-operators them selves, and their leaders been concerned with the challenges faced, and how far they activated themselves to find necessary solutions to meet the challenges?

The large size of the MPCSSs has to quite some extent, distanced the member from the co-operative. Even at the branch committee elections, where they get closest to at least a distant part of the administration and management, the pattern of voting still adopted by the MPCSSs is that the nominations, and then voting after standing a voters queue.

There are some MPCSS which have reverted to the general meeting to elect branch committee, and in such instances, there appears to be a grater by the member towards his co-operative. But yet most matters pertaining to the society as decided with the representative body of 100 delegates, and even here the attendance to generally around 60 to 75% only, and this is quite some distance away from the member, who has little or no opportunity to make his wishes and needs known to the decision makers, in past the general body meeting had been the crucible on which past actions were critically examined and placed for future activity and the plans were discussed and agreed upon. with the introduction of a representative body, the members who have been conveniently cushioned off the thrust and parry of the eager members, and this has led to an organisation without much life and with out no commitment. With the federal structures, co-operatives, both at the district and national levels, not playing the much needed dynamic role, especially the MPCSSs are languishing, some of them even with the hope that the government would give them some monopoly items to handle and thus ensure a continuing performance by them. If there is any noticeable and continuing activity, it is the activity ongoing in respect of training and education, but if one were to ask, have these training and education programmes really influenced member/official/leader performance ad collaboration, one would find it very difficult to find a straight answer.

Mention must also be made of the 13th amendment to the Constitution, which led to the setting up of the Provincial Councils. These provincial councils have now been vested with all powers pertaining to co-operatives. Accordingly, each Provincial Council has its own Ministry which cover the subject of co-operation, has its own Commissioner for Co-operatives, with several staff at several levels. As at present, all provincial councils, but one, have adopted the Co-operative Law, that was enacted by the central government in the past. One provincial council, however, has adopted its own statute, which differs in many places from the provisions of the law as applied in other provincial council areas.

Several provincial councils have appointed as CCD & RCS persons with no background in co-operative work, and in many provincial council areas, till recently, co-operative matters were administered through district secretaries, some of whom have had no experience in co-operative work, though at field level the co-operative field officers are there, in limited numbers, to attend to the development and audit work within the movement. As a consequence, co-operative activity had taken some what of a back seat in many of the provincial councils. In more recent times, there is a definite attempt being made to (a) appoint as Registar persons with experience working with co-operatives, (b) to appoint Assistant Commissioners of Co-operative Development, as in the past, would be responsible for co-operative work in the district. It must be mentioned here, that in the past, where there was one CCD & RCS for the country, he worked through a system where each district had its own ACCD (sometimes one ACCD for development and one ACCD for audit) who had competent staff at field level, competent to undertake the audit function and also to help out in development work. All co-operative inspectors go through several training courses, which enhances their capacity to perform effectively. That field staff has now been reduced by about 50%, and the provincial councils have to manage with limited staff, who sometimes are also used to attend to other matters, other than co-operatives.

With this situation at the field level, since the inception of the provincial council system, co-operative work had got into arrears, with some audits being overdue by several years.

Given the problems in the field, arising out of the devolution, and the ensuing weaknesses in the co-operative administrative structure, one would have hoped that the National Co-operative Council, in collaboration with its district level councils, and where necessary with support from other apexes, would have developed suitable schemes to ensure continuing support to the member co-operatives at all levels, both by way of advice and guidance, and by collaborative effort. One would have hoped that the NCC would have got up a suitably experienced and trained cadre of persons, who could assist the many co-operatives at the field level, looking into their problems and working out suitable solutions in consultation with the several district and other organisations. But as mentioned earlier, all that is ongoing is the continuing education and training programmes con-

ducted by several organisations, and by the respective primary co-operatives themselves.

Apart from this aspect of developing a system to support co-operatives, given the fact of devolution, as mentioned earlier, there was the placid acceptances of the changes taking place, even before the devolution, where inaction was more pronounced than concern for survival and sustained growth. Was it this lack of focus, in a rather rapidly changing situation, that prevented meaningful action being taken when the alarm bells were going off all round? The revalidation of the rice ration books by the new Government in 1978 was a clear indicator that the era of rationed distribution was coming to an end, and that was the time for the MPCs and the movement to have taken proper notice of the changes and to readjust to meet the changes. The revalidation was followed soon after by substituting the rationing scheme with food and kerosene oil stamps, and these stamps carried monetary value, and was a clear indicator that the volume of business which would be generated by the stamps would depend on the fluctuating prices and the value of the rupee.

In the early 1980s, there were further signals, which were telling the co-operatives to examine themselves to see whether they were meeting the aspirations of the people whom they were working with. In the Mahaweli Development area, there emerged the Export Promotion Villages (EPVs), well within the area of operation of the ongoing MPCs, with the ostensible objective of growing vegetables, especially gherkins for export...and these EPVs were registered under the Companies Ordinance, and were a sure indicator, that the co-operatives were not alive to the growing opportunities and the increasing needs of the members. Today there are around 25 such EPVs performing at various levels of efficiency.

Around the same time, the government introduced the new Comprehensive Rural Credit Scheme, which was to be worked not only with the Peoples Bank, with whom the co-operatives worked, but which brought in also the Bank of Ceylon and its many branches at the Agrarian Service Centre, as also the Hatton National Bank, and the newly set up Regional Rural Development Banks, which were set up under Central Bank auspices, and under the Regional Rural Development Bank Act No.17 of 1985 (RRDB). Today these RRDBs cover 17 districts and provide services, especially to the low income groups through 170 branches. The clientele service by them is over

one million persons. The loans granted through these banks are for such purposes as agriculture, growing of anthurium, zetel, etc. and for other small scale enterprises, the very areas that could be covered by the MPCSSs.

The open market situation meant that the Paddy Marketing Board would have to compete with private enterprises to ensure a regular supply of paddy, e.g. in 1984, the price offered by the MPB for a kilo of paddy being Rs.3.00, while the private trade was offering Rs.3.75. Earlier, the MPCSSs were the main suppliers to the PMB, with at times supplying around 90% of the paddy bought by the PMB. With the PMB being sidelined in this sector, the role of the MPCSSs also declined in that they practically ceased buying paddy in several areas. Paddy continued to be bought by the MPCSSs mostly in the major producing areas and in any even, the share was very low indeed.

With the withdrawal of the subsidy on fertiliser, many MPCSSs withdrew completely from this field, leaving their cultivator members at the mercy of the private operator.

A further development of significance in the MPCSSs was that with the member being distanced from his society, elections to branch committees got highly politicised, with at times many a candidate for elections being kidnapped and kept away from the election by persons who were not his political allies.

Many Administration Reports of the CCD & RCS during this period make references to these difficulties and obstacles, but necessary action to activate the co-operators and the co-operatives has been slow to emerge.

Mention must be made of some national level seminars and workshops, all of which identified fairly clearly the problems facing the co-operatives, both in regard to policy and management, and which came to some comprehensive conclusions and recommendations pointing the way to appropriate action for further growth. Unfortunately, no strategy, and no action plans seem to have been developed subsequent to these workshops. The workshops referred to are:

- i. The ILO/NORAD workshop on Training Policy and Standards - 1982;
- ii. The National Co-operative Seminar held at the School of Co-operation, Polgolla, 1984;

- iii. Co-operative Policy Makers' Conference, 1986; and
- iv. National Workshop on Co-operative Policy, Planning and Structure, 1987.

The ICA Regional Office in New Delhi was an active collaborator and participant in these seminars, while several representatives from several international and co-operative organisations and those of the ILO participated in these seminars and took a leading part in formulating appropriate policies and action plans.

Mention must also be made of the several ICA-sponsored Meetings of Co-operative Ministers in 1990 (Sydney), 1992 (Jakarta) and 1994 (Colombo), all of which helped in better understanding the problems and identified priority areas for action.

Some action did follow these many seminars, workshops and conferences, but they were all ad hoc, and not of a comprehensive nature, so as to affect the societies and their services to members.

The changes in the approaches to management and to management training certainly helped, as did the introduction of new accounting systems to the MPCSS and the credit co-operatives. The amendments made at least by some MPCSS to change their method of election of their branch committees through a general meeting also did help better relations between the society and the member. Action taken to have women's committees and of other interested member groups within the MPCSS also helped to quite some extent to bridge the gap between the member and his society. There were now village level focal points where the interested members could meet and discuss their problems and voice their opinions. The enactment of the Amendment Act No.11 of 1992 did clearly indicate the views of the government in respect of politicians actively taking part in the management of the societies, through one cannot now say that there is no political influence pervading, especially MPCSS activity. The same amendment stipulated that a member should work with the society for one year before he could actively take part in the management of the society and to seek election to the committee.

Once again the message was clear, co-operatives are for people who need them and not for those who tried to make a convenience out of them to promote their own individual growth and development. The amendments also emphasized the need for recognising women and youth interests and made provisions for them also to be-

come active partners. Further, the amendments took away the highly regulatory and interventionist powers of the Registrar, in the day-to-day management of the society. these and several other amendments are still in force and are applicable in all provinces except in the one provincial council area mentioned earlier. But the question is, does this mean that there is no political pressure? does this mean that the Registrar is not pressurised to intervene in society matters, sometimes for political compulsions? What really happens in the field situation only goes to show that mere legislation alone will not improve co-operative performance; that only co-operatives which emerge out of the felt needs of the members, and whose members will be the users of the co-operative, will have the possibility of sustained growth in the long run.

The need of the hour is a massive effort to identify the members who really need the co-operative, and who will be willing to contribute to its capital need and who will determine that services the society should provide and who will use the services provided...after all a co-operative is a users' organisation. In this context, the changes ongoing in regard to the fishery co-operatives would be interesting, and may even point a way for necessary action, the only drawback being the continuing presence of the hand of government in all matters concerned with fishery development.

The government which took over in 1994 and its policy of working towards a market economy with a "human face", did not give clear indication to the co-operatives what the policy of the government would be towards the co-operatives. There are many co-operators especially among the MPCSS the right to monopoly handling of the essential commodities, as did prevail of the '70 to '77 period. There were hardly any concerns about improving member involvement and dialogue etc... all that mattered was turnover the ability to pay the work face... not so much as what the members wanted from their co-operative. It was certainly a sad reflection of many of the co-operatives, in that were unable to see the realities of the changing economic environment, and to accept the need to put their house in order. The enlarging market and the many options available to the average person would necessarily mean that one cannot depend on a clientele who were ones customers by force of the circumstances, and not by choice, and in the free economy, they would get their needs satisfied else were. Even with the per capita sales per persons

dropping a to a hundred or two hundred rupees per month, this realisation of the changes seems to be very slow in emerging.

Along side this is a failure of the co-operators to realise that they would be more institutional forms emerging in the areas where they had a monopoly field in the past, and that co-operatives would have to prove their worth to attract and maintain clientele. However, economic progress in many countries has led to the widening of the gap between Rich and the Poor, with around 30% of the population having the bulk of the cake while the balance would come with in various economic stratagems with varying and limited ability to contend for the good things in life, for progress, happiness and peace.

In this scenario, where do the co-operatives come in? Are the co-operatives for the rich also? or they essentially institutional means for persons with limited means to help them to get a place in the sun and to enjoy the benefits of the economic progress? Would a developing situation have special circumstances that would not prevail in developed economy? Certainly there can be no clear answers, acceptable to all concerned. It was only recently when there was a shortage of cement in the country, when even the high and the mighty as also hoi-polloi, were vociferously asking the question, why don't you give the distribution of the cement to the co-operatives, and they will do a good job of distribution? (somewhat similar to the sentiments of the central bank review cited earlier). Similar questions also arise in disaster or energy situations, or when there is a glut of vegetables, etc. Of course it is poor consolation to know that the co-operatives have acceptably and credibility in such situations, as the main problem is survival and sustained growth. Co-operatives have to be there, if they are to perform in emergency or crisis situations, but the question is, how do we set about continuing to be there, all the time. The questions to be realised at this point are, are the co-operatives getting marginalised? If yes, is this due to the failure of co-operatives to perform adequately? An examination of some key sectors may provide answers to these vexed questions.

a) Consumer

This is the sector in which co-operatives have played a key role since 1942 both under war-time conditions and thereafter. The co-operatives were relied upon to effect fair distribution, and also to main the price line and to look after the member/non member customer interests. They have done this task well and earned many a plaudit

(including the central bank reference cited earlier). The world consumer day was celebrated also in Sri Lanka in 15th march 1996. In many statements that appeared in various media on this day, unfortunately there was no reference to the co-operatives as institutions which do matter in relation to customers.

A high official of the Ministry of Internal and External Trade, Commerce and Food, made these observations in that english newspaper of that day. "The departments and the corporations under the Ministry had adopted various measures for the convenience of the consumer. The co-operative whole sale establishment (CWE), has launched a distribution of net work through out the island, as envisaged in the United Nations Guidelines, to ensure an efficient scheme for distribution of the commodities, thus ensuring the availability of goods in all areas, even in the present disturbed condition " the programmes of the CWE envisage " the setting up of 10,000 Franchise shops, which will be served through their many wholesale depots located in the island-wide. It is said that some of the retail co-operative outlets would be given Franchises of the CWE. The 300 MPCSS to day have 617 wholesale depots and 7444 retail outlets, and their business turn over is around 22,000 million a year. Are the co-operatives making a serious attempt to service the member requirements at high levels of efficiency? If the per capita sales per month, both to members and to non members is only around Rs.200/- does this reflect a high level of efficient performance, were as 100/- would be only one and a half packets of powdered milk of 400 gram. Is this adequate performance ? Is this the reason we are getting alienated?

The CWE has started a massive campaign for the purchase of the vegetables from the producer and for sale in urban areas to the consumer, through their outlets and outlets of the Franchise holders.

The MPCSSs have an Apex organisation in the marketing federation, whose objectives are precisely assisting of the producer in his production programme and thereafter to help him market his/her goods in the field? Is it their failure that leaves the field open to the CWE to step into fill the gap?

b) Agricultural services - Loans, Inputs, Marketing, etc.

The Agricultural Ministry and the Agrarian Services Department have a programme of setting up 15,000 govi sevanas, or agricultural centres, which will supply the farmers with fertiliser, agro-chemi-

cals, seed materials etc. They will also purchase the produce of the farmers and will also run a weekly fair to provide marketing outlets for the farmer, and to make it convenient for the consumers in the area. The Govisevana will maintain a plant nursery, it will be provide advice the guidance with the help of the department specialists, it will provide also a play ground for the farmers, to use and will also conduct training classes for the benefit of the farmers. They will also look after the cultural and health needs of the community.

The question that arises is, if MPCSSs were expected to perform in the area for the benefit of their members, is it possible what their performance fell far short of the expectations of the community and hence, there is a need for another institution for take over the activity?

Already, in many MPCSS areas, several small size farmers co-operatives have come up, and these co-operatives seeks to satisfy the agricultural needs of the members did these new co-operatives come up also became the MPCSSs had failed in that particular area of service?

Then there is the emergence of the farmer organisations, registered with the department of Agrarian service, with the farmer organisation is practically all Granma Niladhari Division. There are also similar Diary farmer Association to look after the interest of these farmers. These farmer organisation are led said to look after the farmer needs in regard to loans, inputs, markets etc. Some of them are appointed as agents of the paddy marketing board. The department of minor export crops has its own programme of purchasing and selling such crops as coffee, cinnamon, cloves, pepper, nutmeg, coca, etc. Are all these coming up because the co-operatives, esp the MPCSS have been unable to adequately in these sectors.

c) NGOs

There are several NGOs, both local and international, functioning at village level, providing funds, guidance and assistance, in many areas of the village level activity, including environment protection. In many situations their work is vary similar to the work done by the co-operatives, but they seem to be able to fund several types of activity, and also to maintain continuing contact with their clientele. Though some of the NGOs activities have been under scrutiny in recent times, many an NGO functions and there are many who benefit from the

efforts made.

What does all this mean?

As mentioned earlier, in any developing situation, there would always be a fair proportion of the population who need the institutionalised support and guidance to enable them to enter them to the main stream of development. The open economy is NOT an "level playing field". There will be some who are more equal than others. At the same time they constitute a large vote bank, which any politician or any political party can ignore at their own peril.

The question then is, what kind of policy will a particular party follow to ensure that these persons will grow up to be self reliant and independent person will the policy will one of the "dependency" or one of "self reliance"? The promise of various loan "loan write-offs" and "subsidies" and "hand outs" by every political party prior to the election, are only instruments in the continuity of the "dependency syndrome" with no encourage meant to stand on one's own feet. The "dependency outlook" at least temporarily, gives the politician the hope that promises make a person self reliant? There in lies the need for clear policy objectives of the programmes for economic development, which will clearly outline the roles of the individuals and their institutions will play in the development process. It is under such clearly defined policy approaches that the co-operatives can flourish as "member driven" institution seeking the members and the community's advancement, rather than being the perpetuator of the "dependency trap".

Chapter 06

Whither Co-operatives?

Over the many decades of the co-operatives growth in the country, by and large several constant factors have influenced the manner and rate of the development and the areas in which co-operatives functioned.

1. Government policy and Initiatives;
2. Co-operative law and the Legal Framework;
3. Co-operative Bureaucracy; (changing that of from missionary performing an elitist role in the helping people to help themselves, by 'working together', to that of survive by carrying out the dictates of the political will-even if it was a complete denial of the path towards the progress, economic freedom and self reliance);
4. The political will often determined by the political 'clout' of the co-operatives, especially in a highly regulated economy- performing functions vital to the day to day life of the people providing opportunities for employment, and also at times financial gains to the leadership, through society transactions accompanied by the politicisation of the employee cadre;
5. An employee cadre with mixed loyalties, and confused outlook, as reflected in the often herd request for a 'transferable service' under government control and direction, the request even finding a place in the Throne Speech - 1970;
6. The acceptance by any, including some of the membership, that co-operatives are useful instruments to carry out government policy plans and programmes especially those concerned with distribution and welfare.

Is it now possible in the 1990s to say that the co-operatives are a dynamic and vibrant sector of the economy and to express a hope that co-operatives growth in the 21st century too, will be as significant and effective as it has been in the 20th century?

On the other hand, is there some growing concern at the several level that co-operatives are not what they should really be, and that if e.g., all that the MPCSS do not behalf of a member is to provide him with consumer goods to the value of RS.200/- a month and perhaps some opportunities to "save " and get some limited loans, is this what the member, a large majority of whom are persons with limited means, really expect from his co-operative For that matter, one may ask the question, has the member been aware of the economic potential of the co-operative, not merely as a channel for government largesse, but as a means of 'working together' in a continuous basis in an enterprise owned by him/ her for sustainable growth and development, not only himself/ herself but also of the community. Has the member really being given the opportunity to express his/her needs and aspirations especially, in the MPCSS?

From the conclusions and recommendations made by leaders and functionaries at several National Level Conferences, there are conclusions which specifically state that all is not well with the co-operatives and the co-operators, that there is a need for restructuring and adjustment in several areas and most importantly, that there should be continuing contact and dialogue with the membership, in regard to their needs and aspirations. In fact, one of the conclusions was the holding of Periodical National Congress of co-operatives, after the conclusions and deliberations from the grass root level upwards.

Perhaps many Ministerial/ and other level meetings/conferences, both national and international, held under the auspices of ICA, has resulted in a outlook on co-operatives at government level, perhaps continuing discussions and deliberations will lead to satisfactory change of heart, even at political level in Sri Lanka e.g., the politics and the functionaries who are exposed to the deliberations at these conferences are no longer in the co-operative field, and those now in harness, are totally are totally new to these kind of work and exposure at international level is a must to give them their proper bearings.

The 1992 amendment to the co-operative law, which excludes active politicians from holding positions in the co-operative board committees, is a clear indication of the winds of change resulting from such exposures. When the new government took office in 1994, steps were taken at the very outset, to work towards changes in the co-operative law and the Law relating to employees, with a view of giving the member his rightful place in the co-operative.

The operative world for the Law committee was "member driven" co-operatives. The draft law places high priority to these aspects, and is not an amendment to the existing Law. It is totally a new law, in co-operating many of the decision made at the Ministerial conferences.

But as mentioned earlier, the enactment a new law alone will not help in developing truly member-oriented co-operative, the law only creates a legal framework within which the members can achieve their objectives, which necessarily means that a massive effort will be necessary to divert the member and the leaders and the functionaries from a tradition of 'dependency' to one of 'self-reliance and independent growth'. This would necessarily mean that one would have to go back to the 'basics' of co-operative ideology, which have been long forgotten over many years of the 'dependency trap', in which most operated.

The basic concept that a co-operative is a 'users' organisation, organised, controlled and managed by the 'users' is a very simple concept to build on, but to get the generality of the membership to accept this and the aspect of 'working together' as a starting point is a difficult one. Many developing countries have been what one may term as 'welfare-oriented' and the continuing pursuit of this policy by successive governments entails a fair amount of political 'pressure' to use the 'dependency trap' for political gain.

Why should one bother oneself and use one's scarce resources to get some thing done through one's co-operative, when one can get these done from a government or NGO sources? e.g., if the persons in the village want some consumer services, is there a need to form a co-operative and to invest scarce resources in it and go through the hassles of management of the society etc. when goods are freely available in the CWE shops or in their franchise holder's shops?

Of course one could argue that there is an inherent urge in man to be independent and self-reliant and that the co-operative approach provides these opportunities for self-development, but then to many who have been in the 'dependency trap', what compulsion is there to make the first move towards self-reliance, it is becoming increasingly evident that the pressure of politics is to create and maintain the 'dependency syndrome', as an effective clout with a vulnerable sector of the body politic.

Sometime back in India, when the Tamil Nadu government decided to write-off the co-operative loans of farmers and also of fishermen, on the eve of an election, several other states too were toying with the idea of writing off loans for political gain. Against this background, a famous cartoonist of India came out with a classic caricature, which perhaps those seeking power completely ignored. The cartoon depicted the following:

“Here was candidate, Nehru cap and all, addressing a large gathering, desperately clinging on to the microphone, and at the same time gesticulating with one hand and saying, “when we come to power, we will not only write off the loans you have taken from your co-operative, we will also pay you interest on the loans you have taken”.

Where does the co-operator stand? For ‘dependency’ or for ‘self-reliance’? In a recent situation here in Sri Lanka, some officers of the National Council had gone into a village meeting, to discuss ways and means of improving their economic situation, with the hope of advocating ‘co-operative’ approaches to self-development. One from the audience had got up and said “these mahatayas’ (gentlemen) come here and tell us that we must do this and that, we must do that, contribute our money to run the co-operative, take part in the meetings of the co-operative, assist in the management of the co-operative, etc.c. to help ourselves through our own efforts. When other ‘mahattayas’ come here, they tell us we will do this and we will do that, and we will give you these funds to help you in your activities, etc.. etc. (possibly referring to NGOs), what need is there for us to use our limited resources to do these things when others will do these things for us?”

Perhaps the ‘dependency trap’ is endemic in many developing situations and various interests, both political and others, are in competition to get devotees, who will help them achieve their diverse ends using the ‘dependency trap’ to achieve these ends and these ends may not necessarily be those of ‘self-reliance’ and independent growth.

This is the problem one has to face and find suitable answers for. What is the end objective of the developmental process? to help in the evolution of a self-reliant and independent set of persons, who can themselves take over the process and help themselves and the community. or is the objective one of the continuation of the ‘dependency trap’ which assures adherents, be they political or otherwise, and support back for those taking initiatives in this regard?

Against this background, what would be emphatically urgent would be the clear enunciation of government policy vis-a-vis development - dependency or self-reliance?

The liberalisation of the economy and the path towards a market economy would necessarily mean that the bulk of economic activity would be on the basis that it is a level-playing field and private enterprise will help in the rapid development of the country. But there is always the vulnerable sector of the population, who know that the playing field is by no means level, and that some are more equal than others, and consequently special attention would have to be given to what has been termed the 'vulnerable section' of the population, which may some times be as high as 30 or 40% of the population. It is in this context that one has to be clear whether one is promoting 'dependency' or one is promoting 'self-reliance and independence'. In Sri Lanka, two poverty alleviation programmes have been tried out - the Janasaviya programme, which was in operation for around five years, and the present Samrudhdhi programme, which has now been in operation for around one and a half years. How many of the target population of around 1.5 million of the population benefitted with these?

How many of the beneficiaries are now out of the 'dependency trap', or in fact do they hope to be or want to be out of a state of 'dependency'? Perhaps the next government may have a different programme for 'poverty alleviation' and they could benefit from such a programme too? What, therefore, is the need for 'self-reliance'?

Here arises, the need for a clear declaration of policy in this regard, but the question is, which of the political parties contending for power would be willing to sacrifice a 'vote bank' on high ideology?

If the vote is in favour of self-reliance, and independent growth, the co-operatives would be a choice of high priority, and the success of the co-operatives would depend on the declared intentions of the members that they would like to depend on themselves and thus ensure self-reliance, outside support and sustenance would only be of a temporary nature.

What then are the basics that would help in the emergence of a more member responsive and more self-reliance-oriented enterprise, which will be owned and managed by members who are the owners of the enterprise?

1. A co-operatives is a "users'" organisation, and the users must have an awareness and understanding of the nature and practice of a co-operative along with a felt need for a co-operative;
2. Co-operatives are both an 'organisation' and an 'enterprise' and if a co-operative is to succeed, the enterprise must be sustainable and those in the co-operative must use the services of the co-operative;
3. A co-operative is not a mere intermediary to provide a member with the services he requires. It also means 'working together' on a continuous basis, to ensure the growth and development of both the enterprise and the members who own it;
4. Co-operatives are composite organisations, consisting of members, employees, and the market (be it regulated or otherwise; be it agriculture, or consumer or fishery), in which they are called upon to operate;
5. Co-operative 'enterprise' necessarily entails the realisation by the members that an 'enterprise' functions on funds and that a fund contributed by a member to acquire a membership is just not adequate to provide the member and his fellow members with the goods and services they require. Dependence on outside capital is both expensive and uncertain, and that dependence on outside capital alone will not lead to the emergence of the necessary member-commitment and interest. Member equity must necessarily lead to a vested interest of the member in his society;
6. A co-operative depends on member participation and patronage. The member must be a part of the decision making process and he must necessarily be a user of the enterprise;
7. Co-operatives necessarily depend on leaders and leaders themselves must be 'users' and aware of the problems faced by the co-operative in supplying the services required by the members;
8. Leadership entails entrepreneurship and the commitment to institution building. It is basically a Trusteeship, a trust placed on the leaders by the generality of the membership;
9. Leaders are not 'elected management' - they are the person who will guide, assist the management to perform the services required by the members at the highest levels of efficiency, and to

the satisfaction of the generality of the membership;

10. Co-operatives are self-help organisations with mutual responsibility. For a cooperative to succeed, there is a need for continuing focus on the following:
 - a) identifying the needs of the members and ensuring that the co-operative will continuously strive to satisfy these needs,
 - b) devising and installing mechanisms to ensure that co-operative governance and management continually serve and enhance the purpose important to members,
 - c) maintaining continuing contact with the membership and others concerned, to make the co-operative a 'generator' of growth, with a special focus on women and youth and self-employment and income generation,
 - d) developing adequate contact and collaboration with other co-operatives as with their own structures at various levels to ensure continuous co-operation among co-operatives,
 - e) ensuring that cooperatives are an effective partner in the development process and that it serves the interests of both the members and of the community, and that it plays a positive and constructive role in the areas of environment protection, women and youth development and the rehabilitation of the less privileged.
 - f) continuous updating of the awareness increasing programmes of the members, their leaders and others to ensure a healthy dialogue and collaboration with the members and their leaders; and
 - g) ensuring more highly professionalised and technically competent management, through a competent and well motivated workforce - who will work in close collaboration with the members and their leaders. .

All the above would necessitate a massive effort by an enlightened leadership with a firm conviction on a future outside of the 'dependency trap', and based on the concepts of self-reliance, mutual responsibility and a commitment to 'working together' to ensure the best results from their common enterprise. This will certainly be a path strewn with numerous difficulties and full of temptations to lie back comfortably in the comfort of a '*dependency syndrome*'.

About the Author

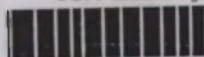
Mr. R.B. Rajaguru, an economics graduate from the University of Ceylon, has 36 years of co-operative experience in different capacities. After joining the Ceylon Administrative Service in 1958, he has served in many remote parts of Sri Lanka as an Assistant Commissioner of Co-operative Development and became the Principal of the School of Co-operation in 1960s. He was appointed Commissioner of Co-operative Development in 1973.

Mr. Rajaguru joined the ICA Regional Office, New Delhi in 1977 as the Regional Director and served until his retirement in 1986. Later he also served as the Sri Lankan Ambassador in Pakistan. On his return to Sri Lanka, he served as the Chairperson of the Sri Lanka Institute of Co-operative Management for few years.

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