2 Management of Agricultural Cooperatives

2-1 Primary Cooperatives

(1) Purpose of agricultural cooperative management

The Philippines has few, if any, agricultural cooperatives whose regular membership is confined to farmers as in Japan. In the Philippines, whether an organization is an "agricultural cooperative" or not is simply determined by the extent to which cooperative activities and cooperative members are based on agriculture and farmers. In many cases, agricultural cooperatives are multi-purpose cooperatives, of which community residents, including non-farmers, are members, or marketing cooperatives or credit cooperatives.

Hereinafter, these organizations will be simply referred to as "agricultural cooperatives." Philippine agricultural cooperatives are mainly composed of landless farmers or small farmers (DA defines small farmers as "farmers engaged in small-scale subsistence farming whose sale/barter of exchange of agricultural products do not exceed a gross value of P50,000 per annum").

In the case of Japan, agricultural cooperatives, consumers' cooperatives, credit cooperatives, etc., are formed by separate laws. On the other hand, Philippine agricultural cooperatives assume a European-style pattern, and a single cooperative law (New Cooperative Laws RA 6938, enacted in 1989 under the Aquino regime; referred to hereinafter as "RA 6938) forms a legal basis for all types of agricultural cooperatives. CDA (Cooperative Development Authority), established in accordance with RA 6939, is the enforcement body of this law and forms one of the cores of organizations promoting the cooperative movement in the Philippines from the policy standpoint.

Like this, RA 6938 is an all-embracing law. It therefore contains no clause stipulating the purpose of agricultural cooperative management. The law only defines agricultural cooperatives as being responsible for the pursuance of the following policy as in the case of other types of cooperatives:

"To provide goods and services to its members and thus enable them to attain increased income and savings, investment, productivity and purchasing power and promote, among them, equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk-sharing without,

however, conducting the affairs of the cooperative for eleemosynary or charitable purpose ...." (RA 6938, Article 7).

However, it seems that agricultural cooperatives are actually expected to play a significant role in comprehensive agricultural reform from the standpoint of pursuing the agricultural policy. DA, though not a government office with jurisdiction over cooperatives, uses a deliberate expression in describing, in "The Philippine Agricultural Department Plan 1991-1995," DA, 1990, one of its PR data, its support for farmers' and fishermen's organizations and cooperatives to maintain and develop farming and fisheries. This means that the central government regards agricultural cooperatives as one of the prime movers for agricultural reforms.

To cite a concrete example, Land Bank funds, which form the most vital core of agricultural system financing, are designed to be loaned to farmers with agricultural cooperatives, which are registered with CDA, and other cooperatives as channels. This means in other words that farmers cannot obtain Land Bank funds unless they are affiliated with agricultural cooperatives or other cooperatives. In this sense, it can be said that Philippine agricultural cooperatives serve as the channel through which the government's agricultural policy is permeated into rural communities.

In the case of Primary agricultural cooperatives, the purpose of their activities is ordained by RA 6938, Article 14 to be entered in the articles of association of agricultural cooperatives.

Following are examples of the purpose of management of two agricultural cooperatives entered in their articles of association:

(i) Agricultural Cooperatives A

* Increased income of members and strengthening of their purchasing power

* Supply of agricultural production funds (LBP loans) to members

* Supply of high-quality consumption materials

* Food processing to increase members' earnings

* Marketing of agricultural products and supply of production materials, and supply of feed crops and medicine for domestic animals

(ii) Agricultural Cooperatives B

* Increased income of members and strengthening of their purchasing power

* Increased income of members and strengthening of their capital formation capacity

* Marketing of agricultural products and supply of production materials

* Promotion of the cooperative movement to improve the economic and social status of rural community residents

* Continuous cooperative education for cooperative members,cooperative directors, cooperative personnel, and members of various committees within cooperatives

* Cooperation with cooperatives at hamlet, provincial and regional or national levels.

Next the results of analysis, made of the status of cooperative management as means to attain the purposes listed above, will be discussed.

(2) Management environment of philippine agricultural cooperatives

1) Agricultural conditions

Size of Government's Agricultural Budget

The agricultural policy of the Philippine government is gradually moving toward a relaxation of regulations on the basis of market mechanism. This is symbolized by moves for the privatization of LBP and NFA. Such moves to privatization of LBP and NFA will become an extremely important factor in deterring future trends in the agricultural policy.

In 1992, the ratio of the government's agricultural budget to the national budget as a whole was 4.04 percent (Department of Agrarian Reform, 0.37

percent); and Department of Agriculture, 3.67 percent). However, there is no denying the possibility of a cutback in the agricultural budget when LBP and NFA have been privatized.

Production Targets for Agriculture

Main agricultural products in the Philippines are palay (rice), corn, coconut, sugar cane, banana, pineapple, coffee, mango, cassava, hog and chicken (on a production basis). According to DA's forecast for 1991-95, their production increases (annual average) are estimated as follows:

4.1 percent for palay, 5.7 percent for corn, 1.3 percent for coconut, 9.7 percent for sugar cane, 2.4 percent for banana, 2.9 percent for pineapple, 1.5 percent for coffee, 6.6 percent for mango, 3.6 percent for cassava, 7.7 percent for hog, and 9.3 percent for chicken.

Production targets for main agricultural products, which have a considerable impact on agricultural cooperative businesses, have, in the past, been generally attained, serving as a favorable factor for agricultural cooperative management.

Agricultural Product Pricing Policy

Price trends in palay, which boasts the largest agricultural production and which is grown nationwide, mean a great deal to Philippine agricultural cooperatives. There is a tendency for the producer's price of palay to rise during June-July off-season and fall during the October-December harvesting season (according to a survey by AMC in Iloilo City, the palay price averages 416 pesos per 50 kg in June and July and 320 pesos per 50 kg in October to December. These fluctuations in the palay price have become a factor for the instability of agricultural cooperative management.

To cope with these price fluctuations, NFA has taken price intervention measures such as purchasing palay when its price has fallen and releasing stored rice when the price has soared. However, the market share of these agricultural products is only about five percent, so such NFA measures can never be described as being adequate in saving agricultural cooperative management from price fluctuations.

At present, agricultural cooperative management is constantly in a state of instability because it does not have any adequate buffer for the price fluctuations

of palay which is a principal agricultural product.

Foreign Trade in Agricultural Products

In the Philippines the food self-sufficiency rate is extremely high; in fact, the country is nearly 100 percent self-sufficient in a large portion of foods. Per-capita consumption of rice, a stable food, averages about 95 kg a year.

There are some fluctuations in rice production (because of many natural disasters, including typhoons) according to year, but the country is about 90 percent self-sufficient in rice.

Yet, the government intends to push ahead with the import liberalization of agricultural products. It is expected that the liberalization, if carried out on a large scale, could have a substantial impact on the future management of agricultural cooperatives.

2) Requirements of agricultural cooperative management

Market Share

Competition in the collection of rice, which is a staple food marketed by agricultural cooperatives, is very fierce, and the competitiveness of agricultural cooperatives is generally low in this area of activity. This is also the case with corn and other main agricultural products. The same can be said of fertilizer, agricultural chemicals, feed crops and other main production materials. As a result, agricultural cooperative businesses are less competitive in their respective markets. In reality, with regards to almost all products, agricultural cooperatives do not function as price leaders.

The points described above attest to the status of agricultural cooperatives in the Philippines, and they form one of the factors weakening the foundations of agricultural cooperative management.

Mostly Small Farmers

Eligibility for the membership of Philippine agricultural cooperatives is extremely lenient. Again, income does not serve as the basis on which to determine the eligibility for affiliation with an agricultural cooperative. Therefore,

wealthy landlords and tenants are qualified alike for agricultural cooperative membership.

The status of Philippine farmers is diverse. They are categorized, by type of land ownership, into absentee land-lords, owner-operators, lease-holders and CLT (certificate land transfer). Similarly, the type categorization of non-landlords is diverse. They are divided, for example, into tenants (share/land lease or rents), landless rural workers, small farmers (less P50,000/year), farmworkers, and small annual agricultural producers (more then 50 percent of whose income is from farming but whose income is less than P50,000 a year).

However, most agricultural cooperative members are landless tenants, or tenants with only small patches of land. Petty tenants being agricultural co-operative members is logically appropriate because it is based on the role of cooperatives. Economically, however, they belong to the weakest class in Philippine society.

(3) Legal provisions concerning agricultural cooperative management

Provisions concerning agricultural cooperative management based on laws (laws, enforcement ordinances, regulations, articles of association, etc.). Matters pertaining to agricultural cooperative management are prescribed by RA 6938. Following are principal matters and items, and their highlight points:

Provisions Concerning Eligibility for Membership

1) Eligibility for agricultural cooperative membership - RA 6938, Article (referred to hereinafter as "ART") 26.

Any Philippine citizen can join cooperative membership.

2) Kinds of membership - ART 27. There are regular members and associate members.

Provisions Pertaining to Execution of Management

1) Composition of the board of directors - ART 38.

The Board of Directors is composed of five up to 15 directors. Their maximum term of office is two years and three terms.

2) Power of the board of directors - ART 39.

The Board of Directors conduct the supervision of cooperative businesses and cooperative assets, and other activities in accordance with decisions made at its general meetings.

3) Eligibility for directorship - ART 40.

There is, in principle, no restraint on the eligibility for directorship.

4) Meeting of the board of directors, quorum - ART 41.

The Board of Directors calls a regular meeting once a month, while an extraordinary meeting of the Board of Directors is convened by the cooperative president. These meetings are convoked as provided for by law. The proceedings of the Board of Directors meeting are determined by a majority of directors. No proxy is allowed to attend the Board of Directors meeting.

5) Committees of cooperatives - ART 44.

Special committees can be established in accordance with decisions by the Board of Directors.

6) Functions and responsibilities of directors, cooperative officials and committee members - ART 46.

Directors, cooperative officials and committee members jointly assume responsibilities for compensation when they have caused serious damage to cooperative businesses and assets.

Provisions Concerning Capital Formation

1) Capital sources - ART 73.

Cooperative capital sources are contributions, loans, savings, dividend reserves, the payment of which has been deferred, interests on contributions, relief funds from within and outside the country, donations, estates and grants.

2) Limitation of per-capita share holdings - ART 74.

No cooperative member can have share holdings that exceed 20 percent of the total.

3) Assignment of share capital contribution or interest - ART 75.

No cooperative member is allowed to assign his share capital contribution or interest to others in case more than a year has elapsed since he paid his contribution, in case the assignee of his contribution or interest is the cooperative or a cooperative member, and unless otherwise approved by the Board of Directors.

4) Limitation of interest on share capital - ART 76.

The dividend on share capital must not exceed the level laid down by CDA.

5) Shares - ART 77.

A share must not be below one peso.

6) Cooperative investment of capital - ART 79.

The capital must be used to purchase negotiable securities, including cooperative bonds, to make bank or cooperative deposits, and to purchase real estates for use by the cooperative or its members.

7) Revolving capital - ART 80.

The cooperative can have a certain amount of revolving capital to strengthen its owned capital.

Provisions Concerning the Reflection of Members' Opinions

1) Composition of the general assembly - ART 33.

The general assembly is organized by cooperative members.

2) Power of the general assembly - ART 34.

The general assembly is the cooperative's supreme decision-making organ.

Decisions cannot be made by proxy concerning the approval of the articles of association, the election and removal of directors, the approval of cooperative projects, and matters demanded by more than two-thirds of cooperative members.

3) Meetings - ART 35.

(providing for the frequency of meetings, etc.)

4) Quorum - ART 36.

Unless otherwise prescribed, the quorum should be more than 25 percent of the total number of cooperative members.

5) Voting system - ART 37.

Primary cooperative members have the right to cast one vote per head, while secondary or tertiary cooperative members have the right to cast up to five votes per head.

(4) Systems for the guidance in and promotion of cooperative management

Non-governmental Systems

National-level agricultural cooperatives, which exist to extent guidance to the management of agricultural cooperatives or to complement their undertakings, are generally CUP, BANGKOOP, CISP, FACOP, NATCCO and CMSI (Cooperative Management System, Inc.).

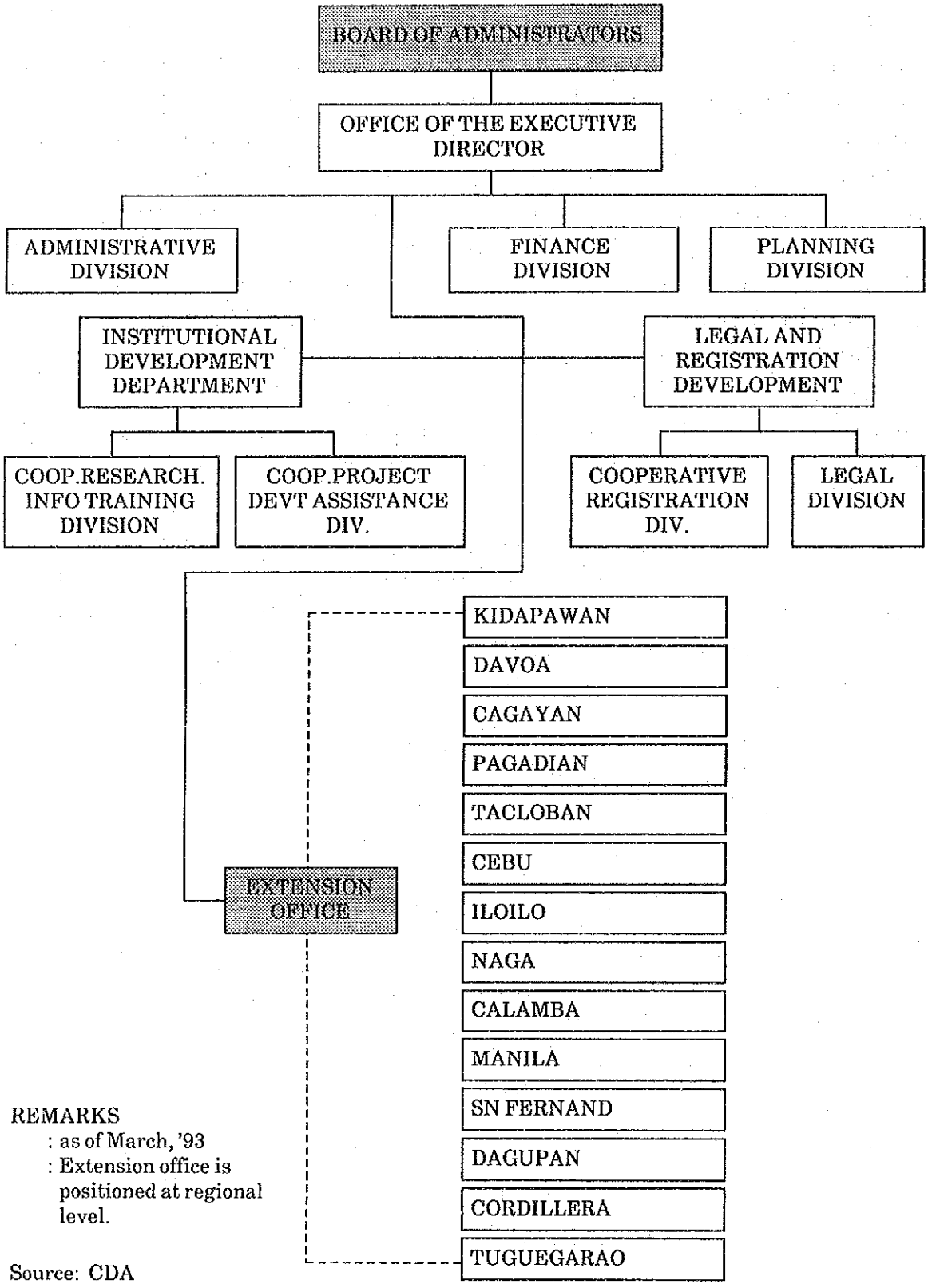
Of these organizations, CUP does not have any expert in agriculture and agricultural cooperatives. Therefore it hardly can afford to offer guidance to cooperative management, hence it has entrusted cooperative management guidance to outside consultants. BANGKOOP extends cooperative management guidance in many ways, but it, as with CUP, relies for such guidance on outside specialist lecturers. NATCCO, partly because it was inaugurated as a training center, extends management guidance to agricultural cooperatives under its wing, through its own lecturers. CMSI, which was inaugurated to specialize in management guidance to agricultural cooperatives, simply exists in name because it is not actually functioning.

Policy Systems

It is CDA that is burdened with the role to play in promoting the cooperative movement in the Philippines from the policy standpoint. In the Philippines, the agricultural cooperative movement is dealt with as part of the cooperative movement as a whole. CDA has refrained from directly maneuvering the cooperative movement or infringing on the independence of cooperative management, soberly reflecting on the undesirable results brought about by its past excessive interference with the cooperative movement. The main task of CDA is to provide NGOs which have development potential, such as cooperatives, with technical and financial assistance at their requests and to register NGOs as cooperatives approved by law, when they have met given requirements demanded by law. With regard to agricultural cooperative management, CDA is currently trying to educate cooperative members on appropriate cooperative management by preparing basic questions and answers, including "How to manage a cooperative."

CDA is a government office under the direct control of the Presidential Office, established in accordance with RA 6939,. CDA is currently working together with the central government in upgrading regional-level extension offices (see Fig. I) in parallel with the transfer of central government authority to provincial governments.

Figure 1 CDA Organizational Structure



REMARKS
: as of March, '93
: Extension office is positioned at regional level.

Source: CDA

LBP is not an agricultural cooperative organization but a government-affiliated financial institution. LBP accommodates loans to farmers through agricultural cooperatives, as in the case of Japan's Agriculture, Forestry and Fishery Finance Corporation. This compels LBP to extend management guidance to agricultural cooperatives in order to improve the recovery rate of the loans it has accommodated. In the Philippines, at least 20 percent of the funds advanced by agricultural cooperatives have been in arrears, hence the stabilization of agricultural cooperative management is important to LBP itself.

DA is not a government office with jurisdiction over cooperatives. Because of this, it has no direct part in agricultural cooperatives. However, for instance NFA supplies market information to the Davao Federation of Agricultural Cooperatives and cooperates in its marketing activities against the backdrop of the federation's "self-reliance" project.

(5) Status of agricultural cooperative management

Agricultural cooperatives have two side faces, one as an enterprise and the other as a community organization. Primary cooperatives should be managed in due consideration of the balance in these two aspects. This is becoming a matter of common sense among scholars on Philippine cooperatives.

In the Philippines, two factors are considered to exert an impact on agricultural cooperative management. One is the internal factor and the other is the external factor.

The internal factor involves managers' ages, educational backgrounds, length of experience, leadership and decision-making ability. Particularly, the decision-making ability has a direct large influence on the relaxation of confrontation that stems from a divergence of opinions among cooperative members over cooperative projects, organization, business management and control.

The external factor involves social, cultural, political and historical conditions in rural communities. As with the internal factor, the external factor exerts a considerable influence on the management of primary cooperatives. It is especially important to pay attention to this point in the study of cooperatives in the Philippines.

Following is the analysis of the management status of Philippine agricultural cooperatives which have such a variety of factors:

Status of General Assembly

General assembly, which carry the greatest significance in the management of agricultural cooperatives, are held as prescribed by RA 6938. Matters for decision conform to the rules described in RA 6938, ART 34.

The form, mechanism and duration of the general meeting somewhat vary according to agricultural cooperative, but basically, there is little difference. According, however, to Table 1-1, 1-2, the frequency of the general meeting and the percentage of attendance by cooperative members differ according to agricultural cooperative. But the percentage of attendance is generally as high as about 70.

Difference by Size of Agricultural Cooperative (Membership, Volume of Business, Etc.)

Insofar as the percentage of attendance in general assembly meetings, any difference by the seize of agricultural cooperative is not to be noted basically. As the below tables show, the agricultural cooperative A and the agricultural cooperative B have 300 and 50 members, respectively. Naturally, their volumes of business differ. It is not clear whether the difference in their sizes has affected the percentage of attendance in general assembly meetings.

Working Mechanism of Reflection of Opinions

Typical of opportunities to reflect the opinions of cooperative members are general assembly meetings. However, daily opportunities to reflect the opinions of cooperative members are not necessarily provided as a matter of formality.

Despite this situation, agricultural cooperative members sometimes present their opinions concerning the management of their cooperatives. Their opinions are often presented to managers who are virtually responsible for agricultural cooperative management. In the case of a certain agricultural cooperative, it is said that some cooperative members visit the cooperative office to personally air their views concerning matters related to the cooperative management and others write their opinions to the cooperative office. In response, the management staff explains themselves at general assembly meetings or serve written notices to cooperative members in case cooperative policies, regulations and policies have been decided or altered. In the case of other agricultural cooperatives, they publish information papers in Taga-log once every two months. There are also

many opportunities for daily conversation among cooperative members, but few of them are personally interested in the management of agricultural cooperatives.

Table 1 Attendance rate to meetings of Ag. Coops (example in 1990)

"A" Agricultural Cooperative

	TOTAL NO. OF MEETING	AVE. PERCENT ATTENDANCE (%)
BOARD MEETING		
REGULAR	12	98
SPECIAL	4	90
GENERAL ASSEMBLY MEETING		
REGULAR	1	73
SPECIAL	1	65

"B" Agricultural Cooperative

	TOTAL NO. OF MEETING	AVE. PERCENT ATTENDANCE (%)
BOARD MEETING		
REGULAR	5	85
SPECIAL	3	75
GENERAL ASSEMBLY MEETING		
REGULAR	1	67
SPECIAL	5	67

Status of Executive System

The executive organ responsible for agricultural cooperative management is the Board of Directors. Directors are elected at a general assembly meeting, but they are, in many cases, no better than representatives of hamlets. The authority of the Board of Directors is prescribed, as already explained, by law. The president of a cooperative serves as the chairman of the Board of Directors, but the president is elected by the directors. According to the results of investigations we conducted in various areas, the cooperative presidency is generally assumed by young people. Among them are many well-qualified people.

In the case of Philippine agricultural cooperatives, it is ordained by law that they should set up various committees in addition to the Board of Directors as an executive organ, to supervise the administration of routine services. Japan's Agricultural Cooperatives Law does not have such regulations. Concrete instances in these respects will be taken up the "Status of Management Administration and Organization."

Size of Agricultural Cooperatives

Philippine agricultural cooperatives are generally small in size. Using data provided by CDA, Table 2 classifies the number of members by the size of membership with respect to 320 agricultural cooperatives picked at random from among those in three regions - Regions 3 and 4, and National Capital Region (Manila). According to the table, agricultural cooperatives with a minimum required membership of 15 account for 10 percent of the total, while those with 16 to 30 members, 31 to 50 members and 50 members or less account for 87.8 percent of the total. Agricultural cooperatives with a membership of 300 or more form only 0.3 percent of the total.

Like this, Philippine agricultural cooperatives are characterized for their small size. There is a need to take note of the fact that the agricultural cooperative management problem in the Philippines has much to do with this point. It is particularly noteworthy that there are many agricultural cooperatives that cannot meet even the minimum requirements for economic independence.

In this way, the management administration and organization of Philippine agricultural cooperatives are categorized by function, not by business. Following is a brief explanation on the functions of various organs and sections in Fig. 2:

Table 2 Number of Multi-purpose Agricultural Cooperatives
(By Membership Scale)

Class (Member)	Number of Cooperatives	Percentage
15	32	10.0
16-30	146	45.6
31-50	104	32.5
51-100	27	8.4
101-200	9	2.8
201-300	1	0.3
OVER 300	1	0.3
TOTAL	320	100.0

Remarks: As of March 1992
Source: CDA Data

General Assembly

* Election or replacement of directors, and election of cooperative personnel and members of committees

* Approval of reports from the Board of Directors, cooperative personnel and committees

* Final approval of matters that are accompanied by grave changes in the financial situation

* Final meditation in disputes that have arisen among the Board of Directors, committees, cooperative personnel and primary cooperative members

* Revision of the articles of association or items prescribed by law

* Final decision on other matters affecting cooperatives, and the implementation of the decision

* Exercise of the rights and privileges vested with cooperative members

The Board of Directors

* Drafting of cooperative policies

* Overall supervision and control of business sections in the cooperative

Credit Committee

* Screening and acceptance of requests for loans, including uncollected income from purchasing business

Supervisory and Inventory Committee

* In-depth management of the cooperative's appropriate account settlement system, supervision of internal audit, and consultation with the Board of Directors concerning tax problems

Election Committee

* Supervision of various types of election at the general assembly meeting

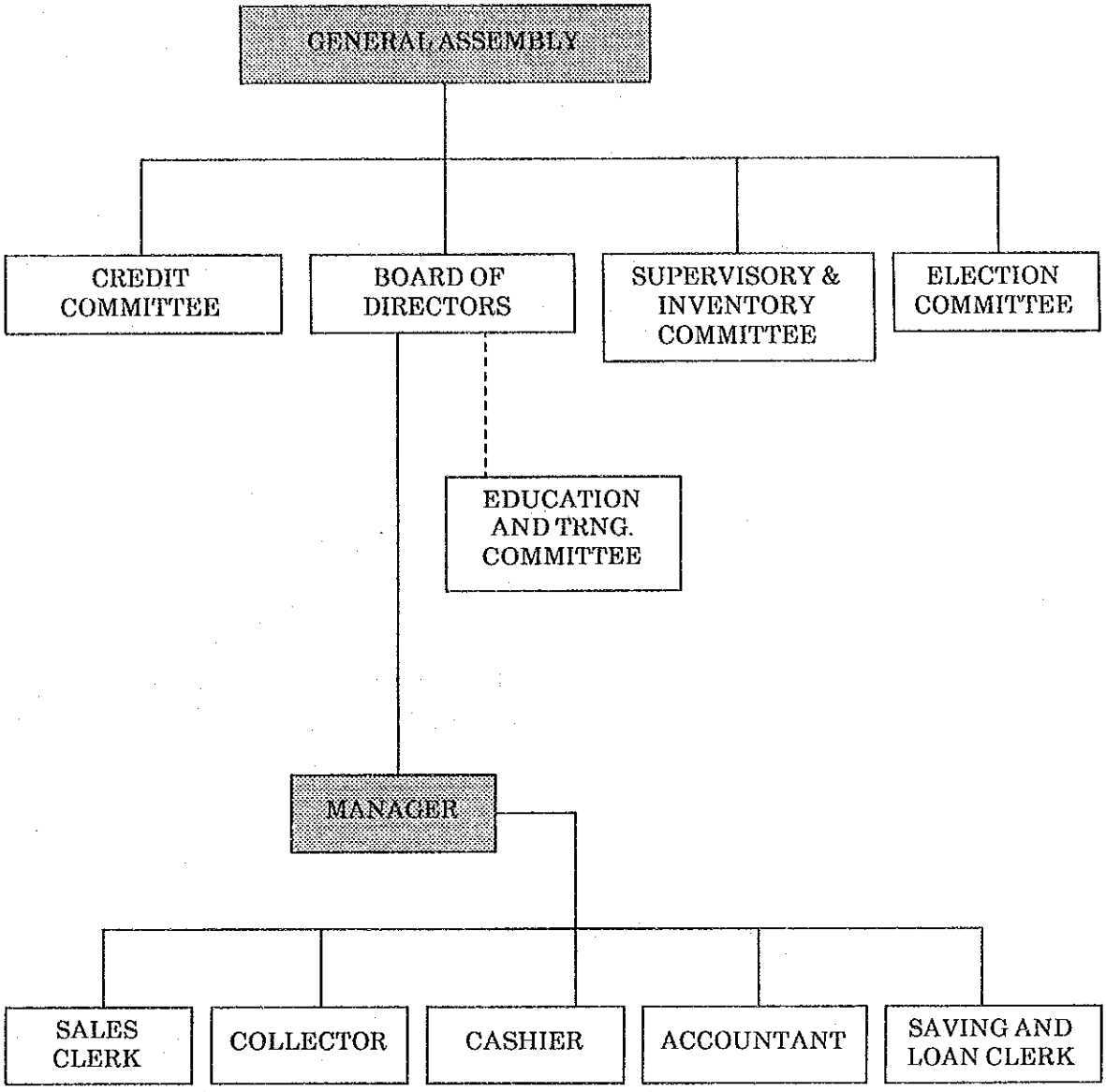
Education and Training Committee

* Planning and implementation of all matters concerning promotion and education

Management Staff (referred to henceforth as manager)

Responsibilities for routine businesses are shared by cooperative personnel in charge, centering around the manager. For example, as Illustrated below, one to two full-time personnel are assigned to each section:

Figure 2 Standard Organizational Chart (example)



Source: Based on the survey conducted by the Study Team

Manager

* Implementing matters decided at the general assembly meeting and by the Board of Directors, and routine businesses as a whole. This is decisively important to cooperative management.

Casher

* Control of all cooperative funds and negotiable securities, and confirmation of capital transactions and daily flow of funds

Accounting/Bookkeeper

* Recording and analysis of transactions a a whole, precise confirmation of transactions, and preparation and recording of financial statements

Saving/Loan Clerk

* Control of savings and loans outstanding, acceptance of written requests for loans, accommodation of facility funds and tracking survey of debts in arrears

Sales Clerk

* Management of consumer stores

Loan Collection

* Management and collection of loans

Management Conditions of Routine Business Activities (example)

Next, the management conditions of routine cooperative business activities will be discussed by citing an agricultural cooperative as an example. This agricultural cooperative has been plagued by a delay in the collection of loans advanced. This cooperative has put two additional staffers in charge of the collection of loans in an attempt to ensure the smooth recovery of loans from delinquent debtors.

This cooperative has two methods of collecting loans. One is the execution of the collection task, and the other is the renewal of the term of repayment. The former method is as follows:

(1) The manager will write a letter to the delinquent debtor, urging him to refund his loan. (2) When this is still ineffective, the manager will write to the debtor, telling him to turn up at the cooperative office and repay his loan. (3) When this still gets nowhere, the manager will notify to the debtor in writing that legal action will be taken against him. In case the legal action is taken, the director, who hails from the same region as the debtor, will help the manager go through formalities. In the case of the latter method, it is the extension of the term of redemption. However, an additional note is taken that there are very few agricultural cooperatives which manage the loan collection business in such an elaborate manner as this.

Agricultural Cooperative Income and Expenditure

Table 3 provides analysis of the management of 113 agricultural cooperatives which operate in a Davao (Mindanao) region where agricultural cooperatives as a whole are considered to be well-managed. Many of these agricultural cooperatives have a larger membership than those in other regions. Agricultural cooperatives in the Davao areas are the most progressive of all Philippine agricultural cooperatives, and the fact that they are well-managed on an average can be noted by the size of membership.

Table 3 clearly shows that the smaller agricultural cooperatives are the smaller their annual volume of business per member is. The average volume of business of the 113 agricultural cooperatives averages 13,000 pesos. Whereas the volume of business of agricultural cooperatives with a membership of more than 3,000 is 21,000 pesos, that of agricultural cooperatives with less than 300 members is only 2,000 pesos.

As is obvious from this, small agricultural cooperatives also have the small volume of business per staffer. A look at the number of personnel by the size of agricultural cooperatives shows that there are an average of 4.4 staffers in the case of agricultural cooperatives with a membership of 300 or less, 3.2 staffers in the case of agricultural cooperatives with a membership of 301 to 499, 6.1 staffers in the case of agricultural cooperatives with a membership of 500 to 999, 6.4 staffers in the case of agricultural cooperatives with a membership of 1,000 to

2,999, and 13.7 staffers in the case of agricultural cooperatives with a membership of 3,000 or more (5.9 staffers on an average).

A look at the volume of business per cooperative staffer shows that the average of total samples is 345,000 pesos and that it is 937,100 pesos in the case of agricultural cooperatives with a membership exceeding 3,000, whereas it is only 25,700 pesos in the case of agricultural cooperatives with a membership of up to 300.

However, the management situation of agricultural cooperatives with a large membership is not necessarily good. Table 4 shows costs and profits by membership. According to this table, costs average 13,873 pesos, fairly low reflecting the poor cost-sharing capacity of small agricultural cooperatives. Again, the average gross income rate averages 34.6 percent, but this rate is not necessarily high for large agricultural cooperatives. The gross income rate averages 42.1 percent in the case of agricultural cooperatives with a membership of up to 300, but only 29.1 percent in the case of agricultural cooperatives with a membership of more than 10,000. This means that it is impossible to precisely grasp the management situation of Philippine agricultural cooperatives simply on the basis of the size of membership. Hence a more detailed statistical investigation will be required at the next stage of the survey.

Table 3 Distribution of Volume of Business by Range of Vol (Davao Sur)

(P 1,000)

	Number of Coop	Total Volume	Average Volume per Memb.	Number of Employees	Average Volume, per Empl.
Less300	57	6,374	2	248	25.7
301–499	13	5,325	5	42	126.8
500–999	12	8,738	12	73	119.7
1,000–2,999	17	28,597	11	108	264.8
Over3,000	14	179,918	21	192	937.1
(Over10,000)	6	147,134	25	95	1,548.8
Total	113	228,952	13	663	345.3

Source: Cooperative Situationer Region XI Southern Mindanao Calendar Year 1991, CDA

Table 4 Profitability by Range of Volume of Business
Multipurpose Coops (Davao Sur)

(P 1,000)

	Number of Coop	Gross Amount	Operating & Admi Amount	Net Surplus Amount	Gross Income (%)
less 300	57	1,044	604	440	42.1
301–500	13	896	390	506	56.5
501–1,000	12	1,431	701	732	51.0
1,001–3,000	17	3,782	2,849	933	24.7
over 3,001	14	14,054	9,329	4,726	33.6
(over 10,000)	6	9,324	6,612	2,713	29.1
Total	113	21,207	13,873	7,337	34.6

Source: Cooperative Situationer Region XI-Southern Mindanao Admi Calendar
Davao Extension Office CDA

The foregoing is the statistical analysis of plural agricultural cooperatives. Next, the current status of agricultural cooperative management will be analyzed, using actual examples. Table shows the management situation of an agricultural cooperative on Iloilo Province. This agricultural cooperative has now about 2,300 members and its recent increase rate of members is stable. A look at trends in its business volume in terms of the marketing of rice and other farm crops shows that it registered a minus growth rate during the 1985-1990 period. Over the last year (1990-1991), however, the business volume registered an increase or 43.9 percent.

The agricultural cooperative has now a staff of 10. It keeps the number of personnel to a minimum because pays for them occupy a major portion of the management costs. A look at the major management index shows that paid-in capital per member is 321 pesos (about 10 percent of the average monthly pay), that sales per member is 4,093 pesos, that net profit per member is 285 pesos and that retained earnings per member are 29 pesos. The number of members per staffer is 227.

The problem facing this agricultural cooperative is the lack of adequate paid-in capital. In the case of Philippine cooperatives, they are three concepts of

capital subscriptions, i.e., authorized capital, subscribed capital and paid-in capital. Many agricultural cooperatives have extremely small paid-in capital although they have large authorized capital or subscribed capital. This is ascribed, among others, to the situation in which cooperative can ill afford to subscribe to the capital.

Financial Status of Agricultural Cooperatives

Table 4 and Table 5 partly clarify the financial status of agricultural-cooperatives. The very small amount of contributions by cooperative members and the lack of management capability to ensure retained earnings are responsible for the deficiency of owned capital.

Let's take a look at these points from the standpoint of the procurement of funds by agricultural cooperatives. As already explained, methods of procurement of funds by agricultural cooperatives are prescribed by law. Here, capital subscriptions, which have the most important place in agricultural cooperative funds, will be discussed.

Table 6 to Table 8 were processed, using data provided by 320 agricultural cooperatives picked at random from among those in Region 3. Region 4 and National Capital Region.

Table 5 Index of Management of "P" Farmer Multipurpose Cooperative

	YEAR	① NO. OF MEMBERS	②(P) PAID-IN SHARES	③(P) VOLUME OF SALES	④(P) NET SAVINGS	⑤(P) RESERVED	⑥ NO. OF EMPLOYEES	②/① (P)	③/① (P)	④/① (P)	⑤/① (P)	①/⑥ (P)	③/⑥ (P)	④/⑥ (P)	⑤/⑥ (P)
pesos	1970	200	12,960	212,896	6,995	2,329	7	65	1,064	35	12	29	30,414	999	333
	1975	1,388	112,648	3,246,023	188,452	17,944	18	81	2,339	136	13	77	180,335	10,470	997
	1980	1,792	371,528	3,187,965	71,314	6,418	15	207	1,779	40	4	119	212,531	4,754	428
	1981	1,815	351,508	3,389,772	44,742	4,023	13	716	6,905	91	8	38	260,752	3,442	309
	1982	1,778	361,115	3,776,902	232,642	20,930	13	203	2,124	131	12	137	290,531	17,896	1,610
	1983	1,735	387,707	3,896,568	298,520	26,867	13	223	2,246	172	15	133	299,736	22,963	2,067
	1984	1,832	418,175	6,394,404	611,198	55,008	13	228	3,490	334	30	141	491,877	47,015	4,231
	1985	1,907	597,952	7,057,384	679,837	61,185	13	314	3,701	356	32	147	542,876	52,295	4,707
	1986	2,018	698,655	6,800,694	462,633	41,637	13	346	3,370	229	21	155	523,130	35,587	3,203
	1987	2,153	643,773	8,091,309	408,664	40,866	13	299	3,758	190	19	166	622,408	31,436	3,144
	1988	2,250	680,054	9,452,385	369,784	35,710	13	302	4,201	164	16	173	727,107	28,445	2,747
	1989	2,299	731,976	8,873,800	165,540	14,899	10	318	3,860	72	6	230	887,380	16,555	1,490
	1990	2,247	686,972	6,464,147	487,572	48,757	10	306	2,877	217	22	225	646,415	48,757	4,876
	1991	2,273	729,248	9,304,261	648,543	64,854	10	321	4,093	285	29	227	930,426	64,854	6,485
% (vis-avis previous term)	70-75	594.0	769.2	1,424.7	2,594.1	670.5	157.1	25.2	119.7	288.2	11.0	169.9	492.9	947.7	199.6
	75-80	29.1	229.8	-1.8	-62.2	-64.2	-16.7	155.5	-23.9	-70.7	-72.3	54.9	17.9	-54.6	-57.1
	80-85	6.4	60.9	121.4	853.3	853.3	-13.3	51.2	108.0	795.8	795.8	22.8	155.4	1,000.0	1,000.0
	85-90	17.8	14.9	-8.4	-28.3	-20.3	-23.1	-2.5	-22.3	-39.1	-32.4	53.2	19.1	-6.8	3.6
	80-81	21.1	-5.4	6.3	-37.3	-37.3	-13.3	245.4	288.1	129.0	128.8	-68.4	22.7	-27.6	-27.7
	81-82	262.2	2.7	11.4	420.0	420.3	0.0	-71.6	-69.2	43.6	43.6	262.2	11.4	420.0	420.3
	82-83	-2.4	7.4	3.2	28.3	28.4	0.0	10.0	5.7	31.5	31.5	-2.4	3.2	28.3	28.4
	83-84	5.6	7.9	64.1	104.7	104.7	0.0	2.1	55.4	93.9	93.9	5.6	64.1	104.7	104.7
	84-85	4.1	43.0	10.4	11.2	11.2	0.0	37.4	6.0	6.9	6.9	4.1	10.4	11.2	11.2
	85-86	5.8	16.8	-3.6	-31.9	-31.9	0.0	10.4	-8.9	-35.7	-35.7	5.8	-3.6	-31.9	-31.9
	86-87	6.7	-7.9	19.0	-11.7	-1.9	0.0	-13.6	11.5	-17.2	-8.0	6.7	19.0	-11.7	-1.9
	87-88	4.5	5.6	16.8	-9.5	-12.6	0.0	1.1	11.8	-13.4	-16.4	4.5	16.8	-9.5	-12.6
	88-89	2.2	7.6	-6.1	-55.2	-58.3	-23.1	5.3	-8.1	-56.2	-59.2	32.8	22.0	-41.8	-45.8
	89-90	-2.3	-6.1	-27.2	194.5	227.3	0.0	-4.0	-25.5	201.3	234.8	-2.3	-27.2	194.5	227.3
	90-91	1.2	6.2	43.9	33.0	33.0	0.0	4.0	42.3	31.5	31.5	1.2	43.9	33.0	33.0
Standard deviation		210.6	150,088.7	-	194,642.3	18,568.8	1.3	131.3	1,211.1	88.3	8.2	52.7	217,322.0	17,401.9	1,711.6
Max.		2,299	731,976	9,452,385	679,837	64,854	18	716	6,905	356	32	230	930,426	64,854	6,485
Min..		200	12,960	212,896	6,995	2,329	7	65	1,064	35	4	29	30,414	999	309

Source: P cooperative

Table 6 classifies the number of agricultural cooperatives by sum in accordance with the size of authorized capital. Table 7 classifies the number of agricultural cooperatives in accordance with the amount of subscribed contributions. Table 8 classifies the number of agricultural cooperatives in accordance with the amount of paid-in capital.

Table 6 shows that agricultural cooperatives, whose authorized capital is 100,000 pesos or less account for 44.1 percent of the total and those, whose authorized capital runs to between 100,000 and 300,000 pesos, for 42.2 percent, totaling 86.3 percent. This attests to the authorized capital of Philippine agricultural cooperatives being small.

There is a larger percentage of agricultural cooperatives whose subscribed contributions are small. According to Table 7, 77.8 percent of the agricultural cooperatives whose subscribed contributions are less than 50,000 pesos and 15.0 percent of those have subscribed contributions amounting to between 50,000 and 150,000 pesos, showing 92.8 percent of the agricultural cooperatives have only small subscribed contributions.

In addition, a look at the number of agricultural cooperatives by the size of paid-in capital shows that 87.5 percent of the agricultural cooperatives, as Table 8 shows, have the paid-in capital of 25,000 pesos or less, while 10.0 percent of the agricultural cooperatives have the paid-in capital of between 25,000 and 100,000 pesos. This is the reality of Philippine agricultural cooperatives' fund procurement capacity.

Table 9 shows the financial status of 28 cooperative banks. They can be described invariably as agriculture-based credit cooperatives because their share of agricultural loans is 40 percent. The loan deposit rate is nearly 300 percent. This shows that basically, they do not function as financial institutions which finance loans with savings. The reason is because farmers, many of them cooperative member, cannot even afford to save their money and therefore cannot help relying on cooperatives for loans. This reflects the actual conditions of small farmers in the Philippines. As a result, 30 percent or more of the debts in arrears are normal in terms of loans outstanding.

Next, let's take up the case of a certain agricultural cooperative with regard to capital formation.

Table 6 Capitalization Authorized Capital

As of March 1992

Class	Number of Cooperatives	Percentage
Less P100,000	141	44.1
P 100,001 – P300,000	135	42.2
P 300,001 – P500,000	17	5.3
P 500,001 – P 1,000,000	19	5.9
P 1,000,001 – P3,000,000	5	1.6
Over P 3,000,000	3	0.9
Total	320	100.0

Remarks: This Table was made on the basis of 320 Ag. Coops sampled at random in Region III, IV and National Capital Region.

Source: CDA

Table 7 Capitalization Subscribed Capital

As of March 1992

Class	Number of Cooperatives	Percentage
Less P50,000	249	77.8
P 50,001 – P150,000	48	15.0
P 150,001 – P250,000	8	2.5
P 250,001 – P 500,000	12	3.8
P 500,001 – P1,500,000	1	0.3
Over P 1,500.000	2	0.6
Total	320	100.0

Remarks: This Table was made on the basis of 320 Ag. Coops samples at random in Region III, IV and National Capital Region.

Source: CDA

Table 8 Capitalization Paid-up Capital

As of March 1992

Class	Number of Cooperatives	Percentage
Less P25,000	280	87.5
P 25,001 – P100,000	32	10.0
P 100,001 – P200,000	5	1.6
P 200,001 – P 400,000	1	0.3
P 400,001 – P800,000	1	0.3
Over P 800,000	1	0.3
Total	320	100.0

Remarks: This Table was made on the basis of 320 Ag. Coops samples at random in Region III, IV and National Capital Region.

Source: CDA

Table 9 Cooperative Banks

(P Millions)

		1989	1990	1991
ASSETS		444	483	537
LOANS AND DISCCOUNTS	①	367	388	424
(AGRICULTUAL LOANS)	②	147	151	181
OTHER ASSETS		77	95	113
LIABILITIES		332	364	405
SAVINGS	③	98	121	165
OTHER LIABILITIES		234	243	240
CAPITAL ACCOUNTS		112	119	132
PAID-UP STOCK		110	115	125
OTHER		2	4	7
LIABILITIES & CAPITAL		444	483	537
TOTAL LOANS OUTSTANDING	④	381	407	445
CURRENT LOANS		241	261	295
PAST DUE LOANS	⑤	140	147	150
④/③)		388.8	336.4	269.7
②/①) (%)		40.1	38.9	42.7
⑤/④)		36.7	36.1	33.7

Source: BANGKOOP

Remarks: 28 COOPBANKS

1) Case of Agricultural Cooperative A

The main sources of funds procured by this agricultural cooperative are contributions by members (who are asked to subscribe to at least 50 shares - 10 pesos per share - per capita), dividends, bounties, loans from the cooperative Development Loan Fund (CDLF), the Department of Trade and Industry (DTI) and the Philippine Business for Social Progress (PBSP) and subsidies from the Dutch Comprehensive Assistance Program (DCAP).

2) Case of Agricultural Cooperative B

In the case of this agricultural cooperative, the subscription per share is 100 pesos, but it has demanded at least five shares of subscription per capita.

As for other funds procured, this agricultural cooperative possess Bario Saving Fund (BSF) and Bario Guarantee Fund (BGF) which it had compulsorily put aside when it was an SN, until it was registered with BACOD in 1987 as a fullfledged cooperative. It also has procured funds from SNAP-KKK and LBP, but it has obtained 10-percent commission as underwriter of PCIC.

Standard Form of Account Statements and Form of Financial Statements

Rules concerning account statements are laid down by the "Rule 2 Annual Report of Cooperatives" regarding "Rules & Regulations Implementing Certain Provisions of the Cooperative Code of the Philippines." This rule prescribes the basic form of account statements, the definition of titles of account and methods of calculation.

The agricultural cooperative will prepare account statements in accordance with this rule. However, not all agricultural cooperatives prepare account statements as prescribed by this rule. One of the reasons is because there are few qualified bookkeepers.

Business Reports for cooperative Members

It seems that agricultural cooperatives often prepare account statements also in terms of business reports for their members. The bookkeeper prepared account statements and the manager generally helps him in so doing.

Status of Personnel Administration

Securing competent manager and personnel is of decisive important to the management of Philippine agricultural cooperatives. But they cannot well afford to pay wages to their personnel. In the case of a certain agricultural cooperative, fixed salaries are not paid to its manager, purchaser and storekeeper. The manager and the purchaser/storekeeper have only 0.5 peso paid to them by the cooperative per transaction when the former has purchased goods and when the latter have sold goods. Newly hired female staffers are paid a monthly salary of 300 pesos, about one-tenth to the average wages. This is one of the reasons this agricultural cooperative is finding it difficult to recruit competent personnel.

The foremost reason is because the cooperative has not attained a level of supporting itself financially. This is almost the case with Philippine agricultural cooperatives.

As far as the survey has confirmed, the wage level of agricultural cooperative personnel exceeds the minimum line laid down by the government, but it is in no way high. Therefore, cooperative personnel are not up to required standards qualitatively and quantitatively. Many agricultural cooperatives have a large staff of women, which has something to do with the fact that their wage level is low.

Status of Formulation of Plans Concerning Management

Agricultural cooperatives will formulate business plans as prescribed by law. It is not clear if all agricultural cooperatives actually work out their own business plans, because the results of any nationwide survey are not available.

A certain agricultural cooperative has formulated long-term plans covering a period of three to five years, and short-term plans. These plans are first drawn up by the Board of Directors and the manager in line with their objectives and then debated by various committees before being decided. The plans and the results of their implementation are to be discussed at a monthly meeting of the Board of Directors. These plans principally call for boosting the volume of business in each primary sector.

Auditing System, Items for Auditing, Methods of Recommendation, Punitive Regulations, Etc.

Agricultural cooperative auditing is provided for by RA 6938, ART 81 and 82. In the Philippines, it has no equivalent of Japan's auditor system, hence auditing is conducted by licensed outside specialists. As regards the results of auditing, an auditory report is prepared for review by the Board of Directors to be referred to a general assembly meeting.

2-2 Management of Federations of Agricultural Cooperatives, Etc. (Income and Expenditure, and Financial Conditions)

As regards federations and unions of agricultural cooperatives (federations, etc.), their statuses are prescribed by RA 6938 ART 24 (Federation of Cooperative) and ART 25 (Cooperative Unions). It is ordained by law that federations are single-purpose agricultural cooperative societies or secondary and tertiary organizations of multi-purpose agricultural cooperative societies that complement undertakings with one another, and that unions, with registered primary cooperatives and federations above a secondary level as members, should conduct analysis on management, guidance, etc., to promote the cooperative movement.

Here, the management situations of federations of agricultural cooperatives, etc., will be surveyed through a look at their recent income and expenditure, and financial status.

(1) Provincial Level

With respect to provincial-level agricultural cooperatives, their income and expenditure, and financial situations are taken up as follows for example:

FLFMCI (Federation of Laguna Farmers Marketing Cooperative, Inc.) (1991)

This federation is a secondary organization handling the collection, processing and marketing of rice. The income and expenditure situation of the 10-member cooperative is not much good. In 1991, it registered a deficit of 284,763 pesos, although it recorded a surplus of 93,546 pesos the previous year. The deficit was mainly caused by a fall in the income from rice milling.

The important problem facing FLFMCI is the need for the introduction of modern facilities, such as mills, dryers and vehicles, and equipment. At present, it is in no position to compete successfully with dealers.

Income and Expenditure (P)

<Expenditure>		<Income>	
Buying-in of goods	6,811,703	Sales costs	7,410,956
Marketing costs	457,773	Commissions	295,075
Wages, etc.	184,093	* Milling	226,701
Other administrative costs	537,224	Loss for the current	284,763
Total	7,990,793	Total	7,990,793

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Fluid assets	717,092	Fluid liabilities	700,387
Fixed assets	290,176	Fixed liabilities	475,460
* Dryer	131,110	Owned capital	396,994
* Truck	140,148		
long-term deposits	280,000		
Loss for the current	284,763		
Total	1,572,841	Total	1,572,841

CRBDCI (Cooperative Bank of Davao City, Inc.) (1991)

This is a credit federation of 71 agricultural cooperatives. Well-managed, it registered profits of 1,106,096 pesos for the current year in 1991. The trouble with CRBDCI is that it is in an over-borrowed situation because it does not have sufficient owned capital and that 20 percent of its loans outstanding are in arrears. This percentage is low in the Philippines.

CRBDCI is engaging in a broad range of activities, including ecological activities and financial assistance to cooperative hospitals. It appears that it is currently testing the establishment of conditions for outcompeting dealers. It has a future potential as a Philippine federation of agricultural cooperatives.

Income and Expenditure (P)

<Expenditure>		<Income>	
Interests on savings, etc.	3,003,389	Interests on loans, etc.	5,749,443
		* Commissions for loans	5,447,026
Other expenses	5,356,053		
Profits for the current term	1,106,096	Other incomes	3,716,095
		* Service charges	1,558,716
Total	9,465,538	Total	9,465,538

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Assets	57,949,463	Liabilities	48,781,667
* Loans	46,623,899	* Savings	34,279,808
		owned capital	8,061,700
		Profits for the current	1,106,096
Total	57,949,463	Total	57,949,463

PFCCI (1991)

PFCCI is an organization established in 1988 in accordance with the Credit Cooperatives law and the Cooperatives Law, with financial institutions as its members. It is intended primarily to unify the credit cooperative movement in the Philippines; operate as central financial institution for its members; contribute to the protection and financial stability of its members; help guarantee

the savings of its members, and procure bonding for its members. PFCCI now has 570 members (including associate members).

Income and Expenditure (P)

<Expenditure>		<Income>	
Non-pecuniary grants and others	448,972	Income from businesses in general	1,240,054
General meeting expenses	246,902	Central financing business	788,228
Payable interest and bank commission	232,424	Others	307,378
Meeting expenses	191,227		
Traveling expenses, etc.	149,704		
Other spending	484,113		
Current profits	582,318		
Total	2,335,660	Total	2,335,660

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Liquid assets	11,828,301	Deposits	82,233
Cash/bank deposits	7,060,878	Time deposits	1,412,909
Loans	3,660,470	Trust funds/(WOCCU)	1,293,860
Fixed assets and others	1,974,237	WOCCU fund	1,142,141
		Capital	5,432,598
		Retained earnings	1,214,398
		Others	2,642,081
		Current profit	582,318
Total	13,802,538	Total	13,802,538

(2) National Level

CUP (1990)

CUP's income and expenditure situation is very severe. This is largely because the income from membership fees has continued leveling off. The latest data are not available except those for 1990. but they show that CUP suffered a deficit of 403,381 pesos.

CUP is not a business entity, and it is, therefore, unavoidable that the utilization of owned funds, members shares in expenses, etc., alone should form the income foundations of CUP. But a tendency toward stagnancy in income from members providers uncertainty in CUP management.

CUP owns fixed assets, primarily office buildings.

Main fixed assets are office buildings. These buildings are low in price, but the presence of owned land contributes to CUP's financial status.

Income and Expenditure (P)

<Expenditure>		<Income>	
Share in expenses for RCU/PCU educational training	1,299,383	5% CETF income	2,955,353
		Rental	177,408
Wages, remunerations, etc.	879,835	Registration fees	156,840
		Others	234,749
Expenditure on education and others	593,365	Sub-total	3,524,350
Traveling expenses, etc.	112,423	Loss for the current	403,381
Others	481,868		
Reserves	560,857		
(Depreciation expense, etc.)			
Total	3,927,731	Total	3,927,731

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Fluid assets	464,189	Fluid liabilities	358,986
Fixed assets	3,570,088	Fixed liabilities	1,922,175
Loss for the current	403,381	Owned capital	2,156,497
Total	4,437,658	Total	4,437,658

BANGKOOP (1991)

BANGKOOP principally function in receiving funds for government projects to promote agricultural and channeling these fund to agricultural cooperatives. BANGKOOP is also a national agricultural organization marketing some agricultural production materials.

BANGKOOP's principal sources of income are income from interests, and commissions for special projects and sales of agricultural production materials and equipment. BANGKOOP serves as a channel for its members in the acquisition of policy funds from CRB and supplies agricultural production materials and equipment to them. In 1991, it registered profits for the current term amounting to 652,160 pesos. BANGKOOP has no fixed assets in terms of land and buildings.

Income and Expenditure (P)

<Expenditure>		<Income>	
Wages, remunerations, etc.	1,261,886	Income from interests	1,331,596
		Service commissions	327,323
Interest expense	692,053	Special projects	1,464,587
Special projects	939,470	Total sales commissions	917,787
Others	706,564		
Profits for the current term	652,160	Others	210,840
Total	4,252,133	Total	4,252,133

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Fluid assets	44,337,004	Fluid liabilities	2,869,363
* Landings to IRPP	17,503,234	Fixed liabilities	35,363,955
* Goods in stock for sale	11,510,172	* Loans from DA	21,410,582
		* Loans from DAR	11,500,000
Fixed assets	1,012,082	* Loans from LBP	1,750,000
		Owned capital	6,463,609
		Profits for the current term	652,160
Total	45,349,087	Total	45,349,087

CISP (1991)

CISP, which is a national-level mutual-insurance organization for agricultural cooperatives, retains only one percent of the nation-wide share in the insurance market.

Functionally, CISP is a primary insurance organization, but neither a re-insurance organization for agricultural cooperatives. Originally, it is an organization that conduce insurance business for cooperative members, but many subscribers are cooperative personnel.

Its main source of income is insurance premiums. In 1991, CISP paid insurance premiums amounting to 2,567,699 pesos and registered profits of 871,404 pesos for the current term. There is the problem about its capability of promoting agricultural cooperative projects.

There is the problem about the ability of agricultural cooperatives, which serve as the channel for the insurance business, to promote such a service.

The foremost problem facing CISP is the expansion of its share in the insurance market.

Income and Expenditure (P)

<Expenditure>		<Income>	
General administrative expenses	5,727,155	Insurance premiums	7,894,324
		Income from interests	2,133,038
Insurance money and other payment	2,567,699	Others	193,569
Others	1,054,673		
Profits for the current term	871,404		
Total	10,220,931	Total	10,220,931

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Government-Guaranteed bonds	11,738,347	Reserves	3,038,975
		Others	1,065,807
Others	7,216,388	Owned capital	13,978,549
		Profits for current term	871,404
Total	18,954,735	Total	18,954,735

FACOP

Because it launched substantial business in 1992, FACOP has not yet settled its accounts.

FACOP is a national organization established to implement economic activities. Problems currently facing it are the need to increase its membership and expand its owned capital, primarily member subscriptions. In the Philippines, cooperatives have to obtain item by item government approval when they introduce marketing and purchasing businesses. This has restricted the smooth expansion of cooperative undertakings.

Income and Expenditure (P)

<Expenditure>		<Income>	

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Fluid assets		Liabilities	
Fixed assets		Owned capital (Paid up)	168,000

NATCCO (1991)

NATCCO, which was inaugurated as a training center, is an older organization than CUP. Its membership has recently increased notably. The financial situation is very good.

In the 1991-settlement of accounts, NATCCO registered profits of 213,593 pesos for the current term.

Possession of real estates such as land and buildings has beefed up the assets of NATCCO.

In addition, financial assistance from agricultural cooperatives abroad, particularly those in Canada, has contributed to the financial status of NATCCO.

Income and Expenditure (P)

<Expenditure>		<Income>	
Wages, etc.	1,484,570	Commissions	1,574,264
Commissions for lecturers	547,895	Income from interests	1,751,307
Others	1,390,240	Others	310,727
Profits for the current term	213,593		
Total	3,636,298	Total	3,636,298

Financial Affairs (P)

<Assets>		<Liabilities/Capital>	
Fluid assets	25,030,960	Fluid liabilities	3,342,577
Land, buildings and others	21,622,602	Funds	46,610,877
		* PCODAP Fund	20,178,366
Others	1,751,840	Profits for the current term	213,593
Long-term deposits	1,761,645		
Total	50,168,047	Total	50,167,047

3. Business Activities of Agricultural Cooperatives

3-1 Marketing and Supply Business

FACOP is the only national level agricultural marketing cooperative in the Philippines at the present time. It is a newly organized national federation of agricultural marketing cooperatives with only 18 members, having been registered just over a year ago. In a strict sense, FACOP is not functionally and organizationally assume the responsibility of a national federation because its principal activity at the present time is limited to trading used or second hand sacks or bales and dried fish. It has not yet provided any kind of marketing, professional or technical services to its members. Therefore, it was not possible for the Study Team to collect data relating to the marketing, supply and utilization activities of national level agricultural marketing cooperatives. With proper guidance and assistance, FACOP has the potential to become eventually a truly effective and viable federation of agricultural marketing cooperatives.

The Study Team has been able to collect some data from a few primary and provincial federation of agricultural cooperatives involved in the marketing of rice, corn and agricultural inputs. These cooperatives prepared their financial statements and indicated the sources of their incomes by the commodities they sold and the services they rendered. The data obtained were used extensively in this study.

However, most of the data from the "multi-purpose primary cooperatives" could not be used because they did not identify the sources of their revenue. Revenues from sale of palay, corn, vegetables, poultry or livestock and agricultural inputs; interest and rental incomes; trucking and milling fees; are all combined together and could not be identified in the financial statement. Under this system of financial reporting, it is difficult to identify much less measure the amount or proportion of revenue or business from specific commodity or service groups.

Luckily, there are a few cooperatives which, for reasons of tradition or for management purposes, continue to file financial statements identifying the sources of their revenue by commodities and services provided. From an examination of over a hundred annual reports and financial statements, the Study Team

was able to identify eleven cooperatives that contain information on the volume of palay and agricultural input supply sold for the year 1991. See Table 1.

Table 1 Volume and Composition of Business of Selected Agricultural Marketing Cooperatives, 1991

Coop No.	Sale in P1000				Sale in Percent		
	Palay	Inputs	Others	Total	Palay	Input	Others
1	14515.1	4120.0	2042.5	20678.0	70.20	19.93	9.88
2	3142.0	150.8	124.2	3417.0	91.95	4.41	3.63
3	136.3	58.2	120.6	315.1	43.34	18.31	38.16
4	4062.4	3478.3	445.2	7985.9	50.81	43.56	5.37
5	4207.6	4008.2	226.9	8442.7	49.84	47.47	2.69
6	1630.0		550.0	2180.0	74.77		25.23
7	124.6	2203.3	246.7	2574.6	4.52	79.99	15.49
8	4477.2	1958.2	1359.2	7794.6	57.44	25.12	17.43
9	1477.1	6379.0	145.1	8001.2	18.46	79.73	1.81
10	7139.3		751.0	7890.0	90.48		9.52
11	231.1		169.7	400.8	57.66		42.34

Source: Estimated from financial statements of primary agricultural marketing cooperatives.

In 1991 the eleven cooperatives involved in both the palay and input supply marketing activities had an average volume of business of P6.33 million. Two had a volume of business below one million pesos, two between one to five million pesos, one between five to six million, five between seven to eight million one above nine million pesos.

About 55% of their revenues come from sale of palay, 40% from the sale of agricultural inputs and 5% from "Other" source such as milling and trucking fees and interest incomes.

The palay marketing represents the biggest volume of business, yet it is the least profitable relative to either the input supply and the "Other" businesses. A comparison of their relative profitability is shown in Table 2 below.

Table 2 Distribution of Net Profit of Selected Cooperatives by Sources, 1991

Coop No.	Net Profit in P1000 from			
	Palay	Inputs	Others	Total
1	-224.2	-628.7	1593.6	741.1
2	-358.2	-34.0	408.9	16.7
3	61.3	25.9	54.0	141.5
4	35.3	26.0	78.7	139.0
5	123.0	24.9	-79.9	68.0
6	-280.7		400.2	120.0
7	-219.3	58.5	30.7	-190.2
8	-7.9	51.4	-18.5	24.6
9	600.7	-379.9	1040.3	59.7
10	157.5	97.0	-93.1	-154.4
11	-10.6		40.4	29.8
12	-70.2		112.8	42.6

Source: Estimated from financial statements.

As indicated above, about 7 of the twelve or 58% experienced losses in their palay operation, 3 of 9 cooperatives or 33% experienced losses in the input supply business, while 3 of the twelve cooperatives or 25% experience losses in "Other" businesses. Only 2 of the twelve cooperatives or 17% experienced overall business losses in 1991 because much of the losses in the palay and input supply businesses were covered by net profits from the "Other" businesses. The average losses in palay is P116,000, input supply is P84,000 while "Other" businesses had an average profit of P297,300.

This result suggests that cooperatives which diversify their businesses are more profitable than those which concentrated in the palay or the input supply business only.

There are several ways of evaluating the profitability of a cooperative. One of the simplest and easily understood measure is the ratio of net profit to sales and other incomes. It is obtained by dividing the net profit by the sales and other incomes and the ratio obtained, when expressed in percent indicates what percent of the sales and other incomes is profit.

The result shows that only two percent (2 centavos) are left as profit after the cost of goods and the operating expenses are deducted. In fact, 2 cooperatives had losses, 5 had less than one percent profit, three had between one to five percent profit, and 2 had profits between five to ten percent.

Another way of evaluating the profitability of cooperative is to take the ratio of net profit to total assets. This ratio gives a rough approximation of the return on total capital investment. The results indicate that at the average, one peso of investment generates a net profit of P0.065 centavos or 6.5% return on investment. This is significantly lower than what one would get if the money is invested in the bank at 12% or loaned to traders and farmers at 30% to 60%. See Table 3.

Table 3 Net Profit to Asset Ratios, 1991

Coop No.	Net Profit in P1000	Assets in P 1000	Net Prof. / Asset in Percent
1	741.1	47531.5	1.56
2	16.7	2489.9	.67
3	141.5	810.1	17.47
4	139.0	4392.8	3.16
5	68.0	11443.1	59
6	120.0	3579.1	3.35
7	-190.2	2983.0	-6.38
8	24.6	3034.3	.81
9	59.7	8064.1	.74
10	-154.4	5123.0	-3.01
11	29.8	4209.0	71
12	42.6	791.8	5.38
13	12.9	1753.5	.74

Source: Computed from cooperative financial statements.

Another measure of financial viability of a cooperative business is the equity to asset ratio. This ratio shows the extent of membership's claim to the business relative to that of the creditor. It is also a measure of capital build-up over time. This is obtained by dividing the equity and capital of the cooperative by the total assets. The ratio obtained represents in percent the proportion of the cooperative business owned by the members.

If the cooperative is profitable and the retained earnings continue to build up, the equity to asset ratio continues to increase. However, if the cooperative is not profitable, and the reserves are drawn to pay for operational expenses, the cooperative is being decapitalized. If this continues over time, this may result to reduction in the scale of operation and eventual bankruptcy.

Table 4 Equity to Assets Ratio of Selected Agricultural Marketing Cooperatives, 1991

Coop No.	Equity in P1000	Assets in P1000	Equity / Asset Ratio in %
1	18834.2	47531.5	39
2	78.4	2489.9	3
3	239.8	810.1	30
4	3425.2	4392.8	78
5	610.5	11443.1	5
6	1010.2	3579.1	20
7	596.0	2983.0	20
8	-803.6	3034.3	-11
9	1235.7	8064.1	15
10	1505.0	5123.0	48
11	413.9	4209.0	10
12	42.0	791.8	5
13	104.0	1753.5	6

Source: Estimated from cooperative financial statements.

The result shows that at the average, cooperative members own only one-fifth (20.15%) of the cooperative business. Much of the assets are in the form of buildings and equipment, land, facilities, production loans for the procurement of agricultural inputs or commodity loans for the purchase of members' crops. Specifically, one cooperative has an eleven percent (–11%) negative equity. Four had an equity of between 9% to 10%, two 11% - 20%, two between 21% - 30%, two between 31%-40% and two above 40%.

It is useful to see how the sales and other revenues are allocated to various costs. In a financial statement, the costs that are easily identified are the cost of sales and the operating cost. The net profit is the remainder after cost of sales and operating cost are subtracted from sales and other income.

Results of the analysis indicate that at the average, about 78% of sales and other incomes is allocated towards the cost of procurement of palay or purchase of input supplies; about 20% is spent as operating cost; and 2% is left as net profit. See Table 5.

Table 5 Distribution of Sales and Other Income Revenues in Percent, 1991

Coop No.	Cost of Goods to Sales Ratio	Operating Exp. to Sales Ratio	Net Income to Sales Ratio
1	74.40	21.97	3.58
2	79.53	20.03	.43
3	90.16	8.10	1.74
4	91.58	7.65	.76
5	67.28	27.20	5.52
6	84.56	19.20	-3.77
7	88.87	10.28	2.06
8	66.36	25.21	.76
9	91.43	4.19	-1.95
10	91.65	7.97	.38
11	55.86	33.51	10.63
12	53.61	43.74	2.65

Source: Estimated from financial statements.

The cost of goods sold represents the price cooperatives pay for procuring the palay of the members and the input supplies needed by the members. Very often, the price is determined by the forces of supply and demand --- external forces that are not within the control of the cooperatives. In other words, the cooperatives are "price takers". This is a consequence of cooperatives not being able to exert enough market power to negotiate effectively in behalf of the members, either in the purchase of input supplies or the sale of members' palay. If cooperatives are handles significant volumes of sales or purchases, enough to influence the market price, it can demand price discounts from suppliers of agricultural inputs and price premiums for palay that exceeds the quality demanded by the traders.

Operating expenses are expenses internal to the cooperative and within the control of management. For example, old and obsolete machinery and equipment are not only expensive in terms of repairs and maintenance but also in terms of reduced production due to work stoppages. Also, low-wage unskilled laborers can be very expensive if they are not productive. Keeping inventories of commodities

that are not sold immediately are expensive in terms of spoilage and storage costs. And lastly, most organizations are top heavy. Top-heavy management is very expensive not only in terms of salaries and benefits but also in terms of time required needed to make business decisions following democratic processes and procedures.

In summary, the results indicate that the eleven selected cooperatives involved in palay and input supply marketing are marginally viable. At the average, their net profit is only two percent of sales revenue, return to total investment is over 6% and the members can claim ownership to only 20 percent of cooperative assets.

cooperatives do not seem to be able to compete effectively in the market. A more detailed analysis of the ability or inability of palay and input supply cooperatives to compete with other traders, adjust to new technology, policy and institutional changes is the subject of a more detailed investigation in the following section.

The following sections will discuss the marketing of rice and corn in the Philippines in general. These are the two most important crops in the Philippines and also the two most important commodities that agricultural marketing cooperatives handle.

As a business organization, cooperative is very similar in structure, function and management with that of a corporation. To survive and prosper, the cooperative must be able to compete in the same environment where other forms of business operate. The economic, business and market environment that govern the behavior of the single proprietorship, partnership or corporation also apply to cooperatives.

The marketing of rice, corn and farm inputs will be discussed in the following sections. Although the discussions are general in nature, it also applies to cooperatives. Any cooperative can assume the role of municipal, provincial or a regional trader, or an input distributor-wholesaler-retailer.

3-1-1 Rice marketing

(1) Importance of rice in the economy

Rice is the most important crop in the Philippines. It (1) is the staple of 90% of the Filipinos, (2) provides employment for three million farm families and an undetermined number of traders, millers, processors and others, (3) it covers 46% of the land area planted to grains and 25% of the harvested area, (4) accounts for 15% of the total agricultural production and 16% of gross value added in agricultural . See Tables 6 to 8.

The following statistics show a number of important observations. First, the annual increase in production is 1.84% compared with 5.06% for corn. Second, the area planted to rice appear to be constant or declining, while the area planted to corn is increasing. Third, the palay/GNP ratio and the corn/GNP ratio understates the real value of rice and corn in the Philippines economy because much of the rice and corn are produced by subsistence farmers or farmers who consume their production. Agricultural crops that do not pass through the marketing system are not adequately accounted for in the Gross National Product.

Tables 6 Production and Area Harvested for Rice and Corn, 1981-1990

Year	Rice		Corn	
	Area in 1000 ha	Prdn. in 1000 MT	Area in 1000 ha	Prdn. in 1000 MT
1981	3.42	7.91	3.24	3.11
1982	3.35	8.33	3.36	3.29
1983	3.06	7.30	3.16	3.12
1984	3.16	7.83	3.26	3.35
1985	3.31	8.81	3.31	3.44
1986	3.47	9.25	3.54	3.92
1987	3.26	8.54	3.56	4.01
1988	3.39	8.97	3.75	4.43
1989	3.50	9.46	3.69	4.52
1990	3.32	9.32	3.82	4.85

Source: Bureau of Agricultural Statistics, Department of Agricultural

Tables 7 Percentage Share of Rice and Corn in the National Foodgrain Area and Crop Harvested Area

Year	Rice		Corn	
	% Share in Fdgrn Area	% Share in Hrvstd Area	% Share in Fdgrn Area	% Share in Hrvstd Area
1983	49	25	50	26
1984	49	26	51	26
1985	49	25	51	27
1986	49	26	51	27
1987	47	25	53	29
1988	48	26	52	29
1989	49	27	51	28
1990	46	25	54	29

Source: Bureau of Agricultural Statistics, Department of Agricultural

Tables 8 Gross Value Added and Share of Agricultural Crops in the Gross National Product in Million Pesos at Constant 1985 Prices

Industry Group	1988	1989	1990
1. Agriculture	144028.0	150128.0	154701.0
Palay	23138.0	24484.0	24108.0
Corn	10466.0	10752.0	11555.0
Coconut/Copra	9008.0	7007.0	7084.0
Sugar Cane	2997.0	3897.0	3652.0
Banana	1940.0	3059.0	2793.0
Other Crops	35518.0	37087.0	37264.0
Agri. Services	6858.0	7109.0	7692.0
Livestock	14532.0	16035.0	17443.0
Poultry	9990.0	11070.0	12207.0
Fishery	28581.0	29628.0	30093.0
2. Forestry	11264.0	9270.0	7780.0
Gross Value Added in Agriculture Forestry and Fishery	155292.0	159398.0	162481.0
Gross National Product	652293.0	689127.0	714325.0
Palay/GVA Ratio in %	14.90	15.36	14.83
Palay/GNP Ratio in %	3.54	3.55	3.37
Corn/GVA Ratio in %	6.74	6.74	7.11
Corn/GNP Ratio in %	1.60	1.56	1.62

Source: Office of Economics and Social Statistics, National Statistics Coordination Board

(2) Marketing business formula: Main items handled and turnover

As indicated in the in Table 10 below, rice is the most important commodity in the cooperative business representing 55% of the total volume of business. The other 45% represents businesses related to rice production and marketing such as trucking, milling, and storing rice in cooperative facilities.

For most palay dealers, the rate of turnover depends on the production cycle. Under normal conditions, rice production cycle in the Philippines occurs approximately five times in two years. In some areas where irrigation is reliable some farmers can plant two crops in one year, if seeds, labor, and fertilizer are readily available. In upland areas where the principal source of water is rainfall, rice can be grown only ones a year.

Table 9 Business Composition of Selected Agricultural Marketing Cooperatives, 1991

Coop No.	Total Sales in P 1000	Sales in Percent		
		Palay	Inp. Supply	Others
1	20,678.0	70.20	10.93	9.88
2	3,417.0	91.95	4.41	3.63
3	315.1	43.34	18.31	38.16
4	7,985.9	50.81	43.56	5.37
5	8,442.7	49.84	47.47	2.69
6	2,180.0	74.77		25.33
7	2,574.6	4.52	49.99	15.49
8	7,794.6	57.44	25.12	17.53
9	8,001.2	18.46	79.70	1.81
10	7,890.0	90.48		9.52
11	400.8	57.66		42.34

Source: Estimated from current financial statements.

(3) The organization and operation of rice markets in the Philippines

Luzon is the principal rice producing area in the Philippines. It produces 57% of palay production and 55% of area harvested. Central Luzon, consisting of the provinces of Pangasinan, Nueva Ecija, Tarlac and Pampanga remains the country's rice bowl. It produces 19% of the total national production.

Mindanao is the second biggest producer with 25% of production and 23% in area harvested. Western Visayas, Cagayan Valley, and Southern Tagalog are also important rice producing areas.

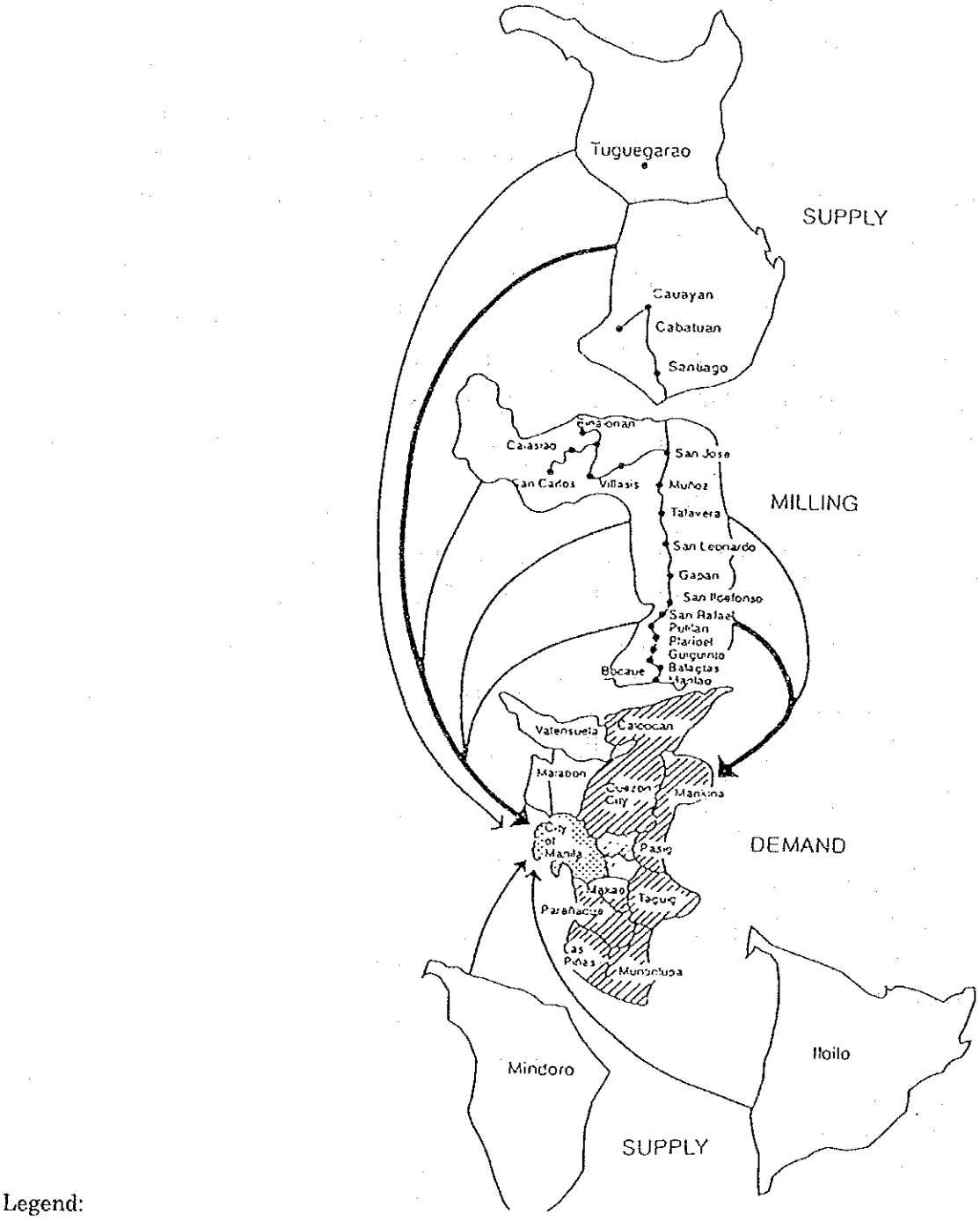
Comparison of the regional production and population distributions indicates immediately the status of the region whether it is a rice deficit, surplus, or self-sufficient region. See Table 10 and Figure 1. Table 10 indicates the deficit (D), the surplus (S) and the self-sufficient (SS) regions while Figure 1 shows the flow of rice from the major producing to the major consuming areas of the Philippines. For example, all of the rice consumed in the National Capital Region (NCR) are imported from Central Luzon, Cagayan Valley and Western Visayas. Manila, the biggest city within NCR is not only the biggest consumption center but also a transshipment point to Southern Tagalog, Central Visayas and Western Mindanao.

Table 10 Percentage Distribution of Rice Production and Population by Regions, 1990

Regions	Rice Production Distribution	Population Distribution	Status		
			D	S	SS
NCR	0	13	x		
CAR	2	2			x
Ilocos (I)	9	6		x	
Cag. Val .(II)	11	4		x	
Cen. Luz (III)	18	10		x	
Sou. Tag. (IV)	10	14	x		
Bicol (V)	8	6		x	
West. Vis. (VI)	13	9		x	
Cen. Vis. (VII)	2	8	x		
East. Vis. (VIII)	4	5	x		
WEst. Min. (IX)	4	5	x		
North Min. (X)	4	6	x		
Sou. Min. (XI)	7	7			x
Cen. Min. (XII)	8	5		x	
Total (%)	100.0	100.0			

Source: Based on the survey conducted by the Study Team

Figure 1 Rice Flow From the Rice Producing Provinces to Metro Manila



Legend:

● : Site of sample rice millers

→ : Greater bulk

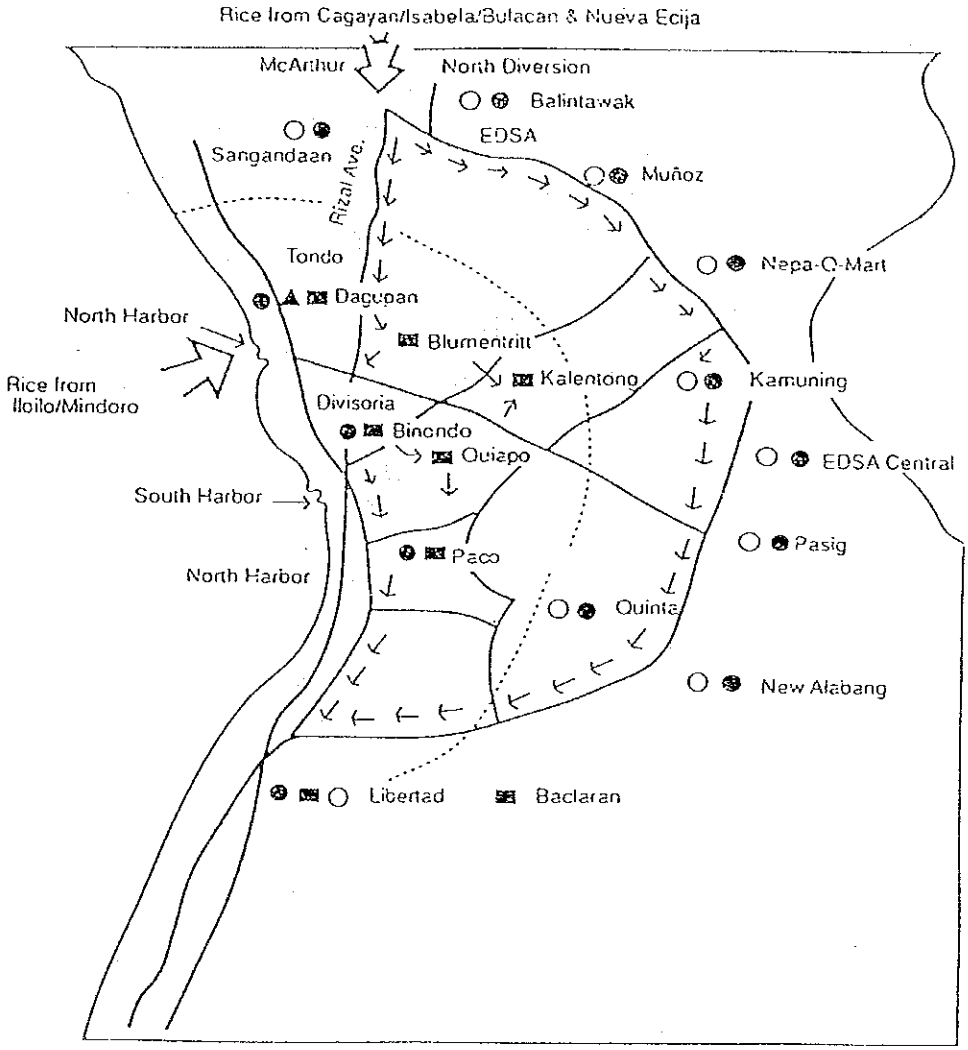
→ : Lesser bulk

▨ : Dagupan wholesalers

▨ : Outside of Dagupan

Source: Interviews with rice traders

Figure 2 The Location of the Principal Rice Wholesale Dealers in Manila

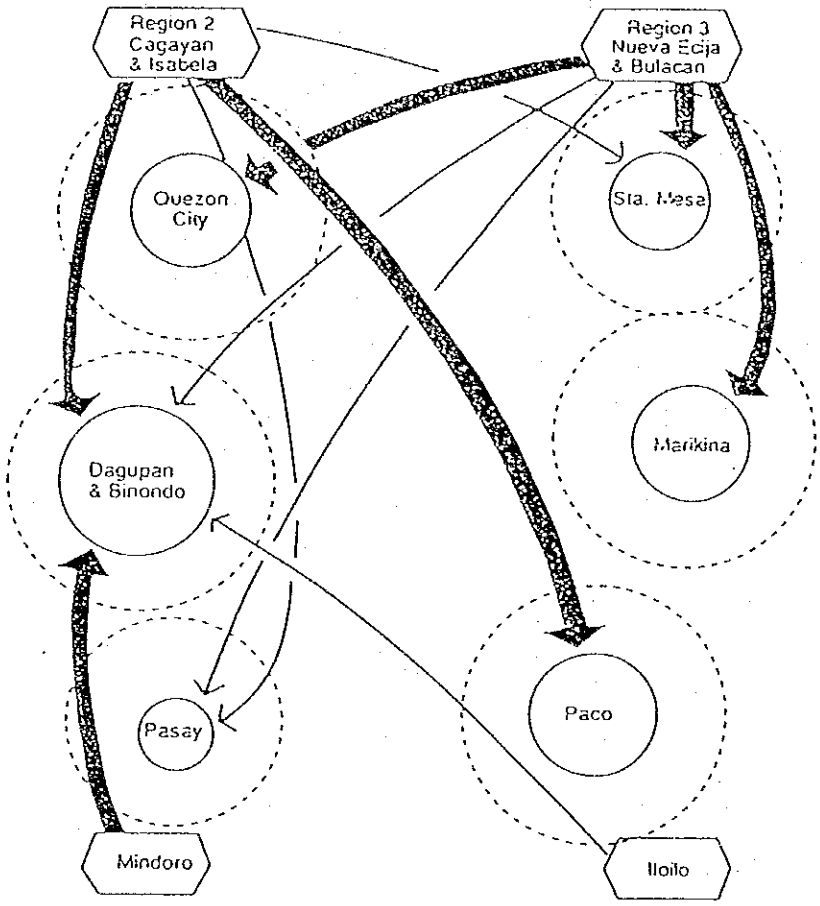


Legend:

- ● : Rice coming from Nueva Ecija (Jan. - Dec.)
- ○ Rice coming from Bulacan (Jan. - Dec.)
- ■ Rice coming from Cagayan/Isabeia (Jan. - Dec.)
- ▲ Rice coming from Iloilo & Mindaro (Visayas) (Sept. - Oct.)
- ⟶ Flow/movement of rice
- ----- Scope of market

Source: Interviews with rice traders.

Figure 3 Origin and Destination of Rice to Major Wholesaling Centers in Manila



Legend:

- □ Supply areas
- ◌ Scope of Market
- ○ Wholesaling Centers

Source: Interviews with rice traders

Figure 1 shows the flow of rice from major rice producing provinces to Manila. figure 2 shows the flow of rice as it enters Manila, stored and sold by the major wholesalers in different districts in the city and Figure 3 is a schematic diagram of rice flow from major producing areas to the different traders in Manila.

The rice marketing system consists of the production, distribution, processing and consumption levels. Each level has several participants.

There are two participants at the production level, the input dealers and the farmers.

The input dealers buy and sell agricultural inputs and related products. Formal input dealers are those that are licensed to sell agricultural inputs as their primary line of business while the informal input dealers are licensed traders who sell farm inputs as a secondary business or as a complement to their farming or palay trading activities. Input dealers sell input supplies on credit to be paid in palay after harvest. The provision of credit is a strategy to commit the farmer to sell his palay to the input dealer-trader. This kind of credit-marketing arrangement provides the input dealer-trader an assured supply of palay for his principal business---buying and selling palay.

Cooperatives have become important participants in the sale and distribution of input supplies. They offer farm inputs in cash or credit at lower prices, lower interest rate and patronage refund to their members and buy palay at higher prices than the informal or formal input dealers.

Farmers are of course the most important participants in the production level. As they prepare for the next planting in the production level. As they prepare for the next planting season, they decide on the amount and kind of input supply they need. Their decision to buy depends on the availability of cash or credit, the terms of the credit, the price of the inputs, and their relationship to the input dealers. About 95% of the farmers buy fertilizes and seeds, of which 67% buy inputs from informal input dealer-traders under a "suki" arrangement, 25% from cooperatives and the rest borrow or buy from their friends.

After harvest, when the farmers are ready to sell their palay, their decision to sell depends on a number of factors including the need for cash for business or for personal reasons, availability of drying and storage facilities, credit obligation with trader-dealers and the price of palay. About 71% of them would wait for

higher prices before selling if they have drying and storage facilities. The remainder would sell immediately after harvest because of the need to repay the dealers who advanced commodity or cash credit to them.

There are two participants in the distribution level, the palay traders and the viajeros. In turn, there are three types of traders depending on their area and scale of operation. The barangay or village traders are the buying agents of higher level traders. They live in the village, operate a variety store and conduct the palay and grocery business under a "suki" arrangement with the farmers. The municipal traders operate within several villages or municipalities. They are usually the big farmers who diversify into rice trading, finance the operation of the village traders. His outlets are usually the provincial traders or the rice millers. The provincial traders operate in more than one municipality, procure palay from both barangay and municipal traders, and extend credit in cash or in kind usually fertilizer.

The viajeros are truckers engaged in the transport of palay from the production areas to the milling centers of Pangasinan, Nueva Ecija and Bulacan. There are two kinds of viajeros or truckers, the year-round and the seasonal. The year round viajero is primarily in the trucking business, carrying dry goods and groceries in its forward haul to the palay producing areas and back haul palay to the major milling centers of Pangasinan, Nueva Ecija and Bulacan. The seasonal viajeros operate only during harvest season, using heavy trailer trucks to backhaul palay from the production areas to the milling centers of Central Luzon.

At the processing level, there are two kinds of millers, the custom millers and the commercial millers. The former is a small scale operator, usually with a single pass rubber roller milling machine who is usually paid in cash. The commercial millers have warehouses, drying facilities, large scale milling machines and trucks. They are assured of supply by providing cash advance or inputs to farmers through traders and viajeros under a "suki" arrangement.

At the consumption level, there are two types of participants, the wholesale-retailers and the retailers. The wholesaler-retailers have stores in public markets where they sell rice in 50 kilogram sacks to retailers or to consumers on credit, consignment, or cash at discounted prices or "suki" arrangement. They get their supply of rice from commercial millers. The retailers sell directly to consumers in

public markets or in variety stores. They get their supply of rice from millers on cash or consignment.

The discussions in the preceding section identified the different market participants from the point of production to the point of consumption. The following sections discuss the different marketing activities engaged in by the participants. These functions are broadly classified as physical and exchange functions. The physical functions involve harvesting, threshing, drying, transporting, storing and milling. The exchange functions include buying and selling.

Harvesting occurs about 100-130 days after sowing when 75%-80% of the rice grains are golden brown. Harvesting involves cutting the stalks and piling them in the field before threshing. Threshing is done either manually or mechanically. A mechanical thresher can thresh and bag between 650-800 cavans of palay depending on the moisture condition of the palay. Mechanical threshers are paid 7% of output, while manual threshers are paid 1.5 cavans of palay per 100 cavans threshed. Sundrying is the most popular form of drying grains. It involves spreading out the grains in the drying floor, in the pavement or in a drying mat following certain thickness depending on the moisture content. Small farmers use public places such as roadside, or cemented highways or community basketball courts for drying. Bigger farmers have mechanical dryers with 150 tons capacity per 12 hours.

Transporting palay in the village involves the use of bicycles, tricycles, hand tractors and animal drawn carts. Municipal and provincial traders use 5, 10 or 15 ton trucks. Viajeros use truck trailers with 20-25 ton capacity for long distance haul. Storing palay in the farm is usually done in a dry place inside or under the farmer's house. The farmer usually stores 22% of his harvest for food and 2% for seeds. Only large traders and processors have warehouses. Manila wholesalers can store an average of 2000 bags of rice per day. However, because of hoarding allegations against traders in 1991, they have since maintained an inventory of 1000 bags per day. Wholesaler/retailers can store up to 10-100 bags per day in their sores. Milling is done by custom or commercial millers. Commercial milling machines consists of a huller which de-hulls the palay, a separator which separates the hull from the rice and a polisher which whitens and polishes the grain. Recovery rate is between 63%-65% depending on the variety and moisture content. Custom milling machines are usually the compact one-pass type, using rubber hullers. It can mill 8-12 cavans per hour with 60%-64% recovery.

The buying and selling activities take place mostly immediately after harvest. During this period, prices are low, specially when there is a bumper crop, when warehouses are full and large leftover inventories remain. This is the time when the traders start to procure rice from farmers who have accepted cash advance or commodity loans. This is the time also when millers and wholesalers with sufficient capital and storage facilities build up their inventory for sale during the lean months of June, July and August. However, the practice of accumulating large inventories has resulted in allegations of hoarding by the traders.

Presently, accumulation of inventory in excess 2000 bags is not permitted. This situation reduces the ability of traders to buy in large bulk and build up their inventories which further depresses palay prices in the supply areas.

(4) Financing rice marketing

Financing is an activity that is misunderstood by farmers and traders alike. While farmers are good at the production side of farming, and traders are good at the buying and selling side of farming, financing these operations is understood only by money lenders.

Majority of farmers use informal sources of credit such as traders, relatives and friends. The choice of a creditor depend on interest rates, terms and conditions of the loan and personal relationships between the farmer and the creditor established over a long period of "suki" arrangement.

Rice millers provide credit through cash and input advances, and the terms are usually agreed upon. When credit is accepted, there is an implied obligation that the harvest will be sold to the creditor at a price to be determined at harvest time. Formal sources of credit such as cooperatives and rural banks are used by about 38% of farmers. Cooperatives charge 10% per cropping season or 2-3% per month, and receive payment in kind or in cash after harvest. Traders who can put up the required collateral borrow from commercial banks such as Philippine National Bank, the Development Bank of the Philippines and cooperative banks where the interest rates are considerably cheaper.

(5) Market competition

Market participants in the major demand centers in Manila or Cebu are known in the industry as "rice traders" or "Chinese traders" who buy and sell rice

in small, medium or large quantities. They are the viajeros, wholesalers, wholesaler/retailers, and retailer/wholesaler in Metro-Manila districts of Binondo, Dagupan, Paco, Pasay, Pasig, Marikina, Quezon City and Sta. Mesa. Majority of these traders are Filipino citizens of Chinese ancestry.

Despite allegations of the traders' predatory business practices, competition among them has been quite strong. Their number, particularly the retailers has increased over the last ten years. Some viajeros have set up shop in Libertad and Baclaran, causing the wholsaler retailers to decrease their prices, offer more variety and better consignment terms such as 15 to 30 day repayment period.

As mentioned earlier, the entry of cooperatives in the input supply business has increased competition. About 80% of farmers who procured inputs from cooperatives bought them on credit at lower interest rates, lower prices and other benefits such as patronage refund. About 90% of the commodity loans are paid in kind.

The entry of viajeros and cooperatives has resulted in the loss of market share of the municipal traders. This is particularly true in places where the cooperatives have advanced cash or credit to their members and accept payment in kind after the harvest season.

(6) Pricing and cost of marketing rice

Pricing rice or palay involves the establishment of a wholesale reference price at key trading centers as basis for transactions through out the marketing system. Reference price for rice originates from Manila while the reference price for palay originates in the milling centers of Nueva Ecija, Bulacan and Pangasinan. If the reference price of rice in Manila is low, the procurement price of rice from millers in Bulacan, Nueva Ecija and Pangasinan is also low. In turn the procurement price of palay in Cagayan and Isabela is also low.

Spatial and temporal price differential for palay and rice occurs. The former reflects the cost of transporting the palay from the production areas to the milling centers in Bulacan, Nueva Ecija and Pangasinan which is about 35-55 centavos per kilo. The latter reflects the seasonal fluctuations in the price of rice which is usually lowest during harvest time from March to May and highest during the planting months of June, July and August.

Beneath all the seasonal and regional differences in prices are the cost of production and marketing. In the final analysis, unless the price is sufficiently high to cover the cost of production and marketing, the long run prospects for increased rice production is not very optimistic.

A cost and return study of rice enterprise in Cagayan and Isabela shows that the production cost represents about 76%-78% and marketing cost represents 22%-24% of total cost. The economics of rice production and marketing for Isabela and Cagayan are illustrated below.

Table 11 Production and Marketing Cost of Palay in Isabela and Cagayan, 1991

Cost/Revenue Items	Cagayan		Isabela	
	Peso/Ha	Percent	Peso/Ha	Percent
Costs				
Production	P8250.0	78	P9826.0	76
Marketing	2370.0	22	3127.0	24
Total Cost	P10620.0	100	P12953.0	100
Revenue				
Gross	P19620.0		P18664.0	
Net	P9000.0		P5716.0	
Additional Information				
Yield in Kg/ha	3924		4666	
Selling price/Kg	P5.00		P4.00	
Break Even Price	P2.71		P2.78	

Source: CONFED

(7) Problems and constraints of rice marketing

The rice marketing system is faced with a number of formidable problems. These problems affect all market participants including farmers, traders and consumers. These problems also affect all kinds of business organization such as single proprietorship, partnership, corporation or cooperatives.

In the production, distribution and processing stage of marketing, the principal problem seems to be low prices of palay. This is due to the system of

providing cash or commodity advances to the farmers in exchange for their crops at harvest time when the price is at its lowest.

Another important problem is the lack of working capital by wholesalers and retailers. This is particularly true for traders without bank financing, or without financial backing from the major wholesale rice dealers in Metro Manila.

Competition is also a formidable problem at the wholesale and retail levels. this is related to the growing number of traders at the major consumption areas. While this kind of competition is favorable to the consumers, the lack of competition at the production level is the principal cause of low prices received by farmers.

Table 12 Problems and Constraints of the Rice Marketing System, 1991

Problems	Prodn.	Distribn	Procsng		Cnsmptn	
			A	B	a	b
1. low prices	1	1	1	3		
2. high input costs	2					
3. lack of water	3					
4. lack of working capital	4	2	3	1	1	1
5. lack of labor	5	5		4		
6. pests and diseases	6					
7. competition		3		2	2	3
8. transport		4				
9. post-harvest facilities		6				
10. NFA operation			2			
11. low prices of by-products			4	5		
12. high milling cost			5	5		
13. credit recovery					4	4
14. low sales					5	1

Source: CONFED, "Rice Marketing,,,p. 99.
A = custom millers
B = Commercial millers
a = wholesaler/retailers
b = retailers

3-1-2 Corn marketing

(1) Importance of corn in the economy, areas of production and consumption

Corn is the second most important crop in the Philippines. It is a staple of about 20% of the population and a major feeds ingredient of the rapidly expanding and dynamic livestock and poultry industries. It represents 14% of the total crop production and 29% of the harvested area. It contributes 1.23% to the Gross National Product and 9.83% to the aggregate crop value added. See Tables 6, 7 and 8.

The growth of the corn industry in the Philippines is significantly faster than that of rice. For example, while corn production increased at an annual rate of 5.06%, rice production was only 1.84%. While the area planted to corn continue to increase, the area planted to rice appear to be constant or slightly decreasing. While rice is used almost exclusively for food, corn is more diversified in its uses as staple food, feeds for poultry and livestock and for culinary and industrial uses.

Corn is grown in all regions of the Philippines especially in the major corn producing areas of Mindanao and the Cagayan Valley. Mindanao accounts for 54% of the corn hectarage and 67% of total production. Cagayan Valley produces 11.3% of the total production. South Cotabato is a major producer and a minor consumer of corn. Corn is used primarily for hog and poultry feeds although it is also popular as food in the form of grits by 20% of the population.

Negroes Oriental, Cebu and Manila are the principal consumption centers of corn. Sixty-five percent of the population of Negroes Oriental eat corn as a staple. In addition, an increasing amount of milled corn for food and feeds are shipped to Cebu.

In Cebu, 80% of the population eat corn grits. Millers in Cebu depend on Mindanao for much of their supply, primarily in Cagayan de Oro, General Santos and Davao.

Manila has the highest population density and highest per capita income level where rice and corn are the principal staples. Also, corn is consumed indirectly through high level of meat and poultry consumption. Corn accounts for about 50% of the composition of poultry and livestock feeds.

As shown in Figure 4, the demand for yellow corn is greatest in and around Manila by integrators and feedmillers. They serve as the linkage between the corn farmers and the livestock producers. they are found in Bulacan, Central Luzon, Batangas and Southern Tagalog. Central Luzon and Southern Tagalog produce 74% of the total mixed feeds in the country.

Cebu is the biggest demand center for white corn. Cebuanos consume about 80% of the white corn grown in Mindanao.

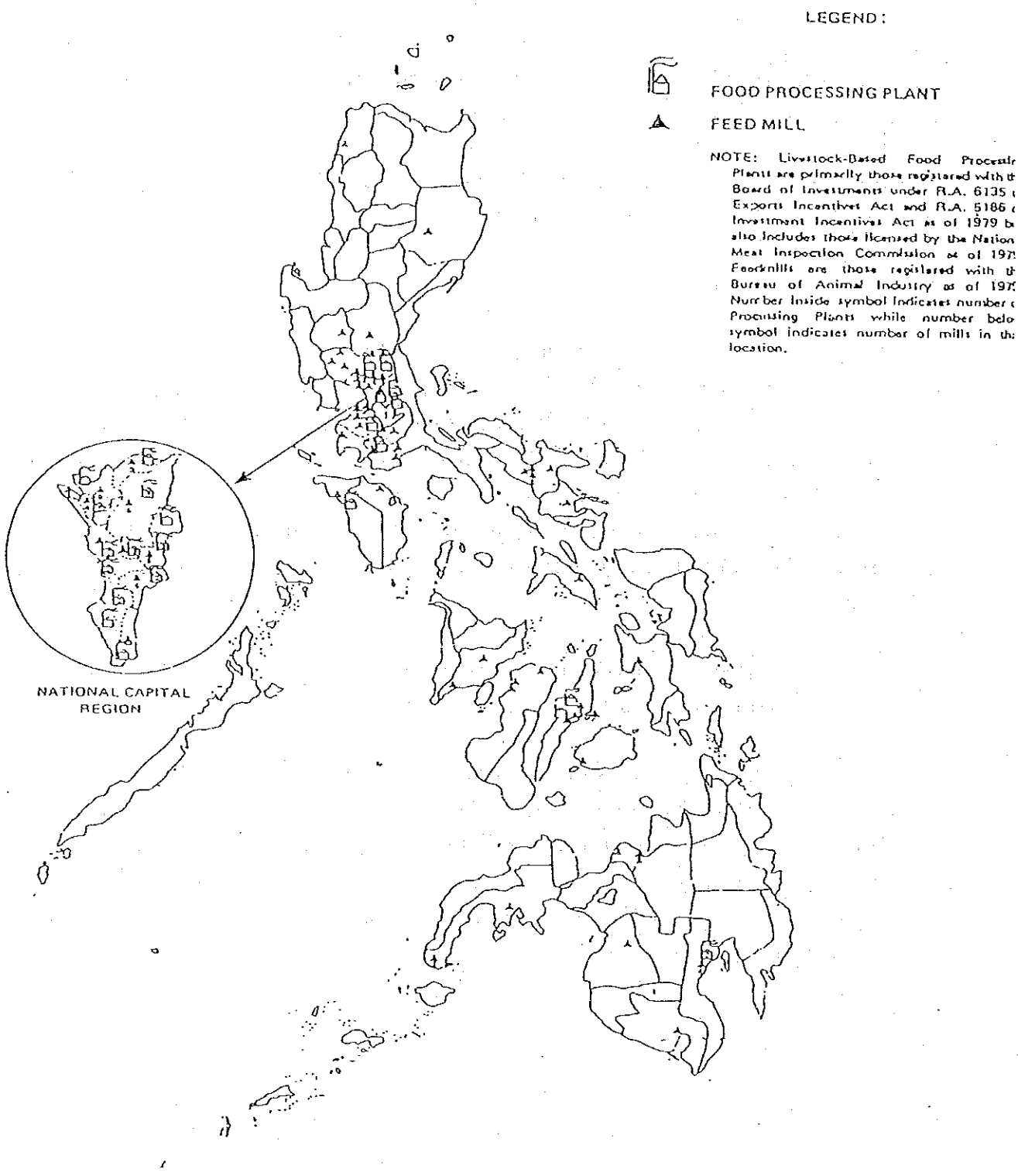
(2) Organization and operation of the market

The Marketing system for corn consists of four levels; the production, the distribution, the processing and the consumption levels. There are several participants within each level. For example, in the production level, the participants are the hybrid corn companies and the farmers; in the distribution levels, the traders and the traders/shippers; in the processing level, the custom millers, the commercial millers the feedmillers and the integrators; and in the consumption level, the participants are the hograisers and the poultry growers. See Figure 4.

The following section describes the role and the functions of the different market participants in each stage of the marketing system.

The hybrid seed companies play an important role in increasing the area and productivity of corn. They introduced the hybrid corn which facilitated the transition of the subsistence production of white corn to commercial production of yellow corn. One factor which accelerated the adoption of yellow corn is the "Maisagana" program of the Department of Agriculture which promoted the production and use of hybrid yellow corn.

Figure 4 Location of Livestock-Based Food Processing Firms and Feed Mills



Source: based on the survey conducted by the Study Team

About seventy percent of the farmers in Southern Mindanao plant hybrid corn and 30% plant white open-pollinated varieties. These farmers get their financing from traders who extend production loans. In return the farmers promise to sell their crops to the trader at the prevailing price which si usually at it its lowest point after harvest. Although there have been cases of "pole vaulting" or farmers reneging from the implied contract under the "suki" arrangement, this is an exception rather than the rule. Self financed farmers who are not committed to the village traders usually sell their crops to the big traders since they offer better prices.

Generally, the farmers' decision to sell is influenced by the price of corn, the need for cash, the credit marketing tie-up which is common under the "suki" arrangement. Fifty percent would delay selling their crops for better prices if they have access to drying and storage facilities. However, more than half (55%) of tenant farmers would not delay selling their harvest due to immediate need for cash to pay for business and personal financial obligations.

The barangay traders live in the village where he usually has other means of livelihood such as operating and managing a variety store or farming. He secures marketing agreements with farmers by extending cash or commodity loans before the planting season to be paid at the time of harvest. His activities include collecting, shelling drying and delivering the corn to the larger municipal trader.

Municipal trader serves as a middleman between the large scale buyer and the barangay traders, the cooperatives or farmers who has limited storage and warehouse capacity. He advances cash or inputs to farmers in return for their commitment to sell their crops to him at harvest time. This is a commitment to sell their crops to him at harvest time. This is a competitive strategy necessary to maintain a reliable and constant source of supply.

The trader/shipper procures his supply of corn over large areas and ship it to major milling or consumption centers by vessels or by trailers.

The custom miller is not engaged in buying and selling corn, but mills for clients on fee basis either in cash or in kind. All custom millers mill grits for home consumption.

Commercial millers buy in large volumes and process them into grits for sale. They are found in Manila and source their corn supply from Mindanao and the

Cagayan Valley. They also supply corn grits to snack food manufacturers, feedmillers, hog and poultry raisers.

Feedmillers are usually affiliated with an integrators. They procure from large traders/shippers or from municipal and provincial traders. The commercial feedmiller provides custom services such as milling, mixing, weighing, bagging, loading and unloading while the principal provides the other feed ingredient and the technical personnel. The non-commercial feedmillers process feeds only for their contract growers.

The integrators are large feedmillers that produce feeds primarily for their integrated hog or poultry enterprises. They also produce feeds for commercial sale. These integrators include the San Miguel Corporation, Vitarich, Republic Flour Mills, Purefoods and others. Four operate in Metro Manila and the others operate in Bulacan and Laguna. Four have satellite feedmills in Mindanao and the Cagayan Valley.

The integrators source their supply of corn from both Mindanao and the Cagayan Valley. Although they do not control the price of corn, they influence the demand which permits them to negotiate for big discounts from their suppliers.

Large hograisers contract with farmers or cooperatives. The contract farmers receive hybrid seeds and fertilizers and sell their corn to the hograisers at harvest time. Spot market purchases by hograisers supplement the corn procured under contractual arrangement. For example, in July 1992, the National Hograisers Group Inc. (NHRGI) the umbrella organization of 90% of the country's hog farms signed a P450 million purchase contract with the Southern Mindanao Federation of Agricultural Cooperatives for the delivery of 100,000 MT of corn over a three-months period from August 1992 to March 1993 at an average price of P4.40/kg. This arrangement guarantees the farmer cooperator a profit of P1.50/kg and has effectively excluded the traders who have been blamed of manipulating inventories in the past to the prejudice of farmers.

Poultry growers are either backyard growers (less than 1000 birds) or commercial growers (over 1000 birds). The entry of integrators has caused the commercial growers to switch to contract growing. The remaining commercial growers sell their chicken through viajeros and local buyers. The poultry contract growers provide chicken housing facilities, labor and management while the

integrator provides the day old chicks and feeds for 45 days. The birds are sold largely to the integrator.

All of the above participants perform different functions. Physical functions include harvesting, shelling, husking, and milling. The exchange function involves buying and selling. These functions are discussed immediately below.

Harvesting hybrid corn is normally done after 110-115 days from sowing. Harvesting and dehusking are done simultaneously in the field. In the Cagayan Valley, sharing arrangement at the rate of one basket to the harvester per seven of harvest. In places where laborers work for cash, they are paid the average of P40/day. The harvested corn cobs are usually transported to the homes for drying and shelling.

Shelling is done manually or mechanically. About 12% of the farmers shell their corn manually using their fingers or wooden blocks. A more popular way is to hire a mobile mechanical sheller for P6.00 - P9.00 per cavan.

The most common method of drying is to spread the corn in a multi-purpose (basket ball court, dance floor) pavement. Another popular method is the use of paved or cemented national or provincial or municipal highways. Farmers with homes in the roadside usually use this method of drying. Others use mats, nets and empty sacks. Corn below the acceptable moisture content is sold at a discount.

Transporting in the village is done by animal drawn sled or cart. The barangay traders used hand tractor drawn trailers, bicycle, tricycle or jeepneys. Provincial traders use medium to large trucks for long distance hauls.

Corn is stored for seed or for deeds. For seed purposes, the unhusked corn are tied together and hanged under the shade vertically. Another way is to store corn grain in plastic bags with sufficient ventilation.

Corn processing is done by feed millers, hog raisers, and poultry growers either for their use or for sale.

The traditional trading (buying and selling) practice is to sell what is not needed in the in the farm. However, with the introduction of hybrid varieties and the increased demand brought about by the dynamic hog and poultry industry, formal contracts between buyers and sellers have become the preferred method of

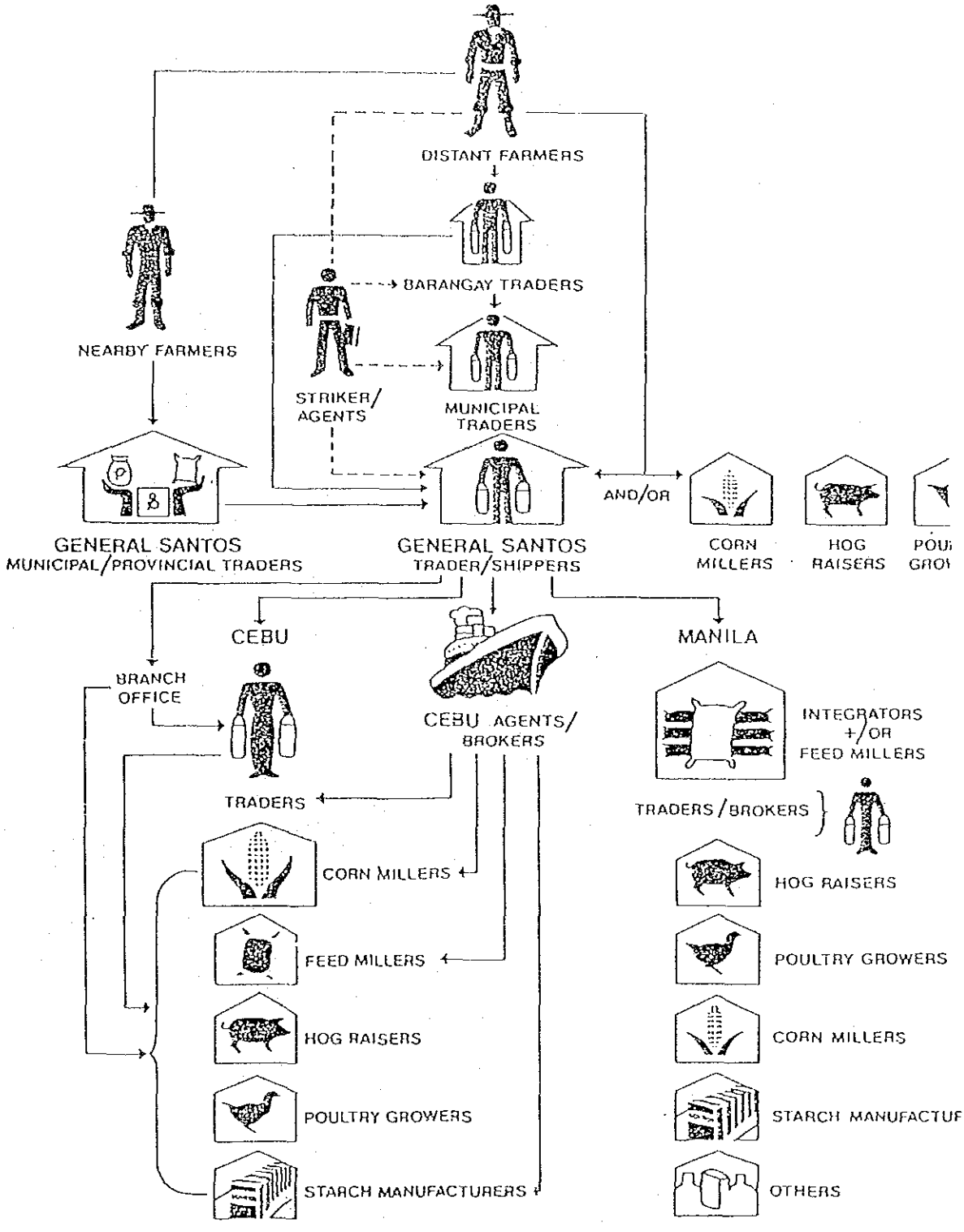
doing business. Under this method, the contract is signed 30-45 days before delivery of a specified amount, quality and price.

(3) Market competition

The traders usually compete for the farmers harvest within the production area. For example, the barangay or village trader maintain good relations with the corn farmers by offering them cash and/or commodity credit from their variety store to be paid in kind after harvest. For the bigger traders, they offer pick up services or sales commission to drivers as payment for delivery services.

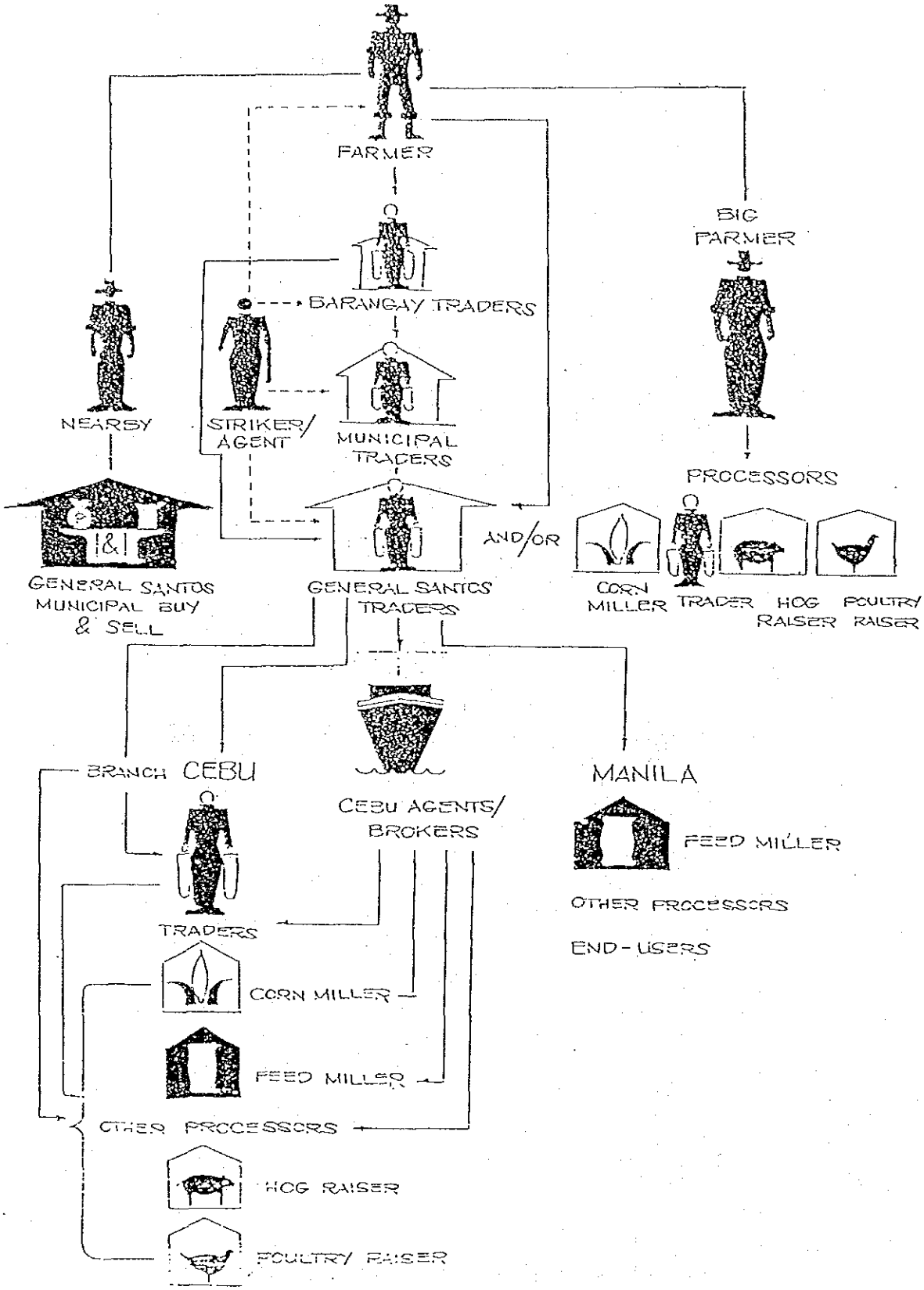
Competition in the demand areas of Central Luzon, National Capital Area and Southern Tagalog is intense during the lean months. Some traders offer rebates for bulk purchases. Commercial feedmillers offer an array of services and incentives such as cash purchases, discounts for bulk sales, free delivery services and cash rebates. Also, large commercial hog raisers and poultry growers compete by offering discounted liveweight prices

Figure 5 Flow of Corn from South Cotabato: Type of Buyer and Location



Source: Based on the survey conducted by the Study Team

Figure 6 Commodity Flow of Corn



Source: Based on the survey conducted by the Study Team

(4) Financing

Loans to farmers extend beyond production purposes to include various forms of personal and family needs. Informal sources of cash or commodity credit include friends, relatives and traders who charge an average 6% per month. Traders extend credit to assure themselves of supply and farmers regard it as a method of sharing risk. Very few farmers use formal sources of credit. The cooperative bank extend credit only to farmers who are members of cooperatives. Big scale traders borrow money from private commercial banks and government owned banks.

(5) The cost of production and marketing

The cost of production and marketing in South Cotabato for the year 1991 is as follows.

Table 13 Cost and Return of Hybrid Corn in the South Cotabato, 1991

Cost and Revenue Items	Cost and Return	
	Pesos	Percent
Production Cost/Ha	P5400	76
Marketing Cost/Ha	1705	24
Total Cost	P6105	100
Gross Return	P11700	
Net Return	4595	
Yield in kg/ha	4500	
Price/hg	P2.60	

Source: CONFED、"The Corn Marketing...", p.73

(6) Problems and constraints of the corn industry

Table 14 Problems and Constraints of the Corn Industry in the Cagayan Calley, 1991

	Problems	Prodn	Distbn	Prcsng	Cnsptn
1.	low prices	1			
2.	high input cost	5			
3.	lack of water	4			
4.	lack of working capital	3	3	1	
5.	labor scarcity				5
6.	pests and diseases	6			
7.	strong competition		1	1	
8.	transport			2	3
9.	lack of post-harvest facilities	2	4		
10.	credit recovery		2		2
11.	low quality			3	
12.	unpredictable supply				1
13.	import				4

Source: CONFED、"The Corn Marketing...",p.99.

3-1-3 Agricultural input supply marketing

(1) The role of modern inputs in agricultural development

The introduction of the high yielding varieties of rice and hybrid corn required the use of certified seeds, fertilizer, and pesticides. This paved the way towards the establishment of input supply markets in major rice and corn producing areas. The role of input supply dealers is critical because they serve as sources of farm inputs and credit and in that capacity, they are also credited for the introduction of modern agricultural technology. In large measure, they were responsible for the intensification of the use of the high yielding varieties of rice and hybrid corn, increased in irrigated areas devoted to rice, and availability of subsidized credit under the Masagana 99 and the Maisagana programs. The input supply dealers have played an important role in the introduction and spread of the seed-fertilizer-irrigation technology popularly known as the "green revolution".

Input suppliers are classified as formal and informal. An input supplier is informal if it is a licensed trader and sells farm inputs only as a means to support

his grain trading operation which is his principal business. This is accomplished through a credit-marketing tie-up "suki" arrangement.

Table 15 Distribution of Input Dealers by Types in Percent

Type of Dealers	Rice Input Dealers in Percent	Corn Input Dealers in Percent
1. Distributor-Wholesaler-Retailer (DWR)	5	5
2. Wholesaler-Retailer (WR)	23	21
3. Retailer(R)	54	54
4. Cooperative(C)	9	14
5. Informal(INF)	9	7
Total	100	100

Source: CONFED、"The Corn Marketing...", p.165

The formal input supplier is a licensed businessman which deals primarily with the buying and selling of farm inputs. Input suppliers may be classified according to the following types: distributor-wholesaler-retailer (DWR), wholesaler-retailer (WR), retailer (R) and cooperative (C). A study of rice and corn marketing in Isabela and Cagayan shows the distribution of input dealers by types as shown in Table 15.

(2) Marketing business formula: Items handled and turnover

As shown in the Table 16, cooperatives are beginning to break into the agricultural input supply business as a complement to their palay and corn trading operations. Examination of Table 11 shows the importance of input supply as component of the overall business of the rice marketing cooperatives.

Table 16 Sale of Agricultural Inputs by Selected Cooperatives

Coop No.	Total Sale in P 1000	Ag. Input in P 1000	Ag. Input to Tot. Sale
1	20,678.0	4120.0	19.93
2	3,417.0	150.8	4.41
3	315.1	58.2	18.31
4	7,985.9	3478.3	43.56
5	8,442.7	4008.2	47.47
6	2,574.6	2203.3	79.99
7	7,794.6	1958.2	25.12
8	8,001.2	6379.0	79.73

Sources: Estimated from financial statements, 1991.

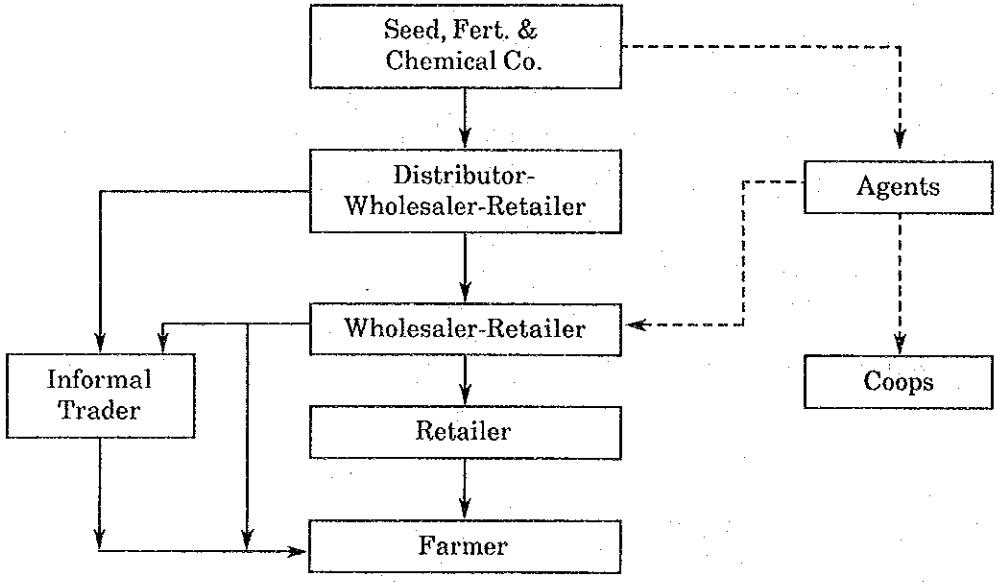
(3) Organization and operation of the market

The result of a study of forty-three input dealers in Cagayan and Isabela shows that only fifteen or 35% carried certified seeds. Of these, nine are retailers, 4 are wholesaleretailers and 2 are cooperatives. Eight paid their purchase of seeds on consignment, four on credit and three on cash. Credit purchase usually carries 15-30 days payable without interest charges.

Wholesale-retail dealers of fertilizer obtain their supply directly from Manila, Bulacan and major trading centers. Retailers usually get their supply from the bigger towns within the province, while the informal input supply dealers obtain their fertilizer supply from Bulacan and Manila. Generally, distributor-wholesaler-retailer buy their supply through consignment or through forward stocking agreement while the wholesaler-retailer buy their supply on credit or consignment. Purchase on credit is usually interest free if paid within 7-30 days.

The principal source of pesticides is from Manila. Cash procurement is commonly used in Cagayan while consignment is more popular in Isabela. Purchase on credit is usually payable free of interest charges within 7-60 days.

Figure 7 Channels of Distribution of Agricultural Input Supply, Cagayan and Isabela, 1991



Source: Based on the survey conducted by the Study Team

Most input supply dealers sell directly to the farmers. However, the distributor-wholesaler-retailer and the wholsaler-retailer sell also to other dealers, cooperatives and other traders. See Figure 7.

(4) Financing

Most input supply dealers obtain their working capital from government banks, private commercial banks and rural banks. Surveys of input dealers show the following results.

Table 17 Sources of Working Capital of Input Supply in Cagayan and Isabela, 1991

Sources	Rice Study in percent	Corn Study in percent
1. government banks	53	24
2. private banks and rural banks	27	22
3. others		13
4. informal sources	10	25
5. formal/informal	10	3
6. cooperatives		13

Source: CONFED、"The Corn Marketing...", p.172

As the above table indicates, agricultural input supply dealers prefer government banks as source of their working capital. Next are private banks and rural banks. Perhaps the general preference for formal sources of credit is because of the low interest rates that the formal sources charge vis-a-vis the rates of the informal sources. Also, the magnitude of the loan to finance bulk purchase of inputs, such as fertilizers, seeds or pesticides precludes the ability of informal and small creditors to finance.

The credit recovery among agricultural input supply dealers has been very high. The reason for this is because much of the loan are sourced from formal sources. Also, borrowers are businessmen who had collateral to secure the loan. The result of a study on the credit recovery of input supply dealers in Cagayan and Isabela is shown below.

Table 18 Credit Recovery Rates Among Input Supply Dealers in Cagayan and Nueva Ecija, 1991

Type of Dealers	Rate of Recovery in Percent
1. distributor-wholesaler-retailer	98
2. wholesaler-retailer	89
3. retailer	87
4. cooperatives	99
5. informal	75
Average	90

Source: CONFED、"The Rice Marketing System...",p.129

(5) Competition

Competition among input supply dealers has become very intense. To keep their share of the market, the dealers have to resort to various competitive strategies. These strategies are summarized below in Table 19.

Table 19 Competitive Strategies of Corn Input Dealers, Cagayan and Isabela, 1991

Strategies	Percent Distribution
1. lowering prices	52
2. extending credit	48
3. assurance of input supply	27
4. giveaways	16
5. volume discounts	13
6. providing quality products	7
7. good service to customers	5
8. others	4
9. no strategy	9

Source: CONFED、"The Corn Marketing System...",p.168

The entry of cooperative in the input supply business has increased competition considerably. Cooperatives serve as an alternate source of credit and their entry in the input supply business has become a threat to the formal input supply

dealers. Farmers who became members of the cooperative have stopped patronizing the retail input dealers.

(6) Problems of agricultural input supply dealers

There are a number of problems facing the agricultural input supply dealers. First there is strong competition among the dealers which was made worse by the entry of cooperatives. The bad effect of this is decrease in the dealer's average sale. The good effect is that farmers tend to benefit in that as a result of competition prices tend to decrease and services tend to improve.

The second problem is inadequate working capital. For the small dealers like the retailers, they have limited access to capital because of their inability to raise collateral. As a result their competitive position is weakened and their market share is eroded by the bigger competitors.

The third problem is the high cost of input. The price of input is usually determined by the demand and supply in the world market, the shipping cost and the transportation cost from the port of entry to the production area.

The fourth problem is the slow recovery of credit. This is due to the behavioral problems of some farmers and the low prices of palay and corn. The slow recovery of credit is particularly harmful to smaller dealers who do not have sufficient capital to finance himself nor access to low cost formal sources of credit.