

CRITICAL STUDY ON CO-OPERATIVE LEGISLATION AND COMPETITIVE STRENGTH

**IBNOE SOEDJONO
MARIANO CORDERO**



**International Co-operative Alliance
Regional Office for Asia & the Pacific, New Delhi**

334:321
Su/1000

ICA Library
334:340 SOPE-R
ICA 00584

Report of the
**Critical Study on
Co-operative Legislation and
Competitive Strength**

By
**Ibnoe Soedjono
and
Mariano Cordero**



International Co-operative Alliance
Regional Office for Asia & the Pacific
New Delhi - 110065. India

20619
6/5/97

334:340

U/COX



**Report of the
CRITICAL STUDY ON CO-OPERATIVE LEGISLATION
AND COMPETITIVE STRENGTH**

By
Ibnoe Soedjono and Mariano Cordero

Co-ordinated by
Robby Tulus
Regional Director
International Co-operative Alliance
Regional Office for Asia & the Pacific

International Co-operative Alliance
Regional Office for Asia & the Pacific
43 Friends Colony, New Delhi 110065. India
Telephone : (91-11) 683-5123
Fax : (91-11) 683-5568
E-Mail : ica@icaroop.unv.ernet.in
icaroop@giasdl01.vsnl.net.in

Headquarters
International Co-operative Alliance
15 route des Morillons
CH-1218 Grand Saconnex
Geneva. Switzerland
Telephone : (41-22) 929-8888
Fax : (41-22) 798-4122
E-Mail : ica@coop.org

ISBN : 92-9054-042-7

July 1997 (300)

*Typeset and printed at Document Press, HS-14, Kailash Colony Market, New-Delhi-110048.
Tel: (91-11)-6432836, 6923316 Fax: (91-11)-6463593*

Contents

Exchange Rate Assumptions/Glossary	5
Acknowledgement	9
Foreword	11
Executive Summary	15
Country Findings	
INDONESIA	27
Development and Performance of Cooperative Societies	27
Role of Government in Cooperative Development	27
The Cooperative Movement	29
Issues Concerning Cooperatives in Indonesia	32
Prospects and Issues on the Financial Cooperatives	35
The Agricultural Cooperatives	39
MALAYSIA	42
Development and Performance of Cooperative Societies	42
Government Role on Cooperative Development	43
Private Sector Initiatives	44
General Cooperative Issues	45
Agricultural Cooperatives in Malaysia	50
The Financial Cooperatives	54
THE PHILIPPINES	56
Introduction	56
Government Role in Cooperative Development	57
Private Sector Initiatives	60
General Issues on Cooperatives	63
Prospects and Issues on Financial Cooperatives	65
Agricultural Cooperatives	71

SINGAPORE	75
Overview	75
Government Role in Cooperative Development	75
Private Sector Initiatives	77
Issues	79
The Financial Cooperatives	81
THAILAND	83
Introduction	83
Government Role in Cooperative Development	84
Private Initiatives	85
General Cooperative Issues	86
The Financial Cooperatives	92
Agricultural Cooperatives	96
APPENDICES	
Appendix I - Indonesia	107
Appendix II - Malaysia	110
Appendix II - Thailand	119
Appendix IV - Terms of Reference	129
Appendix V - Persons met during the Study	135

Exchange Rate Assumption/Glossary

(As of May 1996)

US\$	Rp 2,345	(Rp=Rupiah)	Indonesia
	RM 2.51	(RM=Ringgit)	Malaysia
	P 26.19	(P=Peso)	Philippines
	\$ 1.41	(\$=Dollar)	Singapore
	Bht 25.35	(Bht=Baht)	Thailand

Glossary

ACFT	Agricultural Cooperative Federation of Thailand
ADB	Asian Development Bank
AFOs	Area Farmers Organisations
AMC	Agricultural Marketing Cooperatives
ANGKASA	National Cooperative Organisation of Malaysia
ASEAN	Association of South East Asian Nations
BAAC	Bank of Agriculture and Agricultural Cooperatives
BCDC	Bicol Cooperative Development Centre
BI	Bank Indonesia
BOD	Board of Directors
BPM	Bank Pertanian Malaysia
BPR	People's Rural Bank
BRI	Bank Rakyat Indonesia
BUKOPIN	Cooperative Bank of Indonesia
BULOG	The National Logistics Agency
CAD	Cooperative Audit Department
CCFT	Consumer Cooperative Federation of Thailand
CCM	Cooperative College of Malaysia
CDA	Cooperative Development Authority
CETF	Cooperative Education Training Fund
CFAF	Common Fund to Assist Farmers
CID	Cooperative Institute for Development
CIDA	Canadian International Development Assistance
CISP	Cooperative Insurance System of the Philippines
CLIMBS	Cooperative Life Insurance Mutual Benefit Services
CLT	Cooperative League of Thailand
CPD	Cooperative Promotion Department

CPF	Cooperative Promotion Fund
CRB	Cooperative Rural Banks
CU	Credit Unions
CUCO	Credit Union Coordination of Indonesia
CULT	Credit Union League of Thailand
CUP	Cooperative Union of the Philippines
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DCD	Department of Cooperative Development
DEKOPIN	Indonesian Cooperative Council
DDG	Deputy Director General
DG	Director General
DGF	Deposit Guarantee Fund
DTI	Department of Trade and Industry
FDA	Fisheries Development Authority
FACOMA	Farmers' Marketing Cooperatives
FELCRA	Federal Land Consolidation & Rehabilitation Authority
FELDA	Federal Land Development Authority
FFFCI	Free farmers Federation of Cooperatives Inc.
FMC	Farm Mechanisation Centre
FO	Farmers' Organisation
FOA	Farmers' Organisation Authority
FPMC	Farm Product Marketing Centres
FSCC	Federation of Saving & Credit Cooperatives of Thailand
FTC	Farmers Training Centre
GATT	General Agreement on Tariff and Trade
GFI	Government Financial Institutions
GKSI	Gabungan Koperasi Susu Indonesia
ICA	International Cooperative Alliance
ICA ROAP	International Cooperative Alliance, Regional Office for Asia and the Pacific
ICT	Intercoop Trade
IFAD	International Fund for Agricultural Development
INKUD	National Apex Body of the KUD
JICA	Japan International Cooperative Assistance
JPK	Jabatan Pemangunan Koperasi
KADA	Kemuba Agricultural Development Authority
KAI	Koperasi Asuransi Indonesia
KOSWIP	Koperasi Pegawai Kerajaan Selangor Dan Wilayah-Wilayah Persekutuan Berhad

KUD	Koperasi Unit Desa
LBP	Land Bank of the Philippines
MA	Minsitry of Agriculture
MADA	Muda Agricultural Development Authority
MASS-SPECC	Mindanao Alliance of Self-Help Societies - Southern Philippines
MCSE	Minsitry of Cooperatives and Small Enterprise
MKM	Maktab Kerjasama Malaysia
MLCD	Ministry of Land and Cooperative Development
MOAC	Ministry of Agriculture and Cooperatives
NACFT	National Agricultural Cooperative Federation of Thailand
NACTI	National Cooperative Training Institute
NCAC	National Cooperative Advisory Council
NFA	National Food Authority
NAFAS	National Farmers' Organisations
NAMVESCO	National Market Vendors Cooperatives
NAP	National Agricultural Policy
NATCCO	National Confederation of Cooperatives
NDP	National Development Policy
NEP	New Economic Plan
NGO	Non Government Organisation
NORLU	Northern Luzon Cooperative Development Centre
PFCCO	Philippine Federation of Credit Cooperatives Organisations
PI	Presidential Instructions
PMU	Project Management Unit
PVO	Private Volunteer Organisations
PUSKUD	Provincial Secondary Societies of the KUD
RAPS	Restructuring of Agricultural Production Systems
RCICM	Registrar General's Circular on Improvement of Cooperative Management
RISDA	Rubber Industry Smallholders Development Authority
SFOs	State Farmers' Organisations
SFU	Small Farmers' Unit
SRF	Sustainable Rural Financial System
SSG	Statutory Services Group
TABCO	Thailand Agribusiness Company
TAGCODEC	Tagalog Cooperative Development Centre
VCF	Visayas Central Fund
VICTO	Visayas Cooperative Development Centre
WTO	World Trade Organisation

Acknowledgement

We wish to express our appreciation to the International Cooperative Alliance Regional Office for Asia and the Pacific (ICA ROAP) for giving us the opportunity to conduct this study. It was a most rewarding experience for us, professionally and personally. We especially want to express our special thanks to Mr. Robby Tulus, ICA ROAP Senior Policy Advisor, who was instrumental in making the study possible. While he gave us the overall guidance, monitored our progress, and provided vital support to see us through the task, he also allowed us all the liberty to maintain our objectivity.

Our deep appreciation is also due to the cooperative movement and government agencies of the countries involved in the study, particularly : DEKOPIN and GKSI of Indonesia; ANGKASA of Malaysia; NATCCO and its affiliates of the Philippines; SNCF and NTUC INCOME of Singapore; and CLT of Thailand.

We are deeply grateful to the staff of the Canadian Co-operative Association in Manila Office, namely: Ms. Gemma Fabre Sims, who patiently helped us through the countless tentative drafts before we could produce a more presentable output; and Mr. Arnel Carpio who, apart from his other office responsibilities, handled his role as accountant in an efficient manner. Similarly, albeit more in the background, staff members at ICA-ROAP in New Delhi deserve appreciation for they must have provided important back-up support throughout the process.

There is simply not enough space to mention the names of the countless persons who not only made the study possible but also made it an enjoyable and memorable experience.

We tried our level best to correctly reflect the views of the many authorities, advocates and experts interviewed. Nonetheless, the conclusions and perceptions drawn from all information gathered, whether first hand or from secondary data, are entirely ours, as we assume full responsibility for all errors of commission or omission in the report.

Ibnoe Soedjono
Mariano A. Cordero

Foreword

The International Cooperative Alliance (ICA) has conducted a series of Asia-Pacific Cooperative Ministers Conferences starting from the one in Sydney, Australia, in 1990, with the objective of developing a shared vision towards making cooperatives more autonomous and independent. In doing so, cooperatives need to stage a constructive dialogue with the relevant state authorities to ensure that appropriate policies and legislation are created or reformulated. Such an important colloquy must be staged not only within a conducive environment, but also conceived within the broader concept of cooperative principles and sustainable development. It is for that reason that two follow up Conferences were subsequently held in Jakarta (1992) and Colombo (1994), preceded by national seminars and workshops, addressing important issues such as the environment, cooperative competitiveness, and structural reforms.

In preparation for the Fourth Ministerial Conference scheduled to take place in March 1997, ICA deemed it important to conduct an independent and critical study that will offer objective insights about the merits - or the lack thereof - of the past three Ministerial Conferences. The study was conducted to assess the impact generated by past conclusions and recommendations of the ICA sponsored Ministerial conferences. Two particular sectors were given more careful analysis, namely the financial and Agri-business Cooperative sectors, in terms of their organizational effectiveness and deficiencies, as well as their development potential and inherent risks. The study covered five countries, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.

Conducted in early 1996, the study offered a valuable input into the design of future policy initiatives by government and movement, and also as reference for the ICA in its ongoing efforts to formulate effective cooperative development strategies for the Asia Pacific region. The timing of this study is also considered very opportune as it took place in the midst of global megatrends that are characterized by new communication advancement and managerial theory that affected workplaces everywhere around the globe, including those of large scale cooperatives in this region.

The expert team commissioned to conduct this study was composed of Mr. Ibnoe Soedjono from Indonesia and Mr. Mariano Cordero from the Philippines. They were selected to ensure that the objectivity of this study will not be compromised. Their intellectual capacity and development expertise are well known to cooperatives in Indonesia and the Philippines respectively. They were then neither connected with government nor with the cooperative movement in

any official capacity. Yet they possess rich experiences, both in government and in private practice, that enabled them to make the needed critical assessment for in-depth review by participants of the Fourth Asia Pacific Cooperative Ministers Conference.

The depth and straightforwardness of this study will undoubtedly be very useful as reference for co-operators who are still actively involved in government-movement relations or in the business of financial intermediation and agricultural cooperatives.

New Delhi
February 15, 1997

Robby Tulus
Regional Director
for Asia and the Pacific
International Co-operative Alliance

EXECUTIVE SUMMARY

Executive Summary

The most discernable impact of the ICA ROAP - sponsored Ministerial conferences among the countries¹ reviewed is the enactment or drafting of new cooperative laws designed to closely conform with cooperative principles advocated during these conferences. Indonesia, Malaysia, and the Philippines enacted new cooperative laws just after 1990, more or less in line with the Sydney Declaration. Similarly, Thailand has drafted a new Cooperative Act but is hampered by frequent changes in its government.²

A. Beyond the Proclaimed Policy Environment

Based solely on the provisions of their new laws and current stated policies, governments' are seen to be shifting away from being interventionists and taking on a more supportive (and passive) role in cooperative development. Notwithstanding the present laws and policy statements, however, governments' continue to pursue flawed cooperative development strategies and programs given the following factors :

1. Large Cooperative Development Bureaucracies

Except for Singapore and the Philippines, ministries or agencies in charge of cooperatives are large bureaucracies with resources and manpower that allow them to permeate down to district levels. Even in the medium term it will be difficult to expect a reduction of governments' pervasive and interventionist role since cooperative promoting bureaucracies (and politicians that benefit from them) could easily justify their continued existence and even find powerful advocates for expanding their resources and sphere of influence. Unfortunately, large bureaucracies and long-staying bureaucrats are not known for being progressive and are more than likely to hold on to their traditional views. Thus, flawed concepts will continue to influence governments' efforts in cooperative development for some time.

2. Many Major Players

The ICA-ROAP conferences largely involved the cooperative ministers or

1 Except where specifically mentioned, countries (or their governments) referred to in this report are Indonesia, Malaysia, the Philippines, Singapore and Thailand - the countries reviewed under the study.

2 Singapore was not represented in any of the Conferences.

authorities for obvious reasons. It was observed however, that cooperative development is not the exclusive turf of such authorities. The promotion of cooperatives is often a cornerstone activity of many development strategies, especially for the rural-agricultural sector. Thus, many government agencies promote cooperative formation directly or indirectly due to their individual mandate or as part of total government effort in national development. As independent bureaucracies, they operate beyond the control of the cooperative authorities. Examples of these are : agricultural ministries and related agencies, state (agricultural) banks, food or agricultural marketing authorities and some parastatal bodies. Some of these entities actively create “cooperatives”, usually without a shared vision of accepted cooperative principles, and are often at odds with the efforts of the cooperative authority.

Another set of major players are the multi-lateral and bilateral funding agencies which exert substantial influence over policy formulation in these countries. Many of these agencies also nurture misconceptions of cooperatives because their experiences are limited to government programs or approaches. The result is a paradox of : (i) the continued perpetuation of donor-supported government programs using overnight “cooperatives” as conduits; and (ii) a growing mistrust among the same donor agencies of the cyclical creation of “boom and bust” cooperatives under the very government programs which these agencies support.

3. Cooperative Development Subsumed into Broader Objectives

Governments³ in developing economies give high priority to such objectives as food security, poverty alleviation or eradication, increasing agricultural productivity and ensuring social justice or equity. Strategies to achieve these goals continue to be laced with packages of incentives and services that weaken the resolve of “target beneficiaries” to form self-help societies. There is also a tendency for governments to “fast track” development efforts and to be impatient with long gestating but proven processes in cooperative formation. The classic government rural development strategy invariably involves the rapid creation of “cooperatives” of target groups to rationalize the delivery of the following services to them, namely : (i) massive provision of cheap credit; (ii) provision of highly subsidized inputs; (ii) direct marketing support or price control mechanisms for agricultural produce; and (iv) direct management of cooperative affairs by government or parastatal staff.

3 Except where indicated, any discussions involving the rural and agricultural sector refer to the same countries mentioned except Singapore.

“Cooperatives” continue to be created or promoted in order to make efficient the delivery of such services (especially credit) which governments perceive as vital to the pursuit of broader objectives. Cooperatives are still formed to be dependent on government, with members facility to imbibe values that will enable them to sustain viable self-help society. For example: many studies have consistently shown that: (i) the massive provision of cheap government credit discourages savings which is central to cooperatives’ self-reliance; (ii) government credit is usually viewed as a dole out and weakens credit discipline; (iii) subsidies and unbridled marketing support creates dependency and promotes inefficiencies; (iv) government programs often do not match the absorptive capacity of cooperatives due to excessive performance targets, and (v) direct government intervention stunts the self-sustaining capacities of cooperative societies.

4. Socio-Political Agenda vs. Cooperative Development

In many instances the following questions were raised by private cooperative advocates: (a) Do governments really want strong cooperatives?; and (b) If so, which type or what kind of cooperatives? These questions are raised because cooperatives (and people empowerment) could be viewed by some governments as a double-edged sword: one blade as the cutting edge for national development and as a levelling tool against social inequities; while another blade is seen as a threat to political stability if used by “misguided elements” for political ends. Strong governments are usually uncomfortable with the growth and strength of an independent movement, preferring to exercise political patronage (that could be effectively distributed through “cooperatives”) to perpetuate their political dominance. A strong private-led cooperative movement would not be awed or indebted to government, a serious concern for some sectors within the circle of power.

Some observed indicators which confirm governments’ ambivalence on having a strong cooperative movement include: (i) instances of strong private-led cooperatives being officially ignored or refused registration; (ii) the politicization of or strong presence of government in apex organizations, apparently to ensure adherence to a political agenda; and (iii) continued government intervention in cooperative affairs varying from direct management of some societies to a cooperative strategy where the demands of political exigencies prevail over the application of accepted cooperative principles.

Many cooperative advocates argue that governments are interventionists towards cooperatives if only to ensure that the societies would not wander

beyond mundane economic affairs to engage in politically sensitive undertakings.

B. Cooperative Competitiveness in General

1. Dichotomy in the Cooperative Movement

In the countries reviewed, there is a dichotomy of government-supported agri-based cooperatives and private-led cooperative societies. What is clearly emerging in all these countries is the vibrant and self-sustained growth of the private-led cooperatives. No, doubt, the growth and viability of these cooperatives were greatly enhanced by the improved policy environment. Yet, even where government strategies and policies are less than supportive, many societies are coping well through sheer perseverance and strict adherence to cooperative principles. On the other hand, government-initiated agricultural cooperatives generally remain weak and need to be propped up by continued support (subsidized operations, direct management, etc.) or are left to fail as the provision of massive government support to them becomes unsustainable.

2. Pitfalls of Growth and Expansion

Self-sustaining cooperatives are found to achieve rapid growth once it reaches a certain critical mass in terms of resources and membership. This is expected since this implies wider public acceptance and adequate resources that enable the cooperatives to: (i) avail of professional management; and (ii) provide better and more diverse services. These in turn enhance membership patronage and loyalty, that triggers still wider acceptability from potential members.

However, rapid growth and expansion of societies are also creating some problems due to: (i) the perception that some conventional cooperative principles and accepted practices are becoming impractical due to membership size and diversity of operations (e.g., slow decision making due to democratic process); (ii) societies being increasingly exposed to keen and cut throat marketplace competition as they become major players in business activities; (iii) governments' concern with potential impact of adverse operations of large cooperatives (e.g., failures in large financial cooperatives could threaten the stability of the financial system - as in the Malaysian case in the late 80s'); (iv) legislative inadequacies to strike a balance between governments' control concerns to protect the public and the cooperatives' desire for flexibility to pursue increased business options; and (v) inadequacy of apex organizations to respond to the diverse and specialized needs of large cooperatives.

Two corollary issues are also emerging due to the unprecedented growth of societies. First: it is the opinion of some cooperative advocates (notably from Singapore) to add “Enhancing Cooperative Competitiveness” to the current list of accepted cooperative principles. This is to ensure membership loyalty through better or diverse services, specially in the light of increasing competition and trade globalization. Second: some large cooperatives are seriously considering conversion to corporations to have more flexibility in pursuing business opportunities, a move feared by strong coop advocates as a departure from the true essence of cooperativism.

C. Competitiveness of Agricultural Cooperatives

Across the Region, government intervention and support is very pronounced among agricultural cooperatives. This is due to the countries' large rural agriculture base where a large majority of their poor are also found. It is in this sector that cooperative promotion is more vigorously pursued but is also likely to be subsumed under broader national objectives. Moreover, it was observed that each country adopts varying approaches despite similarity of their problems, resulting in varying degrees of competitiveness of the agri-based cooperatives, as discussed below.

1. Malaysia

At a glance, Malaysian cooperatives in the tree crop estate subsector appear to be the most competitive in terms of size of resources, diversity of operations and level of management. Government is making full use of Malaysia's competitive edge in the tree crop (e.g., oil palm, rubber), in assisting or promoting cooperatives in this subsector. However, the perceived competitiveness of the cooperatives created is highly dependent on heavy government intervention through massive financing, granting of monopolies for coops on certain activities, full marketing support and direct hand on coop management by parastatal entities. It is doubtful whether these cooperatives would remain truly competitive once government support to them is stopped. Cooperatives or Farmers Organizations (FOs) of small farmers in the food crop subsector appear to be even much worse off. Government personnel continue to directly manage these FOs, because these societies are still deemed incapable of self-management, even after two decades of direct government intervention.

2. Indonesia

Similar issues are raised on the *Kooperasi Unit Desa (KUD)* concept of

Indonesia, which is the center piece of government's cooperative development strategy. KUDs continue to be propped up by subsidized credit and monopoly participation in government distribution and procurement schemes. KUDs' resources are reported to be increasing but internal savings remain negligible reflecting the weak status of KUDs and implying that government support - not membership commitment - remains the fragile lifeline of the KUDs. Private-led dairy cooperatives however, appear self-sustaining and viable. Despite the threat of globalization, dairy cooperatives are reported to be confident that even with minimal government support they could cope with the expected onslaught of formidable foreign competition.

3. Thailand

Thai agri-based cooperatives, without qualification, appear to be the most competitive in the Region in terms of number, membership, product diversity, total resources, internal fund generation and level of operations. Apart from its promotional effort in cooperative development, the Thai government has consistently pursued macro-economic and agricultural policies that led to the overall strengthening of its agricultural sector. These policies have long been global-market-oriented while addressing domestic needs. The past and present government measures which are now paying off include, among others: (i) packages of incentives and technology to encourage product diversity; (ii) massive investment in infrastructure, notably in irrigation; (iii) balanced tariff structures which provided protection; and (iv) incentives without promoting inefficiencies in the sector. All these, combined with an export-oriented and progressive agro-based private sector, have resulted in a dynamic Thai agricultural sector, benefiting the agri-based societies.

However, while there are many self-sustaining primaries, secondary and tertiary apex societies are still plagued by serious management problems. Apparently, the volume of business at the apex levels create too much "moral hazards" and tempt coop apex officials towards deviant behaviour. This perhaps is the most serious threat to the competitiveness of Thai agri-based coops. Corollary to this is the recent move of the Bank for Agriculture and Agricultural Cooperatives (BAAC - a state bank) to promote its own version of provincial federations with its active creation Agricultural Marketing Cooperatives (AMCs) in all provinces. BAAC also set up the Thailand Agribusiness Corporation (TABCO), which is a corporate body but functions very much like an apex cooperative. While this is well-meaning and meant to address the failing of federations, this is seen to be a divisive move by the existing secondary and tertiary apex organizations, a view also shared by government cooperative authorities.

4. *Philippines*

Philippine agri-based societies appear to be the most vulnerable in the Region as government continues to grapple with the effects of decades-old macro-economic and agricultural policies which have stunted Philippine agriculture and are seen to be bias against small farmers. These include: (i) inadequate investments in irrigation and rural infrastructure; (ii) inadequate technology and extension support for crop diversification, limiting the income opportunities of small farmers; (iii) heavy bias for food production programs which lock farmers to a few “political crops” (e.g., rice or corn) where price controls and governments market intervention result in narrowing of farmers’ income spreads; (iv) exchange rate and tariff structures which worked against the agricultural sector; (v) lack of consistency in the agrarian reform program which discourages private sector investment in agriculture; and (vi) unsustainable credit programs which spur the development of “mushroom cooperatives”.

About 6,000 “mushroom” agri-based cooperatives are now in various state of collapse with the stoppage of the unsustainable credit program that caused their emergence in the early 1990s. There are only a few viable societies whose number (less than 200), membership and resources are negligible compared with the sector’s potentials. Even these coops have doubtful competitiveness, excepting the fact that they have remained self-sustaining and viable through all these years by following the basic cooperative principles.

D. Competitiveness of Financial Cooperatives

Thrift and savings societies are the backbone of cooperative strength and are shining examples of true cooperative spirit in the Region (surprisingly, except in Singapore). They have rapidly grown in the last decade and have established a definite niche between traditional informal lenders and the formal banking system. Societies in Thailand, Malaysia and the Philippines, are now in the crossroad of mainstream banking, where the setting up of an apex (central) bank for cooperatives are being advocated or where large coops are considering conversion to banks.

However, this very growth raises the issues discussed earlier, such as: (i) cooperative authorities and central banks becoming concerned of inadequacies of existing cooperative and banking laws to cover the gray areas between the functioning of banks and credit societies which could unduly expose depositing publics from potential abuses; (ii) societies increasingly complaining of inflexibilities in coop laws that stifle their growth or limit their

operating options that could redound to more services and benefits to members; (iii) creeping competition between credit societies and state banks, especially in rural financial intermediation;

Lastly, there are still serious concerns with some state banks' cyclical creation of credit-propelled "coops" that come and go with the accompanying unsustainable credit programs, as this lowers public acceptance and perpetuate misconceptions of cooperatives.

E. Recommendations

In view of the above, the study team proposes the following recommendations which should be addressed to the respective entities:

1. For ICA

- a) To identify other Government entities in member countries which play key roles in cooperative development and consider their representation in future dialogues.
- b) To advocate among major multi-lateral agencies (e.g., ADB, the World Bank) the adoption of "Policy on Cooperatives" which should have a shared vision on accepted principles.
- c) To initiate a thorough study or provoke analytical thinking among member countries regarding the possible "customizing" of some basic cooperative tenets and advocate for corresponding adjustments in cooperative laws to be responsive to the regional needs:
 1. given the political and bureaucratic realities of the Region.
 2. the pressures of competition due to trade globalization.
 3. diversity of needs and impact of technology in operations.
 4. rapid growth which could result in erosion of cooperative values and favor privatization.
- d) To provide or advocate for technical assistance (e.g., from cooperatives in developed economies) to the Regional country members' apex organizations and cooperative training centres to enable them to cope with the diverse and specialized training needs of rapidly expanding cooperatives.

2. For Cooperative Authorities

- a) As the lead agency of government, to advocate for and ensure a common perception and vision of true cooperative principles among

government agencies which play key roles in cooperative development.

- b) To advocate for strategic alliances between cooperative movement and government agencies (e.g., state banks) to avoid unneeded competition and attain synergy in providing services in a manner that strengthens rather than weakens cooperative societies.
- c) To formulate and advocate for legislation and policies consistent with “customized” cooperative tenets mentioned in para 1c above.
- d) To advocate for macro-and sectoral policies and programs deemed vital to the development and competitiveness of the agricultural sector.

3. *For Cooperative Societies*

- a) To continuously advocate for appropriate legislation and policies that will enable cooperatives to develop themselves as autonomous and democratic people-based associations, while preserving their true identity. The cooperative movement must seek methods of advocacy that are persuasive, appropriate, and done in the spirit of cooperation.
- b) To avail of government support and assistance in a manner that will consistently maintain the cooperatives’ attributes as self-help and self-reliant economic units which should never be dependent on outside resources, including those provided by government. The relationship with government should be based strictly on the spirit of partnership and not on a dependency mode.
- c) To solidify its structural and financial base while maintaining the flexibility to mobilize the full potential and active participation of members, not just as passive “shareholders” but as concerned “stakeholders”.
- d) To endeavor to have their own financial institution (e.g., banking, insurance), which could be wholly owned and self-initiated, or developed in collaboration with other institutions by way of tactical or strategic alliances as the situation permits.
- e) To consider education and training as a vital and strategic factor for human resource development and quality upliftment of members, staff and the cooperative movement, that will ensure sustainable cooperative development. A network of cooperative institutes and other centers of excellence must be created. The movement must

take advantage of the vast educational experiences and systems developed in the Philippines and other member countries.

- f) To collaborate with government to set up (or fortify existing) cooperative development fund. Ideally, such fund should be jointly funded and managed by government and the movement, applying the highest standards of discipline and consistency. A “cooperative taxation scheme” similar to the Singaporean model is highly recommended to ensure a sustainable and self-financing cooperative development fund.
- g) To seriously consider the development of modern management information and communication system, applying the most suitable technology to provide accurate, fast and reliable services that will enhance cooperatives’ competitiveness.
- h) To be prepared for the highly competitive 21st century by: creating, (and drawing on the collective strength of), a unified and integrated movement that links the local, provincial and national networks, and give true meaning to the battle cry of cooperatives: one for all and all for one.
- i) To prepare for trade globalization by forging and fortifying cooperative solidarity at the regional and international levels that would help: (i) intensify and strengthen education and training; (ii) improve and diversify business activities and financial activities; (iii) promote joint ventures and reduce competition among cooperatives (i.e., as cooperatives are beginning to operate beyond national boundaries). The movement must ensure that expansion of cooperative activities and area of operations need not be done at the expense of maintaining the cooperative identity and ideals.

COUNTRY FINDINGS

Country Findings

INDONESIA

1.0 Development and Performance of Cooperative Societies

The first Cooperative Act was passed in Indonesia in 1947. This was later amended by two Acts, the latest of which is the Cooperative Act of 1992 which recognizes the supportive role of government and the development of cooperatives along accepted cooperative principles. It is quite apparent that the new Act was positively influenced by the ICA-sponsored Ministerial Conferences.

Through all these years, the number of cooperatives and their membership have grown. However, overall performance is mixed and difficult to assess. What has clearly emerged is a dichotomy of Government initiated rural-based cooperatives called the *Kooperasi Unit Desa* (KUD or village cooperatives) and those that have flourished largely due to private initiatives.

The latest official statistics on cooperatives (end 1995) reports that there are 9,157 KUDs with membership of about 13 million and total assets of about Rp 1.7 trillion. Non-KUD coops number about 37,000 with around 12 million members, and total assets of close to RP 3 trillion. It is difficult to assess the accuracy of these figures, as will be discussed in later sections. This also excludes many other private-led (mainly credit) cooperatives which actively operate but are still to be officially recognized by Government. Nonetheless, all indications show that the cooperative movement has a strong following in the country.

2.0 Role of Government in Cooperative Development

2.1 Overview

Government is committed to develop cooperatives, especially in the rural areas. The 1947 Constitution mentions the cooperative movement as one of the three pillars of nation building, envisioned to be a meaningful partner of the private sector and government in the pursuit of mutually beneficial economic activities. Since 1973, the main thrust of Government in coop development has been and continues to be focused on the *Kooperasi Unit Desa* (KUD) Scheme. Government aims at making the KUD the dominant (if not the only) cooperative at the district and village level that would unify local

people to pursue various economic activities for their mutual benefit. Apart from the KUD scheme, all Government offices, units of the Armed Forces and other sub-sectoral groupings (such as students, the youth and women) have all been officially encouraged to set up cooperatives. Nevertheless, it is quite apparent the Government is vent on promoting the KUD scheme in rural communities and appears to discourage the formation of community type coops outside such scheme. This is probably the reason why many of the community-based credit unions remain unregistered and thus officially unrecognized by government, even as they grow in strength and number.

2.2 The Ministry of Cooperatives and Small Enterprise

The Ministry of Cooperatives and Small Enterprise (MCSE) is the sole Government agency charged with promoting and regulating cooperatives in the country. It is a large bureaucracy of over 19,000 personnel with presence up to the District level. Although it is charged with promoting and supervising cooperatives, most of its promotional activities are focused on the KUD scheme (see discussions below and Annex 1).

2.3 Other Government Agencies with Major Roles

2.3.1 Bank Rakyat Indonesia (BRI) :

The BRI is the state bank tasked with providing banking services for the agricultural and rural sector. It has over 3,500 Field Offices distributed in all districts of the country. It is the main conduit for government-funded credit schemes for small farmers and small rural entrepreneurs. Starting from its reorientation of operations in 1984 when government decided to stop subsidizing the bank and forced it to be self-sustaining, BRI has proven to be a capable financial intermediary in the rural areas where it is now the most effective savings mobilizer and the biggest lender. Unlike its other counterparts in the ASEAN Region (e.g., Land Bank and BAAC), it is not actively forming cooperatives. The main role of BRI in cooperative development are as follows :

1. It is the major provider of credit for KUDs, especially for special government credit schemes. BRI claims to provide credit to all KUDs in the country.
2. The BRI Village Unit (BRI Unit Desa) is initially part of the business unit of the KUD - providing all the financial services for members until the KUD is deemed prepared to take over these functions.

2.3.2 The Ministry of Agriculture :

The Ministry of Agriculture (MA) plays a significant role in the KUD scheme in two ways: (i) the Field Agricultural Extension Officer of the KUD is functionally responsible to MA in providing technical assistance to the farmer members of the KUD; and (ii) MA determines the supply volumes, margins and prices of inputs (e.g., fertilizers, seeds) that are distributed through the KUD for the use of farmers. Input supplying is a major economic activity of KUDs system which includes the PUSKUD and the INKUD (provincial secondary societies and national apex body of the KUD, respectively).

2.3.3 The BULOG :

The BULOG (the National Logistics Agency) distributes and procures main staples considered as "strategic consumer commodities" (rice, sugar, etc.). It performs these activities through the KUD system. Like the MA, it also dictates the volume, pricing and margins of commodities it distributes or procures through the KUD which has practically no say in these activities. The business provided by BULOG is also one of the major economic activities of the KUDs and the PUSKUDs.

3.0 The Cooperative Movement

3.1 *The KUDs - A Government Initiative*

The KUD scheme has been promoted by Government on the basis of several Presidential Instructions (PI), starting from PI 4/1973, which the Ministry of Cooperatives and Small Enterprise (MCSE) considers as the main implementing guidelines for government's overall efforts in cooperative development. Based on the provisions of PI 4/1973, the original purpose and functioning of the KUD is that of an agricultural cooperative that would provide the following services to its members (farmers): agricultural extension; agricultural credit delivery; supply of agricultural inputs and the processing and marketing of agricultural produce. This is reflected in the basic and original structure of the KUD as shown:

1. Field Agricultural Extension Officer - as the information disseminator;
2. BRI Unit Desa as the credit services arm;
3. Consumer store as the input supplier; and
4. Village Business Unit as the marketing arm.

In line with government's other objectives in agriculture and rural development, the KUD is heavily supported by Government through the MA,

the BRI and BULOG. It was envisioned that the KUD scheme will help in promoting agricultural productivity (especially in the food subsector), increasing the income of small farmers, sustaining the growth of agriculture and attaining self-sufficiency in staple products for food security.

However, subsequent Presidential Instructions (e.g., PI 2/178) appear to have transformed the KUD into a multi-purpose, multi-sectoral cooperative which government must promote to have the dominant role in all other economic activities of rural folks at the district and village level, whether agricultural or non-agri based. This concept was further bolstered by the launching of the KUD Mandiri (self-reliant KUD) Program in 1989, which also promoted increased KUD membership even among non-farmer village folks.

The KUDs are federated into regional secondary cooperatives called the PUSKUD and a national apex - the INKUD. The PUSKUDs and INKUD are basically integrating entities that coordinate or undertake business activities initiated mainly by Government bodies, such as the BULOG and the Ministry of Agriculture. PUSKUD or the INKUD also enters into business arrangements with private entities in the procurement (and sometimes exports) of cooperative members' produce. One of the better known tie-ups is the monopoly procurement of cloves by a private company using the KUD system.

3.2 Private Sector Initiatives

3.2.1 DEKOPIN :

The Indonesian Cooperative Council (DEKOPIN) is the recognized apex organization of all cooperatives in Indonesia as prescribed in Article 57 of the Cooperative Act 1992. Its main task is to represent the movement in advocating for its interests and aspirations. As the apex, DEKOPIN's role include:

1. to struggle for and promote the aspirations of the cooperative societies;
2. to promote cooperation within the movement;
3. to carry out cooperative education for its members;
4. to develop cooperation among cooperative societies and between cooperatives and other business enterprises, both at the national and international level.

As of March 1996, DEKOPIN has 7,546 primary and secondary members, including 24 national federations and two associate members (Credit Union Coordination of Indonesia - CUCO, and Forum for Cooperative Development-FORMASI). As an apex body it is governed by the General Members meeting

which is formed through the National Cooperative Congress. An Executive Board runs its day-to-day operations, assisted by a Board of Supervision and Board of Advisors. DEKOPIN has Provincial Officers and personnel down to the District level, to represent and coordinate cooperative activities down to the lowest level. It also established and operates the Institute for Cooperative Management which is recognized by the State as a diploma course college.

3.2.2 GKSI and the Dairy Cooperatives :

The dairy cooperatives in Indonesia represent a fine example of a grassroots-initiated cooperative movement. Gabungan Kooperasi Susu Indonesia (GKSI) is the apex organization of the active primary dairy cooperatives which mainly are from the island of Java. Started in 1980 with support from the DG Livestock of the Ministry of Agriculture, DKSI cooperative members have grown from 27 primary cooperatives in 1980 to 204 by end 1994. The primaries now comprise over 80,000 dairy farmers who account for 90 percent of the national dairy herd and the domestic supply of milk, with an estimated production of one million liters a day. Some primary dairy cooperatives are not only engaged in milk production but have enough resources and expertise to branch out into: savings and credit operations; consumer stores; life and livestock insurance and even tourism (e.g., hostel operations).

As an apex body, GKSI provides its members: (i) research, extension and advisory services; (ii) milk treatment and transport facilities; and (iii) the proper marketing of members' produce to the large milk processing industries. It represents the dairy cooperatives in pricing negotiations with the milk industry and government to ensure fair pricing of the members' produce. It is currently planning to set-up its own processing facilities that will provide added value to milk products and help make local dairy producers more competitive in the era of trade liberalization.

3.2.3 The Thrift and Savings Cooperatives and CUCO :

Another truly privately-initiated movement is seen in the formation and growth of community-based credit unions, many of which remain officially unrecognized by Government. As of end 1994, there are 1,561 of these credit unions (CUs) serving a total of 212,800 members, with assets close to Rp63 billion (US\$28 million). The Credit Union Coordination of Indonesia (CUCO) is the apex body organized by the CU movement. However, only about 120 or less than 10 percent of the CUS have been registered. CUCO itself had been recently turned down by Government in its application to be the national apex of the CUs, for very vague reasons.

4.0 Issues Concerning Cooperatives in Indonesia

4.1 On the Cooperative Act and its Implementation

The Cooperative Act of 1992 appears to be quite liberal and follows the general cooperative principles. It emphasizes the supportive rather than the control and regulatory role of government. However the following issues are raised regarding some of its provisions.

a) Audit requirement is a matter of choice

Under the Act, cooperatives may opt to appoint an external auditor implying the non-compulsory nature of such audit. This could effectively eliminate an effective control measure that could be the only protection of cooperative members against abusive or negligent boards or management. Moreover, the lack of sanctions against violations of the Act further weakens the supervisory role of government for the good of the members.

b) Potential monopoly position for Cooperatives

Section 63 of the Act allows government to declare a business activity or a geographical area exclusively for cooperatives to operate. While well meaning, this over-protective provision could encourage inefficiency or complacency among cooperatives given these privileges. Such a policy also poses too many disadvantages and is open to abuse, which all together far outweigh the intended benefits. What is more important and more effective perhaps is to provide other support services to cooperatives to "level the field" rather than give undue advantage to any sector in business -cooperatives included.

4.2 The KUD scheme - Presidential Instructions override the Act

The Cooperative Act gives very broad and liberal guidelines in the role of government in cooperative formation. Yet, Presidential Instruction 4/73 which created the KUD scheme is adopted by the MCSE as the main (or even the sole) guideline for cooperative development. This has greatly narrowed the view and efforts of MCSE to focus mainly on KUD formation and strengthening. Despite official pronouncements of MCSE that it supports any and all cooperatives, its actions clearly indicate that it is promoting KUDs as the only district or village cooperative. Other community-based cooperatives are at best merely "tolerated", and some even officially unrecognized. The focus on KUDs is indicated by and has resulted in:

1. Non-registration of viable cooperative societies - To date, more than

90 percent of Credit Unions (and their recognized apex - CUCO) are refused registration, despite the fact that they represent fine examples of true cooperative principles at work.

2. Creating KUDs beyond their capabilities - among the criteria for proclaiming a KUD as a KUD Mandiri (self-reliant KUD) is that at least 25 percent of the adult population (total potential members) of the community must be members of such KUD regardless of intentions or sectoral affiliations. KUDs are also encouraged to engage in all types of business activity (e.g., electric billing services, long distance phone operations, handicraft production, agricultural production etc.). However, given the varied members' interests, the weak resource base and low level of managerial expertise, it is doubtful whether the KUD scheme as envisioned would finally produce viable and strong cooperatives;
3. Undue Burdening of "Core group members" - ideally, cooperative societies are formed by people with common aspirations or business objectives. Credit or consumer cooperatives may not require homogeneous groupings because they provide members a common service (credit or consumer products supply). However, sectoral groupings maybe necessary for many specialized cooperatives (e.g., agricultural, or transport services), otherwise some members become irrelevant or, a burden to others. For example, the move to create a KUD Mandiri out of a dairy cooperative has forced the influx of non-dairy-farmer members (e.g., doctors, mechanics, teachers). As a result, the dairy members now comprise only 12 percent of total members yet they account for 85 percent of the business of the new (KUD) cooperative, rendering the new non-dairy members as mere "fence-sitters". This has clearly weakened the growth of the original cooperative since it is now burdened by non-performing members, quite unfair to the original members.
4. Target-setting encourages "window-dressing" - There are strong indications that the push to create KUDs, especially KUDs Mandiri in each district has been a strong incentive for government personnel to provide a rosy picture of KUDs, as they pursue performance targets. This is partly shown in KUD statistics during the years immediately following the launching of the program (1990 - 1994) where there is a reported doubling of membership and assets of KUDs. There are also reports (unverified) that local agencies have resorted in various

ways to “window dress” the figures putting into doubt the real strength of the supposed KUD Mandiri. For example in several KUDs Mandiri we visited, the membership and asset figures were almost equal to the minimum criteria for a KUD Mandiri (e.g., membership of 25% of the adult population, quantitative requirements on total assets and capital, etc.). Showing a high probability of “adjusting” statistical reports to omit target figures. In one of these KUDs, the major increase in membership contribution was accounted for by only a few new members of a reported 8,000 membership, indicating perhaps that a few affluent members were encouraged to put up substantial contributions only to satisfy KUD Mandiri criterion on members equity.

5. Doubtful Criteria for KUD Mandiri - At least four of the thirteen government-prescribed criteria to declare KUD Mandiri do not really reflect self-reliance traits since these are administrative in nature (e.g., percent of population as members, numbers of members meetings, etc.). Moreover, the task of declaring KUDs Mandiri are left to MCSE personnel whose performance are partly based on the number of KUDs Mandiri declared in their area. This poses strong temptation to field staff to distort reports and window dress their performance.

4.3 A Large Bureaucracy for Cooperative Development

MCSE is a bureaucracy of over 19,000 personnel with pervasive presence down to the district level. Indonesian bureaucracies are known for their relentless pursuit of quantified targets within specific schedules. The combination of quantified targets and the KUD scheme being the primordial coop promotion program makes it almost impossible to expect less government interference in cooperative development. Furthermore, government performance targets are quantity rather than quality oriented, rendering cooperative principles to be a secondary concern in cooperative formation and development.

4.4 Cooperative Development and Government's Agenda

Government's cooperative philosophy may not truly coincide with a “purits's” view of cooperative principles. Given the political conservation and patronage tradition of the Indonesian government, it would be too optimistic to expect its full support for a “truly empowered” movement created out of purely grassroots initiatives. There is a strong view among cooperative advocates that government maintains a large bureaucracy in order to promote

its own brand of cooperatives through the KUD system and to guard against unbridled "people empowerment". Government is perceived to be uncomfortable with a cooperative sector (or any sector) over which it cannot have effective control as this could be used as a political base by "misguided" elements. Coop advocates cite that the Cooperative Act clearly specifies cooperatives purely as business entities in order to preempt against their possible "misuse" by elements with politically destabilizing aims.

4.5 Involvement of Several Agencies

MCSE is not the only agency involved in cooperative development, especially in supporting the KUD system. The BULOG (Government Logistics Agency) does its procurement of "strategic goods" (e.g., rice) exclusively through the KUDs. Ministry of Agriculture and its affiliate agencies distribute subsidized inputs through the KUDs. BRI provides subsidized credit to the same system. Other agencies involved in rural development invariably support cooperative development by directing their services through the KUD scheme. These agencies adopt the typical patriarchal and over-protective stance of government in cooperative development. Advocating for changes within MCSE alone could be an inadequate step towards inculcating true cooperative principles among various government bureaucracies.

4.6 The DEKOPIN Bureaucracy

The DEKOPIN has offices and personnel up to the district level with the view of providing grassroots services to its members. This could be an expensive exercise with doubtful effectiveness. An apex body is supposed to provide services that normally could not be provided by secondary societies. Perhaps a review of the organizational structure and the quality of services provided by DEKOPIN, especially at lower levels, is in order. The review should focus on possible reallocation of resources, manpower and efforts towards the effective functioning of a national apex to complement rather than duplicate secondary or regional federations.

5.0 Prospects and Issues on the Financial Cooperatives

In assessing the competitiveness and prospects of the credit cooperatives or CUs, it is important to appreciate the environment within which they operate. This would include not only an appreciation of the policy and legal environment but also an overview of the major players in rural finance: (i) the CUs themselves; (ii) the BPRs or People's Rural Banks; and (iii) BRI - the state bank.

5.1 Overview of the Credit Unions

The growth and resilience of community based credit unions (despite non-recognition by Government) exemplifies true cooperative spirit in Indonesia. CUCO¹ reports steady and impressive growth of CUs since their modest beginnings in the 70s. As of end 1994, there are 1,521 CU-members of CUCO with 216,800 members, having total assets of Rp 63 billion, total savings of Rp 41.5 billion, reserve fund of Rp 2.9 billion and outstanding loan portfolio of Rp 50.7 billion. These figures clearly show the coops' internal strength and the extent of membership patronage. This is doubly significant since they receive no support from Government which even ignore many of them (over 90 percent of these unions remain unregistered).

5.2 Cooperative Banks

The only major cooperative bank - BUKOPIN, was finally privatized after years of problematic existence. Other "cooperative banks" and village banks which operated in the fringes of the banking system up to the early 90s', were eventually absorbed and registered as part of the banking system as "people's rural banks" (BPRs) under the banking reform package or PAKTO. The "cooperative banks" (now BPRs) have really been practically operating as banks even before PAKTO since they were already accepting deposits and providing loans to the general public.² Most of these banks were owned by "cooperatives" of 20 or more persons, mostly local elites, the owners apparently using the term "cooperative" only to access special privileges and to exempt them from Banking Laws or Bank Indonesia (Central Bank) supervision.

5.3 The Village Banks

The village banks are of varied origins but have similar operations of a community based credit union in the sense that they mobilize and provide loans only to the local village (desa) folks. However, many of them are managed by the Kepala Desa (village head) or some other recognized village

1 Due to lack or unreliability of official statistics, the CUCO members' statistical report was used here. Since less than 10% of the 1,521 members of CUCO are registered, there would be no official statistics on the other 90%.

2 Based on an 1990 ADB Report in connection with an Advisory Technical Assistance (TA) for Bank Indonesia. These "banks" were allowed to operate even without Central Bank supervision. PAKTO formalized their banking existence and put them under the Central Bank.

leaders (e.g., village council of elders), quite unlike the operations of a credit cooperative. Since Village Banks are now registered as BPRs, they are under Bank Indonesia (BI - the Central Bank). BI in turn deputized BRI as the direct supervisor of all BPR-village banks, given the sheer number of these "banks" (about 8,000), the wide network of BRI and the limitations of BI to cover them. The village banks, although great in number, collectively account for a negligible share of the banking system's resources and have not been a potent force in the rural financial system. They could be a good base to form effective village credit unions.

5.4 The BRI

Prior to 1984, BRI was mainly a conduit for government subsidized small farmers credit schemes in support of food self-sufficiency programs. With its economic difficulties in the mid 80s', government decided to stop many of these programs, including subsidies to BRI. With the new directions, BRI converted its network of 3,500 plus field offices (manned by over 13,000 personnel) from mere credit delivery units to small banking units - mobilizing deposits and providing small loans to all desas all over the country. Its adoption of a self-sustaining strategy is perhaps one of the best example of successful rural banking in the ASEAN Region. BRI is the most effective deposit mobilizer in rural Indonesia with its innovative promotional schemes (e.g., Kupedas-Simpadas scheme, raffle prizes for depositors, etc.). It also supervises the BPR-village banks and is the initial banking unit of the KUD.

5.5 Issues

a) The Cooperative Act :

The Cooperative Act does not have specific provisions regarding financial services cooperatives. It merely states that the rules and regulation regarding financing cooperatives will be formulated by government (as it deems fit). The issue raised by the movement (CUCO and DEKOPIN) is that such a broad provision could either be very liberal or too restrictive, depending on the government agency or agencies charged with drafting the guidelines. For now, the movement's view is that the present guidelines for financial cooperatives were drafted by "bankers" without a clear view of accepted credit cooperative operations.

b) Stiff Competition in Deposit Mobilization Posed by BRI :

1. The CUs' case

CUCO recognizes the CUs' market niche in the community where

members could deposit their small savings and obtain small loans with relative ease - a major attraction for potential members. However, some CUCO members complain of "unfair" BRI practices in competing for rural savings with existing credit coops. In many instances, CUs cite that BRI field units (Unit Desa) are overly aggressive in mobilizing deposits specially in areas known to have strong CU operations. This is most likely due to the high performance standards set by BRI for its field units which includes deposit mobilization as a key result area. For example, an ADB study cited that Village Banks (supervised by BRI) could not mobilize local savings because they were kept from giving interest to depositors' savings (see also KUD case). BRI invariably captures most of the rural savings deposits the proximity and strategic location of the village banks.

2. The KUDs' Case

Several studies (including the latest JICA report on KUDs), cite the low savings rate in the KUDs. To be sure, a big factor is the doubtful acceptability of the KUD scheme among the present membership. However, another major factor could be that the KUD "banking unit" is initially run by the BRI Unit Desa, until the KUD is deemed capable of taking over such operation. With the high performance standards imposed on BRI staff, it is unlikely that the local BRI will encourage the strengthening of the financing services of the KUD as this would compete directly with BRI Unit Desa operations.

This fact was confirmed in all (although few) KUDs visited by the study team. KUD interviews reveal that: (i) with the BRI support, KUD officials saw no need to provide financial services; and (ii) KUD internal policies did not provide for interest on members' deposits citing (wrongly?) a provision of the Cooperative Act which states that all funds coming from members are deemed as "capital" and therefore will not be entitled to fixed interest earnings but only dividends. With BRI and other banks offering rates of up to 18% per annum on deposits, it is no wonder that KUDs could not attract deposits.

5.6 Prospects

Strategic alliance, instead of current cut-throat competition, could be forged between CUs, BPR (village banks) and the BRI, considering the following :

1. Converting BPR-village banks into CUs - The BPR-village banks seem to be misplaced in the banking system. They could be more effective if they could be converted into community credit unions. This would also relieve BI - and thus BRI - from the tedious and unnecessary supervisory functions over them. DEKOPIN and CUCO (assuming this will be finally recognized by government) could assist government in the process of training and converting these BPRs into cooperatives.
2. DEKOPIN and CUs should advocate for closer cooperation and strategic alliance with BRI. BRI addresses government's concern for making available rural banking services and has to maintain a massive network to pursue such mandate. Yet, CUs could tie up with BRI wherein they could provide retail banking to members while the bank provides full (wholesale) banking services to the CUs. BRI could gradually phase out its retail banking. This move also fits well with the proposal to convert BPR-village banks into CUs. This makes possible the setting up of a massive rural financial infrastructure with less government outlay while promoting self-propelled financing coops.

6.0 The Agricultural Cooperatives

6.1 Indonesia's Agricultural Policy

The broad agricultural policies of Indonesia have been consistently aimed at :

1. Increasing food production in quantity and diversity to meet local demand as well as expand exports;
2. Improve the income of farming and fishing communities to improve their social being and reduce poverty;
3. Encouraging more participation of target groups in mainstream business activities and providing job opportunities;
4. supporting regional development and intensifying transmigration.

The above goals are pursued through various programs to intensify production in existing areas, open up new lands for agriculture or aquaculture production, promote product diversification and to rehabilitate poor performing areas.

Recently, government has renewed its promotion of meaningful partnerships between agri-based (private) companies and farmers' cooperatives,

through integrated farming and business systems, especially in the tree crops subsector and in the transmigration or rehabilitation areas.

Through the KUD scheme, government hopes to achieve the twin goal of developing the agricultural sector and promoting the cooperative movement. Thus, most of its efforts in agricultural development are invariably tied to the provision of massive financial, technical and marketing support to the KUDs - largely through BRI, MA and BULOG.

6.2 Issues

a) Are KUDs Competitive as Agricultural Cooperatives ?

Food security, eradication of rural poverty and equitable wealth distribution are some of the primordial goals of government. The strategy to pursue these objectives are focused on credit and input subsidies, price and market support mechanisms, and to a lesser degree on infrastructure development, research and extension. KUDs are set up mainly to act as conduits for such services for their members. However, despite the massive assistance provided by government, it is doubtful whether many of the KUDs are really self-reliant and sustainable. Without the present direct support (e.g., directed trading of inputs by MA and outputs by BULOG), it is doubtful whether the KUDs could maintain membership patronage or viably operate on their own. Yet, KUDs are being promoted by government to be the dominant economic unit at the district level for all sectors, a highly doubtful approach based on experiences here and elsewhere.

b) The Promotion of Business Relationships

In a 1995 review mission of ADB-IFAD funded projects in transmigration areas and Project Management Unit (PMU) Schemes, the review team lauded the promotion of business partnerships between private entities and tree crop farmers in the project areas. However, the ADB Review team also cited the following concerns:

1. farmers are not properly organized under real cooperative principles as the PMU is composed of technical (extension) personnel;
2. farmers are not provided skills (managerial or transactional) nor business information to forge tie-ups under conditions of transparency and equity.
3. the above concerns are even more significant since: (i) the government authorities select the business partners without clear participation of farmers; and (ii) the private partner could have a monopoly of

major business activities due to the isolation of the project areas and with high potential for abuse given the vulnerability of farmers.

c) Trade Globalization

Certain agricultural subsectors are particularly vulnerable to trade globalization. The dairy cooperatives are specially at risk due to the formidable strength of many developed countries in dairy production. However, DKSI is still optimistic provided that government will be supportive in “levelling the field” not so much through subsidies (which will be phased out anyway) but more through helping dairy coops to have easy access to financing, assistance in forging joint venture tie ups or being consistent with its liberalization policies in other related fields (e.g., opening up of the milk processing industry).

d) Effectiveness of Present Support against Alternatives

Government should reexamine the effectiveness and benefits created by its direct support to KUDs (e.g., subsidized credit, and inputs, or directed trading) against the costs of such programs and the alternatives with which it could redirect its resources with potentially better results (e.g., research, infrastructure development, etc.).

e) Hidden Costs and Inefficiencies

Government should also seriously consider the hidden costs and inefficiencies created by formal and informal monopolies now enjoyed by some government agencies (e.g., BULOG, the fertilizer agency) and certain favoured private entities (e.g., trading of cloves, import and export of vegetable oils, importation of raw material or essential inputs) as these could pose serious obstacles to attaining the needed efficiencies and competitiveness under a globalized trade scenario.

MALAYSIA

1.0 Development and Performance of Cooperative Societies

The first cooperative was registered in Malaysia in 1922. Since then, the cooperative movement has grown to be one of the major resource mobilizers, servicing over 4 million members or about 22 percent of the population of Malaysia. As of end 1995, there were 3,553 cooperatives comprising about 3.8 million members with total assets estimated at RM 10.56 billion and share capital amounting to RM 2.6 million. Table 1 below shows the three year statistical trends on cooperatives.

Trade 1 : Cooperative Trends

Year	No. of Coops	Members (Thousand)	Capital (RM million)	Assets (RM million)
1993	3,308	3,232	1,896	6,876
1994	3,472	4,127	2,359	9,051
1995	3,553	3,863	2,601	10,562

Thrift and Savings Cooperatives remain the backbone of the movement. As of end 1994, about 466 cooperatives or 13.4 percent of total accounted for 40 percent (1.6 million) of total cooperatives membership and about 85 Percent (RM 7.5 billion) of total cooperatives' resources. There are now two cooperative banks (wholly-cooperative owned commercial banks) and several societies owning sizeable equity in other banks.

The movement has diversified into trading consumer products, housing, transport, land development, industrial production, banking and insurance. There is also a shift towards multi-purpose cooperatives as societies acquire more resources and expertise to engage in other activities. While the trend is encouraging, some cooperatives have become too large or too profit-oriented that they appear to be losing the basic cooperative values or are finding the accepted cooperative systems becoming impractical for their purposes. Some of these cooperatives are reportedly planning to convert to corporations.

Secondary School Cooperatives are also on the rise with direct support from the Ministry of Education and DCD. The Cooperative Act 1993 encourages the formation of school cooperatives (e.g., lowering of age limit for members) and government provides subsidies to them for management and

procurement of equipment. School cooperatives are engaged in a variety of activities from running canteens, consumer cooperatives and even agri-based business in the rural areas (e.g., fish or chicken rearing). As of end 1994 there were close to 1,000 cooperatives with 960,000 members having an accumulated share of about RM 4.4 million and turnover of RM 65 million.

Agri-based cooperatives appear to have mixed performance and are largely influenced by the extent or effectiveness of Government support. Cooperatives under land development schemes, created and supported by parastatal agencies (development authorities, e.g., FELDA) are now engaged in allied or non-agricultural ventures with massive capital and direct management support provided by the respective authorities handling them. On the other hand, Farmers Organizations created in the 70s' appear to have stagnated in the pre-cooperative stage as they show very little signs of self-reliance despite heavy government intervention over the last two decades.

2.0 Government Role on Cooperative Development

Government is committed to develop cooperatives, especially among the small farming and landless sector. It is noteworthy that the new Cooperatives Act No. 502 was passed in 1993 and appears to have been significantly influenced by the ICA initiatives. The Act embodies the basic cooperative principles as it repeals the Cooperative Societies Ordinance No. 33/1948 while consolidating three other cooperative laws.

Government provides tax exemptions to all cooperatives less than 5 years old or those with total assets of less than RM 500,000. It also provides grants and soft loans to small or deserving cooperatives for improving their operations or for financing their economic activities. There are other special support services and financing given to farmers organizations managed by the Farmers Organization Authority, and to the agri-based cooperatives under various land settlement and estate rehabilitation schemes.

The new Cooperative Act is supposed to consolidate all previous laws and grant overall supervision of cooperatives to one agency and the implementing guidelines of the Act is reported to grant the Registrar powers over all cooperatives to the Department of Cooperative Development (DCD) of the Ministry of Land and Cooperative Development (MLCD). However, several agencies under the Ministry of Agriculture (MA) continue to exercise similar powers over agri-based cooperatives and farmers organizations.

The MA agencies involved in coop development and supervision are: (i) the Farmers' Organizations Authority (FOA) which is in charge of Farmers

Organization and Agricultural Cooperatives in peninsular Malaysia; (ii) the Fisheries Development Authority (FDA) oversees fisheries cooperatives; (iii) MADA (Muda Agricultural Development Authority) and KADA (Kemuba Agricultural Development Authority), which are responsible for cooperatives in their respective land development schemes; and (iv) the Permanent Secretary of MA who is the Cooperative Registrar for Serawak.

Cooperatives under DCD's jurisdiction account for 94% of total resources and 78 percent of total members, although they only comprise 39.9 percent of the total societies. FOA which handles small farmer cooperative development, in the food subsector accounts for 58 percent of total cooperatives, 20.7% of total members but only 4.3 percent of total assets of cooperatives. Among the land development authorities, cooperatives under FELDA have the biggest membership (105,092) and resources (RM 92 million). In fact financing of FELDA activities accounts for 48 percent of total agricultural financing in Malaysia. Cooperatives under FDA and the other land development authorities account for a small share of the cooperative sector in all aspects.

3.0 Private Sector Initiatives

3.1 Overview of Performance

The true cooperative spirit is best shown in the growth of self-sustaining and self-reliant cooperatives especially among financing cooperatives (thrift and savings), consumers, as well as housing cooperatives. Private-led cooperatives show impressive financial strength having total resources topping RM 10.5 billion as of end 1995, with members' equity comprising 45 percent and long term debts being less than 8 percent of total assets, respectively. All these show high savings propensity among members and the ability of coops to internally mobilize and manage funds effectively. Another welcomed phenomenon is the rapid rise of school coops over the last six years when their membership and business turn-over doubled for the period 1988-1994. Both the movement and government actively support school coops as a means to inculcate cooperative spirit among the youth.

Many large single purpose coops have not only improved their efficiency and services (e.g., through computerization) but are also branching out to a multitude of businesses, such as consumer products financing, property development, insurance and transport services. However, the desire of cooperatives to grow big and to diversify has resulted in:

1. the dilution of cooperative spirit among members and coop management;

2. the perceived impracticality of certain long-accepted cooperative systems (e.g., one-man-one-vote system);
3. the perceived inadequacy or restrictiveness of the Cooperative Act to respond to cooperative dynamism and growth;
4. the growing concern of government over the exposure of members and the general public to high financial risks or possible abuses by cooperative management.

3.2 ANGKASA's Unique and Innovative Service

ANGKASA is a national federation with 60 percent of societies as members. A unique and innovative service it provides to member societies is the computerized collection of cooperatives' receivables from members. Members' payment by payroll deduction used to be fully serviced by government through the Treasury or pay centers. However, government - finding the task too expensive and burdensome - stopped this service in 1972. ANGKASA saw the opportunity of providing the service efficiently through the application of sophisticated computer technology. To date, the Treasury sends only a single check monthly representing members' payments for all types of cooperative transactions. ANGKASA, electronically records all transactions and remits payments to various cooperatives through 14 banks with which it is on-line for this purpose. ANGKASA now services 400 cooperatives involving over one million accounts with monthly transactions amounting over RM 100 million. With the service commission (0.6% of total transactions), ANGKASA is not only self-sufficient but even has surplus which it intends to invest to improve other services (e.g., training) for its members.

4.0 General Cooperative Issues

a) Multiple Laws and Agencies in Cooperative Development :

Cooperatives in Malaysia appear to be governed by separate Acts and are supervised by various agencies under two sectoral groupings. Implementing guidelines of the new Cooperative Act gave the development, registration and regulatory functions over all cooperatives to the Department of Cooperative Development (DCD) of the Ministry of Land and Cooperative Development (MLCD). In practice however, at least four other agencies under the Ministry of Agriculture (MA) exercise similar cooperative development and supervision functions by virtue of old special laws, acting independently of DCD. These agencies include the: (i) Farmers Organization Authority (FOA); (ii) Fisheries Development Authority; (iii) parastatal land development authorities (see

Annex 2 for details). Key officials of various agencies involved have mixed interpretations on whether the new Cooperative Act repealed all other previous cooperative laws.

More importantly, however, is the substantial divergence in conceptual approaches and operational activities among various agencies with regards to cooperative development. This was especially observed in the functioning of the DCD¹ and the FOA. DCD takes a supportive rather than an interventionist role and is quite conscious of the importance of basic cooperative principles. FOA is highly interventionist in its approach as it continues to manage the Farmers Organizations it created.

The FOA pattern is also observed among the parastatal agencies which play major roles in cooperative development. FELDA, FELCRA and RISDA cooperatives, although technically under the DCD, are operated according to the policies of the respective agencies. Some of these policies are deemed inconsistent with cooperative principles (e.g., cooperatives being managed by the agencies' officers, over-protectiveness of parastatal authorities). Without a unified perception of cooperative tenets among these agencies, it will be difficult to expect from government a consistent application of the principles advocated in the Ministerial Conferences.

b) Encroachment on Cooperative Sovereignty :

The new Cooperative Societies Act and the wide powers of the Registrar include government measures to ensure protection of members' rights from unscrupulous cooperative boards or management. Many of these measures reportedly took into account lessons learned from a recent crisis caused by unscrupulous deposit-taking "cooperatives" which threatened the stability of the Malaysian financial system. However, strong views from the movement cite that many of the measures and the Registrar's powers already encroach on cooperative sovereignty. While the present Registrar is deemed fair in wielding his extensive powers, the concern is that these could be easily abused in the wrong hands. One coop advocate aptly observed that: "the Registrar is a cross between the prosecutor and the guru who wears a velvet glove over a steel hand."

The Registrar has judicial functions wherein his decisions are final or cannot be referred to a civil court. Particular concerns are also raised on the Registrar's approval powers on cooperative decisions, such as:

1 The Team was not able to hold interviews with FDA and the other land development authorities except FELCRA).

1. forming, acquiring or holding a subsidiary
2. granting loans to subsidiaries or to other societies
3. receiving donations and grants from foreign sources
4. investing of cooperative surplus funds in:
 - a) shares or securities of other registered society
 - b) shares or debenture stocks of any company not specified under the Cooperative Act
 - c) its subsidiaries

The restrictive provisions of the Act reportedly forced some cooperatives to form subsidiaries as corporations under the Corporate Act which is seen to be far more liberal to corporations than the Cooperative Act is to cooperatives. Coop advocates consider the situation unfair citing the lack of safeguards for stockholders of corporations enjoyed by cooperative members, for example:

1. cooperatives cannot be controlled by one person or even a few individuals, while corporate control depends on the size of shareholdings.
2. small corporate stockholders of publicly held corporations hardly hold any decision-making powers over corporate affairs, while the Cooperative General Assembly empowers every member to have equal voting rights: (i) over major decisions; and (ii) for electing the Board and key committee members.

c) Problems of Cooperative Growth, Size and Diversification :

Cooperative growth and diversification although desirable creates some problems for the movement. The following are major issues that come along with growth and large coops.

1. Inadequacy or Restrictiveness of the Cooperative Act

Many coop advocates see the present laws as inadequate or restrictive for rapid growth and for large cooperatives. Large cooperatives could see and exploit wider opportunities but are constrained to act decisively and quickly due to restrictive provisions of the new Act. Also, there is an observed tendency for government to be wary and more restrictive (perhaps justifiably so) of large cooperatives because of the increased potential for abuse that could adversely affect a large membership or even the general public, given the size of their operations (e.g., the financial crisis caused by deposit-taking coops in the late 80s').

2. Perceived Irrelevance of Some Cooperative Principles

A more basic issue is now being raised within the movement on the practicality or relevance of long accepted cooperative traditions in view of the size and growing complexity of cooperative operations. For example: questions are now being raised on the strict adherence to the “one-man-one-vote” concept for very large cooperatives which need to act on complex business issues. Some of the concerns include: (i) the physical difficulty in mustering members to decide on the issues; (ii) questions on the decision-making capability of members to decide on complex business issues; (iii) the expediency of such a process and its practical application to a rapidly changing business environment.

The perceived restrictiveness of the Cooperative Act and certain cooperative traditions are making a growing number of coops to seriously consider privatization, citing corporate flexibility over cooperative rigidities. On the other hand, a cooperative leader fears that these coops may be far too willing to pay so much for the desired flexibility that in seeking the corporate option: “we (coops) may be throwing out the baby with the bath water”, raising another issue discussed below.

3. Concerns on Controls *vs.* Autonomy

Paradoxically, the size and diversity of operations of big coops are also creating concerns for both government and the movement regarding internal controls. Rapid coop growth and diversity increase the “moral hazards” and render some of the conventional coop controls ineffective. For example, General Assemblies are becoming far too large that several (proxy) layers are created or far-ranging authorities are granted to management or the board in order to facilitate resolution of major issues. These in turn offer vast potentials for abuse by increasingly powerful and politicized cooperative boards or management, while the general assembly or a vast majority of members are becoming too far removed or are deemed incapable of providing the checks to curtail unscrupulous acts of management. Board membership elections are reportedly becoming too politicized due to control over huge resources and multiple economic activities. Likewise, many professional managers are seen to work for their own interests rather than the societies'. The dilemma for government and the movement is how to achieve the balance between cooperative autonomy and flexibility against control concerns and members' protection.

4. Inadequacy of Training Support

Large and diversified cooperatives cite the lack of training capability within government or the movement to respond to their training needs as they grow in size and engage in increasingly complex business. The training requirement is even made more demanding because of the rapid development in information and communication technology which requires faster, more precise and equally complex decision-making processes. The courses offered by ANGKASA or government agencies are far too basic and are viewed as relevant only to starting cooperatives.

d) Issues on ANGKASA :

1. Non-recognition of ANGKASA as a "Union"

Up to now, the Registrar of Cooperatives has yet to officially confirm ANGKASA as the "Union" to represent the movement at the national (with government) and international level based on the Corporate Act of 1993. The official stand is that: (i) ANGKASA "only" represents 50 - 60 percent of all coops; and (ii) it needs to amend certain provisions of its by-laws to be consistent with new Cooperative Act with regards to being a "Union". ANGKASA claims that while it may not represent all societies it is still the largest union with a multitude of cooperative affiliation. Furthermore, it claims that it may neither be practical nor useful to have 100 percent membership of all cooperatives since membership is voluntary. ANGKASA argues that it could just be a union to represent its own members since the Cooperative Act does not specify one union to represent all societies of the movement.

2. ANGKASA Falls Short of Members' Expectations

Apart from the unique service provided by ANGKASA discussed earlier, some large cooperatives and even the Cooperative College of Malaysia doubt the effectiveness of ANGKASA's educational services to its members. The large number of annual trainees of ANGKASA only go through basic cooperative indoctrination. With only 12 roving lecturers, it has serious limitations in meeting the more specialized training needs of many cooperatives. Moreover, ANGKASA may not be able to respond to the varied needs of different types of cooperatives having a multitude of services and activities. It will also be difficult for ANGKASA to meet the increasingly complex demands of large cooperative members. Perhaps, a "union" should really represent a particular functional grouping or related fields (e.g., credit cooperative union, transport cooperative union, etc.) to be more relevant and effective in providing services to its members.

3. ANGKASA as a Mandated Union

Legislating a union to represent the movement at the national and international level may not be consistent with basic cooperative principles (e.g., fully democratic principles) as it forces membership by mandate rather than by choice. Such a union is also viewed as an unneeded layer to tertiaryaries formed along functional lines - a more relevant option to many specialized cooperatives for reasons cited earlier. Lastly, the Cooperative Act requires government representation in the governing board of such union. This is seen as an encroachment on the movement's autonomy, especially since the Cooperative Act already has more than enough measures for government to control cooperatives.

5.0 Agricultural Cooperatives in Malaysia

5.1 Overview

Any analysis of the Malaysian government's efforts in developing agricultural cooperatives must consider two basic policies which govern all its programs aimed at traditional small farmers and beneficiaries of land development schemes. These are: the National Development Policy (NDP) and the National Agricultural Policy (NAP). These policies are the rationale for government's massive support and even direct management intervention to cooperatives of such beneficiaries. Many cooperative "purists" may view these as weakening rather than strengthening factors to the development of true cooperatives. However, government's cooperative development objectives are usually subsumed by broader national objectives embodied in these basic policies.

5.2 The National Development Policy (NDP)

The National Development Policy (NDP) is a continuation of the New Economic Plan (NEP) and the old "Bumiputra Law" which had a two-pronged objective to eradicate poverty and "restructure society", mainly focused on uplifting the social and economic status of marginalized ethnic Malays (Bumiputra). NDP continues to be the basis of all programs designed to mainstream the target group's economic activities. The historical rationale for "restructuring society" is that ethnic Malays, which comprise majority of the population, were the most disadvantaged racial group during colonial times and massive government efforts are needed to "level the field", avoid racial conflicts and foster unity in a multi-racial society while pursuing national development objectives.

Despite the rapid growth of Malaysia in the recent years and the perceived narrowing of socio-economic gaps among racial groups, government still sees the need to pursue its original aim. This is partly because ethnic Malays wield the political power and that other racial groups are still seen to maintain their economic edge. To be sure, small (Bumiputra) farmers and the rural landless still comprise majority of the poor with whom the application of NDP is doubly justified.

5.3 The National Agricultural Policy (NAP)

NAP aims at higher productivity and maximizing incomes in the agricultural sector. The strategy under NAP includes: (i) in-situ and new land development; (ii) provision of support services and incentives; (iii) improved technology; and (iv) social and institutional development. Analysis of the NAP must also consider the dichotomy of Malaysian agriculture which is composed of: (i) individual smallholders engaged in food and tree crops productions; and (ii) the tree crop estate plantations.

5.4 Strategy Implementation

Malaysia's strategy for the smallholder sector is premised on massive assistance and heavy government intervention. In the tree crops subsector (see Annex 2), parastatal agencies were created to implement and manage land development, rehabilitation and consolidation schemes, optimizing the competitive edge of the country to mainstream the smallholders.

In the food crops subsector the problems are more complex due to the diversity of crops, lack of competitive edge of Malaysia in food crops production and lack of farm labor due to urban migration. Thus, the Farmers Organization (FO) concept was conceived to provide an institutional base to develop disorganized smallholders. The "New Approach" requires the consolidation of small farmlands to allow mini-estate type management for food crop production. The scheme hopes to boost the operations of fledgling FOs and agricultural cooperatives. Again, the strategy is premised on heavy government intervention and support for FOs through the FOA.

5.5 Status of the Agricultural Cooperatives

a) Competitiveness of Agri-based Cooperatives

Cooperatives in land settlement and consolidation schemes (smallholder tree crops subsector) derive strength from the competitive edge of Malaysia in tree crops and enjoy the unbridled support of government. Thus, in terms of

financial resources, market access, technology, and diversity of operations (particularly under FELDA scheme) these coops are perhaps the most competitively prepared agri-based societies in the Region. However, it is quite clear that their strength is not due to strict adherence to basic cooperative ideals, but largely due to the sheer force of massive government support, such as: (i) the provision of management personnel (e.g., staff of Government or parastatal agencies charged with assisting particular farmer or settler groups); (ii) grants for land development; (iii) subsidized credit or grants for production; and (iv) special preferences or monopolies on estate businesses (e.g., transport of goods). The FELDA scheme alone accounts for about 42 percent of total agricultural financing in Malaysia and is supported by several parastatal subsidiary companies. After all, government appears not too concerned with following cooperative principles to strengthen “cooperatives”. Its main concern is to mainstream and make competitive the target beneficiaries as quickly as possible, consistent with the policies under NDP and its overall efforts to meet the challenges of globalization.

FOs on the other hand, appear to be relatively much weaker despite all out government efforts over the last two decades. It is now a question of how affordable and sustainable is such a scheme to government. With Malaysia experiencing impressive economic growth, it could well justify and afford propping up with substantial subsidies the smallholder food crop subsector even for reasons of social justice and, to a lesser extent, food security. However, if the objective is to create self-reliant cooperatives and a more sustainable rural development approach, it is perhaps timely for government to review its strategy under the FO concept since there is little progress to show in terms of stand-alone cooperative despite two decades of implementation. It is quite obvious that a large majority of FOs would still fail the only real test of coop self-reliance, that is: to operate viably and survive under a market environment without government assistance nor intervention.

b) Other Conceptual Issues on FOs

The FO concept as conceived and implemented raises the following issues:

1. An FO is supposed to be set up for farmers yet it is completely managed by government personnel. This runs counter to basic cooperative principles.
2. Development efforts require “programmed obsolescence” and an important success measure for development agencies is that they

should eventually become unneeded by their target groups. Yet, even the few FOs that could afford to pay professional management (indicating some degree of self-reliance) still have to be run by FOA staff at the FOs' expense! After twenty years, there is still no sign that FOA intends to phase out its direct intervention on FOs.

3. The FO is both a primary and a secondary cooperative with individuals and agricultural coops as members, the latter being compelled to become members through Government suasion and incentives. There are practical problems in such a set up in terms of self-governance and members' accountability.
4. The original FO concept was also conceived to phase out existing agricultural cooperatives or to integrate this with the FOs. The policy is such that only FO members (individuals or societies) could have access to government assistance or services. This policy effectively: prevents the formation of true grassroots farmers cooperatives, forces farmers to organize solely along the FO concept of FOA, or forces agricultural cooperatives to be FO members if only to avail of government assistance. Again this runs counter to true cooperative principles because it encourages mendicancy and dependency rather than self-reliance among the societies. The concept of forced membership to FOs was in fact challenged by some agricultural cooperatives who reportedly won their case against deregistration or integration.

5.6 Coop Development Subsumed under Broader National Objectives

It may difficult to convince Government to follow basic cooperative principles in the formation of agricultural cooperatives. Its political and economic agenda requires fast-tracking of development efforts through massive government support. Like most governments, it could find the usual cooperative development process much too slow and cumbersome for its agenda and is likely to subsume coop development under broader objectives. This is particularly true for Malaysia where "economic restructuring" is a primordial objective. Thus, massive assistance is given to cooperatives to mainstream (Bumiputra) smallholders, even if such assistance is seen by coop "purists" to weaken cooperative values. Again, with its economic boom, Malaysia could well afford maintaining such a strategy not so much to create "viable" coops, but to uplift the economic status of target beneficiaries.

Nevertheless, government has to seriously assess whether the development of true cooperatives could be a much better and more sustainable

option for rural development as this promotes self-help among target groups rather than making them forever dependent on government agencies. As such, government may have to explore the possibility that its direct intervention and over-protective policy on agricultural coops is likely to erode the very values that empower people to form self-reliant societies.

6.0 The Financial Cooperatives

6.1 Overview

Thrift and Savings Cooperatives remain the backbone of the movement in Malaysia, accounting for 40 percent (1.6 million) of total cooperatives membership and 85 percent (RM 7.5 billion) of total cooperatives' resources. There are now two cooperative banks (wholly-cooperative owned commercial banks) with several societies owning sizeable equity in other banks. Moreover, many financial cooperatives have grown and expanded their activities, given their financial resources and management capabilities.

6.2 Issues

a) Self-Reliance and Competitiveness

Based on the growth of membership and assets, credit cooperatives appear to be on solid footing. They grew through self-help and internally mobilized resources from members. Larger cooperatives have now diversified to consumer products retailing and financing, insurance (tied-up with insurance companies), tourism and even property development. They are managed by professionals and are reported to be competitive in staff compensation. This is laudable considering the thin labor market and the rising pay scale of Malaysian professionals.

The strong credit cooperatives in Malaysia are mostly of the institutional types (i.e., company-based) or those that cater to a sectoral grouping (e.g., government employees, teachers, etc.), Community-based coops are reported to be small and found mostly in the rural areas. Large sectoral-type credit cooperatives, such as KOSWIP (of government civil servants) are now expanding their memberships as they see the opportunities in a community-based multi-sectoral coop.

b) Movement's Views on the Registrar's Powers

The general sentiment is that there is too much power of the Registrar that encroaches on the autonomy of cooperatives over aspects perceived as normal business decisions (e.g., investment options, creating subsidiaries and

receiving foreign donations). Cooperative officers feel that there are enough safeguards under cooperative practices which make redundant the control powers of the Registrar. They cite government's restrictive cooperatives laws against its relative leniency on corporate affairs.

c) Delay in Approving an Apex Cooperative Bank

The credit and savings societies hope to form a Cooperative Central Bank to provide wholesale banking and financial intermediation among member societies. An application for such remains pending with Bank Negara (the central bank) for the last two years. Bank Negara's delayed action is reported to be partly due to the recent failure of a similar bank which caused serious instability in the banking system. However, there is also a view from the movement that commercial banks are lobbying against this move because of the potential effects of transferring substantial cooperative deposits, estimated at RM 8.5 billion as of end 1994, from existing banks to the proposed bank.

334:321

206/19

Col. Inc.

THE PHILIPPINES

1.0 Introduction

In 1910 government enacted the first Cooperative Act and formed the first agricultural cooperatives supported heavily with a credit scheme. In the next 80 years, government continuously promoted cooperatives without much success as it persisted with a credit-led strategy in cooperative development. In the meantime, religious groups started to promote credit and savings societies among the poor in the 1930s. Founded on the virtues of self-help and self-reliance, these savings-led societies later became the backbone of the strong and growing privately-led movement existing at present.

After the rapid rise and fall of tens of thousands of government initiated coops in the 70s, the number of cooperatives slowly grew and stabilized to about 5,000 in the 1980s. Many of these emerging coops were privately-initiated and self-propelled. They showed resilience and viability not seen in any of the government-initiated cooperatives. However, from 1987 to 1992, the Cooperative Development Authority (CDA) reported more than a five-fold increase in the number of registered cooperatives (from 3,000 to 16,000) and another 125 percent increase between 1992 to 1995 (from 16,000 to 35,800). These increases are tremendous leaps compared with the more plausible growth rate of 10% between 1981-86.

The rapid increase in cooperatives in the recent years is attributed to the following factors: (i) the euphoria on a newly found "people power" and the non-politicization of cooperatives after the repressive Marcos Era; (ii) the new Cooperative Code which gives better incentives and promotes broader private initiatives rather than heavy government intervention; and (iii) emergence of many government credit programs channeled through "cooperatives".

While this could be viewed as an encouraging sign for the movement, it also raised the specter of failed "cooperatives" in the past which were created with unsustainable credit programs. In fact, the movement is undergoing another of the "boom and bust cycle" which has occasionally occurred during most of the century. Presently, there is an emerging dichotomy of a small core group of self-sustaining private led-cooperatives (about 4,500) and a large number of recently formed government supported "cooperatives" with doubtful sustainability.

Thus, of the reported 37,000 registered cooperatives, little is known of about 30,000 cooperatives registered between 1990 and 1995. CDA ventures

that coops “mushroomed” due to the proliferation of credit programs (over 100 as of latest estimates) launched by many government agencies during the period. These programs invariably used NGOs and cooperatives as credit conduits to rationalize credit delivery since almost all of the implementing agencies were not organized for the task. Like “mushrooms” growing after the rain, many of these “coops” are not expected to survive as credit funds dry up because of the inevitable poor loan repayments and unsustainable operations of these programs.

Prior to 1987, credit cooperatives comprised more than 50 percent of all societies. To date, about 65 percent of total are multi-purpose agricultural cooperatives, mostly due to Land Bank of the Philippines (LBP - a state bank) which encouraged farmer-borrowers to form such societies to allow flexibility in operations. Moreover, many new cooperatives and large credit societies are registering as multi-purpose types for flexibility and expansion.

2.0 Government Role in Cooperative Development

2.1 Overview

Government has a long tradition of “off and on” involvement in cooperative formation which it invariably linked with massive provision of subsidized credit schemes for agricultural production. Following the 90-year pattern, the 1960s saw the creation of hundreds of Farmers’ Marketing Cooperatives (FACOMAs) with only eight finally making it on their own. In the 70s, the Marcos regime created a large bureaucracy and parastatal agencies to promote cooperatives, again supported by cheap government credit. As in the past, the strategy failed to produce more than a handful of viable cooperatives from almost 20,000 pre-cooperatives formed (called “Samahang Nayan” or village association). In the late 1980s, the cycle was repeated when government promoted cooperatives through massive credit programs. The most notable among the government programs is the attempt of Land Bank of the Philippines (LBP) to form 6,000 “cooperatives” in its bid to be the “wholesale bank” for agricultural credit and to rapidly increase its small farmer loan portfolio within a short period. The survival rate of the LBP-promoted coops is reported to be one out of every 12 formed.

Ironically, the recent development in Philippine cooperatives occurred at a time when government’s stated policy and legislation on cooperatives appear to have come to grips with past failures and have finally adopted the basic cooperative principles. The Cooperative Code of 1990 is a model for similar acts as it recognizes and promotes private initiatives in cooperative

development. Likewise, the Cooperative Development Authority (CDA) is small by ASEAN standards (except Singapore), meant to wield the basic supervisory powers and to take a supportive rather than an interventionist role in cooperative development. This is in contrast to the Marcos Era when government: (i) dictated even the basic steps of forming cooperatives; (ii) discredited or disallowed the registration of cooperatives not conforming with those state-prescribed steps; and, (iii) had a direct hand in the management of certain cooperative funds and entities.

However, beyond the stated policy and the favorable provisions of the Cooperative Act, there are still several factors which prevent the development of a sustainable cooperative sector in the country. Central among these factors is that there are many government agencies that directly or indirectly influence cooperative formation. These entities are not aware of the accepted cooperative principles and continue to view cooperatives merely as receiving or delivery units of government credit (or other services) for the rural poor. Other than the CDA, these agencies include: (i) Land bank of the Philippines (LBP) and other government financial institutions (GFIs); (ii) Dept. of Agriculture (DA); (iii) Dept. of Agrarian Reform (DAR); (iv) National Food Authority (NFA); and (v) Department of Trade and Industries (DTI).

2.2 The Cooperative Development Authority (CDA)

The CDA is in charge of promoting, developing and regulating the cooperatives. Its main functions include: (i) registration and delisting of cooperatives (ii) promotion of cooperative principles to the general public; (iii) being the lead agency of government in cooperative development and promotion; and (iv) supervision of cooperatives to ensure adherence to the Cooperative Act and other regulations. The CDA is under the Office of the President which is an improvement from the past when cooperative promotion was only under a Departmental Bureau (Dept. of Agriculture in the 1980s and Dept. of Local Government and Cooperative Development in the 1970s). However, the CDA Chairperson is not of cabinet rank making it a lower-level agency relative to Departments and has little power or resources to wield its influence over other government agencies.

2.2.1 Organization, Staffing and Budget

CDA is administered by a working board comprised of the Chairperson and eight members, each of whom has supervisory responsibilities over CDA's functional units (e.g., finance, administration, training, etc.). The board members are presidential appointees and are supposed to have at least five years of experience in cooperatives. Four of the present members however

have no such qualification. Day-to-day operations is handled by an Executive Director who supervises the head office and 13 regional offices. There are one or two staff in each of the provinces. CDA's work force number about 700 and its annual budget is about P100 million pesos, very negligible by ASEAN standards (except Singapore).

CDA's non-interventionist approach was demonstrated lately when the movement successfully resisted CDA's attempt to legislate the Cooperative Union of the Philippines (CUP) as the National Apex Union of Cooperatives (based on Article 25 of R.A. 6985). The movement threatened to go to court citing that such a move needlessly encroached on the autonomy of cooperatives espoused under existing laws. CDA eventually backed down on its decision. This is very much in contrast with other ASEAN countries where cooperative authorities are all-powerful and where a national apex union for all cooperatives is recognized by both the government and the movement. This is a clear indication that the Philippine government committed to promote private initiative in cooperative affairs. However, several factors still prevent the pursuit of a consistent cooperative development policy as shown below.

2.3 The Land Bank of the Philippines (LBP)

LBP is a wholly-owned state bank providing financial support to the agrarian reform program to: (i) fund the land transfer from large land owners to small tenant farmers; (ii) provide credit to former landowners' shift to commercial-industrial ventures; and (iii) finance farmer-beneficiaries' economic activities. LBP is a universal bank and has broad powers not limited by its mandate. It also engages in full commercial banking and related services to cross-subsidize its riskier and costlier mandated functions.

In the recent years it has become the single biggest creditor to small farmers and fisher folks. From 1987 to 1992, it launched a massive lending program which caused the proliferation of overnight "cooperatives" and created serious repercussions to the movement. Good or bad, LBP has shown that it can become a major factor in cooperative development.

2.4 Department of Agriculture (DA)

DA activities promote cooperative formation in several ways through: (i) its own administered credit and technical assistance programs which use cooperatives as conduits; (ii) its policy to promote at least one cooperative rural bank (CRB) in every province; and (iii) through its attached agencies (e.g., National Food Authority, National Irrigation Administration) which also

give preferential treatment to cooperatives in the provision of marketing, technical, credit or infrastructure development assistance.

2.5 Other Government Agencies and Financial Institutions

A 1994 ADB Rural Credit Study revealed that about 58 credit programs are administered by at least nine cabinet departments, eight non-bank entities and five government financial institutions (GFIs) as a response to the government's poverty alleviation program. Many of these credit programs were designed for wholesale lending through private volunteer organizations (PVOs) and cooperatives. This strategy was adopted given the highly retail nature of disbursing small loans to numerous clients and the lack of capability to perform such in many implementing agencies. Once again, cooperatives were formed to rationalize and make efficient the delivery of government assistance with the illusive hope of making them self-reliant. Unfortunately, neither the new "cooperatives" nor the agencies that supported them really understood basic cooperative principles.

3.0 Private Sector Initiatives

At first glance, the private led cooperatives appear to be a fractious group of at least 18 non-unified national apex bodies constantly vying for leadership in the movement and often with overlapping claims of membership among primary and secondary societies. Overall leadership has become almost an obsession to some national apex organizations for two reasons: (i) a national apex is entitled to 50 percent of the Cooperative Education and Training Fund (CETF) funded from 10 percent of member societies' net surplus; and (ii) leadership in the movement means more political clout and power, a position highly coveted in the highly politicized Philippine environment.

The issue of leadership is obscured by the unreliability of the existence or status of over 80 percent of 37,000 registered cooperatives. Unfortunately, this issue and the highly-political charged atmosphere at the national level belies the dynamism of a growing number of (about 5,000) viable cooperatives and their federations. This small subsector of the movement are likely to represent the real cooperatives as defined by the Manchester Congress. These societies (and not the 30,000 plus) are the living proof that adherence to true cooperative principles makes possible the success and viable growth of self-propelled cooperative societies.

Based on perceived political alliances and formal structures, the movement could be general grouped as follows: (i) the Cooperative Union of Cooperatives (CUP) and its affiliate federations; and (ii) an alliance among

national federations of relatively strong primary and secondary societies.

3.1 The Cooperative Union of the Philippines (CUP)

CUP was evolved in the Marcos Era and has constantly sought the mandate to be the apex body of all cooperatives. It claims strong following among societies and entities which are largely the remnants of the Samahang Nayan program of that regime. CUP is perceived as the preferred national apex by the CDA because of its reported following from the majority of 37,000 registered cooperatives comprising an estimated 4.49 million members. Such claim is vigorously disputed by other federations, because of the doubtful status or existence of about 30,000 of these societies. Among the indications of strong CDA support to CUP are: (i) CDA funding of some CUP projects (e.g., a huge but questionable rice strawboard project), a privilege not usually enjoyed by other apex organizations; and (ii) the bid to make CUP as the national apex of cooperatives.

3.2 NATCCO and its Affiliates

Notwithstanding the confusion in the exact status of all the registered cooperatives, there are several apex organizations that emerged from at least 2,500 growing and viable societies, majority of which were formed during the Marcos years even at the risk of persecution of their members. During this period, many of the privately initiated cooperatives opted to be incorporated under the Security Exchange Act as non-stock, non-profit entities to avoid government interference, which was inevitable had they registered under the then existing cooperative laws. While these societies are now registered under the new Cooperative Act, they still carry "Inc." (e.g., Bulacan Credit Cooperative, Inc.) in their names because of their origin.

The most notable of these cooperatives are members of the National Confederation of Cooperatives (NATCCO), the tertiary apex of:

1. Five Regional Cooperative Development Centers, namely: NORLU (Northern Luzon); TAGCODEC (Central Luzon); BCDC (Bicol Region); VICTO (the Visayas) and MASS-SPEC (Mindanao)
2. School-based Coop Education Center
3. CLIMBs- a cooperative insurance and mutual aid association
4. Regional Coop Housing Federation (associate members)
5. Regional Coop Federation (associate members)

NATCCO was formed as the national apex of the original five Regional

Cooperative Development Centres. The Regional Centers were themselves formed to meet the training needs of their respective primaries. Eventually these Centers saw the need for a national apex, hence the creation of NATCCO. Later, both the Centers and NATCCO expanded their operations to meet the growing and complex demands of primary members. With its credible performance, other federations joined the NATCCO network.

Training and management services remain the forte of the NATCCO network which has the infrastructure, software and trainers to give a wide range of general or specialized courses in cooperative matters. It also conducts audit services, management consulting, and research and publication services for its members. Its business activities include: (i) Central Fund (CF - for intercoop financial intermediation); (ii) Inter-coop Trade (ICT) (iii) Deposit Guarantee Fund (DGF - to guarantee members' deposits in qualified primaries); and (iv) cooperative insurance (through CLIMBS).

The NATCCO network also actively promotes cooperatives among the youth, agrarian reform beneficiaries and women. Because of their viable operations and wide acceptance, NATCCO and almost all of its secondary members have been recipients of substantial assistance from international funding and bilateral agencies (e.g., CIDA, Rabobank, MISEREOR).

As of end 1995, the NATCCO group is composed of 1,659 primary societies with over one million individual members and total assets estimated to be nearing P8 billion, 80 percent of which are internally-generated. About 75% of its primary members are rural-community based and 25% are urban. In terms of business activities, NATCCO members are divided as follows: 55.5% multi-purpose; 27.2% credit societies, and a small percentage are service, producers and cooperative banks.

Apart from its own network, NATCCO maintains strong ties with other tertiary and secondary societies, which include the:

1. Federation of Free Farmers Cooperatives, Inc. (FFFCI) - a small but growing group of viable agricultural societies (see section on agri-coops);
2. NAMVESCO - The National Market Vendors Cooperatives, one of the fastest growing federations comprising 127 primaries and 3 secondaries, with 80,000 members 70% of which are women;
3. PFCCO - Philippine Federation of Credit Cooperatives, formed in 1960 it is one of the longest surviving federation of 300 credit societies and 150,000 members.

NATCCO and its allies formed the National Cooperative Advisory Council

(NCAC) in 1990 to coordinate inter-federation activities. This alliance represents close to 4,000 societies with over 1.5 million individual members. While this grouping appears to comprise only about 8% of the registered cooperatives, it is widely accepted that it represents the more viable and true cooperatives in the country, notwithstanding the claim of CUP to a large following from the other 33,000 registered societies.

3.2.1 VICTO a Model of the Secondary Cooperatives

The Visayas Cooperative Development Center (VICTO) typifies the five Regional Development Centers of NATCCO. VICTO was formed in 1970 as a secondary cooperative of 14 societies, mainly to provide training for its members. By end 1994, after careful screening and delisting of 50 primary members, it had 249 primary coops with 250,000 individual members. Multi purpose coops comprise the largest membership (49%), followed by credit unions (27%), consumer cooperatives (6%) and the rest are marketing, rural banks and other types.

VICTO is presently organized into two divisions to cater to its expanded services, namely: Cooperative Institute for Development (CID) which provides consulting, audit and training services; and, Cooperative for Development (CED) which operates the Visayas Central Fund (VCF - for intercoop lending), the Seminar House and intercoop Trade (ICT). The CID, while service-oriented, generates substantial income to support VICTO's operations.

VCF is VICTO's largest business operation which has grown rapidly and is now being considered for spin off. It demonstrates how cooperatives could generate and manage its funds. As of 1995, VCF total assets reached P28.3 million, with 75% of resources internally generated from members and 25% from loans (e.g., LBP and a private commercial bank). About 165 coop members are net depositors while 66 are debtors of the fund.

VICTO is a typical secondary which has grown beyond the survival stage and strives to ensure its sustainability. It has recently undergone a "paradigm shift" to ensure that it will continue to exist for its members and not for itself. It also thrives to preserve among its members the cooperative ideals to counter-balance pure commercialism and crass materialism which appear to seriously threaten the movement's survival. This is now being experienced in other countries where cooperatives are opting for corporate status to pursue purely economic objectives.

4.0 General Issues on Cooperatives

No doubt, the new Cooperative Code and the structure of CDA reflect the

supportive rather than interventionist approach of the Philippine Government in coop development. Both the Code and the functioning of the CDA are good models for the adoption of principles advocated in the Ministerial conferences. Still, other issues need to be addressed beyond the code, CDA's mandate and the stated policy of government.

4.1 Numerous Credit Programs Using Cooperatives

In 1987 government directed all its agencies to implement poverty alleviation programs. Among others, the classic response of these agencies was to launch micro-credit programs to finance income generating projects of the poor and disadvantaged. As a result, no less than nine government line departments, four attached agencies and councils, six of its non-bank corporate entities and three GFIs are engaged in more than 60 different credit programs (27 of which are agricultural) directed to the "poor and marginalized sector" of the rural economy. Almost all of these programs were designed to be channeled through non-government organizations (NGOs) including cooperatives because many of the government agencies lacked the network and the expertise to engage in retail lending. This encouraged the formation of overnight "cooperative" (and NGOs) as indicated by the rapid growth of registered coops discussed earlier.

4.2 Lack of Awareness in Government of Coop Strength

Many government policy makers and program designers for rural development appear to have an uncanny unawareness of (or simply disregard) the remarkable growth and performance of community-based self-propelled cooperatives in the country. This is indicated by: (i) frequent repetition of government mistakes in cooperative development within short time intervals (in about 5 year cycles); (ii) the pervasive perception within the bureaucracy that cooperatives are total failures or a "big joke" or that only company-based credit unions are the ones that work; and (iii) the lack of appreciation of the capability of successful federations such as those of the NATCCO network and the tendency for government to "reinvent the wheel" in coop development (i.e., design of coop systems and procedures, training modules, etc., when these were long developed and are now being used by the viable coops).

4.3 Cooperative Code and CDA too Lenient?

The proliferation of overnight cooperatives is partly due to the supportive provisions of the code and the leniency of CDA. Even CDA admits that it needs to tighten up its procedures to prevent the formation of "cooperatives"

for the wrong reasons (e.g., formed by a small group of businessmen to avail of tax exemptions or cheap government loans). CDA also admits to **having** very little facts on the 30,000 new cooperatives formed in the recent years and believes that many of these are “paper cooperatives”. While it intends to weed out and cleanse the movement of pseudo cooperatives, it suffers from lack of manpower and information.

4.4 Cooperative Leadership and Representation Issue

The constant struggle among the national federations for leadership in the movement has been significantly muddled by the questionable status of many registered cooperatives. CUP claims ascendancy to being *the apex of all cooperatives* because of its reported following from majority of the 37,000 registered coops. Such claim is hotly contested by other federations of the much fewer but more viable primaries precisely because they question the existence or status of at least 30,000 of the newly registered coops. These federations use to represent majority of primaries prior to the heavy influx of new coops from 1987, but now they appear to represent less than 10 percent of the registered cooperatives. Unfortunately, the ignorance of many politicians and bureaucrats of the real status of cooperatives often lead them to believe that the “federations” claiming the larger constituency (even on paper only) indeed represent the movement and thus cater to their political demands.

5.0 Prospects and Issues on Financial Cooperatives

5.1 The Credit Cooperatives

Like their counterparts in the Region, credit unions are the most viable and fastest growing societies in the Philippines. Prior to 1987 (and before the influx of doubtful coops), credit societies comprised more than 50% of the movement. Their share of total number declined as many of the newly formed coops are registered as multi-purpose types. Moreover, the current trend among coops (old and new) is to register as multi-purpose for flexibility, even if they engaged mainly in financial services. For example, only 37% of NATCCO members are credit coops yet 75% of all NATCCO members are engaged in credit and savings services.

Credit cooperatives collectively account for much of the resources of operational cooperatives (to distinguish these from those registered but of unknown status) and many of these cooperatives are much larger than ordinary rural banks or small savings banks. It is worthy to note that: (i) more than 80 percent of credit coops are community-based; and (ii) majority of the

members are of the lower income group, with farmers comprising the largest sectoral group - about 20 percent. Credit societies are the best argument against misconceptions on cooperatives in the country, especially that which view the poor as incapable of saving or self-help.

5.2 Cooperative Rural Banks (CRBs)

To date there are 40 CRBs, with government promoting their formation in each of the 76 provinces. About 28 of these CRBs are remnants of the Marcos era when they were formed together with the cooperative development efforts at that time. In fact, many of these CRBs have no more "cooperative-owners" since the latter have long disbanded and are no longer existing.

CRBs have yet to prove their worth as most of them rely heavily on "soft" government assistance (mainly through LBP) such as: capital infusion, preferential loans and rediscounting facilities, conversion of their long outstanding government loans to equity and even management assistance. Left on their own, many of them would collapse as they continue to fail to mobilize deposits or have poor performing portfolios.

5.3 Land Bank of the Philippines

The biggest single player in rural and agricultural financing in the Philippines to date in LBP. A universal bank with full banking powers, its main mandate is to serve agrarian reform beneficiaries. With the privatization of the largest state bank (Philippine National Bank) and the shift in strategy of the Development Bank of the Philippines, LBP became the only major state bank left to cater to the rural areas. Thus, it geared itself to become the "countryside bank" to include among its priority clients fisher folks and small non-farm entrepreneurs. As a universal bank, it also caters to very large corporate clients which not only allows it to cross-subsidize its countryside banking but puts it in a vantage position to forge meaningful alliances among its clientele (e.g., between corporate and small borrowers).

The activities of LBP in its countryside banking have great repercussions (adverse or otherwise) to financial or agricultural cooperatives because of its size and outreach, and the common market served. LBP has recently shown that it can greatly influence cooperative formation (see also issues on agricultural coops). It is also the major source of support of the cooperative rural banks. Any cooperative development strategy will have to contend with LBP's presence and operations.

5.4 Issues

5.4.1 Promotion of Cooperative Rural Banks and An Apex Bank

Government's promotion of CRBs is still a questionable issue since it is premised that their formation will improve credit access of the rural poor and the small farming sector. Such policy does not consider the need for (nor requirements of) viable banking in a highly competitive environment and the restrictive provisions of Banking Laws. Moreover, many studies have shown that the lack of credit in the Philippine agricultural sector is not so much the lack of supply, but the lack of effective demand in terms of bankable clients or projects. In any case, CRBs are far too few, with limited resources and outreach to be of any significance to the movement for now.

There is also so much debate within the movement to establish an apex bank for cooperatives. Advocates for such bank cite the failure of state banks to support the more complex banking needs of financial cooperatives and their clientele. They constantly harp on the weaknesses rather than capitalize on the strengths of the state banks and call for their closure or substitution with another bank (i.e., the apex bank). In the process, strategic alliance between the movement and a state bank (LBP) is hardly being explored as an option when this could be a more logical, quickly achievable and less costly alternative.

5.4.2 Inappropriate Government Financial Programs

Below is a summary of the findings in many studies (here and elsewhere) of what characterizes the rural financial market, the real needs and demands of such market, and the usual design framework of government financing programs:

- a) Market Characteristics
 - Multiple economic activities
 - Capable savers
 - Fungibility of funds, more pronounced at lower income levels, thus hardly any distinction of funds used for consumption and income-generating activities
 - Complex set of relationships (traders, moneylenders),
- b) Needs and Demands for Financial Services
 - Flexibility to support multiple economic activities
 - Premium on access to over costs of funds
 - Permanence and reliability
 - Financial intermediation not merely credit

c) Traditional Government Approach to Rural Finance

- Unsustainable and sporadic credit programs
- Inflexible, economic activity oriented credit programs
- Poor incapable of saving
- Delivery of cheap credit a primary concern
- Disregard of existing viable cooperatives

5.4.3 Presence of Viable Financial Cooperative

While government continues to create unsustainable cooperatives, there is a growing number of self-reliant community-based cooperatives which are proving that self-propelled and sustainable societies amongst the poor is not only possible but can grow in strength and number. These financial societies now number over 2,500 with total resources topping P8 billion, mostly mobilized from over 1,000,000 members.

As mentioned, these cooperatives remain largely ignored by government. Yet, they are so advanced that their federations already possess well-developed cooperative systems and training modules, pool of experienced trainers and a nationwide network of cooperative development centers geared for providing institutional and management support services to member primary cooperatives.

5.5 Prospects

The most important concern in the Philippine rural financial market today is to finally break the pattern of sporadic, "pump priming" credit programs coursed through "cooperatives" which eventually turn out to be expensive and unsustainable. Such attempts have reinforced the perception that cooperatives are failures, caused the weakening of the moral fiber of both borrowers and creditors, promoted and perpetuated an attitude of mendicancy or dependence among the rural poor, and helped frustrate hopes of achieving a progressive and vibrant rural economy.

A turn-around can be quickly achieved by: (i) discarding unsustainable government credit programs and adopting self-sustaining financial intermediation schemes; and (ii) substituting inappropriate non-bank agencies engaged in credit delivery with financial coops that will provide financial intermediation services for the target market. Apart from the obvious advantages, the proposal will also relieve the non-bank agencies from pursuing a task far removed from their true functions and allow them to refocus scarce resources to their true mandate of providing the vital non-financial support services to

the same market (e.g., research and extension, market support, etc.). Moreover, the prospects are bright for integrating LBP (or any state bank's) operations with the private led financial cooperatives to form a wide-reaching network of grassroots financial intermediaries.

5.6 A Case For A Sustainable Rural Financial System (RFS)

A permanent and responsive financial system for the countryside would ideally require:

- An extensive network of viable and sustainable cooperatives with the flexibility to provide financial intermediation services to small rural fund savers and users;
- A unifying (apex) bank with broad banking functions, extensive outreach, development outlook and financial viability to provide a range of banking services to the financial cooperatives; and
- Proper adoption of proven approaches in rural finance both at the grassroots level and the apex bank.

Fortunately for the country, there are existing institutions in place that need only to redirect their individual strategies and work together setting up a cohesive rural financial system. Moreover, there are approaches which have already been proven here and elsewhere that banking with the poor is viable and could thrive well under market conditions.

5.6.1 Credit Coops as the Backbone of the RFS

Cooperatives have the flexibility required for highly retail financial intermediation. Unlike banks, they are not supervised by central bank nor subjected to banking laws. They also cater to a special niche of the financial market not usually served by the banking sector. A core group of such cooperatives could be selected from the existing 2,500 viable credit societies.

5.6.2 The Need for a Unifying Bank

Financial coops do have limitations despite their flexibility and comparative advantage. As rural farmers and micro-entrepreneurs prosper, their demand for larger and more varied financial services would grow in volume and complexity, more so if they would undertake communal ventures to achieve economies of scale or to mainstream them into the market economy. Yet, even strong and viable cooperatives would have serious constraints in meeting more than the usual providential and small working capital loans they now offer to their members. This is due to their limited access to long term funds and lack of expertise to handle large, project-type lending.

However, the cooperatives would need a unifying bank that could provide them: (i) access to long term funds and assistance to improve capability for project lending; (ii) inter-coop financial intermediation services; (iii) fund management and other banking services; (iv) financial linkage to the formal banking sector; and (v) support for the continuous training requirements of existing and upcoming cooperatives.

The Cooperative Code provides for the formation of an apex bank for cooperatives. However, at the current state of cooperatives it would take them decades to put up the resources and build the capability to set up an effective apex bank, considering its more complex operations and the statutory requirements of setting up such a bank (e.g., huge equity requirement).

5.6.3 Role and Qualification of a Unifying Bank

An option worth exploring is for viable cooperatives to establish strategic alliance with an existing (state) bank serving the same market. This alliance would quickly create a complete banking service network which has: (i) the flexibility needed to do retail banking at the grassroots level; and (ii) the capability to provide full commercial and development banking services even on a large commercial scale. The ideal apex bank must have:

- Rural banking experience and network with rural-based financial intermediaries;
- Strength and viability to provide financial services to the rural sector;
- Flexibility to meet the changing and growing demands of diverse rural borrowers for agriculture and non-agriculture activities; and
- A banking culture to deal with the rural areas and the poor.

5.6.4 LBP - A Clear Choice as the Apex (unifying) Bank

Cooperatives need not wait too long to amass the resources, acquire the expertise and set up the infrastructure for an apex bank. LBP already performs some of the functions of an apex bank and appears to be the clear choice for it, due to the following:

- It is a universal bank with broad powers;
- It has remained strong, solvent, and viable; and
- It has extensive coverage of rural areas with grassroots linkage.

LBP would require very minor institutional and strategic fine tuning to be an apex bank. It is in the best position to reach out quickly to a larger number of the target market especially with the proposed linkage with viable financial cooperatives.

5.7 A Model for a Rural Financing Network

The above proposal could be a model for the countries reviewed. These countries have state banks devoted to serve the same market which financial cooperatives also serve. It would be unrealistic for the movement to ignore the state banks or advocate for their closure and, conversely, for the state banks to disregard the unique position of financial cooperatives in a market they both serve. It would also be counter-productive and irrational for both to be engaged in unneeded competition. Lastly, it would be wasteful for both government and the movement to set up a parallel system or another bank simply because of the frustration on the current performance or direction of the existing ones.

State banks (or government) may have pursued strategic that run counter to cooperative ideals, but their ultimate objectives are well-meaning and congruent with those of the movement as they serve the same market. Perhaps it is time to take stock of the resources, expertise and infrastructure already possessed by the state banks and determine how these could be exploited to pursue common objectives. Forging meaningful alliances and readjustments of strategies among existing entities is a far better option than destroying institutions only to rebuild a substitute from scratch. There is obviously a lot to be gained and synergy to be created in pursuing the proposed option.

6.0 The Agricultural Cooperatives

6.1 Overview of The Agricultural Sector

Philippine agriculture suffers from decades of government pursuing flawed macro-economic and agricultural policies. Among these are: (i) protectionism and “preferential” trade quotas with trading partners on a few products (e.g., coconut and sugar) which promoted inefficiencies; (ii) cyclical implementation of failed crash programs for self-sufficiency in food crops focused mostly on the provision of cheap credit; (iii) continued lack of public investments in rural infrastructure (particularly irrigation) and research; and (iv) inconsistencies in land reform laws and land use policies which discouraged private investments. The failure of past policies and programs is reflected in the sector’s sluggish annual growth of only 1.9% over the last two decades against an annual consumption growth of 3% and a population rate of 2.3%. Much needed reforms and strategies are just starting to be implemented, however, it will be a while before Philippine agriculture will be as vibrant and competitive as its counterparts in the Region.

6.2 Competitiveness of Agri-based Cooperatives

The dismal performance of Philippine agriculture is also reflected in the lack of viable agri-based cooperatives. Food self-sufficiency and agricultural productivity programs invariably were designed around the formation of cooperatives to receive or disburse massive government credit and other assistance. Such strategy has been cyclically repeated over the last 90 years. In all these attempts “mushroom cooperatives” came and went with the unsustainable credit programs, failing to attain self-reliance given the manner by which they were created.

The more recent examples of this oft repeated strategy are: (i) the Samahang Nasyon (village association) concept launched during the Marcos years when government formed over 15,000 pre-cooperatives with the hope of creating viable cooperatives; and (ii) The “Cooperative Way” strategy of Land Bank (1989-92) when it helped create 6,000 farmer coops as conduits for its wholesale banking. As in the past, less than a handful societies survived from these programs after the credit support was withdrawn.

6.3 Land Bank's Recent Attempt on Cooperatives

In 1989, LBP launched its aggressive credit program with two important lending policies wherein it: (i) stopped its individual farmer lending and shifted to wholesale lending through cooperatives or rural financial institutions (RFIs, e.g., rural banks, private development banks, etc.); and (ii) promoted aggressive credit targeting among its field units. These twin policies virtually forced the overnight formation of multi-purpose cooperatives. LBP personnel pushed coop formation because it was the only way they could achieve management-set loan portfolio targets, and farmers readily formed these coops since it was easier to deal directly with LBP Field Units (as “coops”) than to individually seek financing from other RFIs which were privately-owned, more conservative and had less resources.

Within a four year period (1987-92), over 6,000 “cooperatives” were formed and LBP's farmers' loan portfolio jumped by 7,000 percent from P105 million with 14,400 individual borrowers in 1987 to P7 billion with 712,230 borrowers by end of 1992. About 85 percent of the loans was disbursed through the “overnight cooperatives” formed mainly to access credit. Once again, the cycle of “boom and bust” or “mushroom” cooperatives was repeated. Only one out every 12 of these coops are reported to be still in existence and struggling to pay off their loans. The rest simply do relish being revived as they would only face legal and moral sanctions for their failure to pay massive debts.

LBP has learned its costly lesson and is presently trying to consolidate or strengthen these cooperatives along the more accepted norms. Still, the damage had been done and it is a tedious (if not futile) process to revive “cooperatives” formed under a flawed concept. More importantly, LBP’s attempt affected the viable cooperatives because of the stigma of failure attached once again to the movement.

6.4 Private-Led Cooperatives

To date there are less than 300 private-led farmer cooperatives that have shown staying power over the last two decades and are considered self-sustaining. Some of them are engaged in viable business such as rice trading and milling, animal feed production, consumer stores and even cooperative rural banks. However, they are far too few in relation to the potentials and requirements of the agricultural sector. To say the least, agri-based cooperatives in the Philippines have still a long way to go to be of any consequence to the development of a more vibrant and competitive agricultural sector.

6.4.1 The Federation of Free Farmers’ Cooperatives, Inc.

FFFCI is perhaps the longest surviving federation of agri-based cooperatives. Its interesting history is an object lesson for agricultural coops. FFFCI’s beginnings started with the formation of the Federation of Free Farmers (FFF) in 1950 as an association of peasants. With foreign assistance, FFF formed the Free Farmers’ Cooperative (FFCI) to engage in grains production, irrigation services, marketing and processing. FFCI organized provincial and village chapters adopting a “top-down” approach using the foreign aid as seed money for operations. This proved unsustainable (as with government credited coops) having been donor-led and without strong commitment from members. The movement also suffered setbacks during the repressive Marcos years when its constituents were forced to convert to Samahang Nayons. Somehow, the remnants of the failed village chapters which imbibed basic cooperative principles started to regroup as self-financed and self-managed societies, with FFCI no longer able nor willing to fund them. The present FFFCI reemerged from these societies or from “bottom-up”, in the manner of true cooperatives.

FFFCI to date comprises 200 village chapters of 40 registered cooperatives with 90% of the members being farmers. FFFCI used to be a member of ICA but saw no advantage in being such and dropped out. Apart from providing services to its members, FFFCI actively advocates for “farmer-oriented” government policies. For example, it questions government’s adherence to certain provisions of GATT or commitments with WTO which it considers

unfair to peasant farmers or anathema to the development of Philippine Agriculture.

6.5 Prospects

6.5.1 Policy and Program Reforms

The present government continues to implement policy reforms to reinvigorate the agricultural sector. Among its more significant moves include: (i) dismantling of protection and subsidies which encouraged inefficiencies in some sub-sectors; (ii) the phase out of quantitative import restrictions on agricultural products (e.g., rice) and replacing these with tariff protection; (iii) the dismantling of government import monopolies on certain products and more rational direct market intervention strategy on food staples; (iv) substantial increase in its budget for agriculture development focusing on basic services such as, rural infrastructure, irrigation, research and technology generation, and extension; and (v) development of a comprehensive land use policy.

6.5.2 On Agricultural Cooperative Development

The concepts under the Rural Financial System (RFS) suggested earlier could also be applied in developing agri-based cooperatives. What is vital is that all government agencies involved in rural development should have a shared vision and clear understanding of cooperatives. It is also important for government (and all its agencies) to establish strategic alliance with existing private-led cooperative federations in many aspects, starting with the promotion and creation of new cooperatives in the agricultural sector. This is the only way to finally break the cyclical pattern of government mistakes in cooperative formation and pave the way for setting up more viable and sustainable agri-based cooperatives.

SINGAPORE

1.0 Overview

Cooperatives came into being in Singapore when the British Colonial Government enacted the Straits Settlements Co-operative Societies Ordinance in 1925. The main concern at that time was the growing indebtedness of clerical staff of many government institutions, thus thrift and credit societies were the first cooperatives promoted under the Act and they dominated the movement up to 1970. However, up to that time the movement had a lackluster performance as coop societies were viewed as transient entities set up to meet specific but short term needs of members. For example, the popularity of credit coops quickly waned as incomes improved and banks became more efficient.

In the 70s', the National Trades Union Congress (NTUC) took the initiative to promote cooperative enterprises and developed a movement quite unique in the Region. NTUC's strong political connections, substantial resources and support from labor unions made possible the setting up of viable but somewhat "hybrid" forms of cooperatives engaged in insurance, consumer stores, transport and other services. NTUC-backed cooperatives are unique in that they appear to be a cross between corporations and cooperative societies, with strong government backing. Presently, NTUC Cooperatives dominate the system because of their sheer size and representation in the movement.

2.0 Government Role in Cooperative Development

The Singaporean Cooperative Societies Act provides immense power to the Registrar and includes provisions which can be constructed as needless encroachment on cooperative sovereignty. In fact the Registrar can intervene in any coop activity whenever this is considered fraudulent, could cause substantial losses to the cooperative, deemed contrary to law or simply as a measure to exercise the needed controls over cooperatives. Examples of the broad powers of the Registrar include: setting lending limits to members and non-members; the right to call extra-ordinary general meetings and to attend members' or committee meetings; veto powers over any decision or action by coop authorities (management, board or general assembly) deemed not in accordance with the law; setting the audit fee to be paid certified accountants or apex organizations; authority to impose compensation from responsible coop officers for losses resulting from corruption or misuse of cooperative funds; the power to postpone any activity or dismiss the committee for the

interest of the cooperative, among others. These broad powers would definitely meet strong opposition from cooperative advocates elsewhere.

2.1 The Cooperative Registrar

Despite the highly interventionist provisions of the Cooperative Societies Act, government (or the Registrar) hardly exercises or sees the need to impose its broad powers over cooperatives. This is clearly indicated by the size of the Cooperative Registrar's Office which is only composed of three persons: the Registrar, an Assistant Registrar and a clerk. The same Office is under the Ministry of Community Development (MCD) which also oversees other community development activities. This structure is a far cry from that found in Indonesia, Thailand and Malaysia. It is not even at par with the Philippine system where the Cooperative Development Authority has a highly diminished or almost purely supportive role. Likewise, there has not been any significant complaint from the movement up to this time regarding any government's action or policy relating to cooperatives. Given the Singaporean culture, both government and the movement recognize that the mere existence of strict laws is enough deterrent against deviant behavior among cooperative officials and eliminates the need for government to constantly look over their shoulders to ensure compliance.

2.2 Other Government Involvement

Nevertheless, Government's deep involvement in cooperatives is quite evident in other forms, especially among the NTUC-supported societies. Government provided vital support in the formative years of NTUC-backed coops which eventually allowed them to thrive in the highly competitive Singaporean market. For example: (i) NTUC Fairprice Cooperative has priority on available real estate at a discount, a big advantage in Singapore; (ii) NTUC INCOME was given priority to provide insurance coverage to government entities, especially the Armed Forces; and (iii) NTUC COMFORT (recently converted into a corporation) was given priority in licensing to engage in transport services. To be fair, all the NTUC cooperatives eventually attained the efficiencies and effectiveness worthy of any private corporation, requiring hardly any government support in the later years.

Some government ministers are also members of the Board of Trustees of NTUC Cooperatives, including the present Minister of Labour who is Board Chairman of NTUC INCOME (a position once held by the present Prime Minister and Deputy Prime Minister). Unlike in other countries, this is seen as a positive advantage and appears to work well in Singapore, a small city-state

where such link becomes inevitable. Compact and resource-poor, government actively promotes close partnership between the public and private sector (including coops), which is perhaps the secret behind the effectiveness and success of "Singapore Inc."

Government views cooperatives as important partners since they provide vital services to the less affluent sector of the society in a self-help manner, relieving government of some of its responsibilities (e.g., providing cheap consumer prices, affordable housing or insurance for the poor sector). Government in turn rewards the movement with its full support, such as giving coops priority status in licensing, acquiring real estate property or government business opportunities (e.g., insurance of government employees) and imposing a special "taxation" system for cooperatives as described below.

2.2.1 The Central Co-operative Fund - a Special Tax

Cooperatives are tax exempt but are required by law to contribute a percentage of their surplus to the Central Cooperative Fund (CCF). The CCF was established as a Trust Fund under the Co-operative Societies Act of 1979. It is under the control of the Minister in Charge of Cooperatives with assistance from a committee wherein cooperatives are also represented. CCF is used solely for cooperative development, such as coop education, training, audit and cooperative promotion. The scheme justifies the tax exemption of cooperatives in two ways: (i) cooperatives help provide services to a sector which normally is perceived as government's area of responsibility, and (ii) government does not have to put up budgetary outlays for cooperative development, since the CCF scheme makes them almost fully self-propelled.

3.0 Private Sector Initiatives

3.1 *The Singapore National Co-operative Federation (SNCF)*

SNCF is a tertiary apex organization which has gained wide acceptance from the movement and is duly recognized by the government to be the lead cooperative apex in the country. It was set up in 1980 and took over the apex role from the problem-ridden Singapore National Cooperative Union (SNCU) was established as a similar apex in 1933 but eventually failed to perform its role. In 1982, it was renamed as Singapore Amalgamated Service Cooperative Organization (SASCO), Ltd., avoiding duplication and overlapping of functions with SNCF.

SNCF has the big advantage of being funded by the CCF where it gets a

regular annual funding of S\$400,000 as the recognized apex and another S\$500,000 for being the CCF Secretariat assisting the CCF Committee. It does get membership dues from about 65 members but the bulk of its operations is funded by the CCF.

Like any apex, SNCF is controlled by the General Assembly (GA), however, SNCF member cooperatives get voting rights in the GA according to the number of their individual members. Day to day operations of SNCF is managed by a Board of Trustees and an Executive Council. NTUC Co-ops are heavily represented in the Board where they are entitled three appointees out of six seats. Two other trustees are elected by primary coops and one by the secondary societies. The Executive Council is composed of 9 to 11 members who are elected by delegates from sectoral groupings classified into: NTUC, Credit, Campus and Services Co-ops Sectors. SNCF maintains a small work force (about 5, including the Chief Executive) as it performs mostly liaisoning, coordination, organizing and funding support for apex activities involving, among others: cooperative promotion, education, research, advocacy and co-op representation. As mentioned, SNCF also acts as the Secretariat for the CCF.

3.2 NTUC Cooperatives

The Singaporean Coop movement showed impressive gains starting in the 70s' with the entry of NTUC in cooperative activities. In quick succession, NTUC established NTUC INCOME an insurance cooperative; NTUC COMFORT a transport cooperative (recently transformed to a corporation); NTUC FAIRDEAL a bookstore coop; NTUC WELCOME a consumer coop which later joined a merger to form NTUC Fairprice; and NTUC DENTICARE a dental health care coop. These new set of cooperatives were heavily capitalized by and had the strong membership backing of the trade unions. Unlike many of their predecessors, they quickly turned into formidable entities providing competitive services at affordable prices.

An NTUC cooperative is structured differently from the usual coops in the region. Its General Assembly (GA) is composed of the institutional "owners" namely the NTUC and other investing trade unions or cooperatives. Individual members (e.g., policy-holders of NTUC INCOME or consumer-members of NTUC Fairprice) are "passive" ordinary members with no voting rights but entitled to dividends and patronage refund. It has also a "two-tier" management structure composed of the Board of Trustees (BOT) which is responsible for broad directions and policy-making (next to the GA), and the Board of Directors which has general supervision over the professional management of the coop.

NTUC is considered a founding member and is entitled to sizable powers in proportion to its investments through its voting rights in the General Assembly and the number of seats it controls in their Board of Trustees (BOT). BOT members are elected by NTUC and other owner-cooperatives members, chosen by virtue of their position in government or professional expertise and need not be trade union or coop members.

For example, NTUC INCOME, the third largest insurance company in Singapore, is registered as a cooperative owned by 50 trade unions and 20 cooperatives which hold the voting rights and comprise the Annual General Assembly. Voting powers are in direct proportion to extent of ownership (investment) in the cooperative. Policy holders are automatically ordinary (passive) members but have no voting rights. Moreover, several government ministers are in the Board of Trustees and there are other non-coop member elected as trustees. NTUC Fairprice Coop Ltd, a merger of various consumer coops, has a similar set up of institutional owners (NTUC and trade unions) and non-voting (passive) individual members.

NTUC cooperatives have all the comparative advantages that made them stand out among other cooperatives which include: (i) heavy capital infusion and strong membership backing from trade unions; (ii) strong political support which allowed them valuable concessions from government especially in the initial years (e.g., priority access to a market, priority in licensing or real estate acquisition); (iii) the willingness and capability to hire professional managers at competitive rates; and (iv) a highly competitive cooperative management culture at par with, if not better than, typical Singaporean corporations.

4.0 Issues

4.1 Development of "Hybrid Cooperatives"

Cooperative development in Singapore is quite distinct in many ways from its ASEAN neighbours, molded by its unique stature as a city-state with a highly urbanized, highly competitive and relatively affluent society. The overall impression is that it would be difficult to maintain a purist's view on cooperatives under Singaporean environment. Cooperatives usually thrive best in areas where services delivery is highly inefficient or where many people find difficulty in individually accessing affordable services. This provides strong incentives to form self-help, mutual benefit societies (occasionally dampened by misdirected government interventions of massive but sporadic assistance).

The relative affluence of Singapore and the legendary efficiency of its public and private sectors to deliver services provide little incentive or limited opportunities for cooperatives to flourish along the conventional models found elsewhere. This perhaps explains the lackluster performance of traditional Singaporean cooperatives, including credit societies which are otherwise vigorously thriving in its ASEAN counterparts.

The impressive success of NTUC cooperatives seem to stem from its being a hybrid between cooperatives and corporations. These coops are registered under cooperative laws and have structures of cooperatives. They also offer membership dividends and patronage refunds. However, their inner workings are very similar to corporations, wherein: (i) voting power of “owners” are in direct proportion to extent of investment in coop; (ii) governing bodies, such as the Board of Trustees, are not necessarily composed of coop members; and (iii) “passive” individual members have no powers over coop affairs and appear no different from minority corporate shareholders. Cooperative authorities argue that these features allow NTUC cooperatives to be highly competitive and efficient, key factors to survival in the Singaporean setting.

4.2 Difficulty in Keeping the Cooperative Spirit

No doubt, NTUC cooperatives are providing impeccable services to its members (and even the public) worthy of true cooperatives. However, ordinary members remain passive, having links only with their “cooperative” through newsletters and similar media, without any powers nor apparent concern over cooperative affairs. Even SNCF admits that little is being done for membership education to maintain membership loyalty and nurture cooperative principles. There is so much concern for efficiency and competitiveness (which is desirable) that cooperative ideals may no longer be relevant, especially to passive members (which may work against maintaining the coop spirit).

In fact the corporate shift is not a difficult nor far-fetch option. NTUC COMFORT was already transformed to a corporation and there is now constant debate among the owners of NTUC INCOME to follow suit. It appears that the choice between a corporate or cooperative existence is viewed by many as merely an economic rather than a fundamental or philosophical issue. Passive members may not really care about the structure for as long as they have access to affordable and competitive services.

5.0 The Financial Cooperatives

The credit unions may have relegated their dominance to the NTUC cooperatives after 1970, but they remain a major subsector of the movement comprising 70% of all coops in Singapore. Their membership and resources have not shown impressive gains, unlike in the neighbouring countries. In the recent years, their importance have declined as salaries improved and income opportunities increased with the vibrant Singapore economy. Moreover, the emergence of many banks and the highly competitive financial environment discouraged the formation of cooperative banks and further eroded the popularity of credit societies. Many of them either converted into multi-purpose cooperatives or simply stopped operating.

Among the other factors that were seen to stunt the growth of credit cooperatives are: (i) non-English speaking Chinese (then comprising majority of the population) did not have the culture to form or join cooperatives; (ii) credit societies were popular only among the salaried clerical staff or labours; and (iii) community-based coops did not thrive well as communities tend to be formed in ethnic clusters. Thus, a large majority of the credit societies existing today are institutional-based and of ethnic groupings (e.g., credit union of Tamil Teachers, or Malay Workers, etc.), posing serious constraints to growth in membership and resources.

5.1 *Competitiveness*

The almost parochial development of credit societies is even more seriously threatened by the efficiency and pervasiveness of the Postal Savings Bank (POS). POS is a government bank with wide outreach throughout Singapore, having 130 branches and 649 automatic teller machines (ATMs). In 1994 it had 4.52 million savings account with total deposits of over S\$20 billion, signifying that it has most of the Singaporean citizenry as its depositors. Apart from its extensive network, its main attractions to small depositors (the coop market) include: competitive interest rates and full government guarantee on deposits.

5.2 *Prospects*

Leading credit societies still see a special role for them despite the general affluence and the efficiencies of the banking system in Singapore. They cite that there are still the disadvantaged and small borrowers, estimated at about 30% of the market, that banks will not be able to serve because of the high risks and transaction costs involved. Advocates perceive that the real need is

for credit societies to strive for broader membership through communities. They also recognize that an efficient and modernized operation is essential to gaining acceptance of a highly demanding and selective market.

It is for this reason that the Singapore Credit Coops League (SCOPE) was formed. It is spearheaded by one of the largest and oldest credit societies, the Telecoms Credit Cooperative Society which has over 5,000 members. SCOPE officials are currently trying to attract other coops by developing sophisticated computer packages that will help upgrade and make competitive credit coops' operations. So far the response is cautious, with membership in SCOPE comprising a very small minority of the credit societies. SCOPE remains optimistic however, citing that the "wait and see" stance is a typical Singaporean reaction which could easily transformed into productive enthusiasm once a point is proven.

THAILAND

1.0 Introduction

Cooperative formation in Thailand started in 1916 when the first village credit cooperative was set up among poor farmers in the rural areas. It was registered under the Civil Association Act since there were no laws on cooperatives until after 1928. With government encouragement, cooperatives grew in strength and numbers. As of end 1995, there were 4,880 societies with over 6.5 million members. Thailand cooperatives are grouped into six categories: agricultural, land settlement, fisheries, thrift and savings, consumers and service societies.

Agricultural cooperatives have the bulk of number of societies (58.6%) and membership (58%) and are probably the most competitive in a self-reliant way relative to their counterparts in the ASEAN Region. Their annual average growth in assets and equity is about 17 percent and 14 percent respectively. As of fiscal year 1994 (end March), total assets of these coops stood at Bht 22.7 billion and total equity amounted to Bht 7.5 billion. These figures show the impressive size and internal resource generation of agri-coops in Thailand not seen in any of the other ASEAN countries. To be sure, Thai agricultural coops (as in other countries) get more government assistance than other societies, but they generally appear to be more self-reliant and viable than their ASEAN counterparts. However, federations at the secondary and tertiary level have been countering management problems, prompting the Bank of Agriculture and Agricultural Cooperatives (BAAC) to initiate a parallel cooperative system at the provincial and national level that now rivals the existing vertical set up of agricultural cooperatives (see Annex 3).

Thai thrift savings (credit) societies typically exhibit the self-reliance and resilience of coops seen in the Region among coops of this category as they grow with hardly any government support but through sheer membership patronage. Credit societies account for 23% of total coops and 27% of total members. The Credit Union League of Thailand (CULT), a national federation comprising almost 50 percent of credit coops as members, is one of the most effective national apex society in the country. It operates a number of viable and acceptable services for its members, to include among others: training, management services (e.g., pre-audit), deposit and loan insurance systems, mutual benefit funds and inter-coop lending. Likewise, credit cooperatives among public sector employees and civil servants are reportedly to be as strong and are represented at the national level by the Federation of Savings

and Credit Cooperatives of Thailand (FSCC) which provides similar services as CULT. Among the other coop societies, consumer coops are rapidly increasing with 375 coops and 725,000 members as of end 1995.

2.0 Government Role in Cooperative Development

2.1 Overview

The present Cooperative Law was passed in 1968. Apparently influenced by the ICA sponsored Ministerial Conferences, government and the movement formed a multi-sectoral committee to draft a new Cooperative Law. However, this has remained pending for the last three years due to frequent changes in government. The present law is quite supportive of the societies but has many outmoded features and some highly restrictive provisions (e.g., on coop investments and deposits).

2.2 Agencies Involved in Cooperative Development

The Ministry of Agriculture and Cooperatives (MOAC) is directly responsible for the promotion, development and supervision of cooperatives. Within the MOAC, one office and two departments perform dominant roles in cooperative development, namely: (i) the Office of the Permanent Secretary of MOAC which acts as the Cooperative Registrar; (ii) The Cooperative Promotion Department (CPD); and (iii) the Cooperative Audit Department (CAD). Another entity which plays a major role in coop development is the Bank for Agriculture and Agricultural Cooperatives (BAAC - under the Ministry of Finance), the state bank tasked to provide financial services to farmers and their cooperatives.

a) The Cooperative Promotion Department

The CPD is in charge of promoting, developing and regulating the cooperatives. Its main functions include: (i) promotion of cooperative principles to the general public; (ii) provision of cooperative training and education, especially at primary level; (iii) provision of technical and financial assistance to promote cooperative businesses; (iv) promoting cooperatives in settlement areas and urban housing project areas; and (v) supervision of cooperatives to ensure adherence to the Cooperative Act and other regulations (refer to Annex 1 for detail on the agencies).

b) The Cooperative Audit Department

The CAD is the only institution in Thailand tasked to audit cooperative societies and farmer associations. Up to 1981, CAD was organized to conduct audit from a central office. Since then, it was reorganized to

strengthen and facilitate its audit functions through the establishment of Regional and Provincial Auditing Offices. It is reported to audit yearly 90 percent of all cooperatives and about 60 percent of farmer associations.

c) **The BAAC Initiatives in Cooperative Formation**

BAAC has always been active in agricultural cooperative development as it is the single most important source of credit for these societies and the individual farmers. In the recent years (1989-1995) it rapidly expanded its lending and saw the opportunity to create Agricultural Marketing Cooperatives in all provinces. AMC is a primary cooperative but its large membership (30,000-40,000) and province-wide operations makes it act like a provincial federation. BAAC also created the Thailand Agribusiness Company (TABCO), a corporation it owns (with 10% of total shares) jointly with all AMCs (with 90% of shares). TABCO is not a coop but acts like a national marketing federation for the AMCs. BAAC justifies these moves due to: (i) the apparent weakness of existing provincial and national federation of agricultural cooperatives; and (ii) the large opportunity in agricultural input and output trading created with the bank's rapid expansion of farm credit (see Annex 1 for details on BAAC-AMCs and section on Agricultural Cooperatives).

3.0 Private Initiatives

3.1 The Cooperative League of Thailand (CLT)

CLT is the mandated apex federation of all cooperatives in Thailand. As such all societies are enjoined (but not compelled) to contribute 5 percent of their income, but not exceeding Bht 10,000, to fund CLT's operations. It also receives financial assistance from government, mostly through the CPD. As the supreme apex it cannot engage in business activities but is limited to promotional, training, research and liaisoning activities for member cooperatives. For now it is governed by a 48 member board selected from member federations, with 5 appointees of the Ministry of Agriculture and Cooperatives. CLT has 70 officers and staff with only head office operations. In almost all cases it merely organizes training activities by hiring experts or by coordinating with government or other federations (e.g., Credit Union League of Thailand -CULT). It recently built a training facility which has yet to be operational. For now it is hampered by acute budget constraints.

3.2 The Credit Union League of Thailand (CULT)

Probably the most active and effective national federation in terms of

services provided to its members is the Credit Union League of Thailand (CULT). With over 500 credit unions (about 50% of total CUs) as members, it provides such services as intercoop lending, deposit and loan insurance, bonding services, mutual funds, as well as training for its members. CULT maintains a modest training facility in Bangkok which could house more than a hundred trainees at any one time. It is fully funded by members contribution and its own earnings from its services.

3.3 Agricultural Cooperative Federation of Thailand

Agricultural cooperatives (apart from BAAC'S AMCs) are vertically integrated through the provincial federations and the national apex-Agricultural Cooperative Federation of Thailand (ACFT). Over 60 percent of primary coops are considered self-reliant and viable, however only 20 percent of the provincial federations are reported to be operating viably. ACFT is reported to have suffered from some set backs recently and has a new set of management. As mentioned, BAAC started in 1989 to organize its own network of agricultural marketing cooperatives to cater to its borrower-farmers due to failures among existing federations.

4.0 General Cooperative Issues

4.1 Restrictive Cooperative Laws

The current law which was as enacted in 1968 has provisions that are deemed restrictive (e.g., limited options on coop deposits) and the Registrar's powers are deemed too extensive by societies as these encroach on cooperative autonomy. It appears that government continues to be paternalistic and over-protective towards the cooperatives, especially for agri-based societies. It is still a common view among concerned government officials that poor rural folks, especially farmers, are incapable of self-help without substantial government assistance. Government justifies its intervention in cooperative affairs because it continues to provide such assistance. On the other hand, the proposed Cooperative Act was purportedly drafted with strong influence from the Ministerial Conferences and is based on cooperative principles, but its passage continue to be delayed due to frequent changes of government.

4.2 A Large Bureaucracy for Cooperative Development

It has been advocated that unbridled government support or interference tends to weaken rather than strengthen cooperative values. Too paternalistic support encourages dependence and mendicancy, while too much control

stifles coop dynamism vital to its growth. Less but more appropriate government intervention is probably one of the most crucial messages being advocated by ICA in the Ministerial conferences. However, it will be difficult to see dramatic changes in the Thai government's cooperative efforts due to the large bureaucracies it maintains for cooperative development, such as the CPD which has presence up to the district level. Large bureaucracies not only justify their continued existence but even expand their pervasive influence. Moreover, it is unlikely that a large number of Government personnel will really imbibe the true cooperative principles in a short period (of even five years) due to great variances in perspective and objectives. Furthermore, government performance standards are usually quantity rather than quality oriented, aiming for formation of more coops instead of working towards strengthening of the existing one.

4.3 Involvement of Many Government Agencies

CAD and the BAAC are two other powerful entities that play important roles in cooperative development in Thailand. Unless there is a common perception of coop principles among all of them, advocating for changes in the Ministry of Agriculture and Cooperatives alone will not be enough. For example, CPD is now concerned with the move of BAAC in creating the AMCs and TABCO, which is seen to sow conflict and confusion among agricultural coops (see further discussions on agri-coops). The involvement of large and numerous agencies makes more difficult the task of advocating for appropriate government intervention in cooperative development.

Strong advocacy must be made not only for changes in the perception of government but in the devolution of some its cooperative development functions to the private sector. For example, instead of maintaining a large CPD, resources could be channeled to private coop for coop promotion and training (e.g., upgrading training centers, computerization, trainers training, etc.). Government could eventually devolve the Cooperative Institute and the Regional Training Centers to the cooperative movement for greater efficiency and effectiveness. BAAC's retail or rural banking could also be shared or eventually turned over to viable cooperatives (including credit coops) through a strategic alliance between the bank and the movement. Such alliance should provide synergy in rural financial intermediation rather than promote the creeping competition between BAAC and the movement.

4.4 Does Cheap Credit Strengthen Cooperatives?

The creation of the Cooperative Promotion Fund (CPF) and the Common Fund to Assist Farmers (CFAF), while well meaning, raises the issue of equity

since both funds are really far too small to meet the effective demand and are thus available only to very few cooperatives (and none for non-agricultural coops). More importantly, cheap credit has not proven to be effective in strengthening weak cooperatives. Experience shows that in many cases it merely reinforces dependence and mendicancy among cooperatives further weakening them. Moreover, there exist the moral hazard for CPD staff in disposing very cheap credit (studies have consistently shown that cheap credit eventually benefitted non-target groups for obvious reasons). Subsidies would be more effective if used to provide support services other than credit (e.g., training, research on improved technology and extension).

4.5 Issues on CAD and Cooperative Audit

a) High Staff Turn-over in CAD

The CAD is reported to be the most efficient and effective unit in MOAC as it annually audits over 90 percent of coops (but only less than 40% of FAs). It is also producing valuable cooperative statistics annually. However, due to work pressure it suffers from high personnel turn-over and is now concerned with maintaining proper audit standards due to lack of qualified and experienced personnel.

b) CAD - The Sole Coop External Auditor

CAD is the only external auditor of coops and government fully subsidizes the external audit of cooperatives. CAD should eventually devolve its audit functions to private groups and let cooperatives shoulder the expense. Since it would be difficult to devolve a large bureaucracy in a short time, it could continue servicing the cooperatives but should charge the cooperatives through a "socialized pricing scheme", pegged for example on asset or membership size. With its high turn-over of staff, it need not fill the resulting vacancies but should instead encourage large or viable cooperatives to hire their own external auditors. CAD could then phase out this function and merely set audit standards, or train and accredit prospective private auditors for cooperatives (as in the case of Malaysia).

c) Lack of Sanctions Limits Effectiveness of Audit

There are no specific sanctions under the Cooperative Act which allows the Government to dissolve or at least penalize cooperatives for serious breach of internal control or fraudulent activities. Thus, the audit service could lose its effectiveness as a control mechanism against such violations.

4.6 Issues on CLT

a) Is CLT a Parastatal Body?

CLT is a federation by mandate rather than by choice of cooperative members and appears to be a quasi-Government agency given the following:

1. it is created by the Cooperative law and not as a voluntary act of the movement;
2. it receives regular subsidy or budget from Government;
3. based on Cooperative Act it may be tasked by Government to perform specific functions;
4. at least five of its Directors are appointees of MOAC.

b) CLT Lacks the Competitive Advantage to Perform its Role

The CLT in its present set up is heavily constrained to perform the functions of a national apex for all Thai cooperatives, due to following factors:

1. Lopsided relationship and resources between CPD and CLT - The functioning and activities of CLT is insignificant given the resources and pervasive presence of the latter, while CLT has very limited capacity (see further discussions).
2. CLT has no comparative advantage and is seen to duplicate the sectoral national federations;
3. Internal weaknesses and constraints of CLT.

The delineation of responsibility between CPD and CLT is suppose to be as follows:

1. CPD focuses on training of (1) students geared for cooperative work (government or coops); (2) CPD and Government officials; (3) pre-membership and membership training at primary levels; and (4) Agricultural committee members.
2. CLT focuses on cooperative committee members for non-agricultural cooperatives and cooperatives management staff.

This seems logical since CPD is under the MOAC and is more wide-spread. However, the resources of CLT is insignificant and limited for it to perform its expected functions considering the size and number of member societies. CPD is a large bureaucracy and is part of even a much larger

agency – MOAC. It is very likely that Government will maintain, if not expand its activities and encroach on CLT's activities since the latter is too weak to perform its functions. CPD has over 7,000 staff all over the country with a huge budget, while CLT has merely 70 (head office only) personnel with an annual budget below Bht 20 million, barely enough for administrative expenses.

c) CLT duplicates the Specialized National Federations

National federations of the different types of cooperatives already exist (e.g., Cooperative Union League of Thailand - CULT, Federation of Saving and Credit Cooperatives of Thailand - FSCC, Consumer Cooperative Federation of Thailand - CCFT, and the Agricultural Cooperative Federation of Thailand - ACFT). These federations were formed largely on voluntary basis from the movement itself (except NACFT) and provide either supporting businesses or direct services (e.g., training) to its members. A supreme national apex over the existing national federations appears to be a mere duplication hard to justify or support.

The CLT was designated mainly to act as the apex for non-agricultural cooperatives since there are already a number of entities providing massive support to the sector, namely CPD, BAAC and NACFT. However, national federations in the non-agricultural sector are already performing the functions of national apex bodies with far more efficiency and visible impact to their members than what CLT could ever hope to deliver. CULT, for example, provides training (with its own live-in facilities), technical assistance, and business activities (e.g., mutual benefit fund, deposit and loan insurance fund) designed to support its 500 plus members.

For federations like CULT, there is hardly any incentive for member cooperatives to support or strengthen CLT when all they need to strengthen is CULT itself. Again it must be noted that CULT is a making of its own members consistent with cooperative principles rather by operation of law. Perhaps the only advantage of having CLT is that it is partly subsidized by Government. Even so, this raises the following issues:

1. Government assistance could be given directly to the respective national federations with more impact and without having to go through another bureaucracy;
2. there is the added but unneeded burden to support CLT (currently at 5% of cooperatives' net income but not more than Bht 10,000, with a proposal to increase this to 10% of cooperatives' income) when such contribution could have been used as an add-on to the budget of the

existing national federations (e.g., CULT) for their promotional activities instead of simply defraying the overhead expenses of CLT.

d) Extreme Budget Constraints

This biggest weakness of CLT is its limited budget which is barely enough to cover administrative expenses. Its main sources of funds come from: (i) contributions from cooperatives which accounts for 70% of total funds; (ii) Government budget through CPD of about Bht 2 million annually; (iii) interest earnings from the Cooperative Central Fund of another Bht 2-3 million annually; (iv) occasional contribution from the Cabinet amounting to Bht 4 million in 1995. The table below shows the three-year (1993-1995) breakdown for the administrative expenses against contributions from cooperatives (amount in million Bht):

Year	Fees Collected	Total Admin Costs	Staff Salaries
1993	16.49	15.38	10.78
1994	19.18	14.84	10.72
1995	15.82	17.47	12.10

It can be shown that fees barely covered annual administrative expenses, and was not enough last year. Thus in 1995, additional funds from Government of Bht 9 million was partly used for administration, leaving only Bht 7.4 million for promotional activities of CLT. This is too small considering the number of cooperative societies expecting services from CLT and the varied activities in delivering these services.

e) The New Training Facility - a Big Financial Burden

The CLT recently completed the building of a new training facility at a staggering cost of Bht 150 million as actual cost soared to about 3 times the original budget estimates. The unexpected costs overrun forced CLT to borrow Bht 100 million at an interest rate of 13.5% per annum, payable in five years inclusive of a 2-year grace period when only loan interest will be paid. With its budget constraints, there is no way that CLT could service even interest payments (about Bht 13.5 million per year) during the grace period, much less amortize the principal of Bht 50 million starting the third year. CLT management is frantically looking for some refinancing schemes with no success for now. Its only options are to:

1. seek refinancing with very long repayment terms and low interest to suit its current cash flows (a very dim prospect since there had been no takers so far);
2. quickly conduct money-making training programs to augment its cash inflows (also a dim prospect with its limited operating budget and existence of duplicating programs of CPD and the national federations); or
3. seek a buyer or lessee of the training facilities to help liquidate or amortize the loan, and possibly earn some profits in the process (perhaps the only practical and doable option).

g) A Very Large Board of Directors

CLT's present Board of Director (BOD) has 48 members, making it very likely to be unwieldy for efficient and effective decision-making. This is an attempt to have proportional representation from all types of cooperatives. The Cooperative Act merely sets the minimum (not the maximum) BOD membership, with 5 members already earmarked for non-coop movement MOAC appointees. Proposed amendments to the Act limits the number of BOD members to 15. Yet even without the amendments, the CLT BOD could (and should) reduce itself to a manageable number for efficiency.

5.0 The Financial Cooperatives

5.1 The Credit Union League of Thailand (CULT)

5.1.1 Historical Background :

CULT's history started with the birth of the first credit union in the country in July 1965 - Soon Klang Thewa Credit Union, after the founders realized the weaknesses of welfare-type assistance in promoting self-reliance among slum communities. With its success, many more followed suit and by August 1972, 60 credit union leaders met to discuss common problems and opportunities, among these include: training on cooperative principles and operations of credit unions, mutual assistance among communities and understanding of government policies or programs affecting the movement. This meeting created the CULT, which was registered in 1979.

The Credit Unions in Thailand are the strongest and most viable among cooperatives. This is typical among the countries covered by this study. CUs simply disprove two pervasive perceptions among government bureaucrats: (i) the poor are incapable of saving; and (ii) cooperatives cannot thrive much

less grow without heavy government assistance or intervention.

5.1.2 Objectives of CULT :

1. promote the creation of new credit unions
2. provide services essential to the creation improvement, maintaining of financial stability and fostering growth of credit unions;
3. assist its members in developing high standards of management, operations and supervision of the unions;
4. manage CULT financial operations ensuring security, efficiency and equitable rate of returns to members;
5. promote the credit union movement and facilitate cooperation among credit unions, chapters, leagues, both domestic and international;
6. represent the Thai credit unions to the general public, government and private organizations, including the development of mutually beneficial linkages.

5.1.3 Organizational Structure :

CULT is a secondary cooperative organized according to cooperative norms. It has a 15 member-board representing about 520 credit union members, with Supervisory and Executive Committees. It is run by a professional manager with 52 officers and permanent staff working in 6 departments, namely Administration, Accounting and Finance, Mutual Aid, Education, CU Development and Women and Youth Program.

5.1.4 Programs and Services :

- a) Education and Training
- b) Accounting, Audit and Field Visits
- c) CU Interlending Program
 1. Fund Mobilizing through: members' deposits and shares, promissory notes offered to members and non-members and donations;
 2. Regular intercoop lending and special programs, e.g., land redemption, slum rehabilitation, small and microenterprise development
- d) Loan Protection Program (insurance vs. borrower's death)
- e) Life Savings Program - life insurance

- f) Deposit Insurance Scheme
- g) Bonding Program - against abuse of officials and staff
- h) Cremation Mutual Fund
- i) Supplies and Publication
- j) CU Chapter Promotion
- k) Women and Youth Development.

5.1.5 Issues and Prospects

- a) Perceived Lack of Government Support to Non-Agri Coops

CULT officials strongly object to the pervasive presence and influence of Government through CPD which they feel have are only assisting (ineffectively) agricultural cooperatives.

- b) Perceived Lack of Relevance of CLT

CULT officials also expressed the weakness and doubted the relevance of CLT as an apex organization, since it could not even match the services and capabilities of CULT. They see how funds accruing to CLT hardly covers overhead expenses, which could have been put to more productive use under national federations like CULT.

- c) No Venue for Strategic Alliance with BAAC

BAAC is restricted by its charter to finance only farmers and agricultural cooperatives. It is further limited to financing only agri-based activities of its clientele. In a rapidly growing economy such as Thailand, studies have shown that as much as 40 - 50 percent of farm household incomes come from non-farm activities, such as cottage industries, petty trading and other non-agri-based micro-and small enterprises. BAAC's restrictions deprive many rural households (and non-agricultural coops where farmers are also likely to be members) of banking services for non-agricultural activities, especially since BAAC is often the only bank in many areas of rural Thailand.

Moreover, BAAC's Chapter precludes any strategic alliance with community-based thrift and credit or consumers cooperatives. Ironically, these are usually the strongest and most viable cooperatives which have proven to be effective rural intermediators, even among farmers.¹

1 It is very likely that rural based, non-agricultural cooperatives (such as credit cooperatives) in Thailand have farmer-members. In the Philippines, farmers have highest sectoral representation in such cooperatives (18-20%).

With its restrictions, BAAC cannot forge strategic alliances with these non-agricultural cooperatives. Thus, it has to continuously expand its own rural network to service a limited clientele instead of having tie-ups with these cooperatives and serving a wider range of rural entrepreneurs (farm-based or otherwise).

Forging strategic alliance between BAAC and credit cooperatives could have great potentials for : (i) creating an effective rural intermediation system; (ii) enhancing the mobilization of rural savings and improving credit discipline among rural borrowers; and (iii) minimizing government's resource allocation for rural financing.

d) Some Options for Financial Cooperatives

The competitive strength of CUs in Thailand could perhaps be further enhanced through:

1. the creation of the proposed Bank for Cooperatives reportedly to be set up within the year - this could expand opportunities for intercoop financial intermediation, cooperatives fund management and provide coops with linkage to the formal banking system with all the concomitant synergy mentioned above;
2. passage of the new Cooperative Act which gives more independence in the management and investment of cooperative resources.

The Chairman of CLT reported that a new Bank for cooperatives is to be created within the next few months. The proposed bank is going to be jointly owned by Government and credit cooperatives which will have 70% and 30% equity, respectively. If such bank is set up, government could miss a great opportunity of having BAAC as the Bank for Agriculture and Cooperatives and for it to be the major driving force in total countryside (not just agricultural) financing. Moreover, government is dissipating its resources while duplicating its efforts in providing financial services to the rural areas and the poor sector. With its network and exposure, BAAC could have easily taken the role of the proposed bank, requiring only: (i) minor adjustments in its orientation and strategy; and perhaps (ii) eventual BAAC's privatization to cooperatives (agri and non-agricultural).

e) Credit Unions (CUs) Confident of Market Niche

CULT officials see no particular threat from the banking sector and the great potentials for growth of CUs. This is due to the particular

niche dominated by CUs among low or even middle income groups. These groups usually have no credit access to the banking sector (although they maybe savers and depositors), and are left with the option of either using high-priced informal creditors or forming self-help groups such as CUs for their credit needs.

f) CUs Reflect True Cooperative Spirit

CUs and CULT exemplify the virtues and potentials of self-reliant cooperatives flourishing because of true adherence to the cooperative principles. They thrive and grow despite extremes of government action either through complete neglect or too much interference. They flourish simply by remaining independent, self-reliant and striving for self-improvement.

6.0 Agricultural Cooperatives

6.1 Agricultural Policy and Major Programs

In the last decade, the Government's main efforts in agriculture were focused on crop diversification and restructuring of the sector. During this period, five main programs were introduced to pursue said objectives, namely: (i) the Crop Substitution Program; (ii) the Green Esan Project; (iii) the Four-pronged Project; (iv) Agricultural Rehabilitation Plan; and (v) Restructuring of Agricultural Production Systems (RAPS).

6.1.1 Restructuring of Agricultural Production Systems (RAPS)

The current 7th Development plan also recognized the weakening of Thai competitiveness in rice, cassava, coffee and pepper; and the persistence of drought and water shortages as main constraints to agricultural development. Consistent with earlier efforts, the program for the period 1994-97 is to reduce areas planted to these crops by 4.9 million rais of which: rice - 3.5 million rais; cassava - 1.2 million rais; coffee - 210,000 rais; and pepper - 2,000 rais. RAPS emphasizes farmers' own decision-making process, while providing massive information support and other packages of services to induce farmers to shift to the preferred commodities. Government will provide the following assistance to farmers:

1. for rice and cassava farmers:
 - 5% per annum subsidized credit
 - partial subsidy for inputs and water supply for crops production and livestock (dairy)

- technical services
- 2. for coffee and pepper producers:
 - grant of Bht 6,800 / rai for crop substitution
 - technical services
- 3. subsidized credit for water resource for cultivation of fruit trees and perennial crops
- 4. marketing assistance for paper pulp production and dairy products through linkages with the private sector.

RAPS is also centered on a subsidized credit scheme (5% interest rate) administered by the BAAC. BAAC was able to convince government to adopt an innovative credit scheme wherein farmers' loans are initially set at commercial rates (11 percent) but are convertible to a subsidized rate provided farmers pay on time and adhere to loan conditions. Total budget for a five-year period was 65.9 billion Bht broken down to (in billion Bht):

1. low interest (5%) term loan (15 years)	- 33.8	(51.2%)
2. input subsidy	- 6.2	(9.4%)
3. water resource development subsidy	- 3.0	(4.6%)
4. interest differential subsidy for BAAC	- 22.1	(33.6%)
5. administration	- 0.8	(1.2%)

6.1.2 Other Supporting Policies

- a) Agricultural Input Policy
 - 1. Subsidized (free) Irrigation infrastructure
 - 2. Fertilizer and Seed Subsidies
- b) Land Reform and Consolidation
- c) Subsidized Agricultural Credit (BAAC and banks' quota)
- d) Agricultural Output Price Policy
 - 1. Commodities with excess supply and for exports (e.g., rice, maize, sorghum, coffee, tapioca) for which the main assistance measures are in terms of processing and quality improvement; export market expansion; and market intervention through credit, stock accumulation and direct purchase from small farmers.
 - 2. Commodities for domestic consumption (e.g., garlic, onion, shallot, palm and coconut oil) with key measures focused on

marketing improvement, promotion of agro-industry, tariff and import quota regulations.

3. Commodities with insufficient supply (e.g., soybean meal, fish meal and cotton) where key support is given to expand production, supported by quantitative restrictions and surcharged taxes on imports.

e) **Agricultural Trade Policies**

1. Import Taxes and Licensing Requirements.
2. Import ban - for products in excess and for exports.
3. Export promotion policies - e.g., export tax rebates.

6.2 *The Agricultural Cooperatives*

6.2.1 The Traditional Agricultural Cooperatives

Agricultural cooperatives in Thailand are organized in three-tier structures consisting of primary or district cooperatives, provincial or changwhat federations and national federations. Consistent with the standard cooperatives structure, primary cooperatives are composed of individual farmers producing varieties of crops (given the diversification of Thai agriculture) although majority are still paddy farmers. Usually members within a society are further grouped by commodity lines to rationalize economic activities, extension and training. Business activities are usually: credit and savings, supply of inputs and collection or marketing of produce.

Provincial or Changwat federations are secondary cooperatives with provincial primaries as members. At present there are 76 provincial federations conducting joint business activities with their members, usually involving agricultural input distribution, and the processing and marketing of produce.

6.2.2 BAAC's Agricultural Marketing Cooperatives

BAAC's credit operations has dramatically risen over the past five years with loans outstanding reaching Bht 97.7 billion as of end 1994 from just Bht 22.8 billion in 1989 or an average annual growth of 27.2 percent. As of end 1994 its loans benefitted about 4.3 million farm families or 76 percent of total farm families and covered about 37 percent (944) of total agricultural cooperatives in the country. Of its total clients, 3.07 million were direct borrowers, 1.18 million were borrowing-members of about 944 cooperatives and 58,000 are borrowing-members of 377 farmers' association.

With its rapid increase in lending, BAAC saw the opportunity to allow

farmers to engage in larger organized activities and helped set up an Agricultural Marketing Cooperative (AMC) in Chiangmai in 1989. Since then, 73 AMCs were formed (end 1995) covering almost all provinces and matching the rapid expansion of BAAC's direct lending to farmers during the period. The AMC is a provincial primary cooperative whose members are BAAC's direct-borrowing farmers.

To ensure well-managed AMCs and to hasten their development, BAAC deemed it necessary to provide AMCs for free: (i) BAAC officers to act as key officers of the AMCs (managers, accountant, trading officers); (ii) office space; and (iii) solar drying pavement and storage facilities. BAAC enters into a management contract with the AMCs for the first five years of their existence wherein:

- 1) BAAC assigns its own staff, and at its own expense, to act as key officers of the AMC (managers, accountant, trading officers);
- 2) BAAC will train cooperative members as management understudies for eventual take-over;
- 3) Although the AMC is organized as a multi-purpose cooperative, it is initially limited to trading since BAAC provides direct lending to its members.

A national apex organization of the AMCs - the Thailand Agribusiness Company, Ltd. (TABCO) - was set up as a corporation and not as a cooperative with the AMCs owning 90% of its shares with 10% owned by BAAC.

6.2.3 The Farmer Association

A disparate group in the Thai cooperative movement is composed of Farmer Associations (FAs). As of 1995, there were 4,170 FAs with total members of about 358,500. Their number, membership and resources have stagnated for many years now. They have not been allowed to become full fledged cooperatives, nor amalgamated with other cooperatives due to political reasons. Little is known about their actual operations.

6.3 The Federations and Apex Bodies

The national federations are apex organizations of the secondary and primary cooperatives. With BAAC's entry in forming AMC's. There are now three major groups of agricultural federations:

- a) The Agricultural Cooperative Federation of Thailand, Ltd. (ACFT) whose members are mainly multi-purpose agricultural cooperatives. It is engaged mainly in the supply of agricultural inputs (especially

subsidized fertilizers from Government), farm machinery and equipment services and supply to cooperatives; and the marketing of primary grains. It is also engaged in export-import activities.

- b) Thailand Agribusiness Company, Ltd. (TABCO) - This is a corporate body (not cooperative) formed as a joint venture between the BAAC (with 10% equity) and all provincial AMCs created by it. It acts as the apex organization for the AMCs and also conducts similar activities of ACFT, but solely for the AMCs.
- c) Those apex societies of specialized agricultural cooperatives, such as the Swine Raisers Cooperative Federation and the Sugar Cane Growers Cooperative Federation, which carry out business activities for members.

6.4 Business Activities of Agricultural Cooperatives

Business activities of agricultural cooperatives may vary according to crops and location, however they are generally involve in:

1. Provision of financial services - credit and savings (except BAAC's AMCs)
2. Collection of members' produce for marketing
3. Supply of inputs and equipment to members
4. Provision of other services such as irrigation, land preparation and extension.

6.5 Performance of Agricultural Coops (up to 1993-1994)

In fiscal year 1994, agricultural cooperatives in Thailand experienced impressive growth in all business activities. The following data are based on 1,949 cooperatives audited in 1994 (79 percent of total).

- a) Business volume - Total business turn-over was worth Bht 28.93 billion an increase of 22.7 percent over 1993, based on the following breakdown:
 1. Credit Business - still the major activity with total volume of credit business generated amounting to Bht 12.2 billion or an increase of 10.99 percent over 1993
 2. Savings Generated - savings for the period amounted to Bht 7.2 billion or an increase of 28.3% over 1993
 3. Supply Business - generated a volume worth Bht 6.2 billion or an impressive 66.4% increase over 1993

4. Marketing Business - marketing volume amounted to Bht 3.3 billion or an 11.11% increase over 1993
5. Agricultural Services - still a minor activity which generated Bht 91.58 million, a 13.6% increase over 1993.

b) Profitability

Out of 1,949 cooperatives audited in 1994, 1,625 (80.2%) were operational and 324 (19.8%) were dormant. Among operational coops, 1,391 (70% of total, 85% of operational) had total profit of Bht 979.7 million, while 234 (12% of total and 15% of operational) had total losses of Bht 41.5 million.

c) Financial Status

As of end fiscal year (end March) 1994, the financial status of agricultural cooperatives are as follows:

1. Total assets stood at Bht 22.7 billion or an increase of 21% from 1993;
2. Total liabilities stood at Bht 13.9 billion or a 24.2% increase from 1993;
3. Total cooperative equity was Bht 8.8 billion or an increase of 17.3% from 1993.
4. Total savings generated was reported at Bht 7.21 billion or an increase of 28.3% from 1993.

d) Number of Societies and Membership

There is still a continuing increase in number and membership among agri-based cooperatives, (which includes: agricultural, fishery and land settlement cooperatives). As of end 1995, there were 3,014 cooperatives with total membership of almost 4 million, or an annual average increase of 16.7% and 45%, respectively over the period 1991-1995. The growth was spurred mainly by BAAC's formation of Agricultural Marketing Cooperatives among its borrowing farmers which increased rapidly during the period.

6.6 Prospects and Issues

a) Competitiveness of Thai Agriculture Sector

The current Agricultural Policies are being subjected to revisions, especially export and import restrictions, in compliance with GATT. Non-tariff trade barriers will be eliminated and revised tariffication is under process.

Overall, the efforts of Thailand in crop diversification have made its agricultural sector as one of the most competitive in the region. With Government's heavy investments (and subsidies) in irrigation, research and

extension, Thailand remains a major exporter of a variety of products and is self-sufficient on many others. It also has the advantage of having a progressive private sector engaged in developing high quality, high value-added agro-industrial products which eventually resulted in increased productivity and income for small primary producers.

b) Analysis of Agri-Coop Growth Trends

The growth trends among agricultural cooperatives appear impressive and encouraging. Their financial performance show growing strength from all indicators. What is worth noting is that the growth appears to be fueled in a significant way by internal funds, from savings and equity, rather than from heavy reliance on borrowing. As shown, 1994 savings generated by the sector was Bht 7.21 billion, which is a 28.3 percent increase over 1993. The five year (1990-1994) average growth rate in savings remains high at 28%. Although the growth trend may not be conclusive and there is need to verify further the nature of savings, the figures could indicate growing inner strength, self-reliance and maturity among the majority of agricultural cooperatives.

Some distortions on Agri-cooperatives' inner strength could exist largely due to the paternalistic and over-protective attitude of government towards them as indicated by:

1. granting of subsidized credit both for cooperative business activities and for relending to members;
2. directed quota sale of subsidized inputs (e.g., fertilizers) through cooperatives for members;
3. government procurement schemes through cooperatives.

Substantial assistance and business activities are provided by the Ministry of Commerce through: (i) procurement of milled rice from primary cooperatives under the government purchase program via the Warehouse Organization and ACCT; and (ii) award of quotas for the import of agricultural commodities to ACCT for commodities purchased by primaries (e.g., fertilizer).

c) Weaknesses at the Federation Level

Over 60 percent of the primary agri-coops are considered viable and self-reliant, but only 20 percent of the provincial federations are considered viable, while the national federation (ACCT) is reported to be struggling through some crisis lately. Apparently, the volume of business at the federation level, including government's subsidies and directed procurement schemes, posed serious "moral hazards" that led to abuses by past boards or management of these federations. It is one of the major reasons why BAAC initiated the creation of the Agricultural Marketing Cooperatives and the TABCO, both of

which created a parallel system with the existing coops and their federations.

d) BAAC's AMCs: Complementing or Competing?

There are concerns in CPD and among other agricultural cooperatives that BAAC's recent moves is sowing further confusion in overall cooperative development efforts, given the following:

1. AMCs directly compete with existing viable provincial farmer cooperative federations;
2. Farmers' multiple coop memberships is very likely;
3. TABCO also competes directly with ACCT (TABCO is renting ACCT facilities and is housed in the same building with the latter).

While it could be argued that many secondary agricultural cooperatives are weak (reportedly over 80 percent), efforts should have been made to strengthen them rather than forming new large ones. For example, the same liberal assistance and full support by BAAC to its AMCs could have been given to existing medium to large-scale provincial or district cooperatives (e.g., class A or B based on CPD-BAAC classification) with less dysfunctional effects on overall cooperative development efforts.

e) Sustainability or Strength of AMCs

Corollary to (a), BAACs move to create AMCs appear to coincide with the recent upsurge in the bank's individual farmer lending (average annual growth of 27% in the last five years). Experiences in many countries have repeatedly shown that cooperatives created out of aggressive lending by state banks are likely to (or always) fail. Moreover, the AMCs are typical of many failed Government-initiated cooperatives which have initially large memberships (averaging 35,000 for AMCs) and made to deal on complex activities such as trading large volumes of products. The initially large AMC membership and large volume of business make more difficult the installation of needed controls. Ideally, cooperatives should grow at pace that would allow it to handle more manageable activities.

f) BAAC Staff Managing the AMCs

While BAAC assigns its own (professional) staff to manage the AMCs, their experience is doubtful and AMC activities are filled with "moral hazards" for BAAC officers and staff (e.g., there exists too much conflict of interests to BAAC officers acting as creditors, traders and managers of AMCs which could easily tempt them to act for their own ends and not necessarily in the interest of BAAC nor the AMCs). Moreover, BAAC's direct management intervention violates the cooperative tenets of autonomy and independence.

APPENDICES

Ministry of Cooperatives and Small Enterprises Indonesia

1.0 Mission and Objectives

Government's role as defined in the 1992 Cooperative Act is to: (i) create and develop an environment that will stimulate cooperative growth and socialization; and (ii) provide guidance, facilities and protection to the cooperative societies. The Act clearly specifies Government activities in each of the specified role, as follows:

- a) For a favorable Cooperative Environment, Government will:
 - 1. provide extensive opportunities to the coop societies;
 - 2. improve and consolidate cooperatives' capabilities to become viable, strong and self-reliant;
 - 3. promote mutually beneficial business relationship between cooperatives and other business enterprises;
 - 4. promote cooperative values and institutionalize these concepts to the general public
- b) To give guidance and facilities, Government will:
 - 1. guide the business of coops in accordance with the economic interest of the members;
 - 2. encourage, develop and assist the implementation of cooperative education, extension and research;
 - 3. provide facilities to strengthen the capital and help develop the financial institutions of the cooperatives;
 - 4. promote the development of inter-cooperative business;
 - 5. provide advisory services to cooperatives to solve specific problems while ensuring adherence to their by-laws and cooperative principles.
- c) To protect cooperatives, the Government can:
 - 1. decide the fields of economic activities which can exclusively be handled by cooperatives;

2. decide the fields of economic activities in an area which have been handled successfully by cooperatives, not to be handled by any other business enterprises.

2.0 Main Activities of MCSE

The activities of MCSE could be generally divided according to its administrative and its operational functions. The administrative activities include:

- a) registration of new cooperatives and amendments of by-laws
- b) processing of cooperative matters requiring approval of the Registrar of Cooperatives, including dissolution of coops
- c) enforcement of the Cooperative Law and monitoring of activities of cooperatives
- d) training of coops, often in coordination with DEKOPIN and other government agencies (e.g., Ministry of Agriculture)

The main operational activities of MCSE center on the promotion and strengthening of the *Kooperasi Unit Desa*. Although the KUD scheme is not mentioned in the past and present Cooperative Laws, Presidential Instruction (PI) 4/1973, which is the basis for the scheme, is presently viewed by MCSE as *the primordial implementing guideline* in cooperative development, regardless of the provisions of any Cooperative Act - past, present or future.

3.0 Organizational Structure

MCSE is headed by a Minister who is assisted by three Director Generals (DG) each of whom heads functional groupings, namely: DG for Village Cooperative Promotion; DG for Urban Cooperative Promotion; and DG for Small Enterprise Promotion. The distinction is not really geographical but rather sectoral. The DG for Village Coops Promotion is more agri-based and is KUD oriented, while the DG for Urban Coops promotes and supervises all other types of coops and is non-KUD oriented. There are three other major head office divisions providing administrative, financial, legal and planning services to the Ministry.

The MCSE operates regional offices in all 27 Provinces, reflecting the head office structure. The Provincial Office has the power to register, supervise and deregister all cooperative societies operating within its area. Secondary and

tertiary societies which have cooperative members from other provinces are under the jurisdiction of head office. The Ministry also has District Regional Offices with three main sections, namely the Cooperative, Small Enterprise Promotion and the Registration and Legal Sections. MCSE has an estimated 19,000 officers and staff all over the country.

Brief on Key Agencies Involved in Coop. Development Malaysia

1.0 The Department of Cooperative Development - DCD

DCD was first established in 1922 as the sole department charged with cooperative development. The formation of the Farmers Organization Authority (FOA) in 1973, the fisheries Development Authority (FDA) in 1974, and subsequently some regional development authorities such as MADA, KESEDAR and KADA, curtailed DCD's coverage. Presently, DCD has jurisdiction over coops in the urban and non-agricultural sector, and those societies created under the land consolidation and rehabilitation schemes in peninsular Malaysia, namely : (i) Federal Land Consolidation and Rehabilitation Authority (FELCRA), (ii) Federal Land Development Authority (FELDA), and (iii) Rubber Industry Smallholders Development Authority (RISDA). It also covers all types of coops in East Malaysia, except those under MADA and KADA.

1.1 Mission and Objectives

DCD's mission is to ensure the effectiveness and efficiency of the cooperative movement, through active collaboration between government and the movement, along the context of the National Development Policy which emphasizes balanced economic development under a caring, prosperous and competitive society. Thus, the objectives of DCD are to:

- a) assist the cooperative movement in creating a resilient and productive society;
- b) ensure that cooperatives operate within legal requirements and based on cooperative principles and values;
- c) ensure that cooperatives become self-reliant, sustainable and competitive socio-economic organizations;
- d) support the cooperatives' general contribution towards the welfare of members and achieving social harmony;
- e) plan for the development of trained personnel in the field of cooperative development;
- f) improve the quality of the management of the DCD through technology and efficient work processes.

1.2 Main Activities

DCD's main activities include:

- a) registration of new cooperatives and amendments of by-laws
- b) processing of cooperative matters requiring approval of the Registrar of Cooperatives, including dissolution of coops
- c) enforcement of the Cooperative Law and monitoring of activities of cooperatives and their compliance to provisions of pertinent laws and regulations covering:
 1. Loans and investments
 2. Legal matters (e.g., violations, disputes, liquidation)
 3. Audit and accounts (e.g., appointment of external auditors; statutory audit; approval of audited accounts)
- d) provision of financial assistance to small cooperatives
- e) extension and training of coops, often in coordination with ANGKASA, the National Cooperative Organization and MKM, or international coop organizations.

1.3 Organizational Structure

DCD is headed by a Director General (DG-DCD) who is also appointed as the Registrar General of Cooperatives in Malaysia. As such, the DG-DCD performs administrative and statutory functions over all registered cooperatives (within DCD's jurisdiction as mentioned above). He is assisted by two deputies and 14 State Directors who are also designated as State Registrar for cooperatives under the DCD.

Head Office Divisions are divided into two groups headed each by a Deputy Director General (DDG). DDG I heads the Statutory Services Group which handles enforcement and supervision. It includes the Audit and Accounts Department which conducts external audit of small cooperatives (about 60% of total). DDG II handles internal affairs of the DCD, as well as the Loans and Investment Department which provides financing to small cooperatives under its jurisdiction. DCD has 14 State Headquarters based in the capital cities and 88 regional offices in the districts throughout Malaysia. Total number of staff is about 1,500 with 85% in the branch and district offices.

1.4 Major Programs and Support Provided by DCD

a) Legislative Reforms

DCD advocated for the passage of the Pan Malaysia Cooperative Societies Act 1993 which consolidated three separate acts. The passage of the Act appears to be very much influenced by ICA's initiatives. The new law and subsequent regulations issued by DCD are aimed at promoting self-reliance and self-regulation among cooperatives through:

1. strengthening cooperative members' sovereignty in the management of cooperatives by ensuring transparency of operations and greater disclosure at general meetings
2. more explicit provisions pertaining to management and board accountability
3. emphasis on membership involvement and education

Moreover, DCD issued several Registrar General's Circular on Improvement of Cooperative Management (RCICM) to enhance members' knowledge in respect to their rights, role in managing cooperative affairs and expectations regarding cooperative services.

b) Supervision and Control

The Registrar has far ranging powers over cooperative affairs. Among others, his prior approval is required on the following cooperative action:

1. amendments to the cooperative's by-laws, including change in its business
2. forming, acquiring or holding a subsidiary
3. loans to its subsidiaries or to other societies
4. receipt of donations and grants from foreign sources
5. investments of cooperative surplus funds in:
 - a) shares or securities of other registered society
 - b) shares or debenture stocks of any company not specified under the Cooperative Act
 - c) its subsidiaries
6. appointment of persons authorized to audit cooperatives
7. appointment of an apex body to represent the movement at the national or international level
8. winding up or deregistration of a cooperative

Moreover, the Cooperative Law requires that all cooperatives must have annual audit by external auditors, either by DCD's Audit and Accounts Division or by accredited auditors appointed by the Registrar. All audited reports need to be submitted DCD. DCD itself audits yearly about 60 percent of cooperatives under it in Peninsular Malaysia and all cooperatives in East Malaysia.

c) Promotion, Training and Publicity

DCD promotes and develop new cooperatives, especially amongst low income groups such as: factory workers, cottage industry craftsmen and secondary school children. Out of its efforts, 125 new cooperatives were registered in 1993, with another 174 formed in 1994-1995. DCD also conducts cooperative training for cooperative members and their boards, mainly on cooperative laws, regulations and financial reporting. It also organizes or participates in courses in coordination with ANGKASA or CCM.

d) Financial Assistance

DCD provides grant money of about RM 1 million annually to assist newly registered and deserving cooperatives in improving their operations (e.g., computerization). It also manages the JFK (DCD) Revolving Capital Fund. The Fund was formed from budgetary allocations to help viable and deserving cooperatives overcome liquidity problems (from business activities) through soft loans of not more than RM 2 million per cooperative, with interest from 0 - 6 percent payable from 1 - 15 years depending on the project financed. The Fund is about RM 50 million as of end 1995, with RM20 million approved for 50 applications during the year.

2.0 The Farmers Organization Authority

2.1 Overview

FOA was formed in 1973 under the Farmers Organization Act (109) to consolidate government efforts in promoting farmers organizations and agricultural (food crops) cooperatives, which before then were handled by several government agencies. FOA actively formed Farmers Organizations (FOs) based on Taiwanese models. As of end 1995, FOs all over the country comprised about 500,000 individuals and almost seven hundred agricultural cooperatives as members, as the latter were encouraged to integrate with the FO scheme¹. The FO system is vertically integrated comprising of 6,054 Small

1 The FO is a mix between a primary and a secondary society because it has individuals and cooperative societies as members.

Farmers' Units and 683 agricultural cooperatives at the lowest level, further organized into 265 Area Farmers' Organizations (AFOs) which are in turn federated into 13 State Farmers' Organizations (SFOs) and finally federated at the national level under the National Farmers' Organization (NAFAS).

2.2 Mission and Objectives

FOA was established as the single agency to register, develop, control and supervise a national farmers movement aimed at improving the socio-economic status of its members, consistent with the National Development Policy (NDP)¹ and the National Agricultural Policy (NAP). It is a statutory agency under the Ministry of Agriculture tasked to:

1. set up and develop strong and viable farmers organizations (FOs) at the area, state and national level;
2. exercise Registrar powers over the management and operations of FOs and agricultural cooperatives to nurture their development and ensure compliance with relevant laws and regulations.

2.3 Main Activities

There are three main activities undertaken by the FOA, namely:

a) As Registrar of FOs and Agro-based Cooperatives

The Director General of FOA acts as the Registrar for all FOs and agro-based cooperatives in Malaysia, except in areas supervised by their respective authorities (e.g., MADA, KADA) and those covered by DCD (e.g., FELDA, RISDA, etc.) FOA also conducts annual audit of all cooperatives under it, except for financially strong ones which it directs to be audited by accredited private auditors, with the audited reports to be submitted to it.

b) Providing Management Support for FOs

FOA practically runs the FOs as it assigns 5 - 7 of its staff to each and every FO to act as General Manager and key officers (accountant, finance officer, etc.) of the societies. FOA assigned staff are fully paid by it, except for a few financially stable FOs which are made to pay the FOA staff². Presently, 61 percent of FOA's total of about 3,000 staff are assigned to manage FOs. FOA's continued direct management of FOs is due to its own view that FOs

1 See further discussions on section concerning Agricultural Cooperatives

2 Note that even those FOs which could afford paying their own officers apparently are not allowed by FOA to choose their own management team but have to contend with being managed by FOA staff at their own expense.

still lack the needed expertise and self-reliance (even after 20 years of FOAs direct intervention). Management expenses of FOA are considered grants, although these are reflected in FOs' financial statements to give their true status and remind them to strive for self-reliance.

c) Supporting Human Resource Development

FOA designs and implements training programs for FOs and its own staff to enhance the development and improve the management of FOs. It also provides communications services in forms of publications, audio-visual presentations and other multi-media system in its FO promotion activities. At present it maintains four Farmers Training Centers (FTCs) strategically situated all over the country to conduct training not only for farmers but also the staff of other cooperating agencies.

d) Providing Financial Assistance for FO Economic Activities

FOA assists FOs in accessing credit facilities from banks for farm production, agribusiness and small scale industry projects. It coordinates with Bank Pertanian Malaysia (BPM) which also administers the Ministry of Agriculture's Special Loan Scheme providing subsidized loans to smallholders. FOA also assists FOs to access ordinary bank loans at market rates. As a matter of policy, it does not actively support the economic activities of other agricultural coops (mostly formed prior to 1973) unless they become members of FOs. This move is seen to encourage consolidation of such cooperatives under the FO scheme.

e) Farm Mechanization Assistance

FOA provides farm mechanization services to all FOs through 18 Farm Mechanization Centers (FMCs) throughout Peninsular Malaysia.

The FMCs provide tractors, combine harvesters and lorries for the FOs, including spare parts and repair services, at reasonable rates. At present, FMCs account for 30 percent of the farm mechanization needs of FOs.

f) Infrastructure Support

FOA provides office facilities, meeting halls, storage space, branch offices and staff quarters for the use of FOs. These are given as grants but reflected in their financial statements to show their actual status and remind them to be self-reliant.

g) Promotion of Area Agricultural Development

FOA is empowered to declare Farmers' Development Areas and to

exclusively plan and undertake agricultural development within such areas, subject to agreements by State Governments. In this context FOA is implementing the "New Approach for Village and Rural Development" designed to consolidate smallholdings into mini-estates to rationalize and modernize farm operations and to set up small scale industries to improve the productivity and income of beneficiaries. Other agencies are also involved in these integrated area development approach where each unit would cover 5,000 to 30,000 acres involving 1,000 - 3,000 families.

3.0 The Parastatal Agencies

Malaysia inherited from its colonial period a strong base in the tree crop estate subsector, in such aspects as management, technology and market linkages. It makes full use of this competitive edge in its strategy for mainstreaming landless poor and tree crops smallholders. Through land development schemes, state lands are developed into tree crop estates with processing facilities. Production areas are distributed to settlers. Parastatal agencies develop and initially manage the estates, processing facilities and related businesses (i.e., FELDA, KADA, MADA, KESEDAR) to be eventually turned over to the beneficiaries' through their cooperatives.

Similarly, existing small farmlands in the tree crop subsector, are consolidated and rehabilitated as mini-estates to allow plantation type management and operations of otherwise fragmented lands. Again parastatal bodies (e.g., FELCRA, RISDA) provide the capital and management until the whole operation is handed to the beneficiaries through their cooperatives.

Cooperative membership is compulsory in all land development and rehabilitation schemes. These cooperatives are provided substantial government assistance (financial, managerial and market linkages) and monopoly rights over certain related estate businesses such as transport of produce to mills and refineries. Under both schemes, officers and staff seconded from the parastatal agencies act as key cooperative officials (e.g., managers, finance officers, accountants), with understudies from cooperative members reportedly trained for eventual take over. DCD exercises Registrar powers over cooperatives in FELDA, FELCRA and RISDA. For the land development authorities in East Malaysia (MADA, KADA), the Registrar powers were granted to their respective general managers.

As of end 1995, cooperatives under FELDA numbered 287; FELCRA had 110; RISDA - 65; MADA - 105; KADA - 51 and KESEDAR had 10 cooperatives. Most of these cooperatives are not only engaged in agribusiness but have branched out into credit, mini-market and appliances stores, insurance,

petroleum kiosks, transport, import-export trading and for some even land development. It must be noted again that these cooperatives enjoy substantial government support.

4.0 The Cooperative College of Malaysia (CCM)

CCM is one of the major indicators of government commitment in cooperative development. Founded 40 years ago, it provides a range of cooperative related courses from 3-day workshops to a Diploma Course on Cooperative Management. Its main clientele are cooperative board members, key officials, managers and staff to develop their skills in cooperative management, and government staff to enhance their skills in promoting and supervising cooperatives. CCM is funded mainly from the educational fund collected from cooperatives (2% of profit), and partly from registration fees for cooperative trainees (for whom education is for free) and training charges for trainees outside the movement.

CCM conducts regular short courses, Diploma course on Cooperative Management and joint courses with local and international agencies. It conducts about 230 courses involving 4,000 to 5,000 trainees annually. CCM coordinates with ANGKASA and government agencies to ensure division of labor in training to avoid overlaps, such that government agencies focus on pre-registration, promotional and legal aspects of training, ANGKASA concentrates on post-membership indoctrination training while CCM aims at cooperative management aspects for cooperative and government officers and staff.

5.0 ANGKASA

5.1 Overview

ANGKASA is the acronym of Angkatan Kooperasi Kebangsaan Malaysia or the National Union for Cooperatives of Malaysia, a cooperative society registered under the Cooperative Law as a tertiary society. It was set up after two cooperative congresses held in 1966 and 1971 which saw the need to unite all types and levels of cooperatives. At present, it claims a membership of at least 60 percent of all societies in Malaysia.

ANGKASA, being a "union" under the Corporate Act could not undertake any business and instead could engage in the following :

1. to represent the country's cooperative movement at national and international level in all matters affecting the movement;
2. to disseminate and propagate the cooperative concept and ideals through education and publicity; and

3. to assist coop societies in the proper running and management of their affairs by way of advice, education and other needed services within its capabilities.

5.2 Activities

In line with the set objectives as a union, ANGKASA typically engage in the following:

- a) Liaison and Coordination with Government
- b) Representation at the International Level
- c) Educational and Promotional Services
- d) Special Services
 1. Pre-audit Services - to assist coops in updating and rectifying accounts prior to regular external audit;
 2. Computerized Processing of Coop-member transactions through salary deductions.

Brief on Key Agencies involved in Coop. Development Thailand

1.0 The Permanent Secretary of the MOAC

The Permanent Secretary of the MOAC is presently the designated Cooperative Registrar whose powers are prescribed under the Cooperative Societies Act B.E. 2511 (1968). Among others, the Cooperative Registrar's major powers and functions are:

1. to register, amalgamate, divide or dissolve cooperatives;
2. to appoint cooperative auditors, government members in the Board of the Cooperative League of Thailand, liquidator of a bankrupt cooperative; and
3. to approve deposits of cooperative funds outside the banking system.

The Office of the Development of Farmers Institutions act as the Secretariat to assist the Permanent Secretary of MOAC in fulfilling the functions as the Registrar of Cooperatives.

2.0 Cooperatives Promotion Department (CPD)

The CPD is in charge of promoting, developing and regulating the cooperatives. Its main functions include: (i) promotion of cooperative principles to the general public; (ii) provision of cooperative training and education, especially at primary level; (iii) provision of technical and financial assistance to promote cooperative businesses; (iv) promoting cooperatives in settlement areas and urban housing project areas; and (iv) supervision of cooperatives to ensure adherence to the Cooperative Act and other regulations.

2.1 Main Activities of CPD

The CPD classifies its activities into 7 categories, namely:

- a) Cooperative Dissemination and Establishment - provision of pre-membership education and promoting cooperatives among the general public for mutual benefit;
- b) Human Resources Development - provision of education and training for officers, staff and members of cooperatives, as well as government

personnel. For this purpose CPD operates the following:

1. The Institute for Cooperative Studies - provides one-year course for secondary school graduates intending to work in CPD or the cooperatives, and management courses for cooperatives' staff;
 2. Central Training Center - provides in-house training for CPD officials at all levels;
 3. Regional Training Centers (10) - located all over the country, with complete training facilities and mobile units to train local government personnel, cooperative members or personnel and the general public.
- c) Cooperative Business Promotion - includes the promotion of multi-purpose cooperatives to optimize members' benefits and encouraging effective linkage either among cooperatives or between cooperatives and private entities. CPD also finances cooperative business activities, through the:
1. Cooperative Promotion Fund (CPF) - provides low interest loans to cooperatives (2 to 4% p.a) for business activities or for relending to members. The CPF was recently given an additional budget of Bht 700 million increasing its total resources to Bht 1.4 billion for 1996.
 2. Common Fund to Assist Farmers (CFAF) - provides interest free loans to farmers coops to buy members' selected crops (mainly paddy) at Government support prices when market prices are too low. CFAF was over Bht 1 billion as of 1996.
- d) Member Occupational Promotion - in collaboration with other agencies, extension and advisory services are provided to agri-based cooperatives (including land settlement and fisheries cooperatives), to adopt new technologies to increase beneficiaries' productivity and income. For this purpose CPD has 11 Agricultural Cooperative Demonstration Centers.
- e) Land Allocation and Housing Arrangement - CPD is authorized to allot land to landless or small farmers and help set up Land Settlement Coops, Land Tenant Coops and Land Hire-purchase Coops. CPD also promotes urban housing cooperatives to assist low income groups to own houses.
- f) Infrastructure Provision - CPD (Engineering Division) is responsible for construction, repairing and maintenance of all infrastructure for

agricultural and land settlement cooperatives, including small-scale irrigation facilities which are deemed public works wherein farmers bear only operating and maintenance costs for operating the systems.

- g) Social Development - CPD promotes cooperatives' involvement in social and community development applying cooperative principles of self-help, self-reliance, unity and democratic practices.

2.2 Organization, Staffing and Budget

CPD is divided into the Central Administration and the Provincial Administration. Central Administration directly supervises nine head office divisions. There are 73 Provincial Offices and 751 District Cooperative Offices. Other field units include:

- a) The Agricultural Cooperative Demonstration Center
- b) 10 Regional Training Centers
- c) 11 Cooperative Promotion Units in Irrigated Areas
- d) 61 Land Settlement Cooperative Promotion Offices (17 under Central Office and 44 under Provincial Offices)
- e) 10 Regional Cooperative Engineering Centers
- f) 11 Agricultural Cooperative Demonstration Centers
- g) 9 Regional Cooperative Inspector's Offices.

Total manpower stood at over 7,200 officers and staff with about 80 percent manning the provincial and district offices. CPD's total budget for 1996 stood at Bht 3.15 billion (excluding the Cooperative Promotion Fund and Common Fund).

3.0 The Cooperative Audit Department (CAD)

The CAD is the only institution in Thailand tasked to audit cooperative societies and farmer associations. Up to 1981, CAD was organized to conduct audit from a central office. Since then, it was reorganized to strengthen and facilitate its audit functions through the establishment of Regional and Provincial Auditing Offices. It is reported to audit yearly 90 percent of all cooperatives and about 60 percent of farmer associations.

3.1 Objectives

CAD has the following objectives:

- a) To perform audit activities to cooperatives and farmers associations (FAs) within a reasonable period;

- b) to prevent willful fraud by management;
- c) to reduce or eliminate errors in accounting and controls;
- d) to educate and train officers and staff of cooperatives and FAs in proper bookkeeping and accounting;
- e) to provide advise and recommendations to cooperatives and FAs on accounting and controls;
- f) to advise cooperatives and FAs on the effective use of accounting and financial information for management.

3.2 CAD Functions

To carry out the above objectives, CAD performs the following functions:

- a) Conducts audit supervision of all cooperatives and FAs in accordance with Registrar's rules and regulations;
- b) Prescribes bookkeeping and accounting systems and standards for all types of cooperatives and FAs;
- c) Provides advise to cooperatives and FAs in management, finance and accounting;
- d) Prepares annual audit reports on the financial position of coops and FAs, and the publishing of annual statistical reports based on such audits;
- e) Conducts training of members of coops, FAs, women groups and farmers on basic accounting, simplified accounting and farm accounting;
- f) Conducts training to committee members, managers and staff to enable them to use financial and accounting information for management and control;
- g) Act as the financial and accounting information center for all coops and FAs;
- h) Perform such other relevant functions assigned by MOAC.

3.3 Audit Activities

The department's audit activities are divided into:

- a) Audit Service further divided into:
 1. Advisory Service - done monthly to upgrade capacity of cooperatives and FAs in accounting and bookkeeping in terms of

accuracy, timeliness and regular updating of accounts and financial reports. The service is phased out gradually as cooperatives improve their capacity.

2. Interim Audit - done anytime during the fiscal year to spot check correctness of accounting entries, adherence to proper internal control and updating of accounts. The audit is done mainly for coops not provided advisory services, large size cooperatives or those identified with internal control problems.
3. Annual Audit - performed regularly at end of financial year per coop by-laws to give a true and fair view of the financial conditions of the cooperative or FA, to be part of the annual report which must be presented to the members within 150 days of end of fiscal year.

b) Training Activities further divided into:

1. Basic Accounting Training Program - for coop members to understand basic accounting to handle their finance and other business activities. Conducted by every PACs in 72 provinces covering 2,300 trainees per year.
2. Simplified Accounting for Farmers Program - for farmers whether members or non-members of cooperatives or FAs. CAD also prepares a "Simplified Accounting" booklet. The RACs and PACs jointly conduct annual training for 1,500 trainees.
3. Training Program for Coop Officers and Staff - for managers, committee members, accountants and bookkeepers of cooperatives or FAs to improve their capability to use accounting and financial information for management and control. Conducted by the RACs with 1,440 trainees per year.

3.4 Organization and Staffing

CAD has over 1,700 personnel 90 percent of which are deployed and in the Regional and Provincial Centers. CAD's organization and functions are divided into:

- a) Headquarters - which provide head office functions of administration, planning, budgeting and overall supervision of all units. It also sets standards for auditing, accounting systems, preparation of manuals and evaluation of audit reports, including the performance of audit units.

- b) Regional Audit Centers - supervises and advises provincial auditing centers (PACs); assists PACs in audit work; provides occasional counselling of cooperative staff and training of selected cooperative officers and staff on financial information use for management;
- c) Provincial Auditing Centers - Conducts: actual audit of cooperatives and FAs; regular counselling of cooperative officers and staff; training of selected members and special groups (women, farmers) on simplified, basic or farm accounting; and provides resource speakers for training of other agencies (CPD, CLT, CULT)

4.0 Bank for Agriculture and Agricultural Cooperatives (BAAC)

4.1 Overview of BAAC

BAAC is the state bank tasked to provide credit to farmers and agricultural cooperatives. While it is a full commercial bank, it could only give loans to farmers and agricultural cooperatives. Up to recently, it was not even allowed to lend to the farmers' non-farm and off-farm activities until an amendment to its charter (Act B.E. 2509 [1966]) allowed it to provide credit for farmers' supplementary (but still farm-related) activities, such as processing of farm produce, activities using agricultural products as inputs (e.g., weaving, furniture-making), production of farm inputs and equipment, and provision of farm services (e.g., ploughing). Apart from its own regular lending programs funded from deposits and equity, it also implements government-funded (usually subsidized) agricultural credit schemes. As of end 1995, BAAC had a network of 80 branches, 285 district offices and 840 field offices with 9,899 staff, while its head office has 1,480 staff.

4.2 BAAC's Cooperative Development Efforts

Since its inception, BAAC has been active in promoting cooperatives with other agencies, particularly CPD. Apart from its coop lending it was involved in the Agricultural Cooperative Restructuring Project (1980-84) and the setting up of the National Cooperative Training Institute (NACTI). From 1992 to the present it has been actively testing new cooperative development and improvement activities in at 6 pilot agricultural cooperatives (with plans for 8 more for 1996-97) in various provinces. BAAC formed a working group with CAD, CPD and BAAC to collect and analyze data from the operations of the pilot coops in order to recommend ways of strengthening them with the view of replicating these elsewhere.

Through the years, BAAC has evolved several lending schemes for its clientele. Among these is the credit-in-kind scheme with loans in forms of

inputs (e.g., fertilizers) instead of cash. The size of BAAC operations enabled it to purchase and distribute these inputs in bulk at reasonable prices for the farmers. However, BAAC also saw that unorganized marketing of farm outputs made farmers vulnerable to middlemen. Initially, BAAC arranged marketing tie-ups between farmers and the private sector, helping ensure fairness to all parties involved. Government supported the move by giving grants to BAAC to construct regional Farm Product Marketing Centers (FPMC). BAAC later encouraged farmers to form their clubs or “Chom Roms” to organize the trading of their farm inputs and outputs to get optimum benefits. However, BAAC saw that the small size (50-60 members) and the informal stature of the “chom roms” made them unsustainable.

4.3 BAAC's Area Marketing Cooperatives

BAAC set up AMCs with each AMC having very large membership from the very onset of about 30,000 -40,000. An AMC has district level branches and service center/coop shops at the subdistrict and village level. The main objectives and functions of the AMCs at various levels are as follows:

- a) The AMC (provincial) has the following objectives:
 1. to trade in farm inputs and outputs for members in order to optimize their benefits from such activities;
 2. to cooperate with government agencies and private sector in the efficient and effective trading of farm supplies and products, and attain wider access to marketing channels;
 3. to act as intermediary in extending new technology to members to improve their productivity and income;
 4. to enable members to operate their business with self-reliance and competitiveness in the light of dynamic changes in their operating environment;
 5. to be responsible for the members' general welfare.

- b) District Level

At the district branches extend the services of the ABC to its members. It is run by a sub-committee of five members (two of which must be board members of the ABC), which provides operating guidelines to the branch manager. Financial reports of the branch are submitted to the ABC provincial every month end.

c) Village Shops

The village shops operate like consumer cooperatives providing consumer goods and farm supplies to local ABC members. Cash deficit village shops may borrow up to Bht 50,000 from BAAC.

4.4 The Thailand Agribusiness Company (TABCO)

When the AMCs grew in number, BAAC saw the potential of big volume trading and additional benefits to the AMCs from their collective action. Thus in 1992, TABCO was created as a joint venture company with AMCs owning 90 percent and BAAC 10 percent of 100 million subscribed shares. TABCO acts as the AMCs' apex organization although it is a corporation registered under the Corporate Act (thus BAAC cannot lend to TABCO since it is not a cooperative). The functions of TABCO relative to the AMCs are:

1. to supply (domestic and imported) farm supplies, consumer goods and farm services;
2. to provide coordination in inter-coop trading and collect farm products from AMCs for domestic and export marketing;
3. to provide management services, such as staff recruitment and supply of capable staff;
4. to provide training services for AMC employees and BOD;
5. to provide social security and services to AMC members;
6. to purchase or construct farm processing facilities as joint venture with the AMCs;
7. to provide such other services required by AMCs.

5.0 Cooperative League of Thailand (CLT)

5.1 Establishment and Objectives

The CLT was established in 1968 through the Cooperative Society Act, B.E. 2511 to act as the apex organization of the cooperative movement. Its main tasks are as follows:

1. To enhance the progress and stability of its member societies through technical advise, training programs and educational activities;
2. To act as the members' representative in liaisoning with Government and other external bodies, including international entities with activities relevant to the cooperative movement;

3. To organize and conduct seminars, conferences, surveys and researches for cooperative promotion;
4. To provide publications in cooperatives and allied subjects;
5. To perform acts entrusted to it by relevant Government agencies in compliance with its objectives.

5.2 Membership

The CLT was created as the supreme apex under the Cooperative Societies Act. As such, all cooperative societies at all levels are to be members of the CLT, regardless of type or affiliation with other federations, whether provincial, regional or national.

5.3 Funding

CLT'S main fund source comes from fees of members equivalent to 5% of net profit but not more than Bht 10,000 as prescribed under the Cooperative Societies Act. It must be noted that payment of fees is voluntary since the law provides no sanctions against non-payment. CLT also receives support from government. The following are the sources of funding for CLT:

1. Members' Contribution: Bht 15 - 19 million yearly
2. Government subsidies from the budget of the Cooperative Promotion Dept and the Cabinet. (Bht 4 million in 1995)
3. Interest Earnings from the Cooperative Central Fund (funds from liquidation of unlimited coops, about Bht 3 million for 1995)
4. Others: Sales of publications, donations.

5.4 Activities

a) Training

Due to limited resources, CLT's activities focus on training of cooperatives' Board of Directors, officers and staff, rather than being targeted to members. Moreover, CLT does not maintain a regular core of trainers but mainly organizes training programs and invites resource speakers or specialists from government, the academe, the private sector and the movement itself. The subject matter cover such areas as:

1. Leadership Aspects - mainly for BOD and key officers
2. Technical - BOD and key Officers (e.g., administration, management, marketing, accounting, etc.)
3. Cooperative Staff Development

4. Women and Youth Cooperatives Promotion.

b) Promotions and Publications

CLT assists relevant organizations (Government or international bodies) in organizing activities, such as cooperatives' week celebration, awards for cooperative-related activities and regional and international conferences or symposia. It also comes up with publications (e.g., Monthly Cooperative League Bulletin) and multi-media promotion (press and radio) of cooperatives.

CRITICAL STUDY ON CO-OPERATIVE LEGISLATION AND COMPETITIVE STRENGTH

TERMS OF REFERENCE

1. Background

We are entering a new threshold in the global co-operative scene. In-depth discussions on "Co-operative Values" during the Tokyo Congress in 1992 brought on richer discussions at the Manchester Centennial Congress in 1995, upon which the new "Co-operative Identity" was reaffirmed. The resolute avowal of the "Co-operative Identity" is crucial in attempts being made to preserve true co-operativism in the wake of changing socio-economic trends globally. The Co-operative Identity, which incorporates both the Definition, Values, and Principles of a Co-operative, thus set the basis for endeavours being initiated or taken by co-operative institutions worldwide. This, in effect, also dictates the need for refinements in existing programs already set by the ICA Regional Office for Asia and the Pacific.

One such program is on Policy Development and Legislation. The ICA Regional Office for Asia and the Pacific has been proactive in bringing together Co-operative Ministers to discuss the dominant issue of "Cooperative Movement-Government relationship" ever since the first Conference that was held in Sydney in 1990. Co-operative legislation of countries in the Asia Pacific region were reviewed and assessed, and weighed against co-operative values and principles to bring about reforms. The second Co-operative Ministers' Conference was held in Jakarta in 1992, at which the legislative and policy agendas were once again assessed, and this time enriched by discussions on the issue of environment and sustainable development. The most recent one was held in Colombo in 1994, during which the legislative questions were addressed in conjunction with the issue of Co-operative Competitive Strength.

At this juncture ICA ROAP is gearing up to hold the Fourth Ministerial Conference in early 1997 in Chiang Mai. It was felt that issues on legislation and on government-movement relationship are as much relevant today as they were in 1990 during the Sydney Conference. The issue of Competitive Strength, however, is fast becoming fashionable and current, as it affects many co-operatives in the aftermath of the GATT agreement and the emergence of

APEC, AFTA and other regional trade groupings, especially in the Asia Pacific region.

With the rise of globalization, liberalization, and regional economic alliances, governance will gradually take another form and meaning. The new paradigm ought to set governments more as agents of empowerment rather than custodian of co-operatives. But have governments in the Asia Pacific region actually adjusted their policies in response to current co-operative needs? Is the Co-operative Identity commonly perceived by both government and movement in an effort to adapt to the new changing environment? Are laws and legislation amenable to empowering the new Co-operative Identity? What type of entrepreneurial and corporate culture need to be set in place in order to preserve the co-operative identity and yet be competitive at the same time? A manifesto for change seems to be the compelling need these days.

The above questions are reverberating among co-operative leaders and governments alike owing to their keenness to see co-operatives flourish amidst the wave of market-oriented economies and recent political reforms taking place in many countries in this region.

Given the shift of paradigms in governance and economic competition, ICA ROAP is determined to engineer a more realistic approach to addressing the issue of legislation and competitive strength in its forthcoming "Chiang Mai Conference" in early 1997. Rather than simply conducting a series of workshops and a regional consultation prior to the Ministers Conference as was the case in previous occasions, ICA ROAP feels the compelling need to undertake a critical and thorough study on both the Legislative and Competitive Strength agendas. Such a study avoids cooperators and governments to "shoot off their hips" by merely discussing issues academically or subjectively in these workshops. Instead, the study seeks to recognize existing realities in the co-operative movement/system, and will attempt to pose recommendations based on hard facts, credible sources and objective observations. It will allow cooperators and ministers to take a harder look at the "real" co-operative picture in this region when challenged with unbiased recommendations in two Symposia and one Regional Consultation that will precede the Ministers Conference itself.

2. Scope of Evaluation

2.1 Rationale

Two crucial principles adopted by the ICA Congress and General Assembly in Manchester are: (a) Member Economic Participation, and (b)

Autonomy and Independence. The first one is a clear reinterpretation of the previous principle on “Limited Interest on Capital” and the latter, though not new to the co-operative movement, has been defined explicitly as a new principle.

The principle of “Autonomy and Independence” is key to determining the required shift in governance by governments and in raising capital for the co-operative. As autonomous and self-help organizations, co-operatives are controlled by their members. When co-operatives enter into agreements with external sources and organizations, particularly governments, or when they raise capital from outside sources they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy and independence. The study seeks to determine the extent to which legislation and policies of various governments in this region still “control” rather than “facilitate” or “enable” co-operatives to strengthen their autonomy and independence.

The principle of “Member Economic Participation” is key to determining co-operative competitive strength. Members contribute equitably to, and democratically control, the capital of their co-operative. To what extent is capital the common property of the co-operative? Many co-operatives are losing their identity because of external pressures to become capital-driven organizations almost similar to private business corporations. The study seeks to ascertain the extent to which (sampled) co-operative organizations in South East Asia and South Asia are able to compete in the market place while at the same time retain their identity as a “Co-operative” as adopted by the Manchester Congress.

In addition to the challenges posed by the above principles, it is also fitting to study the impact generated by past conclusions and recommendations of the Ministers Conferences since the first one held in Sydney in 1990, and the changes that have taken place as a result.

2.2 Objectives

Objectives of the Critical Study are as follows:

To produce a Critical Study Report which will assess the following areas of concern in terms of impact and changed positions of co-operatives in the Asia Pacific Region, and identifying lessons learned.

- 2.2.1 To determine the extent to which legislation and policies of various governments in the Asia Pacific region still “control” rather than “facilitate” or “enable” co-operatives to strengthen their autonomy and independence;

- 2.2.2 To ascertain the extent to which (sampled) co-operative organizations in South East Asia and South Asia are able to compete in the market place while at the same time retain their identity as a "Co-operative" as adopted by the Manchester Congress.
- 2.2.3 To carefully assess the effectiveness, deficiencies, risks and existing potential of Financial and Banking Co-operatives in select countries in Asia;
- 2.2.4 To carefully assess the effectiveness, deficiencies, risks and existing potential of co-operatives involved in Agri-Business, including - but not restricted to - property rights, agricultural processing and marketing in select countries in Asia;
- 2.2.5 To study the impact generated by past conclusions and recommendations of the Ministers Conferences since the first one held in Sydney in 1990, and the changes that have taken place as a result.

3. Conduct of the Study

3.1 Methodology

The study will be based on interviews with co-operative leaders from the cooperative movements and relevant government officials from select countries namely Indonesia, the Philippines, Malaysia, Thailand, Singapore, Sri Lanka and India. Official documents and literature of ICA ROAP will be consulted to represent the frame of reference. Measurement of study variables and relevant sources of data, documents, and key informants will be identified and reviewed.

Where feasible, a questionnaire will be employed to source and gather important data and information from ICA members in the Asia Pacific Region.

As well, relevant, and available records, reports, data and statistics on co-operative development in the above select countries in Asia will be examined in the process, and utilized in the final report, to authenticate findings and conclusions.

3.2 Study Team

The team will be composed of two main consultants, one from Indonesia and one from the Philippines. Both consultants will have proven expertise in undertaking in-depth studies on co-operative development but should not themselves be actively involved as directors or employees in co-operative development work at the moment in order to ensure objectivity. The study will be carried out through joint management by the study team, and the main

team will be responsible for the coordination, integration, summary and syntheses of all study inputs and outputs. The results should reflect a consensus of opinions and recommendations of the main study team.

3.3 Management

ICA ROAP, represented by Drs Robby Tulus as Project Director of PDLP, will assume overall management responsibility for the critical study and work with the study team in the planning and reviews of the TOR, Workplan, and outputs of the study. ICA ROAP will also prepare the necessary letters of authorization to the Study Team to enable them to set appointments with ICA members in the region.

When and where required, part-time consultants will be hired on a case to case basis to supplement data, information, and analyses, at the overall direction and supervision of the Study Team.

4. Products of the Critical Study

4.1 Overall Workplan

The Study Team will produce a detailed workplan on the basis of the above Terms of Reference.

The overall Workplan, which will serve as a general guide will be as follows :

1. March 01 - 02 : Briefing and finalize detailed workplan with the Study Team in Jakarta, Indonesia;
2. March 04 - 15 : Study proper : Indonesia
3. March 25 - 26 : Study proper : Singapore
4. March 27 - Apr 2 : Study proper : Malaysia
5. April 18 - 24 : Study proper : Thailand
6. Apr 25 - May 7 : Study proper : Philippines
7. May 09 - 25 : Report consolidation.
8. May 27 - 30 : De-Briefing of Draft Report and preparation of final report in Manila.
9. May 31 : Submission of Final Report to ICA.

Note : a) Sub Consultants of Sri Lanka and India will be identified and recruited by ICA ROAP in New Delhi under the overall direction of the Regional Director.

- b) Trips will be made simultaneously by the Study Team, with a minimum overlap of four days.

The following members and government agencies are to be visited :

1. Indonesia : DEKOPIN and select members
Ministry of Cooperatives & Small Business Enterprise.
2. Singapore : Singapore National Cooperative Federation (SNCF),
and NTUC Income.
3. Malaysia : ANGKASA, MCIS and MCCS.
Jabatan Pengurus Kooperasi (Department of Co-
operative Development) & the Cooperative College
of Malaysia.
4. Philippines : CUP, NATCCO, FFFCI.
Co-operative Development Authority.
5. Sri Lanka : NCC, SANASA, MPCS.
Ministry of Cooperatives, and Department of Co-
operative Development.
6. India : NCUI, NAFED, IFFCO, FISHCOPFED, NFUCBCS.
Ministry of Agriculture and Co-operatives.

As scheduled in the Workplan above, verbal and/or written reports will be made to update the coordinator/ICA ROAP on the progress of the Critical Study.

4.2 Study Report

Study report should contain at least, hence not restricted to the following:

1. An introductory section : overall background of coop environment in the Asia Pacific region;
2. A narrative section : chronology of significant events and key persons and organizations involved in conceptualization of study;
3. An analytical section : impact, lessons learned, findings, and changed scenario/condition following the three Co-operative Ministers' Conferences, with special emphasis on legislation, policies, co-operative finance/banking, and agri-business development.
4. Conclusions and recommendations : synthesis of findings and assessment of issues and survey results to present study team views on ICA ROAP's capabilities in initiating and organizing the Sydney, Jakarta, and Colombo Conferences, including its follow up action plans, and potential outgrowth of the upcoming events leading to the Chiang Mai Conference.
5. An Executive Summary of not more than 4 pages.

(Second Draft) Prepared by : Robby Tulus
Manila, January 28, 1996.

Persons' met during the Study

INDONESIA

Siti Adimurwani

Bank Rakyat Indonesia
Jl. Jend. Sudiman Kav. 44-46 Jakarta
Indonesia

Dr. Ir. Salim Al Bakry, MBA

Secretary General
Gabungan Koperasi Susu Indonesia (GKSI)
Jl. Prof. DR. Soepomo, SH
No. 178 Jakarta - 12870
Indonesia

Ir. Rozak M. Astira

Expert Staff of Board of Director
Gabungan Koperasi Susu Indonesia (GKSI)
Jl. Prof. Dr. Soepomo SH. No. 178
Jakarta 12870
Indonesia

Teguh Boediyana

Director for Livestock Cooperative Development
Ministry of Cooperative and Small Enterprise (MCSE)
Jl. HR. Rasuna Said
Kav. 3-5 Jakarta Selatan
Jakarta - 12940
Indonesia

Michael Casey

Country Program Director
Canadian Co-operative Association
Jl. Petogogan 1/16A
Jakarta 12140
Indonesia

Drs. S. Darsono

Department Kooperasi dan PPK Republik Indonesia
Kantor Wilayah Propinsi Jawa Barat
Jl. Soekarno - Hatta No. 705
Bandung
Indonesia

H. Eddiwan

Kooperasi Asuransi Indonesia (KAI)
Jl. Iskandarsyah 1/26
Kebayoran Baru, Jakarta 12160
Indonesia

Semi Djaja Effendie

CV. Mastani
Import-Export Machinerics-Industrial
Agricultural Chemicals Agency and Trading
Jl. Bandungan Asahan II/12 Jakarta 10210
Jakarta

Ir. H. Nandang Ginanjar

Manager
Gabungan Kooperasi Susu Indonesia (GKSI) Jawa Barat
Jl. Gede Bage No. 128
Kotak Pos 3 Ujungberung
Bandung, Indonesia

James C. Lowe

Program Manager
Canadian Co-operative Association
Jl. Petogogan 1/16A
Jakarta 12140
Indonesia

J.K. Lumunon

Director International Affairs
The Indonesian Cooperative Council (DEKOPIN)
Wisma Kooperasi, Jl. Letjen S. Parman Kav. 80
Jakarta 11420
Indonesia

Drs. R. Ruliarsono, MM

Bank Rakyat Indonesia
Urusan Bisnis KPK - Kantor Pusat
Jl. Jend. Sudirman No. 44-46
Jakarta
Indonesia

Rodolfo J. Santana

Financial & Credit Advisor
Department of Agriculture Directorate General of Estates
Tree Crop Small Development Project (TCSDP)
Gedung Deprt. Pertanian
Jl. Matraman Raya 40
Jakarta Timur
Indonesia

Drs. H. Sarsaban A.

Jl. Mataraman 16, Bandung
Indonesia

Ir. R. NY. K. Siswoko

(DEKOPIN)
Wisma Kooperasi
Letjen s. Parman Kav. 80, Slipi
Jakarta, Indonesia

Drs. P.M. Sitanggang

President
Credit Union Coordination (CUCO) of Indonesia
II Gunung Sahari III/7
Lantai, Jakarta 10610
Indonesia

R. Soepriyono

Kooperasi Simpan Pinjam "KODANUA"
Daerah Khusus Ibukota Jakarta
Jl. Latumenten I Gg. V. No. 5
Kel. Jelambar JAK-BAR
Indonesia

Agus Susono

Vice Chairman

Indonesian Cooperative Insurance (KAI)

Jl. Tebet Barat Dalam Raya No.15

Jakarta 12810

Indonesia

Ratna Djuwita Wahab

Advisory Expert to the Minister

For National Manpower Planning Affairs

Office of the Minister of State for

National Development Planning/Chairman of the

National Development Planning Agency (BAPPENAS)

Jl. Taman Suropati 2

Jakarta Pusat 10310

Indonesia

Eiko Whismulyadi

Badan Perencanaan Pembangunan Nasional

Jl. Taman Suropati No. 2

Jakarta 10310

Indonesia

MALAYSIA

Professor Diraja Ungku A. Aziz

President

ANGKASA

No. 12, Lorong 16/9A

46350 Petaling Jaya

Selangor Darul Ehsan

Malaysia

Dr. Mohd. Ali Hj. Baharum

Koperasi Belia Islam Malaysia Berhad

64-A Jalan Kampung Attap

50460 Kuala Lumpur

Malaysia

Zainal Baba

Extension & Publicity Officer
Department of Co-operative Development
Tingkat 6 & 7, Block A
Wisma Semantan, No. 12, Jalan Gelenggang
Bukit Damansara, 50490 Kuala Lumpur
Malaysia

Halid Hasbullah Boestman

General Manager
KOSWIP
No. 66 Jalan Padang Belia
Off Jalan Tun Sambanthan
Peti Surat 10202, 50706 Kuala Lumpur
Malaysia

Hj. Abd. Rahman Tail

Director, Operations
Farmers Organization Authority (FOA)
7th Floor, F.O.A.
Pusat Bandar Dmansara
Malaysia

Mohd. Tahir B. MD. Hassan

General Manager
KOPASAR
69 Jalan Haji Hussein
50300 Kuala Lumpur
Malaysia

MD. Yusof HJ Samsudin

Deputy Director General
Department of Cooperative Development
Malaysia
Floor 6 & 7, Block A, Wisma Semanthan
No. 12 Jalan Gelenggang, Bukit Damansara
50490 Kuala Lumpur

Armi HJ. Zainudin

Acting Director
Cooperative College of Malaysia
103, Jalan Templer, 46700 Petaling Jaya
Selangor, Malaysia

THE PHILIPPINES

Prof. Edna Aberilla

Chairperson
Cooperative Development Authority (CDA)
5th Floor, Ben-lor Building
1184 Queen City
Philippines

Ms. Rigby Aguila

BARBD
Department of Agrarian Reform (DAR)
Elliptical Road, Diliman
Quezon City
Philippines

Mr. Felix Borja

Executive Director
Cooperative Union of the Philippines (CUP)
CUP Bldg., Roces Avenue, cor. Mother Ignacia St.
Quezon City
Philippines

Mr. Tom Cabuena

BARBD
Department of Agrarian Reform (DAR)
Elliptical Road, Diliman
Quezon City, Philippines

Mr. Edgar Comeros

Executive Director
Visayas Cooperative Development Center (VICTO)
1st Street, Beverly Hills
Lahug, Cebu City, Philippines

Mr. Rudy Dalangin

General Manager
National (NAMVESCO)
2121 Del Mundo Bldg., Taft Avenue
Malate, Manila, Philippines

Ms. Teresita De Leon

General Manager
National Confederation of Cooperatives (NATCCO)
227 J.P. Rizal Street, Project 4
Quezon City, Philippines

Mr. Benito Estacio

Executive Director
Agricultural Credit Policy Council
Department of Agriculture (DA)
Elliptical Road, Diliman
Quezon City, Philippines

Mr. Tony Hernandez

Senior Vice President
Field Operations
Land Bank of the Philippines (LBP)
319 Sen. Gil J. Puyat Avenue Ext.
Makati, Metro Manila, Philippines

Fr. Benedicto Jayoma

Executive Officer
Philippine Federation of Credit Unions Organizations (PFCCO)
4th-J, Columbian International Tower
500 Santol Street, Sta. Mesa
Manila 2806, Philippines

Atty. Arthur Jimenez

General Manager
Coop Insurance System of the Philippines (CISP)
#80 Malakas Street, V. Luna Road
Diliman, Quezon City, Philippines

Mr. Nemesio Miranda

Executive Director

Tagalog Cooperative Development Center (TAGCODEC)
Col. Guido Street, Angono, Rizal, Philippines

Mr. Raul Montemayor

Federation of Free Farmers Cooperatives, Inc. (FFFCI)

41 Highland Drive, Blue Ridge
Quezon City 3008, Philippines

Mr. Moises Sevilla

General Manager

Paco-Soriano Cooperative
1155 Josefa Llanes - Escoda Streets
Paco, Manila, Philippines

Mr. Soegita

Executive Director

Asian Development Bank (ADB)
P.O. Box 789, 1099 Manila, Philippines

THAILAND

Mr. Chuchart Insakang

Konsorn Kompakdee

Administration Manager
56/2 Moo 3, Ramkhamhaeng Rd.,
Buengkum, Bangkok 10240
Thailand

Dr. Maneenil S.

Deputy Director

The Cooperative League of Thailand
13 Pichard Rd., Dusit
Bangkok, Thailand

Manit Kamolvej

Deputy Director General
Cooperative Promotion Department
Krung Kasem Road, Theves
Bangkok 10200, Thailand

Pittayapol Nattaradol

Executive Vice President
Bank For Agriculture and Agricultural Cooperatives
469 Nakornsawan Rd.
Bangkok 10300, Thailand

Dr. Maneenil S.

c/o Co-operative League of Thailand
13 Pichai Road, Dusit
Bangkok, Thailand

Mr. Pipat Paethong

Therdpat Patanasittangkur

General Manager
The Agricultural Co-operative Federation of Thailand, Limited
79 Ngamwongwan
Ladyao Chatuchak
Bangkok 10900

Chalerm Prajamthaen

Assistant Director of Farmers
Institution Promotion Division
Bank for Agriculture and Agricultural Cooperatives
469 Nakornsawan Rd.
Bangkok 10300 Thailand

Police Lieutenant Gen. Chalerm Rozanapradit

Chairman
Co-operative League of Thailand (CLT)
13 Pichai Road, Dusit
Bangkok 10300, Thailand

Benjawan Saadpak

Chief, Foreign Relation Section
Technical Division
Cooperative Promotion Department
Krung Kasem Road, Theves
Bangkok 10200, Thailand

Saovanee Shoojan

Cooperative Promotion Department
12 Krung Kasem Rd., Theves
Bangkok 10200, Thailand

Panee Wattanachongkon

Cooperative Auditing Department
12 Thewes, Krungkasem Rd.
Bangkok 10200, Thailand

SINGAPORE

Mr. Tham Koon Yan

Registrar of Co-operative Societies

Mr. Tan Kin Lian

SNCF Life Trustee & INCOME

Mr. Nga Thio Hoe

Chief Executive

Singapore National Co-operative Federation (SNCF)
510 Thomson Road #12-02, SLF Building
Singapore

Mr. Mark Nichol

General Manager

Telecoms Credit Co-operative

Mr. S. Moganaruban

Chairman

Telecoms Credit Co-operative