

3. Plan to Foster the Training of Agricultural Cooperative Officials and Employees

Among cooperatives in general, multi-purpose agricultural cooperatives are increasing in number, and their proportion among all cooperatives is becoming high. When studying ways to train their officials and employees from medium- or long-term prospects, the following should be given special consideration.

- a) There are many primary agricultural cooperatives that cannot deal correctly with even basic business. The chairman of the board of directors, general manager and accountant of every agricultural cooperative will have to be able to deal with at least certain basic jobs.
- b) It is necessary for primary agricultural cooperatives to reinforce synthetic management abilities to plan, carry out, adjust and evaluate multiple businesses peculiar to agricultural cooperatives. In the case of primary agricultural cooperatives of more than a certain size, formal training is necessary for those managers in charge of multiple businesses.
- c) With regard to job training programs, the training for personnel in charge of farming and better living guidance activities will be strengthened, and priority should be given to training of personnel in charge of financial business.
- d) As a marketing, supplying and insurance business grows, training programs for each business category will become necessary.
- e) In order to train the personnel mentioned above, it is necessary to develop training methods and basic materials, and train teachers more actively.
- f) The management auditor in charge of auditing and training agricultural cooperative management should be trained, in conjunction with the implementation of a comprehensive agricultural cooperative system.

To carry out the goals mentioned above as promptly and efficiently as possible, the current training systems for all types of cooperatives are not enough. It is expected that the training programs focusing on agricultural cooperatives should be carried out independently. It is also felt that the training programs of existing unions and federations are too weak to carry out such training activities.

Therefore, an organization to instruct and implement such training programs should be created.

From this point of view, personnel training plans for agricultural cooperatives will be carried out as follows:

3-1 Burden Sharing of Roles among the National Agricultural Cooperatives and the Plan to Improve Their Systems

3-1-1 Creation of an organization for educational training of agricultural cooperative officials and employees

- a) For formal training, it is necessary to collect resources (manpower, information, and funds).
- b) Any sector or body which has already implemented training will cooperate and introduce each strong point of the training activities.
- c) To conduct training efficiently and systematically, it is desirable that the implementing organization and the total training scheme be combined.

The following Department should be set up on the national level:

- Name: Comprehensive Agricultural Cooperative Training Department (tentative name, and hereinafter referred to as Training Department).*
- Constituent: Agricultural Cooperative Bureau of Central Union of Cooperatives and national federations of agricultural cooperatives. (If necessary, other Co-op-Sectors, NGOs-Sector, GOs-Sector and Intellectuals may participate in.)*
- Main functions:
- Designing standards and policies for agricultural cooperative training activities
 - Designing and maintaining training schemes, courses, modules and texts

- Training and retraining of instructors and deployment of such instructors
- Implementation of training programs
- R & D and diffusion of agricultural cooperative training activities

* The Training Department will be set up under the Agricultural Cooperative Bureau which belongs to the Central Union of Cooperatives.

On the local level, Comprehensive Agricultural Cooperative Training Section (tentative name, and hereinafter referred to as Local Training Section) will be set up. The section will become the implementing organ of training in local areas.

However, we believe that the CDA will have to assume the role of running the operations of this Department. At the point when agricultural cooperatives ready themselves organizationally and are strong enough, the operations would be gradually transferred to the Training Department -- this, we believe, is realistic.

3-1-2 Assigned roles among the national agricultural cooperatives

Each national agricultural cooperative should send the resources and materials about training programs to the Training Department so that their activities will be combined. Probably, there will be the undermentioned two domains of agricultural cooperative training activities.

“Domain-1”: Training area closely related to the functions of a union

- Training to apply cooperative principles to agricultural cooperatives and to acquire related practical skills and knowledges
- General training in legal systems, organizational management, business management, and personnel training

For instance, the Training Department will implement the following training programs or support Local Training Sections in implementing them (also ask cooperation from governmental organizations and others.)

- Training for chairman of the board of directors (newly appointed/special)*
- Training for directors and committee members (newly appointed/reappointed)
- Training for general managers (long-term training**/special*)
- Training for new employees (including those recruited not based on the regular employment practice)
- Training for specialized employees (those in charge of bookkeeping and tax accounting / farming and better living advisors / instructors)***
- Implementation of a bookkeeping contest, Competence examination on the jobs of agricultural cooperative, etc.

* The special training covers political problems and current issues. A study group on large agricultural cooperatives will be set up by general managers of large agricultural cooperatives, and others as members, and case studies on well-managed agricultural cooperatives abroad will be carried out to introduce better management into their cooperatives.

** Training from one month to about one year, incorporated in basic and advanced courses (on-the-job training will be included. Studying abroad will be considered).

*** Training from one week to about one month, incorporated in basic and advanced courses (including tests or on-the-job training)

Training for farming and better living advisors will include training programs for cooperative members.

Instructors are those who are engaged in agricultural cooperative training activities on national or local levels.

Additionally, training for Comprehensive agricultural cooperative management auditors will be considered.

“Domain-2”: Training area in connection with the business of each federation.

- Training to learn job procedures on agricultural cooperative businesses, and to learn skills for business promotion and for section control
- Training to acquire knowledge on markets and commodities related to those businesses

For instance, the training department will implement the following training programs or help local training sections to implement them (also ask cooperation from government organizations and others):

- Seminars for acquiring licenses necessary for business activities*
- Training for sectional employees (newly appointed)
- Training for section chiefs (long term training**/special)

* Seminars for employees who need public licenses in their work

** Training programs with terms of one(1) week to three(3) months (including on the job training) incorporated in basic and advanced courses. These training programs will be considered for federations and primary cooperatives.

As a rule, the training department itself will implement the long-term training courses and some of the special training programs. local training sections will implement the short-term training courses and some of the special training programs. Among the long-term training courses, basic courses are expected to be transferred to local training sections early.

In addition, education for non-member farmers will be implemented on all levels. Training for member farmers will be conducted mainly by primary agricultural cooperatives.

3-2 Establishment and Enlargement of Training Facilities of the National Agricultural Cooperatives

Training facilities used by the training department should be established and improved. The following is of particular importance:

- a) Existing facilities that belong to the national agricultural cooperatives should be used as effectively as possible. It may be useful to designate such facilities for agricultural cooperative training programs. In this case, a certain amount of subsidy should be provided to manage such facilities.
- b) All national cooperative organizations should be encouraged to use the facilities jointly, in order to improve both effectiveness of training and facility utilization rates.
- c) For longer-term training, such facilities will have to have accommodation and meal supply capabilities, but there are few with such potential. It is necessary to investigate a program for nationwide agricultural cooperative training facilities for the type of training program, teaching methods, expected numbers of trainees, accommodation potential of existing facilities, locations (access to the facilities), management, and comprehensive cost balance.

For example, a facility with the following training functions can be considered adequate for the national level.

Name : Central Agricultural Cooperative Education and Training Center (tentative name)*

Main functions: To educate agricultural cooperative instructors under a joint and systematic scheme. The Training Department will implement its own training activities.

Facilities: Training building (including a library, a data room, conference rooms, and a hall), managerial building, restaurant and coffee shop, dormitory, lecturers building, gymnasium, athletic field etc.**

Management: The Training Department will be responsible. However, we believe it would be realistic for the CDA to assume the role of running this department for some time.

Training courses:

a) Agricultural cooperative education and training instructor's course
(Lecturers course)

- Training to acquire professional knowledge on agricultural cooperatives, teaching methods, operation of training equipment and to develop character
- Courses will be set up according to training subjects and programs
- Job experience will be necessary to receive training
- Practical training (including studying abroad) will be incorporated
- Examinations for qualification will be considered.

b) Agricultural cooperative education and training instructor's course
(Secretariat staff course)

- Training in planning a variety of courses and seminars, in coordination and recruitment, and on management
- Courses will set up according to long-term, short-term, and special training
- On-the-job training will be incorporated
- Training in management and maintenance of training facilities.

c) Implementation of long-term training courses for agricultural cooperative employees.

d) Implementation of a bookkeeping test, competence examination on the jobs of agricultural cooperatives, etc.

e) Implementation of other training (such training as entrusted by agricultural cooperatives)

* Location of the center should be studied in compliance with the program for nationwide agricultural cooperative training facilities mentioned above. Such a Center probably will also be needed for local areas (Area Training Center). It is probably realistic for the operation of facilities, while owned by the CDA, to be transferred in the future to the Training Department.

** Once training for instructors ends, an investigation should be made of using part of the facilities as a general research institute for agricultural cooperatives or as a cooperative vocational school.

3-3 Preparation of Educational Training Manuals by the National Level Agricultural Cooperatives

A Development Section will be set up under the Training Department. The section will provide standard teaching materials and manuals, print and distribute them. In this case, it is important that the participating bodies will bring in their own, and research the examples at home and abroad, so that teaching materials and manuals can be developed suitable for the Philippine agricultural cooperatives. Employees of primary agricultural cooperatives, and others, who know business systems practically, should participate in this development process.

The standard textbooks and manuals listed may be needed (They should be procured for both beginners and advanced. The Section will also make necessary slides, videos, and others training aids):

- The history and theory of the agricultural cooperative movement ----- for all participants
- Theory and practice of the agricultural cooperative management ----- for directors, committee members, general managers and section chiefs

- Structural knowledge and tests on cooperative accounting and taxation ----- especially for general managers, accountants, and accounting and bookkeeping section staff.
- Knowledge and practice of cooperative credit business ----- especially for general managers, credit section chiefs, and staffs.
- Knowledge and practice of cooperative insurance business ----- especially for general managers, insurance section chiefs and staffs.
- Knowledge of practices of cooperative marketing and supply business ----- especially for general managers, section chiefs, and staffs.
- Knowledge of practices of cooperative training activities ----- especially for general managers, all section chiefs, and farming, and better living advisors.
- Knowledge and skills of cooperative common use facilities ----- especially for general managers, facility managers, and staffs.
- Attitude, courtesy and discipline for agricultural cooperative officials and employees ----- for all participants.

Additionally, in order to promote standardization of agricultural cooperative administration, it will be important to compile a comprehensive management handbook (binding system) and to use it as training material.

3-4 Supporting Measures for Training Projects by the National Agricultural Cooperatives

In order to promote participation of agricultural cooperative officials and employees in the training programs, the national agricultural cooperatives will have to provide the following inputs, and the Training Department will develop necessary systems and implement them:

a) Steps to increase opportunities for training participation

Aim: to diversify training systems, to reduce participation fee and to encourage self-development

- Correspondence Course*: as basic course, formed education course and pattern "drill" course
- Radio Course*: same as Correspondence Course

b) Measures to reduce participation fee

Aim: to promote training of management personnel, to reduce training fee, and to promote retention of employees

- Conditional Scholarship System**: Selectivity of scholarship available jobs following agricultural cooperative training policies, obligations to stay on the job, and penalty system should be studied.

* Both will include periodic schooling. If necessary, the courses will be developed and managed in cooperation with DECS and other organizations involved in formal education.

** Two Systems, "for employees of agricultural cooperatives" and "for students" will be examined.

3-5 Personnel Training Measures by the National Agricultural Cooperatives

To summarize what was mentioned above, the national agricultural cooperative organizations will implement personnel training according to Chart-1.*

This scheme should not be implemented by each organization separately. It should be implemented by the Comprehensive Agricultural Cooperative Training Department, in which the organizations participate, with support from governmental organizations.

The department may need a special budget for developing education and training systems. This situation is the same as in the Local Training Section. For this purpose, the CDA should organize a special fund (for example, a Fund for the Development of Agricultural Cooperative Education) and support development.

3-6 Coordination with Governmental Policies

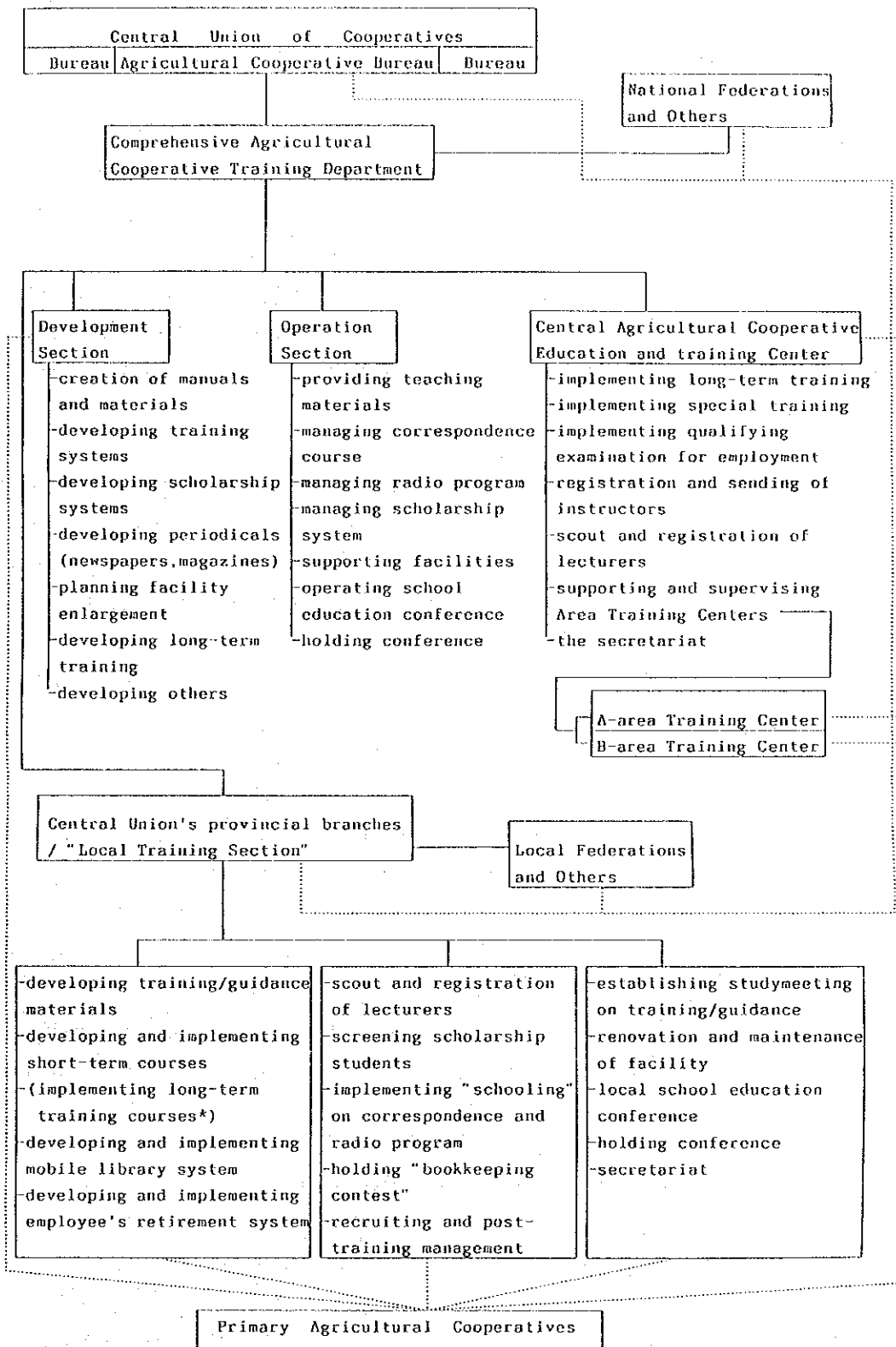
Sufficient coordination will be necessary especially on the implementation of the following measures.

a) In order to create a Comprehensive Agricultural Cooperative Training Department and a Local Training Section, it is imperative that government organizations indirectly will take the initiative and support these organizations. Efforts will be necessary to obtain enough understanding and positive participation by the government organizations.

b) To spread the idea of agricultural cooperatives and to secure agricultural cooperative personnel for the future, it is important that understanding of agriculture and agricultural cooperatives is being taught in school. It will be necessary to work on appropriate agencies to that end. At the same time, it is necessary that agricultural cooperatives themselves provide teaching materials and help schools implement such curriculums.

* The implementation measures of "Local Training Section" mentions later.

"Chart-1" Scheme of Personnel Training by National Level Agricultural Cooperatives



*For the present, "Comprehensive Agricultural Cooperative Training Department" will carry out long-term training courses.

— : a chain of command : a route of participation in training and others

3-7 Justification for Increased Executive Training of Trainers

Pattern of Cooperative Training

Analysis of data on the types of training completed in 1991 by CDA Central Office, CDA Extension Offices, Land Bank of the Philippines, the Agricultural Cooperative and Credit Institute and Region VI Extension Office indicates a serious problem in cooperative training in the Philippines -- the inadequacy of executive and entrepreneurial training. Although the data analyzed is incomplete, it reflects a pattern that is pervasive among cooperative training agencies in government, private training institutions and non-governmental organizations.

The attached table shows that CDA Central Office is the only training agency sponsoring executive development with certain degree of regularity. For example, of the 43 training sessions completed, 5 sessions or 12% were executive and entrepreneurial type training. CDA Extension Offices are also involved in similar type training, sponsoring 26 of the 981 trainings completed (3%) for executive training. ACCI is not involved in executive training, while LBP and Region VI sponsors about 1% each for executive training.

Management is critical in the success of a cooperative. The successful cooperatives, the Limcoma Marketing Cooperative Incorporation in Batangas City, the Sorosoro Ibaba Development Corporation, the Free Farmers Cooperative in Davao City and the Nabunturan Cooperative also in Davao are examples of successful cooperatives with managers who demonstrated first class executive and leadership skills. Unfortunately, not enough resources have been devoted to developing the executive skills of cooperative managers in the Philippines. Managers with executive skills are especially needed by cooperatives to enable them to compete effectively with private dealers.

Suggestions for Training Cooperative Managers

The ability of cooperative managers to negotiate successfully resulting to increased market share is the key towards reducing or even terminating the influence of private dealers and increasing the loyalty of farmers to their cooperatives.

In view of the inability of cooperatives to compete effectively with private dealers, it is recommended that CDA continues to expand its training on executive development.

Implementation

CDA must allocate funds for the training of CDA personnel with the rank of Branch Chief and above, and cooperative leaders. It is important that these CDA executives and cooperative leaders can demonstrate and teach executive skills not only to their staff but also to cooperative managers in the field. These new breed of CDA executives and cooperative leaders can become trainers of cooperative personnel all over the country.

This executive training must be institutionalized.

Although a rational institutional frame work has been suggested it would be practical for the time being to initiate government-owned institutional frame-work under current cooperative financial implications.

A National Cooperative Training Mechanism with suitable mixture of adequate teachers, education materials/equipments and building should be established in Metro Manila after the suggested rational cooperative model described above. Also, as one of the most urgent actions, at least at 14 CDA Regional Offices, Regional Cooperative Training Mechanism with quite similar structure to National Cooperative Training Mechanism should be established.

Table 1: Types of Training Completed by Sponsoring Agencies, 1991

Type of Training	Sponsoring Agency				
	CDA (CO)	CDA (EO)	LBP	ACCI	REG. VI
Basic Trng					
PMES		885		40	83
Orientation	15				2
Ed. Seminar					8
Subtotal	15	885		40	93
Business					
Management		60	1233		20
Fin. Mgt			552		
Cred. Collection			64		
Subtotal		60	2106		20
Training					
Coop. Dev. & Trng	4			7	8
Trainers	9	8	2		
Skills	6				
Staff Dev.	4				3
Subtotal	23	8	2	7	11
Technical					
Prodn/Procsng		2	121		21
Proj. Desgn/Eval			30		9
Subtotal		2	151		30
Exec. Development					
Leadership/Mgt	5	25			2
Entrepreneurial		1	4		2
Subtotal	5	26	4	0	
					156
Gand Total	43	981	2263	47	
Ratio of Exec. Dev to Grd. Total in Percent	12	3	<1	0	>1

CDA Central Office, CDA Extension Office and ACCI are expressed in terms of number of training completed. LBP and Region VI Extension Office are expressed in terms number of cooperatives trained.

Source: Based on the survey conducted by the Study Team

(Reference)

3-8 Pro Forma Calculations of Operational Funds for National Organizations

In the plan to strengthen national level cooperatives, we proposed outlines for various national organizations. Obviously, the funding required to run these organizations and the manner in which these funds would be raised become issues. Although one could say that this is solely a domestic problem for the Philippines, we made rough calculations of operating expenses for reference and present these below. We would add, of course, that this was not much more than an armchair exercise.

3-8-1 Central Union of Cooperatives (Agricultural Cooperative Bureau)

The policies to strengthen operations of the Central Union of Cooperatives assume that realignment of existing nationwide institutions, possessing functions akin to those of central organizations, will be considered. Here the issues initially become how to rebuild a structure of managerial control, how much in yearly operational funds is estimated to be necessary to manage the organization, and how to secure those amounts.

(1) Structure of managerial control

An Agricultural Cooperative Bureau, when being newly established within the Central Union of Cooperatives, should be positioned organizationally in a direct reporting line to the executive director and be an institution which enjoys independent authority among other internal departments. Because the bureau will be responsible for operational activities, such as analysis of management, recommending managerial improvements, and education and training, it will need to obtain several employees assigned specifically to the task.

It will be necessary, of course, to be flexible on these points depending on the number of members belonging to the central union and the nature of their businesses. It would be desirable to assign as many special employees to provincial and regional bureaus as cooperatives in those regions. Assuming bureaus are established at the provincial and regional levels, it will be necessary to expect to assign about 80 employees to the Agricultural Cooperative Bureau, including those who split their duties with other operations.

In controlling the funds required for operations of the Agricultural Cooperative Bureau, it would be desirable to maintain, to the extent possible, distinct accounting classifications through the creation of special accounts, which are independent from those of other operations within the central union.

(2) Estimate of operating funds

Operating funds for the Agricultural Cooperative Bureau can be broken down into personnel expenses, cost of equipment, travel and transportation expenses, meeting expenses, and other expenses. If one assumes 50 as the equivalent number of specifically assigned persons, personnel expenses work out to 4,550,000 pesos a year, even at a rate of 91,000 pesos per year per person ($7,000 \times 13$ months).

Equipment costs break down into rent, office supplies, and furniture and equipment; overall the amount required annually can be estimated at about 1,500,000 pesos (about 20,000 pesos per office, with 70 locations).

For travel and transportation expenses, a minimum of 1,000,000 pesos (about 7,000 pesos per business trip, based on conversion of cost of airline tickets; assuming two trips a year, and 70 locations) will be required.

Meeting expenses of around 600,000 pesos ($50,000 \times 12$ meetings) will be required; considering the operational characteristics of the central union, we expect meetings to be convened with a fairly high degree of frequency.

Other expenses are often difficult to estimate. However, taking as a basis an estimate that 10% of CUP's annual expenses are for such expenses, we arrive at a figure of 400,000 pesos.

The above figures add up to 8,050,000 pesos. As a comparison, this amount is equivalent to double of CUP's current annual expenses.

(3) Policies to secure operating capital

It is not a simple matter to find a way of raising the estimated annual operating expenses of the Agricultural Cooperative Bureau. For example, among today's nationwide central organizations, the CUP manages to book only about 3,000,000 pesos annually from its largest source of revenue, the CETF. Assuming that operations of the Agricultural Cooperative Bureau get underway, it would

mean having to raise another 5,750,000 pesos of capital (6,750,000 - 1,000,000 pesos = 5,750,000), if we say that 1,000,000 pesos of the amount estimated above was a redundancy of expenses that would have been incurred for cooperative-related operations.

At present, raising such an amount anew from the CETF has to be considered virtually impossible. It is clear that the bureau would have to seek other sources of revenue.

However, it would be making some extremely optimistic assumptions to believe that this large amount of capital could be raised through revenue flow, at least judging from the present state of affairs. If the method of raising capital through revenue flow turns out to be unrealistic, then this would leave the raising of funds through management of assets as the only feasible approach. Assuming this method was adopted, one could make the following kind of calculation: using a 10% rate of return to discount, these annual operating expenses would give us 57,500,000 pesos (about ¥ 300,000,000) as the amount that has to be newly raised. How one would go about raising this capital becomes the primary issue.

As a specific step to carry out this policy, one could consider a Fund for Management and Administration of the Agricultural Cooperative Bureau of the Central Union of Cooperatives (tentative name). This fund could be created out of contributions from a wide variety of groups and institutions, including subsidies, from the government.

Moreover, in restructuring the central union, those involved should learn from the realities confronting the National Central Union of Cooperatives in Japan and from the way it is being run.

3-8-2 National Cooperative Bank

Policies to strengthen the management and administration of the National Cooperative Bank assume first that the CRBs which are presently established in 32 provinces become established in all 75 provinces. They assume that, as its fundamental business, the bank would accept deposits from the CRBs, lend its own capital to the CRBs, and have the function of administering policy-based financing from the national government and other sources. Through such functions, the National Cooperative Bank is being counted on to adjust, at a

nationwide level, the surpluses and shortages of funds that occur in cooperative financing.

(1) Structure of management and administration

The National Cooperative Bank would, in principle, have as members the CRBs and primary cooperatives; it would be headquartered in Manila and would establish branches or offices in provinces in which the major agricultural regions are located. In addition to agricultural cooperatives, primary cooperatives eligible for membership would include consumer cooperatives, producer cooperatives, credit cooperatives, et al.

Because the operations of this bank would not focus solely on agricultural cooperatives, it would establish an agricultural cooperatives bureau or an agricultural bureau as the internal organization which carries out specific activities aimed at agricultural cooperatives. It would assign a trained director and staff responsible for that activity. Because CRBs have close relationships with agriculture, it would be desirable to establish an all-encompassing "agricultural (agricultural cooperative) transaction account" along with an account for transactions with cooperatives and to treat these as independent entities from an accounting standpoint. The director and employees responsible for this operation would be assigned to their positions in order to carry out the duties of managing these accounts in a professional manner.

Special staff will also be assigned to branches and regional offices, where they should be given duties such as accepting loan applications, and reviewing these applications, and, under certain conditions, the authority to make decisions. Further, branches and regional offices should act as locations for the acceptance of deposits from CRBs and individual members and should be responsible for overseeing operations related to promoting the absorption of funds.

Directors-in-charge will play key roles in sustaining the daily structure of operations. The personnel required at headquarters and the branches are: at headquarters, about 10 persons (including directors); at the branches and regional offices, 225 persons, assuming an average of 3 persons per office; grand total, 235 persons.

(2) Estimate of managerial and administrative expenses

Next, an estimate of the managerial and administrative expenses incurred by this bank would be as follows:

Personnel expenses, assuming 91,000 pesos per person per year and total personnel of 235 persons, amount overall to 21,385,000 pesos.

Cost of equipment breaks down into rent, office supplies and furniture, and equipment. If we assume an average expenditure of 30,000 pesos per office per year, this gives us a figure for this expense of 2,250,000 pesos (30,000 pesos \times 75 provinces).

For financial institutions, expenses for the promotion of lending and deposit-taking operations are necessary; if we assume an average of 20,000 pesos per office per year, this gives us an overall figure of 1,500,000 pesos (20,000 \times 75 provinces).

Other expenses would include such categories as meeting expenses, travel and transportation expenses, etc.; assuming an average of 20,000 pesos per office per year gives us an overall figure of 1,500,000 pesos.

Adding the above gives us an annual figure of 26,635,000 pesos for management and administration of the National Cooperative Bank.

(3) Policies to cover managerial and administrative expenses

So long as we are talking about a financial institution, the above-noted managerial and administrative expenses must be raised, in principle, through interest charged on loans.

Assuming that the interest rate on loans made by the National Cooperative Bank is 18%, and that 20% of revenue from interest on loans is applied toward expenses, we estimate that the bank will need an average outstanding balance of loans of 739,860,000 pesos. On the other hand, estimating the average outstanding balance of deposits required to maintain this level of loans, and assuming a deposit-to-loan ratio of 50%, we get a figure of 1,479,720,000 pesos, or twice the average outstanding balance of loans; assuming a deposit-to-loan ratio of 100% gives us a figure equal to that of the average outstanding balance of loans.

In comparison, the LBP's outstanding balance of loans as of the end of 1991 was 12,850,000,000 pesos, and its outstanding deposits 30,837,000,000 pesos.

(4) Policies to absorb funds

Next, we will consider, from the standpoint of management and administration the policies of the National Cooperative Bank with regard to absorption of funds. This bank's primary recipients of deposits are the CRBs and primary cooperatives. Although, in some situations, the issuance of bonds should also be considered, we will assume that the bank will not do so at the present stage.

The biggest problem in this instance is whether the CRBs and primary cooperatives have the ability to absorb savings or not. The CRBs do not have sufficient ability to absorb funds; but the reality is that primary cooperatives have even less of an ability to do so. In this circumstance, in order to operate in a stable manner, according to the principles of a market economy, the first requirement would be that the CRBs and primary cooperatives pay higher rates of interest than other financial institutions, and that they make their depositors understand that they are benefiting. However, because the level of interest rates paid on deposits depends on returns on the management of funds, primarily on the level of interest rates charged on loans, those rates must have attained a level which satisfies that requirement.

However, unless the interest rates it charged were lower, not higher, than those of financial institutions in general, the bank would have no meaning. Therefore, this bank will operate under a contradiction between what its interest rates on deposits should be, and what its interest rates on loans should be.

The way to resolve this contradiction is either for the national government or some other agency to subsidize the bank's loan rates to such an extent that these can be maintained at low levels, or for a third party (for example, the national government, etc.) to pay depositors a supplement on the interest rates they receive on deposits, so that the bank can maintain profitability even at low lending rates.

While taking such measures, this bank will carry out operations to induce and promote deposits from among the CRBs and the primary cooperatives. These actual operations will be in the hands of the branches and regional offices; however, for such operations, a mechanism by which the deposits collected can be kept safely must be borne in mind. This mechanism will have to include the

deposit insurance system, which is an outside institution, as well as secure deposit-keeping operations by the bank itself on a daily basis.

One could assume, for the deposit insurance system, the establishment of an institution like The Agricultural and Fishery Cooperative Saving Insurance Cooperation in Japan. Regarding the daily control of deposits, the following can be considered: an increasing awareness of the significance of safekeeping deposits which have been accepted; the introduction of a mutual system of checks among employees, etc.

(5) Policies regarding fund management

The funds absorbed by the National Cooperative Bank will be managed in the form of loans to depositors, deposits at other financial institutions, and purchases of securities. This bank will have as its major function absorbing the surplus capital that exists in the agricultural financial market and recirculating it among CRBs and agricultural cooperatives which face shortages of funds.

Among the methods available for managing funds we believe the bank will have no difficulty in finding parties to lend to. Regarding forms of management other than lending, however, the greatest problem is whether securities that are safe and certain exist or not. If safe securities cannot be found domestically, then ways of investing overseas should be looked into. However, the bank should bear fully in mind the risks of foreign exchange, and the differences between interest rates at home and abroad.

Taking these problems into account, we believe that this bank should look into investment in real estate as one method of managing its capital.

In carrying out these tasks related to fund management, the assignment of experienced personnel will be required, but control of these operations should be entrusted to employees at headquarters with professional knowledge. For this purpose this bank will either newly have to hire specialists in fund management or have employees grow into such jobs internally.

We believe that the bank can learn a great deal regarding these operations from The Norin Chukin Bank in Japan.

3-8-3 National Marketing and Supply Federation of Agricultural Cooperatives

The National Marketing and Supply Federation of Agricultural Cooperatives is an organization whose members are regional economic federations. For the time being, this federation will not establish branches or other outlets, but will engage in information exchange with members, relating to operations and organization, through regional members. Therefore this federation will be established in Manila.

(1) Structure of management and administration

The National Marketing and Supply Federation of Economic and Agricultural Cooperatives will be the only such institution in the country. Its directors will be selected via election from among the chairmen of the regional federations, which make up its membership. Its board will be comprised of directors and auditors; the directors will be given executive responsibility for managing and administering the federation.

The number of directors on the board will naturally be determined in accordance with the New Cooperative Law, which requires that the nature of members' organizations and businesses be taken into consideration.

The managerial and administrative setup of the federation will depend on the specific content of its operations, but it is desirable that the divisions involved in the field be broadly divided into a purchasing division and a sales division.

The purchasing division should then be broken down further into a division for material used in agricultural production, and a division for material used in daily life, with the federation assigning specialists to the task of negotiating with manufacturers and others regarding products purchased, quantities, and prices for the respective divisions. Further it will assign persons to be responsible for advising cooperatives and farming households on the efficient use of materials.

The federation will establish three divisions within the sales division: rice, vegetables, and livestock. It will assign employees to oversee market development, price negotiations, etc.

Moreover, because transporting the materials purchased and the products sold will be a major problem, the federation will equip itself with large trucks and warehouses.

In order to carry out this operation, a total of at least 20 persons, 10 in the purchasing division and 10 in the sales division, will be required. Because a number of trucks and warehouses in several locations will be required as fixed assets, it will be necessary to develop a division that controls these assets.

The federation belongs to the distribution sector. This means it will be necessary for it to have basic managerial know-how relating to purchasing, inventory control, calculation of margins, and marketing. Because the possibility exists of the number of products handled increasing greatly in the future, the federation will have to engage in computerized control and analysis of operations in order to carry out appropriate control of each category of product.

Furthermore, because relationships with consumer cooperatives are a possibility, the federation should keep the option open of incorporating, at some time in the future, a research and development capability in such areas as product development and product testing.

(2) Policies to stabilize operational finances

In order to stabilize the operational finances of the National Marketing and Supply Federation and Agricultural Cooperatives, it is necessary to increase sales in both the purchasing and sales divisions, and to tackle what many view as the most difficult problem of all, equipping itself with improved means of transporting and warehousing. To increase sales at a steady pace, the federation must appropriately incorporate into its businesses products that meet the needs of members; to do this, an expansion and improvement of its ability to transport and store are indispensable.

Expanding the range of products handled will require deregulation of distribution; and, an absolute condition is that the products generate working capital. Both are problems not easily amendable to solution, but, unless a solution can be found, the management of businesses by the federation will not be viable.

The priming of abilities in transportation and warehousing is a life-and-death matter for the federation and other participants in the distribution sector; this too is a problem which cannot be solved without building up equity capital.

These various problems are of a nature that resists short-term solution. A fairly long-term plan and continuous execution are required: as measures for the time being, increasing membership and paid-in capital are necessary.

For this purpose as well, it is necessary to combine the multiple institutions existing in Manila, which have functions akin to those of the National Marketing and Supply Federation of Agricultural Cooperatives, and to change these groups into a new form of organization. Doing so is a precondition for stabilizing the operation of this federation.

(3) Estimate of managerial and administrative expenses

Next an estimate of the managerial and administrative expenses of this federation is as follows.

Personnel expenses, assuming 91,000 pesos per person per year and total 20 persons, amount overall to 1,820,000 pesos.

Costs of equipment break down into rent, office supplies and furniture and equipment; we assume that these expenses will average 50,000 pesos per year.

For an economic federation, capital for replenishing inventory, and long-term capital for selling expenses, warehouses, trucks, etc., are indispensable. However, we are unable at present to estimate these in detail. Nonetheless we estimate fixed-capital requirements of 3,000,000 pesos (2,000,000 pesos for trucks, 1,000,000 pesos for warehouses), and working-capital requirements for the first several years after establishment of about 1,000,000 pesos each year.

3-8-4 National Mutual Insurance Federation of Cooperatives

The National Mutual Insurance Federation of Cooperatives assumes the existence of members who engage in insurance and reinsurance, but currently there exist no organizations possessing such capabilities.

Undoubtedly, however, if there were insurance programs run by cooperatives, they would be extremely beneficial to members of Philippine agricultural cooperatives.

The insurance sought by members of cooperatives is life insurance. Thus, unlike with casualty insurance, moral hazards can be prevented and one can readily count on stability of insurance-business fundamentals.

The task hereafter is to create a dual structure of insurance, with life insurance businesses created at the level of agricultural cooperatives, and the National Mutual Insurance Federation of Cooperatives existing to underwrite reinsurance.

Strategically, the first step would be to create a structure of business for the national institution, which in this case is the National Mutual Insurance Federation of Cooperatives, and build a firm foundation for it as an institution of reinsurance. The present CISP could be considered the basic group upon which this institution would be built.

(1) Structure of management and administration

The structure of management and administration for the National Mutual Insurance Federation of Cooperatives should be considered from the premise that this organization is an association whose members are the primary cooperatives.

Thus the federation would elect a suitable number of directors from individual member cooperatives and create a system of auditors. The daily operations would be run by the directors; final decisions, of course, should be made at the general meeting.

Organizationally, from the standpoint of management and administration, a minimum of the following divisions would be necessary: an insurance sales division; a division for investigating underwriting risk; an insurance adjustment division; a committee to calculate premium rates; an investment division; and a general affairs division.

From the standpoint of management and administration, the most important division in an insurance organization is the committee responsible for calculating premium rates. For this committee, in addition to directors of the primary cooperatives, third parties (scholars, government officials, etc.) who have no

personal interests in either the member cooperatives or the national federation should be invited to act as committee members.

Premium rates are basically a function of the mortality rate (rate of accidental death) and the rate of return on investment activity (anticipated return). This committee's duty will be to observe the "principle of large numbers," which is the great underlying principle of the insurance business. However, in actual practice, the "principle of large numbers" is prescribed on the basis of the number of different types of insurance provided and on the size of the soliciting organization. In the actual operations of an insurance business, what experience says this point is extremely important.

However, because the number of farmers who have become policyholders of the CISP is small, some doubt exists as to how realistic a life table can be obtained. Given this situation, it will probably be necessary to gather data and analyze it.

The National Mutual Insurance Federation of Cooperatives will have its headquarters in Manila and will look into the possibility of establishing offices in the major regions and provinces. The offices will have as their major activities encouraging more independent cooperatives to offer insurance and providing guidance to these cooperatives; they will also be charged with providing education regarding the insurance business. As business expands and develops, the federation should close these offices and establish mutual insurance federations with reinsurance capabilities in these regions. In that instance, the National Mutual Insurance Federation of Cooperatives will handle the reinsurance function.

(2) Policies to expand business

In addition to the above, spreading the insurance business among independent cooperatives and enlightening farmers as to the significance of insurance will be major issues. Regarding this point, education aimed at directors and employees of independent cooperatives, and measures involving human resources, such as the assignment of specialists to these cooperatives, will be necessary.

As a model case, the federation should establish insurance sections within primary cooperatives, where the persons in charge, through daily visits to homes of cooperative members, would carry out activities that deepened the

understanding of insurance. Although the results of such activity may not become apparent immediately, one can count on them appearing gradually.

However, as an immediate policy of dissemination, the National Mutual Insurance Federation of Cooperatives should designate each year several independent cooperatives in each province for a concentrated program of guidance, and gradually expand the number of independent cooperatives which understand the merits of insurance; such latitude in policy is probably necessary.

The next problem is how to collect the premiums. Although it will depend on the amounts involved, premiums basically will be collected in monthly installments, through withdrawal from members' saving accounts, deduction from the proceeds of sale of agricultural products, or by members paying at the counter. Although it is possible to imagine visits to the homes of policy holders by those in charge of insurance to collect premiums, there are limits to this approach because of the problem of transportation.

Because managing and administering the insurance business requires specialist knowledge and experience, the federation should, in certain cases, consider taking further hints from the cooperative insurance system in Japan.

VII. Plan for Strengthening Local Agricultural Cooperatives

VII. Plan for Strengthening Local Agricultural Cooperatives

1. Guidelines for Organization

1-1 Primary Cooperatives

1-1-1 The necessity of increasing size of membership

In today's economic society, it goes without saying that, in order for agricultural cooperatives to demonstrate the value of their existences amidst relationships with numerous competitors, they must have a scale of business that makes it possible for them to fulfill the role of agricultural cooperative businesses. The factors relating to business scale are the number of regular members and the usage by members of cooperative businesses. Generally speaking, even if the degree of usage of cooperative businesses by regular members is extremely high, it is difficult to achieve a scale sufficient for economies of scale to emerge, when the number of regular members is small. Additionally, small scale very frequently causes capital shortages and difficulties relating to the raising of operational funds. Furthermore securing the minimum number of employees necessary to handle administrative loads, and to drive business activities is not easy. For the purpose also of establishing a structure of responsibility that will enable the organization to protect the assets of members using the cooperative, it is necessary to expand the size of membership in a well-planned way.

1-1-2 Policies to expand size of cooperative membership

(1) Increasing membership among non-member farmers

Agricultural cooperatives must increase their membership by urging farmers, who are not members within their areas of operation, to join. In the examples from the detailed surveys we conducted, this is a particularly urgent task for cooperatives belonging to Category I and Category II.

Persistent efforts to inform non-members, and improvements in educational activities on their behalf, are necessary. Based on the experience of cooperatives in our detailed surveys, roundtable discussions with non-members, held at the level of the barangay and other small geographical units, were effective, we were

told. Further, one manager related to us his experiences of seeking to inform non-members, in which he found it to be effective to make non-members aware of the economic benefits (for example, dividends for use of cooperative businesses) that actually existed and which would newly accrue to them by becoming members. This is something we should bear in mind.

(2) Increasing membership among women

In the Philippines, cooperatives are free to choose whether a single individual (normally, a male) joins them as the representative of a household, or whether individual members of the household decide on their respective memberships; the method settled upon is adopted as a custom by individual cooperatives. There is one agricultural cooperative which adopted a policy of having three members per household join and which achieved a degree of success. Since the original subjects comprising the cooperative are not "households" but "individuals," having the wives of farming households join is only natural.

This would be especially so in the Philippines, where wives normally share the burden of farming with their husbands. Moreover, the recent trend is toward more dual occupation farming households, where very often wives take charge of farm management, because the male head of the household is absent for long periods due to employment elsewhere. The increase in membership among wives is not a bit unreasonable. Furthermore, through women joining the cooperatives, increased planning and rationalization of family finances are promoted, and deposit-taking businesses greatly advanced, and it becomes possible for the meticulous views that are peculiar to women, to be incorporated into the running of cooperative businesses. We propose that membership in agricultural cooperatives among the women of farming villages be promoted.

(3) Increased membership among those in line to take over family farms

Those who are strongly cognizant of the need for reform in farm management are young people. Moreover, those most sensitive to social change in farming villages are also young people. By promoting increased membership among those in line to take over family farms and other young people, it should be possible to put this kind of zeal to use in effecting major changes in the operations of agricultural cooperative businesses.

1-1-3 Policies to expand business handled by cooperative businesses

(1) Increasing the rate of usage among members of cooperative businesses

Even if size of membership grows, volumes of business will not increase and economies of scale will not be possible, unless the rate of usage of cooperative businesses among members grows.

In the case of the Philippines, both when the need to establish agricultural cooperatives was advocated by leaders, and when farmers make decisions to join cooperatives, there has been a strong tendency to look upon agricultural cooperatives simply as a means of borrowing funds from the government. It was only dimly recognized that cooperative members were both investors, as well as users of cooperative businesses.

At one large cooperative which we surveyed in detail, we were told that, when purchasing palay from members and supplying them fertilizer, the cooperative took up the question of the cooperative's "fairness" and educated members on the use of the cooperative from the standpoint of actual profit to them. In this way, it is necessary for cooperatives to urge an increased use of business among members.

(2) Diversifying the types of cooperative business

We believe that the direction taken by the CDA to try to instill a comprehensive orientation among agricultural cooperatives, which have become single-business organizations focusing either on sales, supply or credit, is highly appropriate. Nevertheless, steps in that direction remain sluggish.

At the same time, in recent years, examples of agricultural cooperatives which have begun to engage in deposit-taking activities are showing signs of increasing. This is occurring in a credit business that had de facto limited itself to relending national government funds to members, and to engaging in their collection. Provided, of course, that it contributes to establishing and strengthening cooperatives' structures of business, it is necessary to advance this trend one step further: while moving also as a long-term goal toward the incorporation of the insurance business, these cooperatives must diversify their business lines and aim at bringing about an overall linkage among these varied business capabilities, in particular a linkage among the sales, supply and credit businesses.

In addition, there is a need for cooperatives to look into the products handled by the sales and supply businesses and to expand the product areas covered, in order to cope with changes in members' patterns of farming. Moreover, cooperatives belonging to categories III and IV should, when and as necessary, focus on the development of new businesses in areas such as food processing, where it is possible to create added value.

(3) When necessary, promoting the merger of cooperatives

The size of a cooperative's businesses is essentially determined by the interests of cooperative members. There are many examples where business areas overlap. This is because in almost any modest-sized district within a municipality, cooperatives with an extremely small membership, such as those which can be found in Categories I or II, exist side by side and, moreover, engage in the same types of business.

We also noticed among examples in our detailed survey that such cooperatives are unable to engage in activities to expand their memberships and face the risk of interfering with the development of other cooperatives' businesses.

In such cases, the concerned cooperatives should consult among themselves and, while accepting the advice and guidance of government and unions, be prepared for a fresh start through a merger.

Moreover, this should not be limited to cases of overlapping cooperatives in the same business districts: government and unions should not withhold support because of the trend toward self-initiated mergers with cooperatives in neighboring districts.

1-1-4 Incorporating members' wishes into the operation of cooperative businesses

(1) The importance of incorporating members' wishes

As we have mentioned to this point, if the assumption is that the task of cooperatives is to provide benefits to members through their businesses, then they must aim to expand the scale of their businesses. However, by saying this, we in no respect deny the organizational trait that cooperatives are organizations of people, differing from companies at large. It is necessary to try to use to the full extent the special characteristics of cooperative organizations: that their

members are investors and at the same time are users of their businesses, and the operators of those businesses.

Therefore, it is important that members fully understand the operations of cooperative businesses. At the same time, it is necessary that the relationship between members and the cooperative be treated with care, such that opinions which members hold regarding operations of cooperative businesses can be presented honestly to the cooperative, and that the cooperative expend its utmost efforts to see that such opinions are reflected in operations.

In the Philippines, rates of attendance among agricultural cooperative members are high at general meetings, which are the ultimate decision-making institutions for members with regard to the running of the cooperative. Decisions on agenda items, and election of directors and members of the various committees, are carried out democratically. However, apart from the general meetings, agricultural cooperatives, with a handful of exceptions, are not taking the initiative to hold meetings with the membership, and to incorporate members' wishes into the running of the organization.

(2) Taking the initiative to convene membership meetings

Many agricultural cooperatives make it a point of providing opportunities for discussions among members in small geographical units such as the barangay, when it comes time to elect candidates for director, and there are a fair number of examples of their organizing groups of members within these small districts. However, it appears that these groups are used for no more than one-way transmission of instructions, messages, and explanations from the cooperative to the members, even in cooperatives which are enthusiastic about membership education.

The membership meetings which we propose are designed, first of all, to seek the attendance of members from small geographical districts such as the barangay, or further denominations of the barangay, in order to provide explanations of the current status of cooperative operations, and of the issues which these operations face. They are designed, at the same time, as a means of strengthening ties through so-called member and cooperative interchange: here, the doubts, dissatisfactions, opinions and wishes which members may feel on an everyday basis regarding cooperative operations may be presented, in response to

which someone in a position of responsibility from the cooperative provides answers.

In actual fact, there is an example among the agricultural cooperatives in our detailed survey of a small cooperative belonging to Category I, which is taking advantage of the characteristic of having a small number of members. This cooperative convenes meetings of all members once a month, at which time it makes sure it understands its members' wishes, and attempts to incorporate these into cooperative operations. This is an extremely praiseworthy activity. We would like to see cooperatives even in Categories III and IV conducting such meetings at least twice a year. It might also be worthwhile to invite non-members to these gatherings and have them learn more about the actual conditions of the cooperatives.

The barangay's meeting room or other locations may be used as places for the meetings: any place may be chosen where members feel at ease about attending. For its part, the cooperative will see to it that responsibilities are shared among the chairman, directors, and employees, and that a person who can speak with authority is present at all meeting, wherever they may be held. This is important.

A further task for the cooperatives is the dividing of members' wishes and opinions into categories: (a) matters that can be acted on immediately; (b) matters that can be brought about after the passage of a certain period of time, or after the meeting of certain conditions; and (c) matters that cannot be solved by the cooperative, and which require that other policies be devised. Based on this classification, the cooperative should try to obtain the consent of the members regarding the steps until solution.

Further, because cooperatives belonging to Categories III and IV are often found in environments where daily exchange between cooperative members, and cooperative officers and employees are rare, they, in particular, should recognize the need to move toward these membership meetings.

(3) The holding of membership meetings focused on types of farming

One aspect of the change that development in economic society has brought about in agriculture, is different farm management in an area. Examples of this are the introduction of fruit orchards and crops into a single-crop area planted in rice, or the starting of animal husbandry. Further, in recent years, a fair number

of cases of specialization within a single farm family have been seen, where the parents manage crop cultivation, and the children manage animal husbandry.

Changes in forms of farming are also making an impact on lifestyles. As a result, the interests and demands toward the cooperative can differ, in the extreme instance, according to individual member.

Gaining an appreciation of the increasingly diverse needs of the membership, and using it to improve the operations of cooperative business, are quite difficult undertakings. However, for the sake of the development of the cooperative movement hereafter, cooperatives cannot avoid doing so. While this is possible to some degree for the cooperatives in Categories I and II, through the strict observance of member meetings based on small geographic units, cooperatives in Categories III and IV, with large numbers of members, will have difficulty appropriately reflecting the change occurring among members into cooperative businesses simply through small-district gatherings.

We would like to propose the convening of members' meetings, according to type of farming, for the types of farming engaged in by all members. For example, these would include member meetings for those growing mainly rice, meetings for those growing rice and horticultural products, and others for those specializing in animal husbandry.

It would be desirable, if personnel responsible for agricultural extension participated in these meetings, and if a structure of providing advice were also established. Then, by gradually shifting the topic of the meeting to problems of production technology, sales, supply of inputs, and to cooperative operations related to production loans, the cooperative should try to incorporate members' wishes into the operation of its businesses.

For the time being, we would recommend that the agricultural cooperative continue to take the initiative in urging members to participate in these small-district and form-specific member gatherings, but after a given amount of time, we believe it would be desirable for the cooperative to press for the establishment of these as members organizations.

We believe that it would be appropriate for the planning of these meetings to be placed in the hands of persons in the cooperative responsible for general affairs

and planning, for small-district meetings, and in the hands of the employees in charge of sales or supply of inputs for meetings of members by type of farming.

(4) Developing of daily consultation activities for cooperative members

When one visits agricultural cooperatives in the Philippines, it is easy to see that time has been set aside for the cooperative members who come to cooperative offices for consultations with officers and employees. However, it is apparently very rare for agricultural cooperative employees to visit members, or to go to members' farms, for consultations or discussions. In our detailed survey, we ran across one example of a cooperative which made regular visits to members, although primarily for providing assistance related to the planned repayments of production loans it had made. This was a large agricultural cooperative belonging to Category IV.

The consultation activity which we propose here would divide cooperatives' areas of operations into several districts, to which cooperative employees would be assigned for consultation. Such staff would make the rounds on behalf of a cooperative on a planned and regularly scheduled basis, consulting on matters related to use of cooperative businesses.

Rather than for cooperatives in Categories I and II, we would like to propose this for cooperatives belonging to Categories III and IV, where we believe members' needs are becoming increasingly diverse as a result of large memberships.

Although, to the extent possible, we would prefer that consultations be limited to use of cooperative businesses, in reality we expect that the subjects will extend to the operations of institutions outside of agricultural cooperatives. Be that as it may, this will also be a contribution to education on cooperatives as cooperative employees map out solutions by drawing the distinctions between institutions.

Cooperative members, for their part, will be able to see the cooperative and cooperative employees as nearby presences, and the visits will be an opportunity for them to recognize the need for using cooperative businesses. From the standpoint of cooperative employees, this will not only allow contact with the farms and lives of cooperative members, but will also contribute to an improvement of their abilities to instruct members. Moreover, one hopes that, by

gaining knowledge of operations outside their areas of responsibility, cooperative employees will have an opportunity to understand the need for an increasing comprehensiveness in the business capabilities of the agricultural cooperative.

Further, to add a postscript: if possible for cooperatives in Category IV, it would be desirable to consider establishing a section within the administrative structure of the cooperative which would not only control and plan this consultation activity, but would also assess its results, and when necessary plan policies of improvement regarding business operations.

1-1-5 Participation by members in the operations of cooperative businesses

(1) Organizing cooperative members and engaging in joint activity

Cooperative activity is essentially supposed to be the sum total of the joint actions of the members themselves. The true relationship between cooperative members and cooperatives is one in which members engage in joint action and cooperative employees support that action. Members take action not only as a result of motivation by the cooperative, but through their own participation and through sharing a common consciousness, while cooperative employees handle the necessary administration in a supporting role, which members entrust to them voluntarily, so to speak.

What we will take up here, as part of the process of moving toward that situation, is the organization of groups of cooperative members as internal organizations of the cooperative, and at the same time characterized as organizations for joint independent activity by members. These will be especially relevant to cooperatives in Categories III and IV.

Evolving from the small-district member gatherings and meetings of members by type of farming taken up above in 1-1-4, these groups of cooperative members based on small districts and major types of farming will hold meetings on their own initiative. It would be desirable for these groups to elect leaders and place persons in charge of general administration, accounting, and business, to contribute the expenses necessary for operation of the organizations, and to prepare and decide independently on their plans of activity. The cooperative, meanwhile, should perform the function of providing appropriate advice.

The cooperative should not limit this assistance to groups organized around small districts or specific type of farming but should provide similar consideration to female members and those in line to take over family farms.

Of course, if a member group is established, it is important that the cooperative assist in its growth both materially and psychologically, and that it consider joint activities undertaken by these groups as instances of members participating in the operations of cooperative businesses.

The cooperative should also take up the training of the group leader as an important issue and provide outside support for his running of the organization. At the same time it should provide facilities for the groups, where exchange and study related to their activities can take place, and resolve to bring about progress for the organizations.

(2) Ideas on conduct of general meetings

The highest decision-making body for cooperative members is the general meeting. It is necessary to make this general meeting an even more attractive institution for members, while at the same time coming up with ideas to make it for those participants in the cooperative movement who are starting a new fiscal year.

For example: a) change the often difficult-to-understand general data to something more accessible by using graphs and cartoon illustrations; b) make announcements relating to the activities of the member organizations mentioned above, and have judges select outstanding efforts; c) arrange exhibitions of handicrafts, art, and paintings produced by wives, young people, and the children of members; and d) hold special events such as festivals, either before or after the general meetings.

1-2 Unions

1-2-1 Support of cooperative policies to expand membership

In order to support activities by agricultural cooperatives to encourage membership among those who have not yet joined -- farmers, women and those in line to take over farms -- the following kinds of involvement are necessary.

(1) Creating and distributing material, and leaflets, for use in education and publicity. Or, considering subsidizing the costs of preparing such material.

(2) Educating and informing, using mass media, including television and radio, during periods when all cooperatives are campaigning at once. These activities would cover wide areas.

1-2-2 Support of cooperative policies to expand volumes of business

In order to support the policies of cooperatives aimed at increasing volumes of business, the following kinds of involvement are necessary.

(1) With the cooperation of federations, providing material for education and publicity, which shows actual examples of the economic effects on members, of expansion of cooperatives' business volumes.

(2) Providing guidance on business expansion for cooperatives engaged in a single business.

(3) Taking increasing initiative to provide information needed for the development of new businesses, including the processing of agricultural products.

1-2-3 Support of campaigns to merge cooperatives

It is necessary to support the merger of agricultural cooperatives, in accordance with the following.

(1) Preparing "merger guidelines" which explain the objectives and effects of mergers among cooperatives, the procedures taken during mergers, including adjustment of finances, and treatment of fixed claims, and the way cooperative

businesses should be managed after the merger; when necessary, to guide concerned agricultural cooperatives toward merger.

(2) Conducting on-the-spot surveys, holding study meetings of interested cooperatives (federations), and offering assistance aimed at merger in cases where, in a given area, cooperative membership is small, and multiple cooperatives or federations exist, which are involved in the same types of businesses, and where there are overlaps in operational areas. In such instances, the organization shall request the advice of the CDA.

1-2-4 Supporting campaigns to increase participation by members in cooperative businesses and to incorporate the wishes of members in the operation of agricultural cooperative businesses

In support of campaigns to increase participation by members in cooperative businesses, and to incorporate the wishes of members in the operation of cooperative businesses, the following kinds of involvement are needed.

(1) Preparing guidelines, which include actual examples, regarding the necessity of organizing members, the procedures of such organization, and providing assistance .

(2) Contributing to the advancement of activities by making facilities available with bulletin boards for member organization announcements, and where an exchange of ideas can take place; preparing lists of outstanding achievements in these activities and making these available to members.

(3) Preparing lists of outstanding achievements in the conduct of general meetings and making these available to members.

1-2-5 Establishing an ability to provide comprehensive guidance to the cooperatives

In order to succeed in the matters discussed in sections 1-2-1 to 1-2-3, it is necessary to devote a special amount of effort to bringing about the following.

(1) Establishing regional and provincial branches of the central union of cooperatives at regional and provincial levels. The aim is to have regional branches promote the policy of the central union, and provincial branches provide

practical guidance on education about cooperative organization, management, and business to the primary agricultural cooperatives.

(2) Having the central union of cooperatives give special attention to placing personnel, particularly in the provincial branches, who are capable of providing an outstanding level of instruction to member agricultural cooperatives and federations. For this purpose, it is desirable that the right people be recruited from a wide variety of sources, including organizations other than cooperatives; or the central union could seek to enter into personnel exchange programs with other national cooperative organizations.

(3) Securing financial stability. In addition to independent sources of revenue, such as the collection of membership fees from member cooperatives and federations, the central union should investigate the possibility of establishing a system of funds where earnings would be applied to policy-related expenses for the strengthening of local level agricultural cooperatives.

(4) Strengthening the link with local federations. For this purpose, the regional and provincial offices of the central union shall, in principle, be located in the same buildings as the offices of local federations.

(5) In provinces where CBs are not yet established, initiating their early establishment.

(6) Attempting to strengthen the links with the CDA and local government institutions, and holding regular meetings for this purpose.

1-3 Federations

It is necessary for federations to provide support to agricultural cooperatives in the following areas:

(1) Federations should review the way their businesses are operated in light of the principle that businesses of federations exist to supplement those of agricultural cooperatives.

Marketing and supply federations should re-assess the products they handle and the methods used in promoting their businesses, and should carry out national campaigns, urging all agricultural cooperatives to avail themselves of

products which generate economic advantages when purchased through their organizations.

The CRBs (CR) should strengthen their guidance regarding deposit-taking activities by agricultural cooperatives.

(2) Steps should be taken to promote integration among federations. Marketing and supply federations, which have been in existence for some time without being able to start businesses, should be integrated into federations with ongoing operations at the same level. Their member cooperatives should become new members of the merged federation.

Mergers will be sought when multiple federations handling similar businesses exist within a given area.

(3) Federations should seek to strengthen their links with the CDA and local governmental institutions.

2. Guidelines for the Management and Administration

2-1 Primary Cooperatives

Using effective methods to manage and administer primary cooperatives is an absolute essential if cooperatives are to develop. It is necessary for primary cooperatives to carry out policies of improvement based on analysis of operational indices. Although various methods for analyzing operations exist, at minimum the following analysis is necessary on an ongoing basis. However, in order to analyze operational indices, data must be collected. Therefore, carrying out the analysis of operational indices implies that the collection of data will also be undertaken.

In order to collect data accurately, it is necessary to keep records of the daily activities of the cooperative, both with respect to finances and physical property. In order for personnel to become accustomed to gathering data, and for this to become an ongoing activity, we recommend first that the cooperatives prepare daily financial summaries, and monthly tables of asset balances.

The following indices are those we believe necessary at minimum for the analysis of operations of primary cooperatives in the Philippines. These indices should continue to be analyzed annually for primary cooperatives; with respect to results, they should be looked at in comparison with the results from other primary cooperatives. Furthermore, the Central Union of Cooperatives or CDA should consider making data available as reference to primary cooperatives and others, by announcing average nationwide values, etc.

- Indices measuring financial health

* Fixed asset ratio (%):

$$\text{Net assets} \times 100 / (\text{fixed assets} - \text{outside investment})$$

* Rate of internal use of funds in financial businesses (%):

$$(\text{Liabilities of financial business} - \text{assets of financial business}) \times 100 \\ / \text{Liabilities of financial business}$$

* Ratio of savings to lending (%):

Balance of loans outstanding \times 100 / balance of deposits

* Turnover of items purchased (times):

Cost of supplying purchased items / average inventory of purchased item

* Ratio of uncollected accounts for purchased items (times):

Amount of purchased items supplied / average outstanding balance of uncollected accounts

- Indices measuring profitability of cooperatives

* Return on equity (%):

Net savings for the period \times 100 / net worth

* Return on total assets (%):

Net savings for the period \times 100 / average total assets

* Ratio of gross profit to administrative expenses (%):

Administrative expenses of the business \times 100 / gross profit of business

* Ratio of administrative expenses to personnel expenses (%):

Personnel expenses \times 100 / administrative expenses of the business

- Indices measuring use of cooperative by members

* Outstanding balance of savings per cooperative member (pesos):

Average outstanding balance of savings / number of cooperative members

* Loans outstanding per cooperative member (pesos):

Average outstanding balance of loans / number of cooperative members

* Value of purchased items supplied per cooperative member (pesos):

Value of purchased items supplied / number of cooperative members

* Sales of merchandise per cooperative member (pesos):

Sales of merchandise / number of cooperative members

- Indices measuring labor productivity of employees:

* Outstanding balance of savings per employee (pesos):

Average outstanding balance of savings / number of employees

* Loans outstanding per employee (pesos):

Average outstanding balance of loans / number of employees

* Value of purchased items supplied per employee (pesos):

Value of purchased items supplied / number of employees

* Sales of merchandise per employee:

Sales of merchandise / number of employees

* Gross profit of business per full-time employee (pesos):

Gross profit of business / number of full-time employees

Below we propose policies to strengthen cooperatives from a managerial and administrative standpoint, with the status of the 16 cooperatives in our detailed survey in mind. We are using several indices instead of those above, which could not be used in the analysis because of data-related reasons. The index for each of the surveyed cooperatives is as follows:

Managerial Indices for Individual Cooperatives (Fiscal 1991)

Surveyed cooperative	Ratio of net member assets to total assets (%)	Liquidity ratio (%)	Ratio of total liabilities to net member assets (%)	Net profit margin (%)	Return on total assets (%)	Average wages P	Ratio of labors' share (%)
BSDCI	25.4	94.1	1.3times	22.0	4.2	24,486	77.0
BFMCI	22.0	134.3	3.3 times	45.7	9.2	0	0
PPMKBI	25.1	112.0	2.4 times	23.3	3.5	13,149	6.1
CMCI	30.3	132.2	2.7 times	33.4	14.9	0	0
PPPKMCI	10.8	108.9	8.2 times	40.9	2.3	450	3.7
GNPMCI	19.3	115.4	2.1 times	2.9	5.9	24,600	17.1
GIPMCI	6.3	82.6	1.1 times	1.8	3.2	5,080	3.2
DIMCI	0.9	373.1	100 times	0.5	0.7	14,648	53.4
BAMCI	69.8	303.2	39.4 %	13.2	7.1	0	0
SIDCI	34.2	229.1	15.3 %	62.5	24.2	19,570	15.1
PCDCI	11.6	90.8	4 times	28.5	3.3	13,502	11.9
UMCI	4.3	103.4	18.4 times	27.0	1.1	8,502	77.9
LMCI	42.0	228.3	64.4 %	0.3	1.2	74,933	68.5
PFMCI	56.2	365.8	15.0 %	134.6	17.3	38,402	36.3
DFFCI	38.5	374.6	1.1 times	1.8	1.2	29,903	18.5
NICI	33.4	141.0	1.9 times	9.1	1.9	38,337	34.1

- (Note) Ratio of net member assets to total assets = net member assets / total assets
 Liquidity ratio = current assets / current liabilities
 Ratio of total liabilities to net member assets = total liabilities / net member assets
 Net profit margin = net profit / total revenue
 Return on total assets = net profit / total assets
 Average wages = total wages / full-time employees
 Labors' share = total wages / gross profit on sales

Source: Based on survey conducted by the Study Team

In making our proposal at this point, we will follow the formula of pointing out what we believe to be factors hindering the development of management and administration of primary cooperatives, while at the same time proposing policies to strengthen these weaknesses. However, there are large differences in sizes of cooperatives in the Philippines and between well-managed and poorly managed organizations. Proposing policies for the strengthening of cooperatives while

ignoring this fact risks losing touch with reality. Thus, we will proceed while bearing in mind the need for strategies that reflect these differences.

Relatively strong cooperatives (Category I) exist, which are small and efficiently managed. But the factor obstructing the further development of operations of such cooperatives is, first of all, their small size. Smallness is very closely related to a brief period of existence since founding.

However, among these cooperatives are many for which further gains in size are impossible, because the basic farm population in their regions is small.

Regarding the management of primary cooperatives, there are methods of management that are appropriate for small organizations. It should be possible to act in close coordination with members, and it should also be relatively easy to implement cost-reduction policies in various areas because of the ease of obtaining the cooperation of members.

However, at present, there are many cooperatives where the operation of business in a manner appropriate to small size has not been established. This is the second factor hindering the development of cooperatives which are small and relatively efficiently run.

In particular, the delay in development of postharvest facilities and means of transportation, combined with weakness in the functioning of federations, have brought about a situation in which cooperative activity does not translate readily into visible economic results. Moreover, small cooperatives are often located in areas remote from the markets for their agricultural products. The fact that the ability of federations to organize the economic activity of these small cooperatives is weak is a factor inducing deterioration of managerial efficiency.

These small-scale cooperatives operate in areas where the density of farm households is low, making it difficult for them to seek to increase membership. In such regions, there is also the issue that, unless specific operational results can be made plain to see among non-member farm households expecting an increase in membership is even more difficult.

The vicious circle seen here, which applies to small cooperatives in general, is a factor obstructing the development of operations of these cooperatives.

However, the highly efficient and well-managed cooperatives in Category I can achieve a size in which economies of scale become possible, if they are able to increase the size of their memberships, while fundamentally maintaining their present basic approach in business and management. By this we mean that, since one could argue that these cooperatives have compensated for small amounts of equity by reducing their operating costs, arranging to augment capital could become a basis for major development.

Taking a look at a few managerial indices, we see that primary cooperatives which are small and have relatively high levels of efficiency, are characterized by generally high values in the following: ratio of net member assets to total assets; net profit margin; and return on total assets. Generally, although one could attribute these results also to a low value for labor's share, this latter point is closely related to the short periods that these organizations have been in existence.

Judging from the operational indices, it is possible to view these relatively efficient primary cooperatives as those, among the generally small primary cooperatives in the Philippines, which can be counted on to progress hereafter.

Viewing the issue now from the standpoint of policies to strengthen management and administration, the following can be cited as important reinforcing measures.

(1) Based on the indices just presented, one can conclude that risk with regard to invested capital is less in comparison to primary cooperatives which, while of similar size, are relatively less efficient. Therefore, if more low-interest loans could be provided to primary cooperatives, one could expect even greater inroads of efficiency in operations. Assuming that a system whereby such funds would be supplied is established, the function of controlling these funds will occupy an important part of management and administration. In such an instance, acquiring the know-how for that purpose, or adding employees with specialized knowledge will be necessary.

(2) At the same time, as a method for managing and administering small primary cooperatives, it is necessary to aim at having investment concentrated in

production of the most competitive agricultural products, and to promote the creation of distinctive regional agriculture through the reassessment of climatic conditions, soils, and levels of farming technology.

For this purpose, it will be necessary to establish the institutional ability in some form to provide agronomical information to cooperatives.

(3) It will be necessary to develop postharvest facilities and means of transportation. As a consequence, the readying of a cooperative finance system which would be able to act boldly in supplying the necessary capital for these needs, will be indispensable.

There is a need to establish a cooperative bank in all provinces which would be the financial institution for these individual cooperatives and which would have the function of providing financial services equitably to all individual cooperatives requiring it. As a rough sketch, these would be financial institutions that are members of the Cooperative Bank scheduled to be established centrally, with the present CRB as its basis.

(4) Further, a system of interest-rate subsidies must be created in order to take steps to lower interest rates on funds from the LBP, a public financial institution. Of course, the development of an administrative ability on the part of cooperatives receiving the funds is also necessary.

On the other hand, among the cooperatives in the Philippines, there are many which are small, and which have relatively poor operational efficiency (Category II). Among these are cooperatives whose operations are in crisis because of natural disaster. Cooperatives, once they fall into such situations, require a significant amount of time to rebuild operations.

The commonly shared problem is that the volume of business which would make progress in operational efficiency possible is itself small, and that the reasons for this small volume of business are grounded in a small number of cooperative members and in shortages, or decisive insufficiencies, of various facilities.

But one must also cite as a hindrance to development the virtually complete lack of functioning federations, which are supposed to exist to supplement these areas of difficulty.

Moreover, cooperatives belonging to Category II, characterized by their poor efficiency of operations and management, are in many cases involved in both the marketing and the supply of palay. However, because of small size, we believe these operations have not reached the stage where they recoup fixed costs. Separately, the insufficient use of the cooperative by members is also a factor restraining progress.

Because these cooperatives are unable to earn sufficient revenues to cover operating costs, they have difficulty attracting talented personnel; this also has become a factor hindering progress.

The reality is that there are a considerable number of such cooperatives which lag in operating efficiency. On the other hand, it is also true that there are a considerable number whose productivity of equity capital is adequate. Therefore, judging from this standpoint, taking steps to augment equity capital holds with it the possibility of fulfilling the potential for greater efficiency in operations.

Primary cooperatives which are small and have relatively low levels of efficiency, are characterized by generally low values in the following: ratio of net member assets to total assets; net profit margin; and return on total assets. In general, the rate of labor's share is downward. One can see how low revenues from operations and poor operational efficiency have caused low wages.

It is possible to view the individual cooperatives in this category as those, among the generally small individual cooperatives in the Philippines, for which prospects for growth are most in doubt. We have summarized several issues relating to these cooperatives in the following way.

(1) For the Philippines, more than elsewhere, natural disasters are a major problem which could be termed virtually chronic. The instances in which they have made a large impact on the operations of cooperatives are not infrequent. For such cooperatives, measures to support operations of primary cooperatives through the creation of a fund for natural disasters should be considered.

(2) Further, although for small primary cooperatives, the services provided by federations are indispensable, but the federations which actually exist are extremely weak. Thus, the primary task must first be to strengthen the abilities of federations by placing priority on promoting their mergers in regions where

cooperatives in this category are concentrated and where multiple federations exist in the same province. If, as a result, the abilities and operations of federations are strengthened, it should become possible to gain the services of talented personnel. If outstandingly capable personnel can be found, then it would not be out of the question for the federation also to be able to supplement the shortage of manpower at operationally weak primary cooperatives.

(3) Cooperatives in Category II are engaged in both the marketing of palay and in supply activities, and there are signs that their operational resources are being dispersed; thus, there is a need to consider concentrating activities in one or the other for the time being.

If the necessary examples of superior cooperatives exist, gathering and distributing information relating to the management and administration of these cooperatives is necessary in order to bring this about.

Among cooperatives in the Philippines, there are those which belong to the category of relative large cooperatives, and which enjoy relatively high levels of efficiency (Category III). However, even for cooperatives in this category, there is a factor inhibiting further progress of operations.

That factor is, to state it plainly, an over-reliance on certain types of businesses. In particular, there are examples of an over-emphasis on marketing becoming a major factor hindering the further development of operations. The insufficiency of supply-related facilities, which would be necessary to extract a cooperative from its dependence on marketing, can be said to be the fundamental impediment from a managerial standpoint.

Although the precise reason is unclear, cooperatives with between 600-800 members frequently enjoy basically solid operations. For such cooperatives, which are relatively large and efficient, it is necessary to conduct a greater variety of marketing activities, which have been integrated with supply activities, and to add depth to their various consulting activities, including farm-related guidance, without making undue efforts to enlarge their present size.

Further we would hope that they make attempts to increase their internal reserves. Because they belong to a category with generally high rates of return on equity capital, one can expect further increases of internal reserves as well as the possibility of these reserves being allocated toward internal investment.

It is possible to view cooperatives belonging to these categories as appropriate in operational scale, given the various conditions relating to cooperatives today. If one can consider these cooperatives appropriate in size, one should also be able to count on the existence of strong ties between the cooperatives and their members.

The primary cooperatives belonging to this category, whose levels of memberships would rank them somewhere in the middle, are characterized by high ratios of total liabilities to net member assets. Further, although the reason is unclear, net profit margins are high. The fact that these cooperatives often seem relatively relaxed about collections of receivables from members, and about members' repayments of debts to the cooperative, is probably playing a part here. One could classify these cooperatives, like the small and well-managed ones, among those with relatively high levels of efficiency.

For cooperatives characterized by these kinds of operational indices, we would propose the following kinds of policies to strengthen them managerially and operationally.

(1) Among the cooperatives in our survey, these had adequate levels of return on equity capital; thus, we would hope for a widening of the pipeline which taps into supplies of public investment funds. If this pipeline can be expanded, the conditions which would make it possible for the cooperative to provide, with even more initiative, the capital required for the purchase and/or upgrading of facilities by farm members would be widened. And the strengthening of cooperatives' abilities to control funds would become an important task in the management and administration division. In conjunction with this, it will be necessary to develop personnel to oversee the control of funds.

(2) The primary cooperatives in this category have a tendency to lean disproportionately in their operations toward certain businesses, particularly marketing. Therefore, there needs to be greater emphasis placed on the expansion of the business toward supply activities. For that purpose, financing the capital requirements for investment in facilities is essential. Given that regular members exceed 600, we believe that even if areas of business operation were expanded, achieving profitability would not be a problem.

(3) At the same time, there is a need to strengthen policies for the development of personnel capable of taking the initiative in management consulting

activities aimed at members, primarily those with regard to their farming activities.

Or, the cooperative should consider a structure by which they could disseminate superior management techniques, or experiences of some cooperative members to other cooperative members.

(4) Moreover, in order for cooperatives in this category to continue to develop, they must prevail in the competition with private merchants; for this purpose too, it is necessary that they use market-related information in order to further marketing and supply efficiently. We believe that the development of a data telecommunications system connecting cooperatives with the end market, and policies for the introduction and upgrading of means of transportation should be urgently implemented over the immediate future.

Although they are not all that frequently encountered, large-scale cooperatives (Category IV), which are expected to progress operationally hereafter, actually exist. In the case of these large cooperatives, however, the reality is that their operational efficiency is not very good. The factors impeding the development of these cooperatives are twofold: the achievement of economies of scale is being obstructed by the aging of facilities, and by shortages in the means of transportation; and the major lines of business lean too heavily toward certain areas, primarily supply, which is to say that the cooperatives have not achieved diversification.

Moreover, the fact that operating rates are low is also a large factor obstructing development. Therefore, the inability to respond in a comprehensive way via diversification to the diverse needs of the many cooperative members so painstakingly rallied together, is the largest factor working against operational progress.

The number of cooperatives belonging to this category is large. However, because they operate under conditions of severe competition with private merchants, their business is thinly margined and they must support their operations by compensating through volume. In order to win in the competition with merchants, cooperatives must attempt to reduce operating costs, in particular fixed costs; at present, however, this objective is not being adequately achieved. In a country where energy costs are high, the deterioration of efficiency in energy

use, due to the aging of facilities, becomes a major impediment to stability and progress of operations.

On the other hand, for cooperatives where modernization of facilities is occurring, the qualitative and quantitative improvements in ability to gather agricultural products, and in categories of items supplied, have not been accomplished to the point where they have raised operating rates of facilities to appropriate levels. This is either because the rate of usage of the cooperative by cooperative members is low, or because use is disproportionately heavy by a certain group of members. One must cite, among the factors contributing to this problem, the fact that transportation is in short supply. This fact illustrates how, even if facilities for the processing of agricultural products, or warehouses, are built, there are limits to a cooperative's ability to gather crops, unless transportation is available.

At their present stage, cooperatives belonging to this category cannot be called very efficient. However, there is a tendency for large cooperatives to split into two extremes with regard to return on equity capital: those with low efficiency of operations and low returns on equity capital, and those with low efficiency of operations, but high returns on equity capital.

The problem of high or low efficiency springs from low-margined operations carried out in response to competition with private merchants. If operating with thin margins is a condition, then an even greater amount of modernization and rationalization of operations is required.

For the immediate future, the issue will be the modernization of facilities and means of transportation, and, along with this, the adoption of managerial and administrative methods appropriate to an upgraded physical plant. Rationalization of management and administration will be carried out in accordance with a detailed plan which will be constantly reviewed based on the feedback; there is a need for cooperatives to become more aware of this process.

Further, in order to strengthen the connections between cooperative members and cooperative operations, it is necessary to keep up a forceful and daily pace of activities to educate and inform: this is to increase the understanding of cooperative members regarding the cooperative movement.

Among large cooperatives, there are many instances of generally inefficiently run operations and, in such cases, there is a tendency for the ratio of net member assets to total assets to be high. Moreover, the current ratio, which indicates the stability of short-term funds for the settling of accounts, is also high. Therefore, one can say that working capital is being generated to some degree. Next, the ratio of total liabilities to net member assets is generally low, indicating stability of operations. However, as mentioned above, efficiency and productivity are anything but high. We believe this reflects harsh competitive relationships with merchants; how to prevail in this competitive relationship must be the touchstone of policies to strengthen operations.

We believe that for cooperatives belonging to this category the following kinds of steps to strengthen operations would be effective.

(1) Because the size of operations is large and because these cooperatives possess attributes which make the pursuit of economies of scale possible, the achievement of diversification is above all required. For this purpose, the provision of facilities, means of transportation, and data telecommunication systems is imperative.

By accomplishing this, it will be possible to foster a comprehensive development of business through the manufacturing of processed foods: rice-related products in rice-growing regions; ham, bacon, and milk products in livestock raising regions; jams, juices, and oils in horticultural regions. There are already a few cases of cooperatives undertaking investigations of specific possibilities; we would look for these efforts to make progress. Further, some cooperatives are seeking to create cooperative brands for agricultural products and processed items--there is a need for joint efforts in this regard. Disseminating information about cases from advanced situations in Japan, and providing the necessary managerial and administrative know-how related to them, will also likely become issues. These efforts could also be effective as measures which attempt to bring about a greater usage of the cooperative by its members.

(2) However, managerial and administrative techniques which enable these enterprises to be carried out will be required: the introduction of special accounting systems for each business unit; the provision of assistance which makes it possible for cooperatives to gather and accumulate know-how for this purpose.

3) Our judgement is that cooperatives in this category are endowed with qualities that can measure up to the demands of the managers of private enterprises; more effort should go into furthering the introduction of management information systems that can meet these demands.

2-2 Unions and Federations

2-2-1 Unions

The fundamental point of steps to strengthen the management and administration of local unions (this also applies in instances when they become bureaus of the national central union) can almost be condensed into one item: the augmenting of operating capital. As the table below indicates, the actual financial conditions of regional central unions are extremely tight. Among the regions we surveyed, three had no central unions. To strengthen the finances of central unions, basically the same policies as those discussed in the context of steps to strengthen the management and administration of the Agricultural Cooperative Bureau of the Central Union of Cooperatives are required.

Incidentally, a look at the present situation shows that almost all of the leadership class of the central unions derives household income from sources other than the central union, and that it is rare to find anyone whose livelihood depends on income from the central union with which he is affiliated. It would not be an exaggeration to say that an understanding of the cooperative movement and individual passion are supporting the operations of the unions. It is not that these leaders do not possess the skills for management of cooperatives; many of them have been involved for numerous years in the management of primary cooperatives and have a deep understanding of the ideals of the cooperative movement. However, the reality is that opportunities to demonstrate this experience and passion within the context of union management are extremely limited.

The CETF, which is supposed to be the source of revenue for unions, is not providing the funds that were expected. Although one reason is that the unions which are its members do not have the economic breathing space, the fundamental reason lies in the unions' inability to make a single specific contribution to the members. Because there are no concrete benefits, members do not pay their

CETFs; because there is no income, the unions cannot function. This vicious circle is the reason that union operations cannot break free from the current situation.

Strengthening the operations of unions stuck in such circumstances requires specific, tangible actions--grand theories are no longer viable.

Here, the establishment of a Fund to Foster the Independence of Central Unions will be proposed. Its role will be to implement the activities of the union, and to stabilize such activities, functioning only for as long as it takes each union to achieve independence, based on income from its members. The fund will be established within the Central Union of Cooperatives and, limiting its involvement to activities engaged in by the central union's branches, will play the role of allocating profit from the fund to cover all or part of the capital required for those businesses and/or activities as well as all or part of the capital for the management and administration of those businesses and/or activities.

	Number of full-time employees	Total revenues	Surplus
Union A	0	P 91,178	P 49,986
B	0	0	0
C	4	400,000	▲ 300,000
D	5	370,718	15,162

Source: Based on survey conducted by the Study Team

2-2-2 Federations

As can be seen in the table below, although called federations, the 21 such organizations we surveyed in detail were in many cases either hardly any more than primary cooperatives or of a smaller size. Their current financial situations are also extremely tight. Federations ending up bankrupt in the near future will probably be more than a small handful. Assuming that bankruptcies arise, will that mean that remaining federations will be able to expand market share and strengthen their operations. To that, the answer is no. That these comments apply also to federations in regions outside our survey is probably beyond a doubt. Not only is it virtually impossible for the federations to supplement the operations of primary cooperatives, but their very survival as an institution is even felt to be endangered.

Given all this, the following steps dealing with management and administration are required.

(1) Carrying out regular analyses of operations using the same indices for operational analysis as those mentioned in the section on primary cooperatives; and effecting improvements to operations based on this analysis.

(2) The introduction of systems of management and administration used in private enterprise; more specifically, these would include the following: systems which allow directors and employees, as well as members to propose improvements covering any and all fields of operation (for example, quality circles); systems for maintaining appropriate levels of inventory; systems for controlling quality of items purchased for inventory; systems for the inspection and standardization of agricultural products sold; developing market-research capabilities and systems of data management; improving methods of analyzing operational costs, etc.

(3) Making it a point to adopt a system of business tieups. These could include, for example, relationships with the federation of consumer cooperatives in Manila-Cebu-Davao, the big final market for agricultural products; relationships with private companies which understand the cooperative movement, or with the NFA, regarding the greatest bottleneck facing cooperatives--that of transportation methods and postharvest facilities; and the establishment of facilities for joint use by cooperatives over a wide area.

(4) The pursuit of economies of scale: specifically the merging of federations; and the development of new large federations.

(5) Conducting a reassessment of all businesses currently engaged in; selecting the businesses and the product categories which are relatively strong and concentrating limited capital into these areas.

	Number of full-time employees	Total revenues	Surplus
Federation A	4	P72,030	P27,776
B (CRB)	8	57,906	▲ 67,597
C (CRB)	21	3,559,519	382,280
D	6	394,499	58,368
E	2	256,703	10,269
F	0	206,600	178,471
G (CRB)	NA	1,576,165	227,432
H	8	401,770	74,168
I	10	552,589	43,945
J	15	1,329,159	86,535
K	0	27,544	14,834
L (CRB)	10	2,524,014	291,043
M	NA	8,260	2,727
N	7	162,027	45,581
O (CRB)	10	770,624	▲ 1,042,317
P	26	14,763,521	▲ 1,493,405
Q	3	27,136	▲ 15,388
R	4	560,620	107,084
S (CRB)	33	9,465,438	1,106,096
T	43	5,844,086	454,385
U	0	0	0

Source: Based on survey conducted by the Study Team

3. Measures to Promote the Business Activities

3-1 Marketing and Supply Business

3-1-1 Primary cooperatives

There should be a general review of the operations and profitability of Categories I and II cooperatives. Those that are found to be unprofitable should be merged with bigger cooperatives. While the consolidation is in progress, the marketing and the supply functions should be strengthened.

(1) The Marketing function

There are a number of ways in which the marketing function can be strengthened. First the palay should be processed into rice at the primary or at the federation level. This activity provides additional employment to farmers, millers and also, employees of the cooperatives. It also reduces the storage and transportation cost. It is easier and cheaper to transport and store rice compared to palay. There are by-products of the milling process that can be sold or can be used to support poultry and swine production and lastly, rice is easier to sell either at retail or wholesale at the local or at the regional markets.

One of the problems associated with rice processing is the additional capital needed to establish a complete rice milling facility. A thorough feasibility study should be conducted before cooperatives invest on a rice milling facility and related machinery and equipment.

Financing the purchase and sale of farm product should be strengthened. Purchases should be paid on consignment and installment, while sales should be paid on cash and demand. This will significantly improve the cash flow position of the cooperative and will reduce the need for borrowing money to finance the inventory.

Alternative sources and outlets of farm products should be developed. While it is important for the members to sell their crops to their cooperatives, it is not equally true that the cooperatives should limit their purchases from the members. If the facilities and working capital permit, the cooperative should expand its sources of farm products to non-member farmers including wholesale dealers, primary and federation of cooperatives. In the same manner, cooperatives should develop alternate outlets beside the wholesale dealers. The cooperatives principal

outlet should be the PFACs, and alternate outlets should be used only as necessary.

(2) The supply function

The biggest problem in supply procurement is that almost all of the inputs are purchased from private wholesale dealers. The two biggest commodities in the input supply businesses are fertilizer and agricultural chemicals. The distributorship of these supplies at the wholesale level is almost monopolized by wholesale dealers. The Department of Agriculture has the authority to break the monopoly and grant limited but exclusive franchises to selected PFACs which have the capital, technical expertise and support facilities necessary for procurement, storage and distribution.

Similarly, the outlets for supply should be expanded to non-member farmers, private retail dealers or other cooperatives. Many farmers are not presently served by wholesale dealers and they represent a potential market for the cooperative.

Financing the procurement and sale of farm inputs need to be strengthened. About 95% of input procurement are paid for in cash or on demand while only 75% are sold on cash and on demand. This requires the cooperative to borrowing money to finance the inventory.

3-1-2 Federations

(1) The marketing function

Rice and poultry are the two most important products sold by the federation of which 70% are procured from private wholesale dealers and 25% from primary cooperatives. Given that the principal outlets are primary cooperatives, it would seem fairly easy for the federation to source their supply of farm products directly from member farmers or from primary cooperatives. An area that needs to be strengthened therefore is for the PFACs to purchase farm products from farmers or from cooperatives and sell them to wholesale dealers.

Financing the marketing function of the federation is perhaps one of the best in the cooperative movement and should be used a model for primary cooperatives. About 90% of purchases are on installment while 65% of the sales are on cash. This kind of financing arrangement strengthens the cash flow

position. If this financing arrangement is followed consistently over time, borrowing funds to finance the inventory would not be necessary.

(2) The supply function

The PFACs should source their supply of farm inputs directly from the manufacturers or importers of fertilizer and agricultural chemicals or indirectly through the National Marketing and Supply Federation and not from private wholesale dealers. They should also diversify their outlets to include non-member farmers and private retail dealers.

As in the marketing business, the PFACs method of financing procurement and sale of farm supplies is excellent. The use of cash represents only 8% of total purchases while 83% of sales are in cash basis. This method of financing should be used as a model for the primary cooperatives.

3-1-3 Suggested structure

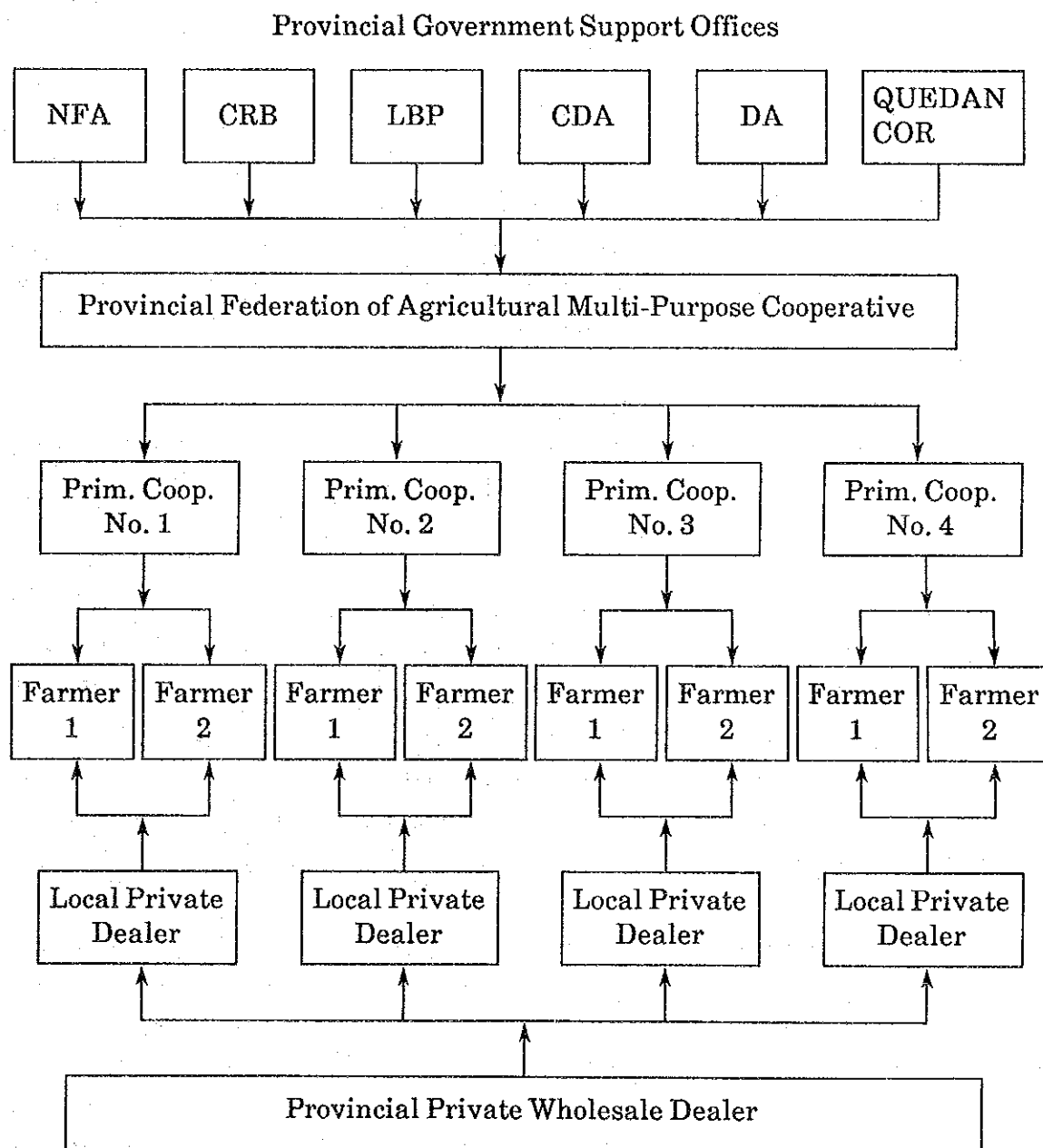
For a provincial federation of agricultural multi-purpose cooperatives to develop the potentials, it must be structured along the lines proposed in Figure 1.

Figure 1 shows the linkages necessary to strengthen the Provincial Federation of Agricultural Multi-Purpose Cooperatives (PFAC). First, it must be able to enjoy the support of the provincial offices of the National Food Authority, the Cooperative Bank, the Land Bank of the Philippines, the Cooperative Development Authority, the Department of Agriculture and the Quedancor. The PFAC must be able to tap or coordinate the financial resources of the CRB, the LBP and the Quedancor to address the financial problems of the federation and its member cooperatives. It must also be able to access the facilities and personnel of the NFA and the Quedancor to address the problems marketing. Lastly, it must be able to access the technical assistance of the DA to address the production problems of the farmers.

The PFAC should also have the support of the national marketing and supply federation. There are important technical and business matters that the PFACs can not do without the help of a national organization. First a national organization can be used as a bridge to access the regional and national markets for commodities. Second, the National Marketing and Supply Federation can represent the PFACs in negotiations with importers, suppliers and manufacturers of farm supplies, fertilizers and agricultural chemicals. And third, the National

Marketing and Supply Federation can provide technical assistance in packaging loan application, conduct feasibility studies, program or project proposals and representation to local or national government agencies and private businesses.

Fig. 1: Proposed Structure of Local Level Marketing and Supply Cooperatives



With the assurance of support from the provincial level offices of the government and the National Marketing and Supply Federation, the PFAC can negotiate contractual arrangements with private businesses or as a condition for membership in the PFAC, an exclusive marketing and supply arrangement with the primary cooperatives in the province. In turn, the primary cooperatives can negotiate separate contractual arrangement with non-member farmers or as a requirement for membership, an exclusive marketing and supply agreement to sell the farmers' produce and supply them with agricultural inputs.

In this connection, laws already exist to support the PFACs bargaining power in negotiation with the primary cooperatives, with individual farmers and with wholesale dealers. These laws and regulations give the cooperatives exclusive use (lease or purchase) of the NFA facilities needed in marketing of rice and palay. Also, the Department of Agriculture can also grant the PFACs exclusive dealership of fertilizer and agricultural chemicals in the province.

As the PFAC begin to offer a wide range of financial, marketing, supply procurement and distribution services to primary cooperatives and other private businesses not otherwise members of PFACs, the influence of the private wholesale dealers will diminish.

In order that the PFACs can deliver the services required by member cooperatives and non-member private businesses, it should be structured to facilitate the attainment of economies of scale, develop market outlets and sources of input supplies within and outside the province, have sufficient technical and financial backing, and must have expert technical and business management staff to run the day to day operation. A proposed PFAC organization is shown in Figure 2. See Figure 2.

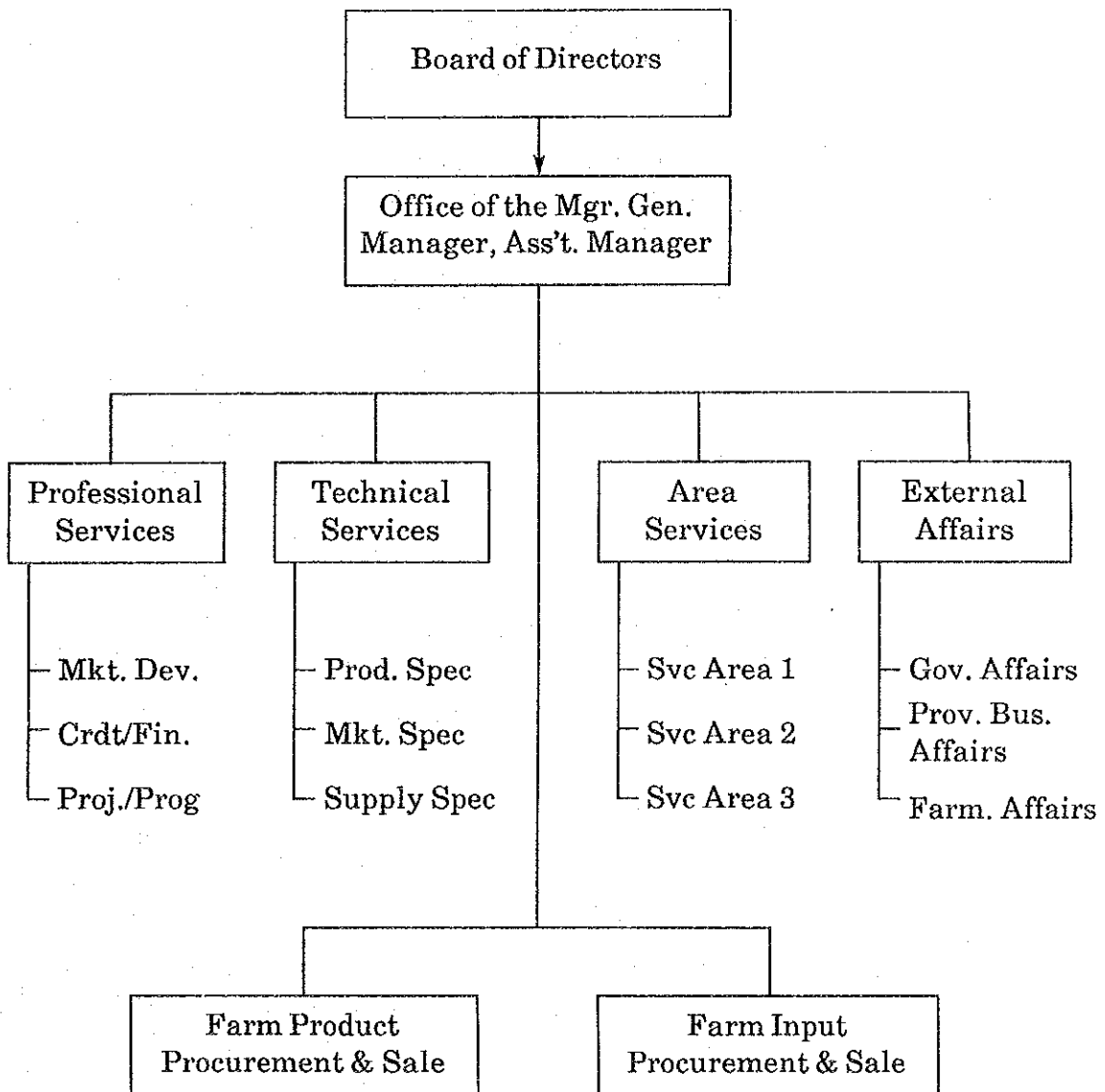
The Board of Directors (BOD) should be selected from the General Managers of the member primary cooperatives. The BOD establishes the guidelines and operating policies of the PFACs. It also appoints the General Manager and the Assistant manager of PFAC.

The Manager and the Assistant Manager manage the day to day operation of the PFACs. They report to the Board of Directors, to the member primary cooperatives and supervise the marketing and supply businesses of the federation through the Chief of the Marketing and Chief of the Supply Divisions. In their management and technical functions they are assisted by specialized offices such

as the Office of Professional Services, The Office of Technical Services, the Office of Area Services and the Office of External Affairs.

The Office of Professional Services assist the Director and the Chief of Marketing Division and Supply Division in the market development, credit and finance and projects and program development and implementation. Along with the Office of Technical Services, they provide technical, economic and financial services (e.g. feasibility studies, preparation of program and project proposals, market development and promotion).

Fig. 2: Proposed Structure of a Provincial Federation of Agricultural Multi-Purpose Cooperative



The Office of Technical Services assist the Manager and the Chief of Marketing and the Chief of Supply Divisions on technical aspects of commodity procurement and marketing, input supply procurement and distribution. At the request of the member cooperative, they are also available to provide technical assistance in the areas of product marketing and supply procurement.

The Office of Areas Services addresses the product marketing and input procurement problems of specific areas of the province. Because of the need for effective coordination and timely implementation of all the marketing and supply businesses of the federation, there need to be only one PFAC in one province. For management effectiveness, it is necessary to divide the province into a number of service areas. Each area is covered by a Service Area Officer. The Service Area Officer works with the Chief of the Marketing Division and the Chief of the Supply Division to facilitate the marketing of produce, or the procurement and distribution of input supply in their respective areas.

The External Affairs Office helps the Manager maintain good public relations with government offices, private businesses, families of PFAC staff and officers and employees of member cooperatives.