

COOPERATIVE ENTERPRISES

Services, Practices, and Performance

ABOUT THE BOOK

This book is a compendium of selected papers from the 2nd International Conference of Cooperatives of the Institute of Cooperatives and Bio-Enterprise Development (ICOPED). It is a knowledge product intended to demonstrate the multidimensional model of cooperative enterprise through a collection of evidence-based research outputs, documentation of best practices, and inspiring stories of cooperatives drawn from the Philippines and other countries. The desire to raise awareness and understanding of the cooperative enterprise model and to position it as an acknowledged viable form of enterprise is the key motivation of ICOPED for publishing this book.



COOPERATIVE ENTERPRISES
Services, Practices, and Performance
Sumalde · Quillo · Luis

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Zenaida M. Sumalde
Karen P. Quillo
Pilipinas M. Luis
Editors

Institute of Cooperatives and Bio-Enterprise Development
College of Economics and Management
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Cooperative Enterprises

Services, Practices, and Performance

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Foreword

The University of the Philippines Los Baños (UPLB) through the Institute of Cooperatives and Bio-Enterprise Development (ICOPED) of the College of Economics and Management (CEM) has once again embarked on a significant undertaking towards cooperative development. ICOPED is the lead academic unit of UPLB that specializes in the field of cooperatives. It provides a strong focus on the development of cooperatives as viable economic and social business enterprises through its instruction, research, extension and training, networking, and policy advocacy programs. Its dedication to contribute to cooperative development is also the Institute's key approach towards supporting UPLB's goal of becoming a globally competitive graduate and research university.

This book entitled "Cooperative Enterprises: Services, Practices, and Performance" is a compendium of selected research papers from ICOPED's 2nd International Conference on Cooperatives (ICOOP2015), which was held jointly with UP Mindanao's 7th International Conference on Agribusiness Economics and Management on October 14-17, 2015 in Davao City, Philippines. ICOOP2015 was organized in cooperation with the Cooperative Development Authority in celebration of the Philippine Cooperative Centennial Year. Earlier in 2012, ICOPED also published a book entitled "Cooperative Enterprises: Key to Sustainable Economic and Social Progress," from the paper contributions of the 1st International Conference on Cooperatives, which was held in celebration of the 2012 International Year of Cooperatives.

Through the initiative of ICOPED, we are regularly collecting, producing and disseminating knowledge resources on cooperatives as our commitment to support the global cooperative movement's goal of promoting greater awareness, understanding and recognition of the cooperative form of enterprise. With our contribution to the knowledge bank of cooperatives, we hope to help build the cooperative identity and position the cooperatives as acknowledged leader in sustainable development. As emphasized by the International Cooperative Alliance, we need to constantly examine the progress and impact of cooperatives in terms of addressing the social, environmental and economic issues facing the different industry sectors and the global economy as a whole.

The book contains 25 recent studies that deal with the multidimensional aspects and concerns of cooperatives. This resource will not only benefit the cooperative sector but will also be useful to educators, practitioners and policymakers who, like ICOPED, commit to support cooperative development and promotion.

On behalf of the entire UPLB constituency, I congratulate and commend ICOPED for a job well done! Continue our cooperative advocacy as the pioneer institution in cooperative education in Asia and the Philippines.



FERNANDO C. SANCHEZ, JR.
Chancellor, UPLB

Preface

*The more generous we are, the more joyous we become.
The more cooperative we are, the more valuable we become.
The more enthusiastic we are, the more productive we become.
The more serving we are, the more prosperous we become.*
~ William Arthur Ward

The global cooperative movement through the initiative of the International Cooperative Alliance (ICA), envisions the cooperative form of business to become the acknowledged leader in economic, social, and environmental sustainability; the model preferred by people; and the fastest growing form of enterprise by year 2020. These are the goals set out under the 2020 Vision, which is documented in the Blueprint for Co-operative Decade of ICA. In various ways, cooperatives have proven themselves as a viable enterprise model that is capable of making significant contributions and impacts to the economy and the society in terms of the different pillars of development. Their twin goals of economic and social progress, their unified values and principles, and their unique features and practices build their cooperative identity, which distinguishes cooperatives from other forms of enterprises.

However, the feats and potentials of cooperatives are sometimes understated due to lack of greater recognition and understanding of the cooperative identity. Thus, in the 2020 Vision, the cooperative movement is being challenged to take strategic actions to position themselves as builders of sustainability and to build the cooperative message and secure the co-operative identity. In support of this, cooperative advocates, educators, and development practitioners have made great strides toward promoting the cooperative identity.

We from the Institute of Cooperatives and Bio-Enterprise Development (ICOPED) of the College of Economics and Management (CEM), University of the Philippines Los Baños (UPLB) take part in this effort as we believe that greater knowledge and understanding about cooperatives will open more opportunities for the sector's development and for maximizing its contributory impacts. As such, ICOPED is once again producing a knowledge resource on cooperatives entitled, "Cooperative Enterprises: Services, Practices, and Performance" as its way of spreading and sharing information about cooperatives as an existing form of enterprise and making far more people aware and knowledgeable of the model. As the book demonstrates different states and scenarios of cooperatives, this material is also expected to stimulate critical analysis and perhaps, debates about cooperatives among academicians, business practitioners, policymakers, cooperative stakeholders and so on.

This eloquent book contains predominantly case researches and desktop reviews, which focus on the different dimensions of cooperative as an

organization, as an enterprise and as a support service provider. It provides sets of great deal of information to absorb, which are briefly described below.

- Part I provides an understanding of the role and potential of cooperatives in enterprise development particularly in the field of agribusiness;
- Part II focuses on the importance of improving human resource competencies within cooperatives;
- Part III explains the unique features and practices of cooperatives in governance and management as well as the issues affecting their organizational capacities;
- Part IV looks into the financial viability and performance of cooperatives and how they benefit their members and the communities;
- Part V discusses the participation and contribution of cooperatives in improving financial access of people; and
- Part VI analyzes development issues, which include food security, environment, and women in the context of cooperatives.

It is not the intention of this book to provide a comprehensive and in-depth holistic analysis of the cooperative enterprise model but rather to present the actual state of the cooperatives and the issues and challenges they are facing amid their success in improving the lives of their members and the communities. Researchers, students, practitioners, policymakers and cooperative advocates and enthusiasts can build upon these research outputs to identify further actions to support the cooperative enterprise development.

Numerous individuals, organizations, state universities and colleges contributed to this publication. The book drew papers from selected participants of the 2nd International Conference of Cooperatives (ICOOP2015) based in Cooperative College of Malaysia; Department of Cooperation in Gandhigram Rural Institute-Deemed University in India; College of Banking and Insurance and Faculty of Economics and Administrative Sciences in Gazi University in Turkey; Faculty of Economics and Administrative Sciences in Karabuk University in Turkey and in the Philippines, College of Industrial Technology in Central Bicol State University of Agriculture; Johnny Refran Farm; School of Business and Management in Marinduque State College; Misamis Oriental State College of Agriculture and Technology; Misamis Occidental Development Institute for Community Empowerment; College of Business and Economics in Nueva Vizcaya State University; Sta. Lucia Agrarian Reform Community Multipurpose Cooperative; Sorosoro Ibaba Development Cooperative; CEM and College of Public Affairs and Development, UPLB; Division of Cooperatives Management in West Visayas State University; and School of Business and Management in Xavier University.

The ardent insights and rich experiences imparted by the Conference key note and plenary speakers and panel discussants have inspired and motivated us to pursue this book — Dr. Eulogio T. Castillo of the Cooperative Development

Authority; Engr. Sylvia O. Paraguya of the National Confederation of Cooperatives; Ms. Elsie A. Remonte of the Philippine Cooperative Center; Mr. John Y. Gaisano of the Davao City Chamber of Commerce; and Atty. Koronado B. Apuzen of FARMCoop. We are also very thankful to the Office of Research of the University of the Philippines Mindanao, our key partner in ICOOP2015, that has been instrumental to the success of the Conference and realization of this book.

In the publication process, key persons who encouraged and supported the completion of this book are acknowledged with grateful appreciation and highest esteem: UPLB Chancellor Fernando C. Sanchez, Jr. and CEM Dean Isabelita M. Pabuayon. Likewise, we would like to express our profound thanks to ICOPED faculty and researchers – Jan Danica S. Asma, Liezel S. Cruz, Arminga B. Peria, and Alicia R. Quicoy for serving as language editors of the book, as well as to Ronnel M. Rafols and Rosalinda V. Manese for facilitating its production.

To these, and to numerous individuals who made this book possible, we express our heartfelt gratitude.

ZENAIDA M. SUMALDE
KAREN P. QUILLOY
PILIPINAS M. LUIS
Editors

Part I

Cooperative Enterprise Development

CHAPTER 1

Assessment of the Potential of an Organizational Enterprise for Coco Coir Production and Marketing in Misamis Oriental, Northern Mindanao, Philippines

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Introduction

The Philippine government with its efforts through the Department of Agrarian Reform (DAR) is oriented towards the attainment and sustenance of improved quality of life of every Filipino. DAR is entrusted to realize the vision through its Agrarian Reform Community Connectivity and Economic Support Services (ARCESS) Program. The ARCESS Program is a government-led initiative for an inter-sectoral partnership to help improve the organizational capabilities of participating agrarian reform beneficiaries' organizations (ARBOs) in agri-enterprise development.

In order to fast track the services, DAR collaborates with Misamis Oriental State College of Agriculture and Technology (MOSCAT), Claveria, Misamis Oriental as service provider to conduct the Organizational Enterprise-Needs and Design Assessment (OE-NADA) based on proposal submitted for coco fiber production and marketing. This project was undertaken to conduct and identify the needs of agri-enterprise and gaps on technology and facilities or machineries of Sugbongcogon, Misamis Oriental Kaulayan, Kidampas, Ampiang, Mimbuan and Poblacion (KKAMP) Agrarian Reform Community (ARC) - Agrarian Reform Beneficiaries Multipurpose Cooperative (SARBEMCO). Likewise, the Tudela, Misamis Occidental clustered ARCs namely Balon Multipurpose Cooperative (COSIBA), Buenacama Agrarian Reform Cooperative (BUENACAMA) and SMART ARC Credit Cooperative (SMART) were assessed. MOSCAT as service provider shall strategize and recommend feasible plan for capacity development efforts for empowerment of this ARBO.

KKAMP ARC has been a recipient of decorticating machine provided under the ARB Agribusiness Entrepreneurship Development Program (AREDP). With the strong support of the LGU of Sugbongcogon to SARBEMCO and

with the experience of some of the Board of Directors, subject organization has decided to engage in coco fiber production utilizing the decortivating machine. The clustered ARCs namely Balon Multi-Purpose Cooperative (COSIBA), Buenacama Agrarian Reform Cooperative (BUENACAMA) and SMART ARC Credit Cooperative (SMART) Tudela, Misamis Occidental have been a recipient of various projects facilitated by DAR and Local Government Unit (LGU). They have also a proven good working relationship with the LGU, DAR, Department of Agriculture (DA), Department of Trade and Industry (DTI), Philippine Coconut Authority (PCA), Mindanao Rural Development Program (MRDP) and Japan International Cooperative Agency (JICA) for various projects and training programs.

The implementation of the proposed project will become one of the potential enterprise that could contribute to the increase of household incomes of its members as well as for job generations within the community.

Objectives of the Study

In general, OE-NADA aimed to assess the feasibility of the sub-project proposal submitted by the Department of Agrarian Reform Provincial Office (DARPO). Specifically, the study sought to examine the following:

1. organizational capacity of lead ARBOs and other ARBOs in terms of human resource; policy systems and procedure; governance, financial/ fiscal resource, and existing enterprise/operations, among others;
2. access to credit and market;
3. lead ARBO's enterprise capacities to implement the sub-project;
4. crop and crop production suitability; and
5. suitability to be identified intervention requirements: business development; technology extension; common service facilities; and other development opportunities.

Methodology

Data were taken from the Training Needs Assessment (TNA) survey, results from FGD and secondary data from the ARC development plan, Organizational Maturity Assessment (OMA 2011-2012) report, Municipal Development Council Planning and Development (2001-2010).

A total of 58 members in Sugbongcogon, Misamis Oriental and 79 in Tudela, Misamis Occidental cooperatives were identified as respondents to the TNA through purposive sampling technique. Answers to the TNA were validated through the FGD. Data were analyzed qualitatively and quantitatively through descriptive statistics. Frequencies, percentages, averages, and rankings were used to describe the results.

Results and Discussion

Socio-Demographic Profile of the Respondents

Based on the result of TNA in Sugbongcogon KKAMP ARC, more than half of the members (54%) are in the age range of 51 to 65 years old. There is almost equal number of male and female members; majority are married; 25 percent are elementary graders; household size ranges from 1 to 5; tribal origin is Cebuano; and 83 percent had been residing in the study site for more than 26 years.

In the three clustered ARCs in Tudela, majority of the respondents are 41 to 65 years old of age and more than 59 percent are female and mostly elementary and high school graduates. Between 61 and 84 percent are married with a family size of 1 to 5 persons; either of Cebuano or Boholano ethnic origin and residing in their places for at least 26 years.

Coconut is the most commonly planted major crop by the farmers. More than 70 percent in Tudela ARCs and 93 percent in Sugbongcogon KKAMP ARC are CLOA holders. The majority of respondents in both sites rely on their own labor and capital in farming and most of them have an average annual income of not more than PHP20,000.

Technical Knowledge and Needed Facilities in Coco Fiber Production

At least 68 percent in Tudela ARCs and 75 percent in Sugbongcogon ARC do not have technical knowledge in coco fiber production. However, they have knowledge on their vision, mission and goals (VMG), constitution and by-laws, and responsibilities.

They are willing to undertake or enhance the coco fiber production, processing and marketing since few had undergone trainings related to fiber production. The needed facilities to enhance their coco fiber enterprise include decortivating machine, twining, and baling machine as well as looming machine. They also raised the putting-up of warehouse. Though hauling truck is not included in the Common Support Facility (CSF) to be provided by DAR but still they wished to have one to facilitate production, processing and marketing.

Capability Building Trainings

Training needs identified include those related to business development and managing business enterprise, cooperative management training, machine operation and maintenance, and exposure trips to establish coco fiber enterprise. ARC members also want to acquire technologies for baling, twining, and price information for marketing through seminars and trainings. Bio-fertilizer production training is also sought in Tudela ARC.

Environmental Scan

In the environmental scanning of the ARC localities, there is an abundance of natural, physical, political as well as social capital. These resources boost the positive business attitudes of the ARBOs. In addition, they have been the recipients of the DAR through the ARCESS projects as external support to boost the spirit of cooperativism, self-reliance, and initiatives.

Needs Assessment

Crop Suitability

The revised Philippine Coconut Growing Zones (Magat 2001) showed Misamis Oriental and Occidental as highly suitable for coconut production. Sugbongcogon and Tudela are two of the municipalities where coconuts are considered as their primary crop with voluminous coco husks going into wastes, whose disposal sometimes becomes a problem to farmers. Thus, the ARC sites are highly suitable for coco coir processing and bio-organic fertilizer (BOF) production as an agri-enterprise of the identified ARBOs.

Farming Systems and Practices

The KKAMP ARC where SARBEMCO is part of covers 139.25 hectares (ha). The average farm size by farming households is 2.09 ha. The ARBO used the traditional method of de-husking and the improvised twining equipment in twining. Due to unavailability of decorticating machine which is the primary equipment for extracting fiber from coconut husk, the ARBO just bought fiber from DAR/DTI and make it into twine, coco net, and coco mat.

In the case of ARCs in Tudela, the total area covered and planted with coconuts as a target crop accounted for 604.75 ha. Average farm size of households in COSIBA ARC is around 2.5 ha while it is 0.81 ha and 1.34 ha for SMART ARC and BUENACAMA ARC, respectively. The ARBO members are still using the manual method of production system with high dependence in working animals for their production activities. Majority of them have no experience in coco coir production.

ARBO's Organizational Capacities

Vision, Mission, and Goal. The KKAMP ARC and the Tudela ARCs has a clear Vision, Mission and Goals statement which stresses the spirit of cooperativism to put up capital build-up for emergency purposes and prosperity

of the members. The ARBO's goal statements are known and agreed by the members. Their VMG is in consonance with the LGU VMG statement. They have an annual schedule for planning and evaluation.

Organizational Structure. Each officer of the KKAMP ARC has specific role and responsibilities to fulfill. The duties and responsibilities of the officers are found in its constitution and by-laws. Based on the constitution and by-laws, officer's term is one to three years. There is a set of constitution and by-laws of the ARBOs but the by-laws of the KKAMP ARC are not updated annually.

Based on FGD, it was found out that their cooperative chair holds the office since the beginning of its operation. There were elections made but the members put him in the status quo. Those occupying the lower positions just shifted from one position to the other. From the feedbacks, the chairman is characterized as strong-willed leader. The general assembly has full confidence on their officers.

In the case of Tudela ARCs, all of the ARBOs have at least five active members of Board of Directors (BOD) with well-defined roles and functions and tenure that are indicated in their constitution and by-laws. The organizations' operational policies were amended as the need arises to be responsive to the needs of time.

Participation. Based on the result of the assessment and the Organizational Assessment document, Tudela ARCs have committed members who diligently pay their annual dues and savings deposits to their cooperative. Members are also active in their attendance to trainings, meetings and decision-making as evident in their attendance documents.

For KKAMP ARC, members are also active in paying their annual dues and capital build-up but only few attend the regular meetings. At present, many members are already aging. They are the pioneer members of the ARBO who could hardly participate in their cooperative activities and instead send somebody to represent them. This is a serious problem of the organization.

Fiscal Resources

Based on the assessment and Organizational Maturity Assessment (OMA) 2012 documents, the ARBOs do not have past due accounts to any government and private financing institutions. The organizations were just relying on their internally generated funds and have not availed any loan for the past three (3) years. The organizations are afraid to borrow money especially for capital investments.

Community Network

The ARBO of KKAMP ARC was a recipient of decorticating machine from the Agribusiness Entrepreneurship Development Project of DAR. It has good working relationship with LGU- Sugbongcogon, IFAD, NMCREMP, MINCIADP, PCA and DTI. On the other hand, the ARBOs of Tudela ARCs, as found in the assessment and based on 2012 OMA report, have also been recipients of various projects facilitated by DAR and LGU. The ARBOs have a good working relationship with the LGU, DAR, Department of Agriculture (DA), Department of Trade and Industry (DTI), Philippine Coconut Authority (PCA), Mindanao Rural Development Project (MRDP) and Japan International Cooperation Agency (JICA) for various projects and training programs. Linkages with the Barangay Development Council (BDC) and Municipal Development Council (MDC) as well as in other primary, secondary and tertiary organizations have also been established.

Registration

Being organized as cooperatives, the ARBOs were registered with the Cooperative Development Authority (CDA) and not with the Securities and Exchange Commission (SEC).

ARBO's Agri-Enterprise Capacities

Potential of the Agri-enterprise

Based on the FGDs, coco coir production and marketing has a very high enterprise potential due to abundant supply of raw materials, labor and presence of market and because of its expanded applications to agriculture, agro-ornamental, and environment. The ARBO's current level of information about the potential agri-enterprise is sufficient. Though only few respondents have technical knowledge, they have information about it and they signified their interest on the coco coir production and marketing agri-enterprise.

In the case of KKAMP ARC, the ARBO started its agri-enterprise venture in a smaller scale and was a recipient of decorticating machine. But as of the moment, the machine is no longer functional since some parts are damaged or missing. Thus, it has resorted to buying fiber from the DTI which are used for twinning using an improvised twinning equipment to make mats and nets. Producing their own fiber rather than buying from other sources would lessen their cost for raw materials, thus they need the decorticating machine. The twinning machine will speed up the operation of the enterprise. Pressing machine

is used to minimize their space for fiber and the looming machine will give them value-adding products

While majority of the ARBO members in Tudela ARCs has no sufficient technical knowledge and actual engagement in coco coir production, they have information on the prospects in coco coir and BOF production. Although some of the members were able to attend a demonstration production process in the past done by the LGU of Tudela in collaboration with an NGO.

Viability of Returns vis-à-vis the Production and Processing Cost of the Potential Agri-enterprise

Based on the experience of SARBEMCO on their coconet product, the enterprise is seen to be viable. For every PHP3,750.00 invested they earned a net income of PHP2,250.00 or a return of PHP0.60 per peso invested. In the case of the ARCs in Tudela, despite the lack of experience in coco coir production and marketing, the experience of Philippine Coconut Authority-Zamboanga Research Center (PCA-ZRC) in their pilot project in coco coir production showed that the capital and other operating cost has been recovered in less than a year with the project's Internal Rate of Return (IRR) of more than 25 percent. Moreover, in the case of the investment model published by the Technology Utilization and Commercialization Services Group, Technology Resource Center of DOST, break-even period is 3.74 years with an average ROI of 26.76 percent.

Financial Risks Involved in the Agri-enterprise

Since the proposed project will only provide the Common Service Facilities (CSF), the ARBOs need to access funds for their operating capital in the form of loans. Any borrowed capital assumes a level of risks depending on how their agri-enterprise is to be managed that is highly dependent on the capabilities of the ARBOs.

Existing Financial Obligations of the ARBOs

The ARBOs have no financial obligations for they had not borrowed money from any lending institutions since they are still operating in a small-scale enterprise. However, from the interview with the key officials of the ARBOs, they said that it is likely that they will avail loans/credit for their starting capital when this project becomes operational.

ARBOs' Creditworthiness

The ARBOs are considered mature although the current financial record showed limited funds due to smaller agri-enterprise scale of operation. The wide membership and are duly registered with CDA with continued capital build-up mechanism and strong support of LGUs can be a proof of their credit worthiness.

Coco Coir Product and its Sustainability

The products are sold in the form of twines and mesh netting. There is an existing demand for the products in other locations. However, the supply of products is not enough to meet the demand. The sub-project is seen to be profitable based on DOST baseline data. It can be sustained because of the abundance of coco husk in the ARC sites being assessed. The farmers can sell their husks to the cooperative to earn additional income.

An evaluation of the proposed CSF as indicated in the sub-project proposal, as to its responsiveness and appropriateness to the needs of the proponents of the sub-project was carried out. Result of the assessment confirmed that the decorticating, sieving/screening, baling, twining, and cutting machines and loaming paraphernalia are appropriate and responsive to the needs for the implementation of the sub-project.

In addition, the farmers will favor machines that are diesel engine driven or single-phase electric motor driven to minimize the problems related to electrical supply (especially 3-phase line) during project implementation. In the case of Tudela ARC, for coco peat/dust processing (fiber, peat/dust block, and BOF) coco peat compactor/blocking machine and shredder are also appropriate while the hammer mill can be replaced by a bio-organic soil mixer for use in BOF production. Although the hauling truck is not considered for the CSF, it surfaced to be highly needed by the ARBs in running the sub-project during the conduct of the survey and FGD. Moreover, the hauling truck was also found in the assessment to be one of the critical capital investments for the successful implementation of the sub-project, especially in raw material collections and in marketing, thus highly recommended for re-consideration.

Nature of Professional Services to be Provided

The respondents were asked to rank the professional services listed in the questionnaire according to importance in their organization. The top five service areas they need are:

1. Agricultural extension and advisory services: They need an expert on coco fiber production to assist them and serve as their technical consultant.

2. Marketing strategies skills: The ARBO felt the need to learn about marketing strategies for promoting and marketing their finish product.
3. Production/ management skills: For SARBEMCO obtaining this skill is critical since the success of their enterprise depends on how they manage it.
4. Record keeping and financial management: This service area is critical to SARBEMCO since proper recordkeeping and financial management leads to successful enterprise.
5. Value-adding: Intervention to facilitate value-adding activities is very important to maximize the potential of the business to further engage in secondary processing rather than just selling raw fiber.

Design Assessment

The sub-project was assessed based on its feasibility in terms of quality and relevance and potential for sustainability, expansion, replication, and scaling up, impact of the identified interventions to the lives of the ARBs and its viability in terms of gender equality and environmental sustainability.

Feasibility of the Proposed Sub-project in terms of Quality and Relevance of Objectives and Design

On the potential of the proposed agri-enterprise; its members and other farmers make the interventions, implementation structure and mechanisms responsive to the needs for additional income streams for the ARBOs and its members. These interventions may not immediately address the existing problems and development gaps of the locality but primarily to the ARBOs and its members and ultimately to the wider population of the locality.

The implementation of coco coir production and marketing enterprise is responsive to the needs of ARBOs in the ARC sites assessed, its members and other farmers. The area is coco-based and almost all respondents plant coconuts. After every harvest of coconut, the husks are just left to rot while others are used as firewood. Coconut can be found anywhere in the area. Venturing in coco coir production and marketing enterprise will maximize its utilization, thereby increasing the household income of the ARB's to achieve their VMG.

Positive Impact of the Identified Interventions to the Lives of the ARBs and Other Farmers in the Project Site

Ultimately, improving the income of the ARBOs and its members will provide positive impact to the lives of the ARBs and other farmers in the project

site. The enterprise if realized, would provide additional income for the ARBs and other coconut farmers. They can add value on coconut by-products (husk and peat) which were before have no value. The project objective is to promote small and medium enterprise development in the barangay where the ARBOs are located and augment the income of the farmer beneficiaries.

Feasibility of the Sub-project in terms of Potential for Sustainability, Expansion, Replication, and Scaling Up

The organizational structures of the cooperatives of the ARBs are already in place that can take the responsibility of running the enterprise. As registered cooperatives, there is already the existence of mechanism to sustain, expand, replicate and scale-up the future successes of the proposed sub-project. However, a strong and reliable support system from the line agencies and NGOs must be present to make them start moving towards this end.

Viability of the Sub-project in terms of Community Participation

The ARBOs can play a major role in mobilizing community participation in the proposed sub-project implementation as an integrator of the raw materials (husks) collection, processing and marketing of outputs (fibers, BOF; mats, geonets, etc.). The ARBO members and non-members can share the activities and set-up decentralized collection centers for coco husks going to the production plant. These strategies can mobilize and generate participation of women and can increase livelihood opportunities for traditionally non-productive and non-employable family members. In addition, the project which is part of the ARCD Plan is integrated in the Municipal Development Plan of the LGUs and becomes the economic agenda of the municipality. It aims to promote small and medium enterprise development program in the barangay and augment the income of the farmer beneficiaries.

Viability of the Sub-project in terms of Gender Equality

In coco fiber enterprise, there is equal participation. There is division of labor for men and women. The project is of great help to women since they can participate in some activities like gathering of husks, twining, and handicraft making. The implementation of the proposed project can provide equal opportunities for men and women in terms of responsibilities and benefits. This will also bring women taking active roles in the access and control of resources and benefits and other gender-related changes in development initiatives.

Viability of Sub-project in terms of Environmental Sustainability

The sub-project has no negative effects on the environment. In fact, it helps in waste management of coco husks. While the use of fuel to run the equipment, may lead to carbon dioxide emission, this can be minimized by placing these proposed equipment in strategic area away from residential areas and are surrounded by trees. These trees will sequester carbon dioxide.

Coir nets or geo-textiles and bio-logs or fascines, two of the most important products of coir today both here and abroad, have been proven to be effective materials in controlling steep and road slopes erosion and for riverbank protection in technologically advanced countries. Geo-textiles are coir-based matting materials placed in sloping lands and embankments to hold soil and permit vegetative growth. It helps in erosion control and soil productivity conservation. The DPWH found geo-textiles more advantageous than other traditional materials such as concrete construction materials for erosion control for the following reasons: (1) the overall cost of coir as erosion control material was lesser by two-thirds; (2) it is comparable in durability as long as the soil is well stabilized prior to its installation; and (3) coir is eco-friendly and biodegradable and it promotes vegetation growth as it traps topsoil and keeps its nutrients intact (<http://fida.da.gov.ph>).

The production technology applications, equipment, and machineries for the proposed agri-enterprise can provide indirect environmental benefits but not totally climate change adaptive or resilient as these will still depend on electricity for power in which most power utility companies are dependent on fossil fuel.

Conclusion

The proposed sub-project of Integrated Coco Coir Processing and Marketing is found to be feasible for implementation based on assessment of its potential benefits for employment and income generation, maximization of raw material utilization, and environmental considerations. Key findings revealed that the general membership (100%) of the ARBOs are interested in engaging in the proposed agri-enterprise. Coco coir processing and marketing sub-project is highly feasible for the following justifications: (1) the ARCs of Tudela and Sugbongcogon are within the locations identified by the country highly suitable in coconut coco coir processing/production; (2) the ARBO members in the sites has a total of 743,998 hectares of coconut plantation, still non-ARBs in the locality have additional coconut plantations; (3) although the ARBO has good financial and fiscal resources, their capacity to access credits and sourcing of financial assistance through loans should be enhanced; and (4) in general, the proposed sub-project of Coco Coir production/Processing and Marketing as an

intervention will provide positive impact to the lives of the ARBs and other farmers in the project sites by increasing their income stream as well as for environmental protection considerations.

Recommendations

Assessment on the organizational enterprise of the cooperatives in the ARCs of Sugbongcogon and Tudela has led to the recommendation for ARCESS to tap SARBEMCO as the lead implementer in the KKAMP ARC in the implementation of the coco coir production and marketing enterprise in Sugbongcogon, Misamis Oriental and COSIBA for Tudela ARC due to its track records and capabilities to implement the sub-project.

The ARCESS sub-project on coco coir production and marketing enterprise in Sugbongcogon, Misamis Oriental and Tudela, Misamis Occidental should implement its components based on the common support facility and professional services identified.

The Business Development Services (BDS) should offer a range of quality services to assist SARBEMCO and COSIBA in developing a competitive and sustainable coco coir production enterprise. Thus, the BDS should have the credentials based on expertise and experiences on financial management, marketing management, production and technical management and organization management. Though four-wheel drive hauling truck is not included in the CSF it should be reconsidered as it is seen to be a critical provision which cannot be provided by the ARBOs at the start of the sub-project operation. DAR should fast track the provision of required CSF to avail of the current opportunities in coco coir processing and marketing.

SUMMARY

This chapter tackles the results of an assessment study of the potential of an organizational enterprise for coco coir production and marketing in Misamis Oriental, Northern Mindanao, Philippines. The assessment specifically aimed to identify the needs for technology and facilities of Agrarian Reform Beneficiaries in Misamis Oriental for implementation of an enterprise on coco coir production and marketing. Such analysis serves as a basis for strategizing and recommending feasible plan for capacity development efforts and empowerment of members of the identified organization.

Through a purposive sampling technique, a total of 58 members answered the TNA) questionnaire and results were validated through FGD and site reconnaissance. Findings were then categorized according to the existing condition of the organization, environmental scan and SWOT analysis of the organization and financial capacities.

The study revealed that coco coir production and marketing for SARBEMCO, COSIBA, BUENACAMA and SMART as organizations has a high potential of becoming an enterprise due to abundant supply of raw materials, available labor, and presence of market. Implementation of the said enterprise in the area would be responsive to the needs of its members and other farmers since farming in the locality is coco-based. Conducting an in-depth training for coco coir production and marketing, and the provision of village level machineries to complete the cycle of production from fiber to coco net products is one potential enterprise that could contribute to the increase of household incomes of its members as well as provide employment within the community.

With constant monitoring of the ARCs by DAR, the strong organizational structure of the cooperatives plus the positive support from the Local Government Unit of Sugbongcogon who is willing to assist the project by providing an initial funding assistance will favorably contribute to the sustainability of the project.

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CHAPTER 2

Cooperative Support to Enterprise Development: The Case of NIA - Region IV Employees Multi-purpose Cooperative, Laguna, Philippines

ALICIA R. QUICOY

Introduction

The global cooperative movement through the initiative of the International Cooperative Alliance has made multiple efforts to promote the “cooperative identity” by showcasing cooperatives as a unique form of enterprise model. At the national level, the Philippine cooperative movement also aims for a greater visibility and recognition of cooperatives as a viable form of enterprise. As cooperatives operate in different sectors of the economy, it is sometimes difficult to differentiate the cooperative with other business models. Continuous efforts must therefore be done to demonstrate the different types of cooperatives and how they operate as an enterprise. This study, which showcases a local cooperative enterprise, namely, the National Irrigation Administration (NIA) - Region IV Employees Multi-purpose Cooperative, Inc. (NEMCO) is another contribution to the body of knowledge of cooperatives in the Philippines from which other cooperatives and concerned stakeholders can learn from.

NEMCO is one of the only three cooperatives based in Pila, Laguna and one of the 349 active cooperatives in Laguna (CDA 2014). It has been existing for 24 years and nearing its silver anniversary in 2016. Its success is evidenced by its increase in assets, membership and being recipient of several awards including the prestigious Gawad PITAK Award given by the Land Bank of the Philippines (LBP) in 2012.

Objectives

This study aimed to examine how NEMCO enables and supports its members in venturing into enterprise development through its services. Specifically, the study sought to:

1. describe the membership trend of NEMCO;
2. examine the services provided by NEMCO for enterprise development;

3. analyze the financial performance of NEMCO; and
4. determine the factors that led to NEMCO's success or failure in enterprise development.

Methodology

The study used both primary and secondary data. Primary data were gathered through key-informant interviews (KIIs) of NEMCO officers. Focus group discussion (FGD) with cooperative members was also done for validation. The KIIs and FGD were conducted with the aid of a prepared interview guide. Secondary data from cooperative annual reports, financial reports and other documents relevant to the study were also used in the study. Due to unavailability of data, only three years (2011-2013) were covered in the analysis of financial performance. Descriptive analysis, simple means and growth rates were used in the analysis of data.

Results and Discussion

Historical Profile of NEMCO

NEMCO was organized in August 2, 1991 by the 34 employees of the National Irrigation Administration (NIA) Region 4 through the assistance of Mr. Cesar Lagmay, one of NEMCO's pioneering members and considered the Father of NEMCO. During the late 80s to early 90s, the salaries of the NIA employees came from the main office and depended on projects. Time came when subsidy of the employees was stopped. This circumstance led to the founding and organization of NEMCO, registered as a multi-purpose cooperative (MPC) with credit as its initial service provided to members.

The initial capitalization was PHP34,000 that came from the 34 members, sharing PHP1,000 each as an incorporator. The cooperative proceeded by undergoing Pre-Membership Education Seminar (PMES) conducted by UPLB. The initial business was the provision of credit to its members. It was registered as a multipurpose cooperative, retaining its original name up to this day, and had its first office within the compound of NIA office in Pila, Laguna until 2014 when NEMCO transferred office to the new building the cooperative owns located at Barangay Labuin, Pila, Laguna. Pila is a third class municipality in the province of Laguna with 17 barangays (www.wikipedia.org.net). According to the 2010 census, it has a population of 46,534 people and a total land area of 31.2 km².

Presently, NEMCO has a membership of more than 5,000 (regular and associate members combined) and with assets of about PHP175 million (M) worth, 18 types of loan windows, business tie-ups with the LBP, DA and with other cooperatives.

Management and Operation of NEMCO

Organizational Structure

The organizational structure of NEMCO is presented in Figure 2.1. The hierarchies of organization are composed of the General Assembly, the Officers (Board of Directors, other officers and committees), and the Management Staff, which is typical to a cooperative in the Philippines.

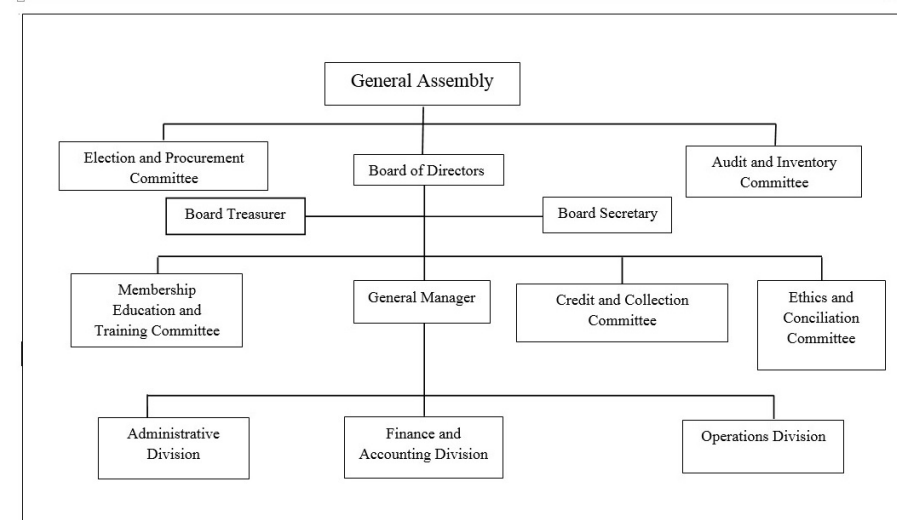


Figure 2.1. Organizational structure of NEMCO, 2014

Membership Trend

From the initial membership of 34, NEMCO has significantly expanded its membership. Originally, NEMCO members are composed of NIA employees only. In 1999, they opened its membership to non-NIA employees who were relatives of NIA employee-members with residence within the four municipalities of Calauan, Victoria, Pila and Sta. Cruz in Laguna. In 2002, NEMCO was re-launched opening its membership to all NIA and non-NIA employees with residence within Region 4.

Members are classified as regular or associate member. A regular member is one who has complied with all the membership requirements and entitled to all the rights and privileges of membership. Regular members have the right to run as officers, and vote during assembly meetings and election of officers sub-classified as: (1) valued member; (2) class A; (3) class B; (4) class D; and (5) no classification; where the members' privileges depend on. For example, the

maximum loanable amount and the type of loan a member can avail of depend on his membership classification. Membership classification also depends on the member's share in the capital build-up.

Associate members, on the other hand, do not enjoy the same rights of the regular members. They are considered under probation for 2 years before they can be regular members. An associate member has no right to vote and not be voted upon, and is entitled only to limited rights and privileges as defined in NEMCO's by-laws. He or she can only avail of the microfinance service of the cooperative up to a certain amount (e.g., PHP5,000 to PHP25,000) by forming themselves into a group under the condition that they must be creditworthy during the two years of being an associate member.

The membership trend from 1995 to 2013 is shown in Figure 2.2. The total members had grown with an average annual growth rate of 31 percent that peaked in 2011 with an annual growth rate of 288 percent. The membership started growing after opening it to non-NIA employees and expanding the area of coverage to Region 4.

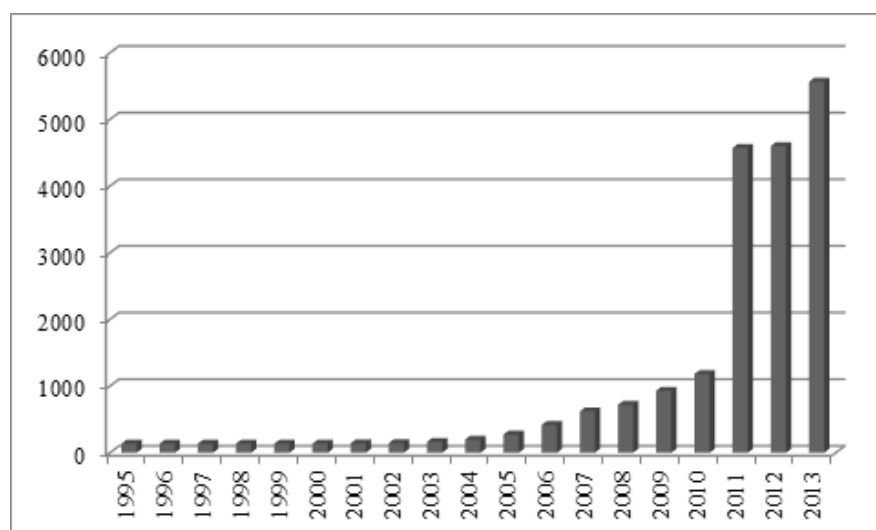


Figure 2.2. Membership trend of NEMCO, 1995-2013

The Officers and Management Staff

The officers are composed of the Board of Directors (BOD), Secretary, and Committee Members. The BOD is the body in-charge of the general supervision and control of the affairs of the cooperative. It prescribes policies consistent with the law, the by-laws, and the resolutions of the GA for the management of the Cooperative's business, and guidance of members, officers, and employees.

The BOD of NEMCO has seven members who are all professionals, wherein 6 out of 7 are government employees. The Board Secretary is appointed by the BOD.

NEMCO has five standing committees: Membership Education and Training Committee; Audit and Inventory Committee; Election and Procurement Committee; Credit and Collection Committee; and Ethics and Conciliation Committee. Elected are the five members of the Audit and Inventory Committee, and three members of the Election and Procurement Committee. After the election, the members of each committee elect its respective Chair. Appointed are the four members of the Ethics and Conciliation Committee, three members of the Credit and Collection Committee and the five members of the Membership Education and Training Committee (METC). The Vice-Chairman of the BOD serves as the ex-officio Chair of the METC.

For the past years, the office staff was headed by the General Manager who is working on a part-time basis and was assisted by an Assistant Manager. Presently, the former General Manager is the Executive Consultant and the Assistant Manager promoted to a full-time Manager, and the Assistant Manager position is currently not filled-up yet. NEMCO has 10 office employees including the executive consultant and the manager, 12 staff in Agribusiness and Microfinance Project, 13 staff in special Livelihood Project in Pila Branch, and seven in Pagsanjan Branch in 2013. The number of employees and positions has changed from the previous year. Table 2.1 shows the distribution of the office staff and project employees in different sections.

Table 2.1. Employees of NEMCO, 2013

Position	Number
Office Staff	10
Agribusiness and Microfinance Project	12
Special Livelihood Project (Pila Branch)	13
Special Livelihood Project (Pagsanjan Branch)	7
Total Office Staff	42

Business and Capitalization

Credit is the first and main economic activity of NEMCO. It is the felt need for credit source of NIA employees that made NEMCO into being. Before, the funds for lending were limited and the members' applications for loans were queued for its turn to be granted the loan. Presently, the queuing is no longer happening. From the original credit service provided to its members, the cooperative expanded its credit services to 17 types of loans: (1) regular loan, (2) production loan, (3) small scale business loan, (4) petty cash loan,

(5) hospitalization loan, (6) staff loan, (7) time deposit loan, (8) Pasaloan, (9) DASAL, (10) calamity loan, (11) holiday loan, (12) dream loan, (13) educational assistance loan, (14) CBU loan, (15) salary loan, (16) SLP loan, (17) rice productivity loan, and (18) microfinance loan. Table 2.2 shows the total amount of loan releases for the past three years (2011-2013) and the corresponding gross income and net surplus which were all steadily increasing. The average annual growth rates are all positive with the biggest with the net surplus of 43 percent.

Table 2.2. Credit service of NEMCO, 2011-2013

Item	Amount (PHP)			Growth rate (%)		
	2011	2012	2013	2011-2012	2012-2013	Average
Loan Releases	51,769,092	57,646,545	57,879,202	11	0.40	6
Gross Income	6,976,818	7,645,075	9,154,616	10	19.75	15
Net Surplus	1,142,280	2,031,866	2,202,626	78	8.40	43

The other major sources of NEMCO's net surpluses are microfinancing, the rice production program (RPP) in partnership with LBP, the Special Livelihood Project (SLP) and the Agri-Store.

Microfinancing started in 2009. This window is intended for agribusiness marketing entrepreneurs. This facility is also open for associate members, who form themselves into cluster, the amount of which ranges from PHP5,000 to PHP25,000. They are required to attend meetings and trainings, and credit investigation (CI) is done before loan is granted. The amount of loan releases, gross and net surplus are shown in Table 2.3. The loan releases more than doubled from 2011 to 2012 but declined in 2013. This however, did not affect the net surplus which has grown steadily.

Table 2.3. Microfinance service of NEMCO (in PHP), 2011-2013

Item	2011	2012	2013
Loan Releases	12,397,300	26,521,000	23,665,537
Gross Income	3,445,821	4,447,178	4,290,824
Net Surplus	373,508	707,818	723,120

The Rice Production Program is a credit service solely for rice farmers in partnership with the LBP that started in 2009. NEMCO serves as a conduit between the rice farmers and LBP. The program started with a credit line of PHP500,000 to PHP20,000,000 in 2014. For 2015, this facility is further expanded to PHP35,000,000. For the years 2011-2013, loan releases, gross income and net surplus were increasing every year (Table 2.4).

Table 2.4. Rice production program transactions (in PHP), 2011-2013

Item	2011	2012	2013
Loan Releases	22,269,200	24,980,900	31,552,600
Gross Income	2,166,885	2,676,259	2,966,464
Net Surplus	887,123	853,872	1,558,913

NEMCO is continuously exploring other business ventures and services to better cater to the needs of its members and other clients. At present, it is engaged in other business activities aside from credit. These include the following: (1) special livelihood project; (2) agri-store; (3) dairy cattle production; (4) travels and tours ticketing services; (5) photocopying services; (6) food catering.

The Special Livelihood Project includes needle work and wig-making. NEMCO entered into contract with Arts Nature, formerly a Japanese-European partnership and presently with the Japanese firm alone for wig-production. Through the SLP, NEMCO was able to provide employment which was acknowledged by the local government. NEMCO provided the labor and got into needle work production intended for the project. The contract amount is being subdivided into: 60 percent for the wages; 30 percent for expenses and 10 percent for NEMCO. Loan releases were advanced payments for the wig-production workers and the net surplus included income from needle works (Table 2.5). The net surplus declined a bit from 2011 to 2012 despite increase in loan releases then bounced back in 2013 with almost double of 2012 net surplus with the increase in transactions.

The operation of the Agricultural Store (AgriStore) started in 2005 to supply agricultural needs of the farmers such as fertilizers and pesticides. This also complements with the RPP in partnership with LBP. NEMCO earns by bulk buying agricultural inputs. The RPP beneficiaries got their required agricultural inputs from NEMCO which was a part of their RPP loans. The gross income and net surplus for the recent past years (2011-2013) are presented in Table 2.6. The gross income includes the cost of the inputs and transactions costs.

Table 2.5. Special livelihood project transactions (in PHP), 2011-2013

Item	2011	2012	2013
Gross Income	24,549,121	19,276,498	19,911,308
Net Surplus	707,529	312,834	946,255

Table 2.6. Agricultural Store transactions (in PHP), 2011-2013

Item	2011	2012	2013
Gross Income	8,906,519	6,564,633	5,939,636
Net Surplus	219,991	340,269	300,915

The Dairy Cattle Production operation did not last for a longtime, which started in 2012 and ceased in September 2014. Two families who were members of NEMCO started dairy production anticipating for LBP's dairy program. NEMCO supported the operation by marketing the milk produced to Laguna Creamery, wherein one peso per liter of sold milk goes to NEMCO. However, the arrangement ceased due to low price received. NEMCO tried to join the KKMI but was not qualified because the number of members on dairy production was not enough. Presently, the two families into dairy production joined the KKMI and earned more from patronage refund.

NEMCO got into other services for the purpose of catering to the needs of its members. The photocopying service started in 2008. NEMCO bought a copier machine and catered to bulk-copying of NIA plans and of the other members needing photocopying services. NEMCO also got into booking air flights of members as requested and earned a small amount of PHP200 per booking. This was started in 2011. Table 2.7 shows the amount of transactions involved in dairy cattle production, ticketing and photocopying services.

Table 2.7. Amount of transactions for the other economic activities (in PHP), 2011-2013

Activity	2011	2012	2013
Dairy Cattle Production	-	1,097,084	2,403,282
Ticketing	171,835	601,970	641,696
Photocopying	235,088	175,376	136,384

Food catering is the newest venture that started in 2014. NEMCO accepted catering services with the help of on-call catering staff who are NEMCO members. NEMCO has high hopes in expanding their catering services.

Financial Performance

Table 2.8 shows the capitalization of NEMCO. The authorized capital increased from PHP20M in 2009 to PHP50M in 2010. As of 2013, 66.2 percent of the authorized amount was subscribed. This shows that the economic contribution of the Cooperative members is continuously increasing.

Table 2.8. Members' share capital (in PHP), 2011-2013

Year	Authorized Capitalization	Capital Share (CS)	% Increase in CS	% Subscribed
2011	50,000,000	24,898,426	32.64	49.80
2012	50,000,000	28,768,788	15.54	57.54
2013	50,000,000	33,098,024	15.05	66.20

Table 2.9 shows the net revenues/surplus derived from the different business operations of NEMCO. The credit services topped among the sources of revenues for 34 percent in 2011 to 48 percent in 2013 amounting to PHP1,142,280 to PHP2,031,866 respectively. The total net surplus is steadily increasing from 2011 with PHP3,330,431 in 2011 to PHP5,731,829 in 2013. Next to credit services was the RPP contributing 27 percent to the total net revenues of the Cooperative, followed by the SLP with 17 percent and by the microfinancing with 13 percent. The smallest contributor in terms of net surplus was the Agri-store (5%) but of great service to the farmer-members.

Table 2.9. Net revenues/surplus from different enterprises (in PHP), 2011-2013

Enterprise	2011		2012		2013	
	Net surplus	% share	Net surplus	% share	Net surplus	% share
Credit Services	1,142,280	34	2,031,866	48	2,202,626	38
Microfinance	373,508	11	707,818	17	723,120	13
Rice Production Program	887,123	27	853,872	20	1,558,913	27
Special Livelihood Project	707,529	21	312,834	7	946,255	17
Agricultural Store	219,991	7	340,269	8	300,915	5
Total	3,330,431	100	4,246,659	100	5,731,829	100

From the five-year development plan of NEMCO, the budget and expected revenues from different economic activities are presented in Table 2.10. The expected total revenues for 2013 is PHP5,361,636. The actual net surplus in 2013 of PHP5,731,829 even exceeded the projected amount.

The Balance Sheet shows that NEMCO's assets increased by about 31.58 percent, from PHP95M in 2012 to PHP126M at the end of 2013. A big share of this increase could be attributed to the increase in the time and savings deposits of the members from PHP37.6M to PHP46.3M.

Table 2.10. NEMCO's sources of income (in PHP), 2013

Item	Head Office	Needle Making	SLP	ABMFP	Total
Sources of income					
Interest Income	4,743,908			7,650,000	12,393,908
Income from project	-	393,120	19,800,000		20,193,120
Membership fee	4,250				4,250
Service fee	1,023,165			1,446,789	2,469,954
Miscellaneous income	1,500,000			200,000	1,700,000
Total Income	7,271,323	393,120	19,800,000	9,296,789	36,761,233
Total Expenses	5,240,250	342,956	19,075,759	6,740,629	31,399,596
Surplus	2,031,072	50,163	724,240	2,556,159	5,361,636
% to Total	38	1	14	48	100

Benefits and Services

NEMCO does not only benefit its members and employees but also the community where it operates. It also contributes to the development of the cooperative movement at local and national level. The following are the different benefits enjoyed by the members, employees, cooperative sector and community.

For the Members

- Patronage refund
- Interest on share capital
- Damayan fund
- Education and training
- Insurance (life, loan and crop insurances)

For the Employees

- The lowest salaried-employee's remuneration is based on minimum wage in Pila, Laguna
- SSS, Philhealth, Pag-ibig, Retirement Fund, leave credits, clothing allowance, 13th month pay, and cash bonus

For the Cooperative Movement/Sector

- Member of CUL – benefitted from cash contributions and patronage of trainings
- Associate member of QFUC –Being so, NEMCO had been invited in trainings
- Member of NATCCO – initial capital contribution as member and business tie-up (NATCCO is a conduit of 4Ps, NEMCO will be assigned by NATCCO in Laguna)
- Metro South Coop Bank – Before, NEMCO availed loans from Metro South Coop Bank. Now, NEMCO is a depositor of savings and share capital of Metro South Coop Bank.

- CISP – NEMCO as a share capital depositor

For the Community

- Environmental advocacy through participation in tree planting, conduct of symposia on environment, waste disposal management program (trash can distribution and seminar on waste disposal) since 2009
- Anti-tuberculosis campaign (USAID TB Linc), 2013-2014 by helping identify TB inflicted persons through education/information campaign
- College Scholarship Program (since 2000) – four HS scholars already graduated HS, one college scholar recently graduated; two are continuing College scholars
- Medical/Dental Mission (conducted every other year since 2009)
- Farm Service Training (trained 25 landless farmers to become operators of farm machineries awarded by the DA with 15% equity from NEMCO)
- Gulayan sa Paaralan – a project by the DA in partnership with the school, MAO and NEMCO (NEMCO donated organic fertilizer and cash needed.)

Awards Received

NEMCO has garnered several awards from different entities such as from the Province of Laguna, municipality of Pila, Cooperative Union of Laguna, LBP among others (Please see Appendix Table 2.1).

It has been awarded the LBP's Gawad PITAK Award (national level) from 2010 to 2013 with 1st, 3rd and 4th place in 2010, 2012 and 2013, respectively, and awarded the Regional winner in 2011. The awards were given to NEMCO for its business activities, community projects, job generation, environmental practices, scope of membership, financial performance, sustainability (historical performance) and relationship with the LBP.

It has also earned the Jaycee's TOFARM Award Silver Plate for two consecutive years in 2012 and 2013, and became Hall of Famer in 2014. In these awards, highlighted were NEMCO's services to farmers.

The Provincial Government of Laguna also awarded NEMCO in 2007 in recognition for its share of generating employment in its projects especially in its special livelihood program (SLP) where it employs cooperative members in wig-making and in needle work. NEMCO also received the Gawad Parangal ng CDA provincial level in 2012 and regional level in 2013.

Aside from these prestigious awards, NEMCO also received a number of citations from the province of Laguna and municipality of Pila for all its contributions and services to its members and the community.

Key Factors of Success

Felt Need

NEMCO was formed or organized out of the felt need of its founding members which was the need for credit source. The founding members were employees of NIA who experienced delays in salaries for three to four months. This shows the importance of knowing what the members really need. A member could borrow or avail credit from an entity where he himself is one of the owners and the interest rate comparatively lower than from other sources.

Living Up Cooperative Values

They started the credit operations of the Cooperative with the values of honesty and responsibility. They did not practice payments of loans through salary deduction but rather promoted voluntary payment system. And due to limited capital in the early years of NEMCO, the borrower-members queued by listing their names in the log-book and those not served waited for their turns when loanable funds were replenished from payments of previous borrowers.

The membership to NEMCO was first exclusive to NIA employees, then opened to members' relatives residing in Calauan, Victoria, Pila, and Sta. Cruz in Laguna, and then opened to all NIA and non-NIA employees residing in Region 4. The changes underwent amendments in the by-laws and the completion of needed policies before opening the cooperative to the community.

The officers of NEMCO practiced transparency in its operations by allowing any member of the cooperative to look at its books/records anytime.

Education and Training

The officers and staff underwent trainings and showed competence in performing their jobs. The officers are mostly professionals, the manager who served for a long time has an MS degree in Cooperative Management and the assistant manager a BS degree in Cooperatives.

Forging Partnership

The officers and staff earned the trust of the cooperative members shown by the increase in savings and time deposits. LBP conducted an operations review of the cooperative and in 1997 formed partnership with NEMCO by sponsoring trainings. Later on, NEMCO became a conduit of its agricultural loan services to farmer-members of NEMCO. In 2014, the Land Bank Countryside Foundation

which is the training arm of LBP, entrusted NEMCO as its anchor cooperative. Furthermore, LBP increased NEMCO's loanable funds to PHP50M for its agricultural program by 2015.

Problems Encountered

NEMCO as any other ordinary organization experiences ups and downs in their operations (e.g. lack of funds for its operations and projects), and disagreements among and between officers and management and the general membership but was able to put back things in order and move forward. And just like any credit institutions, its major problem it considers is the credit collection. In 2013 its collection was 97 percent which can still be considered high. It also considers a problem that only few members are interested in serving the Cooperative, like running for election of officers in the Cooperative.

Future Plans

The management of NEMCO does not stop of dreaming big for the Cooperative. It is continuously exploring new ventures for the expansion of the Cooperative and its service to members and the community. The following are the future plans of NEMCO:

1. Continue being DA farm service provider which started in 2014.
2. Establish microenterprises like a one-stop shop showcasing the products of its client-members from different localities (e.g., Liliw footwear, etc.) and develop food catering services and laundry business.
3. To start-up a cash service delivery/outlet system like the Western Union or Bayad Center in partnership with NATCCO.
4. The realization of the NEMCO Housing which will be initially intended for its employees and members; to start-up this year (2015) by conducting the FS and Plan of Action
5. Establish a Day Care Center.

Conclusion

NEMCO is one of the successful cooperatives in the Philippines. The growing amount of transactions and increase in savings and time deposits reflect the increasing members' participation in the cooperative economic activities can be a measure of NEMCO's success. Year 2013 was a good year for NEMCO. The balance sheet shows the increase in NEMCO's total assets to PHP126 M, while the financial reports show that NEMCO's net surplus increased to PHP5.7M. The membership of NEMCO from its original 34 members in 1991 increased to

more than a hundred fold with more than 5,000 members. NEMCO's authorized capitalization increased since 1991 to PHP50M to date. The Cooperative has received a number of awards in recognition of its managerial efficiency and services rendered to its members and the community.

The cooperative has ventured into different enterprises other than credit and has shown how NEMCO enables its members to venture into business enterprise through the cooperative. Its services to its members increased from a simple credit service to now 18 types of loans, trainings for officers, employees and members, engaging in other economic activities such as the livelihood projects, agricultural services to farmers among others. It was able to establish partnership with the LBP and the LGUs in providing services not only to its members but to the community as well. Aside from social and economic aspirations that the Cooperative ably provides to its members, it is also able to serve the community by being involved in civic and environmental concerns

It is not a perfect cooperative, but it has proven that in its 24 years of existence, it has accomplished a lot in terms of the services and benefits it has offered to its members and the community, in social, economic and environment aspects. And it is not stopping where it is now, it continues to seek and explore different ways to improve and get bigger whatever it has attained already. It has learned that for any cooperative or venture to succeed, everybody must learn how to value everything. The employees and staff should value their work and be responsible to do their tasks conscientiously. They should serve their clients efficiently with honesty and courtesy. Likewise, the members should do the same by being responsible members of the cooperative like paying their dues because it is not only their money that they borrowed but of other members too. The trustworthiness, transparency, and competency of the officers are also very important to gain the cooperation and trust of the general members. These are the ingredients of NEMCO's recipe of success.

For as long as the members of the cooperative live by the values of self-help, self-responsibility, equity, democracy, equality, honesty, openness, social responsibility, caring for others and solidarity, and for as long as NEMCO embodies by heart the seven cooperative principles of: open and voluntary membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among cooperatives; and concern for the community, NEMCO is on the right track to success.

SUMMARY

This chapter presents the case study of NEMCO, which is a success story of cooperative providing support services, particularly financial services to its members to enable them to venture in business enterprising. NEMCO is one of the only three cooperatives based in Pila, Laguna and one of the 349 active cooperatives in Laguna. It has been successfully existing for 24 years and nearing its Silver Anniversary in 2016. Its success is evidenced by its increase in assets, in membership and being recipients of several awards given in different years including the prestigious Gawad PITAK Award given by the Land Bank of the Philippines.

From the original membership of 34 when the cooperative was founded, NEMCO has expanded its membership to more than 5,000 as of 2015. Originally, NEMCO members are composed of the National Irrigation Administration (NIA) employees only. In 2002, NEMCO was re-launched opening its membership to all NIA and non-NIA employees in Region 4. The authorized capital increased to PHP50 M since 2010. As of 2013, 66.2 percent of the authorized amount was subscribed.

It is the felt need for credit source of NIA employees that made NEMCO into being. Presently, the credit services has expanded to 18 types of loans, complemented by other services by venturing into: (1) rice production program (RPP); (2) special livelihood project; (3) agri-store; (4) dairy cattle production; (5) travels and tours ticketing services; (6) photocopying services; (7) food catering, and continuously exploring for other business ventures and services it could cater to its members and other clients.

Acknowledgement

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Appendix 2.1. Awards and Citations of NEMCO

1. 2006 Gawad Parangal Pasasalamat mula sa Surian ng Pantaong Nutrisyon at Pagkain, Kolehiyo ng Ekolohiyang Pantao, Unibersidad ng Pilipinas Los Baños (CHE, UPLB) for supporting projects on nutrition and community development
2. 2008 Natatanging Pagkilala by the Laguna Provincial Cooperative Development Council (Laguna PCDC)
3. 2009 Certificate of Merit in recognition of its remarkable performance and contribution to its community in 2008, and as such, for being selected as one of the candidates for the Gawad PITAK 2009 Non-Agri Category Award of the LBP
4. 2009 Certificate of membership to Cooperative Union of Laguna
5. 2009 Certificate of Appreciation for having participated in the Gawad sa Pinakatanging Kooperatiba 2009 by the LBP
6. 2010 First Place Gawad PITAK sa Pinakatanging Kooperatiba by the LBP
7. 2010 Plaque of Recognition by the Local Government of Lipa, Laguna
8. 2011 Regional Winner Gawad PITAK sa Pinakatanging Kooperatiba by the LBP
9. 2012 Third Runner-Up Gawad PITAK sa Pinakatanging Kooperatiba by the LBP
10. 2012 TOFARM Award Silver Plate Awardee
11. 2013 TOFARM Award Silver Plate Awardee
12. 2013 Fourth Runner-Up Gawad PITAK sa Pinakatanging Kooperatiba by the LBP
13. 2013 Katibayan ng Pagkilala by the Local Government of Lipa, Laguna

CHAPTER 3

Needs and Design Assessment for Corn Production Enterprise in Selected Agrarian Reform Communities of Cagayan de Oro City and Lanao del Norte

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Introduction

The Agrarian Reform Community Connectivity and Economic Support Services (ARCESS) Program is an alternative model to boost agricultural productivity and transform Agrarian Reform Beneficiaries (ARBs) into viable entrepreneurs. It also intends to achieve economies of scale in agricultural production among ARBs. Given the parameters of an ARCESS project, identifying the opportunities available in the agrarian reform area where the enterprise will be based as well as the needs and readiness of the ARBOs as program recipient are important. Thus, conducting needs assessment and design assessment of the various ARCESS sites is deemed necessary (DAR 2011).

Among the different ARCESS sites, Misamis Oriental and Lanao del Norte were among the recipients of the said program. This project was undertaken to conduct and identify needs analysis of agri-enterprise gaps and required capacity development of ARBOs to ensure the correct diagnosis of their situation. This will help develop a systematic understanding of the agricultural constraints for improvement of their production systems, postharvest, and processing needs of their individual members. Specifically, it sought to: (1) characterize farmers' livelihood (including gender roles) and agricultural activities such as crop management and practices; (2) identify farmers' constraints in production, processing and marketing of agricultural products; (3) strategize and present possible interventions and opportunities to improve agrarian reform beneficiaries productivity and net income and sustained livelihood.

Methodology

The needs assessment was conducted in selected barangays of Cagayan de Oro City, which included Tagpangi, Pagalungan, Taglimao, Indahag and Taguanaoin and in three barangays in Lanao del Norte, namely Dalama, Bualan and PalaoTubod. Pagalungan and Tagpangi composed the Tribal and Settlers Association of Women Agrarian Reform Beneficiaries (PTRISA WAB and TTRISA) Cooperative. The TaglimaoFarmers Multi-purpose Cooperative (TFMPC), the Indahag Agrarian Reform Community Multipurpose Cooperative (IARCMPC), the Taguanao Agrarian Reform Community Multipurpose Cooperative (TARBMPC) and the Palambu are the Agrarian Reform Beneficiary Organizations (ARBOs) were covered in the study.

Selection of the project sites, respondents and commodities were pre-identified by the Department of Agrarian Reform Provincial Office (DARPO) representative. Respondents of this activity are primarily corn producers who are members of ARBOs. Representative sampling of the randomly selected respondents was done purposively as the ARBO was pre-determined to be the recipients of this project. In identifying farmers' needs, randomly selected respondents from each ARBOs were selected and interviewed using a structured pre-tested questionnaire translated to local dialect. Focus group discussion was also used to validate results from the structured survey questionnaire.

Results and Discussion

Socio-economic Characteristics of the six ARBOs

The average age range of the farmer respondents is 41-55 years old. Males predominate in the PTRISA WAB, TTRISA WAB, TFMPC, and TARBMPC while in IARCMPC and Palambu females predominated. Most of the respondents are married. In terms of educational attainment, 50 percent attained High School while the other 50 percent were distributed between college and elementary level. The household size of most of the respondents is between two to five.

Farming is the primary source of income of the ARBOs (70%). Others gained income as hired labor, mining, private and government employees and businessmen. The yearly farm income of the respondents ranged from PHP10,000-above to PHP50,000 with 33.33 percent earning above PHP50,000.00 and 20.00 percent earned PHP20,000 to PHP30,000.

Farming Characteristics of the six ARBOs

The major crops grown are corn, coconut, banana, and root crops. Corn comprises almost 45 percent of the crops grown. Other crops were usually grown in intercropping pattern.

The respondents have more or less the same planting and harvesting schedule of the crops grown. Corn was usually planted in the months of April and May and harvested in the months of August and September. Banana was planted every three years and the harvest schedules were monthly, yearly and sometimes, twice a year. Root crop like cassava was planted in the months of April and May and harvested in the same months in the following year.

Most of the respondents (55.56%) have 1 to 3 hectares of farm. The arable land was categorized as upland, lowland rainfed, and grassland. Upland comprises the largest part. This primarily attributes to the kinds of crops they had grown. Majority of the respondents (75%) owned the land they tilled which is distributed into CLOA, EP and small land owners. Some are leaseholders.

As to source of farm capital, 90 percent were self-financing and the other 10 percent sourced-out from the cooperatives. It can be seen that the respondents are not used to borrowing money from finance or lending agencies. This maybe because, as seen in their area of cultivation, mostly are in medium-scale enterprise.

Corn Production Activities and Practices

The activities and crop management practices in corn production were characterized in terms of (1) time of planting (month); (2) frequency of planting per year; (3) number of plowing per cropping; (4) planting method used; (5) fertilization practices; and (6) cropping systems.

Most of the respondents planted corn twice a year or in two cropping seasons but there are also those who planted corn only once a year since according to them after corn they will plant cassava. The time of planting varies from the months of March to May but majority planted corn in the month of May. Manual method of planting or the use of draft animals was the most common method used. Almost 50 percent of the respondents did not apply fertilizer in their corn production. Others (33.33%) applied inorganic fertilizer alone and some 20 percent applied inorganic fertilizer in combination with organic fertilizer. The cropping system used was mainly intercropping, wherein corn was intercropped with banana or coconut. There are also those who practiced monocropping. Very few (6.67%) employed alley cropping and diversified cropping.

Women's Participation in Corn Production Activities

Women had great participation in the production, postharvest, and marketing activities of corn. Eighty seven percent of the respondents reported that women participated in the corn production and marketing activities. Male respondents claimed that their wives are their partners in livelihood activities. The most common activity they did was marketing of corn produce (23.33%). Other activities like harvesting, weeding, and fertilizer application were also done. About 13 percent of the respondents said that women or housewives did not participate in corn production activities due to reason like pre-occupied with household chores.

Technology Needs of the ARBOs

One of the objectives of the ARCESS project was to identify the needs of the ARBOs particularly in production, postharvest and marketing of corn. Thus, the respondents were asked if there are still other technologies on corn production that they need. The majority (83%) of the respondents said that they still need technologies on corn production while 17 percent indicated that they no longer need any technology on corn production.

Technology Needs on Corn Production, Postharvest, and Marketing

The technology needs on corn production, postharvest, and marketing were ranked by the respondents according to their priority. The top technological need of the respondents in terms of corn production is varietal selection. It was observed that most farmers were using traditional seeds or what they termed as 'tiniguib'. This relates to the low production problem of the respondents. The second technology needed is fertilizer management. The soil fertility status of the site is not so good, thus it requires proper fertilizer management to attain sustainable production. Other technologies identified are crop protection and pesticide handling; planting method/farm practices; and organic fertilizer production.

On postharvest, technology on pest and disease control ranked as the most needed technology of the farmers. Ear rot is one disease that needs to be addressed, as identified by the respondents. This occurs during harvest period when corn ears are not properly stored. The respondents also need technology on handling management, optimum storage, and grading quality.

For marketing, the respondents need price information technology that will minimize time in canvassing the prices. Their second priority need is grading and standardization of products. This is to address their problems related to meeting the buyers' prescribed product quality standards.

Facilities/Machineries Needs on Corn Production, Postharvest and Marketing

Facilities/machineries for corn production, postharvest and marketing play an important role in increasing farm productivity and in improving the net income of agrarian reform beneficiaries. Appropriate facilities/machineries will lead to the improvement of their production systems, postharvest, and marketing. Needs assessment is one way of identifying and diagnosing the agri-enterprise gaps and required capacity development of ARBOs.

For facilities for production, draft-animal with implements like animal-drawn plow, fork, and harrow were the identified needs of the PTRISA, TTRISA and TFMPC. The choice of draft-animal is probably based on the farm size of the respondents. Draft-animal is always used with a plow and harrow, hence the need for these farm implements too. Tractor is another facility needed by the respondents. It ranked 3rd maybe practically to fit the terrain of their farms. Farm implements like tractor is the first priority need of the TARCMP and Palambu while the IARCMP identified sprayers as their immediate need. For facilities/machineries for postharvest, the respondents identified solar drier, mechanical dryer, and sheller as their top three facility needs.

For marketing facilities, the respondents identified hauler truck as their priority need followed by the weighing scale for their corn produce. Hauler truck is needed to address their problem on transporting product from the site to Cagayan de Oro where they sell their produce. It can also reduce the transport cost, given that the fare is usually high when using passenger vehicles.

Mode of Receiving Technology Needs

The most preferred mode of information dissemination and technology transfer are through trainings/seminars, followed by the use of print materials. Below is the ranking of the modes of information dissemination and transfer of the technology preferred by the respondents:

1. seminars/trainings
2. print materials
3. demo farm
4. field trip
5. radio program
6. Techno forum
7. audio/video
8. Info caravan

Sources of Financial Assistance

As to financial assistance for their corn production, majority of the respondents

(71%) chose credit cooperative as their preferred source of capital. According to them, the credit cooperative has lower interest rate on loan compared to that of the banks. Some 18 percent preferred government banks as their source of financial assistance.

Problems and Constraints in Corn Production and Marketing

The top five problems are: (1) lack of capital; (2) insect pest and diseases; (3) unpredictable weather conditions; (4) low production; and (5) poor soil condition (Table 3.1). The six ARBOs experienced similar constraints in attaining high production for corn. The use of native seeds contributed to the low production of corn. There are those who used hybrid and F2 seeds but did not practice fertilizer application. This also contributed to low production of corn.

Table 3.1. Problems and constraints in corn production and marketing

Category	Constraints	
	Production	Marketing
External	1. unpredictable condition	1. accessibility (farm to market/ barangay road)
	2. lack of capital	2. transportation (hauling trucks)
	3. low production	3. presence of competitors in the farmer's level ((supply and demand)
Informational inefficiency/ies	1. insect pest and diseases	1. lack of marketing information
Market inefficiency/ies		1. unstable market price

The respondents also encountered problems in marketing their produce. The top five problems they encountered are: (1) accessibility (farm to market road); (2) unstable market prices; (3) lack of marketing information; (4) transportation; and (5) presence of competitors (corn producers).

Some of the respondents experienced problem in hauling their products since the location of their farm is in the mountains with no roads accessible for hauler trucks. Their way of transporting their produce from their farm going down to the barangay road is through animals like cows and they had to pay twice in transporting their produce from farm to market. The presence of competitors is at the farmer's level.

Marketing of Corn Product

Majority of the respondents sold their corn product as shelled and green corn or *tilaob*. The most preferred market outlet of the respondents for their corn product was wholesalers, which ranked first, followed by wholesaler-retailers..

The top 5 reasons for choosing the said market outlets are: (1) regular buyer; (2) good payer; (3) offer higher prices; (4) convenience; and (5) pays cash immediately.

In marketing their product, expenses for transportation and allowance for shrinkage were shouldered by the farmer. The price was also set by the buyer and is paid in cash. The respondents' main source of information for prices was the buyer and to some extent, other farmers. Only a portion of the total harvests of the farmer respondents were being sold, They saved at most 21 percent to 30 percent of their produce for home consumption.

Interventions to Build the Capabilities and Capacities of the PTRISA, TTRISA, TFMPC, IARCMPC, TARCMP and Palambu Cooperative in Agri-Enterprise Management

Opportunity Seeking and Resource Mobilization Competencies

Lack of capital is one hindrance in attaining high production. To address this problem, the following interventions are suggested:

1. Create linkage with credit cooperatives and other financial service providers offering low loan interest to source funds or avail loans;
2. Create partnership with private and public companies/agencies for farm inputs; and
3. Provide common service facilities like draft-animal, animal-drawn plow, fork and harrow, farm implements (e.g., tractor), sprayers, and soil testing kit.

During marketing of produce, problems like unstable prices or fluctuating prices and transportation or hauling of farm products are commonly encountered by almost all farmers not only the PTRISA, TTRISA, TFMPC, IARCMPC, TARCMP, and Palambu members Accessibility of farm to market or barangay road, lack of market information, and sometimes presence of competitors at farmers' level were also encountered by the respondents. To answer these constraints, the following are suggested:

1. Avail Farmers-Option to Buy-Back (FOBB) guidelines of NFA through the cooperatives so they can withdraw their products when price is already high;
2. Ask assistance from LGUs, DPWH, and related agencies;
3. Create market linkages for corn and other farm products for the ARBOs;
4. Provision of common service facilities like hauler truck to the ARBOs; and
5. Put-up trading post for corn produce managed by the TRISA WAB cooperative.

Knowledge-based Competencies

Interventions to build the knowledge-based competencies of the three ARBOs may include:

1. Training on pest and disease control for corn;
2. Dissemination of IEC materials for corn production management translated into vernacular;
3. Training on proper timing of planting as a solution to the unpredictable weather;
4. Training on corn production from planting to marketing;
5. Trainings on organic fertilizer and pesticide production;
6. Sustainable supply of organic fertilizers and pesticides through ARBOs; and
7. Use of improved corn varieties.

Enterprise Management Competencies

Enterprise management competencies of the ARBO are necessary to organize and manage a viable and sustainable enterprise. Thus, the following interventions are proposed:

1. Organize properly the respective cooperatives as the centralized market outlets;
2. Conduct refresher seminar on project proposal preparation;
3. Conduct refresher seminars on cooperative management, bookkeeping/record keeping, financial management, and leadership to re-activate and operationalize the PTRISA, TTRISA and TFMPC; and
4. Conduct refresher seminar on feasibility study/ business plan.

Conclusion and Recommendations

On the basis of the aforementioned results, the following conclusion and recommendations are made:

The respondents still need technologies as well as facilities/machineries in corn production and marketing. Corn is the most appropriate commodity for the ARCESS project in the three ARCs primarily due to the long experiences and attendance to trainings/seminars related to corn production of farmers in the ARCs. Barangays Tagpangi, Pagalungan, Taglimao, Indahag, and Taguanao Cagayan de Oro City and Dalama, Bualan and PalaoTubod, Lanao del Norte offer biophysical condition suitable for corn production.

The ARCESS project on Corn Production and Marketing in the three ARC's should implement its components based on the following sequence:

1. Capability development
2. Enterprise development
3. Common support facility
4. Financial assistance facility

To establish a Corn Production and Marketing enterprise with the three ARBOs, they need the following interventions:

1. Capability development
 - a. Training/Techno-demo farm on production management/practices
 - Varietal selection
 - Organic fertilizer production
 - Fertilizer management
 - Planning method/farm practices
 - Crop Protection and Pesticide handling
 - b. Training on postharvest handling and processing
 - Pest and disease control
 - Handling management
 - Optimum storage
 - Grading quality
 - c. Training on marketing accessing and linkaging
 - Market information
 - Grading and standardization of products
 - Optimum storage
 - d. Training on financial management
 - Project proposal making
 - Bookkeeping/records keeping
2. Common Service Facility
 - a. Provision of pre-harvest facilities
 - Farm implements (tractor, farm implements)
 - Sprayers
 - Animal-drawn plow, fork and harrow
 - Draft-animal
 - b. Provision of postharvest facilities
 - Sun drying facility
 - Sheller
 - Mechanical dryer
 - c. Marketing
 - Hauler truck
 - Weighing scale

ARCESS should consider the identified needs of PTRISA, TTRISA, TFMPC, IARCMPC, TARCMP and Palambu members based on results of the

needs and design assessment. Lastly, the Business Development Services should offer a range of quality services to assist PTRISA, TTRISA, TFMPC, IARCMPC, TARCMP and Palambu in developing a competitive and sustainable corn production and marketing enterprise. It should have the credentials based on expertise and experience along the following:

1. Financial management;
2. Marketing management;
3. Production and technical management;
4. Organization management; and
5. Community organizing.

SUMMARY

The needs and design assessment was conducted in the ARCs of Cagayan de Oro City and Lanao del Norte. It aimed to identify performance requirements and the knowledge, skills and abilities of the ARBOs as well as the technology and facility needs for a corn production enterprise. Among the ARBOs assessed were: PTRISA, TTRISA, TFMPC, IARCMPC, TARCMP and Palambu. The needs assessment revealed that the ARBOs still need technologies as well as facilities/machineries in corn production and marketing. The ARCs offer biophysical condition suitable for corn production. They have natural assets that could boost corn production as the main economic activity. Corn is an appropriate commodity for the ARCESS project in the ARCs mentioned. The farmers in the ARCs have long experiences and have attended trainings/seminars related to corn production. The ARBOs need capability development, common service facility on pre and post harvest facilities, project monitoring/enterprise development, financial management, and financial assistance. With the provision of the aforementioned recommended activities and facilities, this will result to increased production, improved quality of products, increased income and realized more profits; thereby improving their standard of living. This will eventually lead to economic growth and development of the community and to the economy as a whole.

Reference

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CHAPTER 4

Entrepreneurial Competencies of Primary Agricultural Cooperative Credit Societies in Tamil Nadu, India

KRISHNACHETTY RAVICHANDRAN

Introduction

Cooperatives are one of the important economic organizations. These organizations generated huge employment potential due to their diversified activities that cover all possible sectors, addresses the needs of the producers and the consumers across the world. The reach of these organizations, their local know how and risk sharing potential are asset for the economy as a whole.

Cooperative entrepreneurship is unique and stands apart from others. This could be single handed or it can be a group effort of various stakeholders. Cooperative entrepreneurship may be leader driven, member driven, employees driven, bureaucratic driven or all these stakeholders driven (Ravichandran and Nakkiran 2015). In some countries, cooperatives were organized only by member/leader entrepreneurs. In India, cooperatives were established by the government, where the role of bureaucratic entrepreneurship counts a lot. In the present competitive world, cooperatives have to take the help of catalytic entrepreneurs, especially the Non Governmental Organizations (NGOs), who act as consultants or counselors provide guidance to cooperatives to face competition, or to improve their operational efficiency.

However, entrepreneurship literatures rarely deal on the relationship between entrepreneurship and cooperative development. In the cooperative literatures too little has been addressed about the synergy between entrepreneurial competencies and the degree of economic success or the failure of cooperatives. These leave a vacuum in the literatures on cooperative entrepreneurship. Without entrepreneurial competencies it is difficult for cooperatives to succeed or even survive. In this context, the present study analyzed the entrepreneurial competencies of selected Primary Agricultural Cooperative Credit Societies (PACS) in Tamil Nadu, India.

PACS in Tamil Nadu

The agricultural cooperative credit institutions in India have been evolved into two broad structures *viz.*, Short-term Cooperative Credit Structure (STCCS)¹ and Long-Term Cooperative Credit Structure (LTCCS)² to meet the different forms of farm and non-farm credit needs of the cultivators and others in rural areas.

The STCCS consists of 31 State Cooperative Banks (SCB) at State level, 371 District Central Cooperative Banks (CCBs) at district level and 93,413 PACS at village level (NCUI 2012). These institutions cover more than 99 percent of Indian villages and 71 percent of rural households in the country (GoI 2009). However, the pattern of STCCS is not uniform across the country (RBI 2013).

In Tamil Nadu the STCCS is in three-tier system consisting of 4,530 PACS, 23 CCBs and at the top stands the Tamil Nadu State Apex Cooperative Bank (TNSC Bank). On an average, a PACS covers four revenue villages³ in the State. PACS are the base level institutions on which the whole STCCS is built. These societies, functioning at village level, are easily accessible, compared to other institutional agencies, and have direct contact with the farmers to meet their financial and non-financial requirements of agriculture and allied activities.

Statement of the Problem

The changing faces of economic systems forces the cooperatives to be innovative in order to remain viable and to adapt to the needs of its members on the basis of their strengths and unique features. Inspired by this condition the cooperative entrepreneur takes the initiative and organize the available resources to reach concrete results. To survive in a competitive environment all cooperatives have to be led and managed by entrepreneurs who have a sense of cooperative enterprise, and knows how to innovate and diversify the business to respond to the needs of members.

The process of business diversification in cooperatives may be attributed to internal and external forces. The internal forces consist of members, board of directors, and paid executives. Their efforts in setting standards, ethics, customs, belief system, and quality in practices may be taken as internal measures. The external forces are the support systems developed by the government for the promotion of cooperatives. The role of external forces is to develop an enabling environment and set standards, among the cooperatives at macro level.

Systematic diversification is an integral part of any organization to become dynamic to the requirements of its stakeholders and to the changing environment. While examining the factors that led to the success of sugar cooperatives in India, Apte (1996) identified that among others, diversification also served as the key factor. There were several cases of cooperatives that were highly

successful in the 1950s and 1960s in India, but their failure to keep pace with the changing times lead to their financial instability. Hence, Katar Singh and RS Pundir (2000) identified diversification, as one of the challenges faced by the cooperatives. The Task Force on Revival of Cooperative Credit Structure 2004, also emphasized diversification of business products, as the prime need at all levels in cooperative credit institutions. In this context, this study analyses the diversification strategies adopted by PACS in Tamil Nadu and the entrepreneurial competencies exhibited by them.

Objectives of the Study

The study was guided by the following objectives:

1. To describe the areas identified by the PACS for business diversification;
2. To discuss which diversification strategy is sustainable;
3. To assess the entrepreneurial competencies exhibited by PACS; and
4. To determine the outcome of these entrepreneurial competencies.

Methodology

This study covered the period between 2008-2009 and 2014-2015 during which majority of the PACS in Tamil Nadu had diversified their business. Both primary and secondary data were used to evaluate the performance of PACS in Tamil Nadu in their business diversification. The data regarding the performance of PACS in deposit mobilization, loan operations, and business diversification strategies were collected from the publications of TNSC Bank and the Policy Notes of Cooperation Department, Government of Tamil Nadu. For identifying information about the entrepreneurial competencies, focus group discussion (FGD)⁴ technique was used. To understand the field level realities, five PACS representing different districts in Tamil Nadu were selected purposively (Table 4.1). The data were analyzed using simple statistical analysis and tabulation of results.

Results and Discussion

Generally, business organizations find four alternatives for the growth. These include market penetration, market development, product development, and diversification. A business organization should weigh all these four alternatives and select any one or more of them, depending upon its particular circumstances which affect long-range planning. It must be emphasized, however that the diversification strategy is quite exclusive of the first three strategies because, unlike these which use the same technical, financial and marketing resources are used for the original product-line, diversification generally requires new

Table 4.1. Business profile of sample PACS

PACS	Year of Registration	No of villages covered	Membership	No of Employees	No of Business Diversifications	Dividend declared	Audit Classification	No of SHGs given credit linkage
Karaimedu - Cuddalore District	16.12.68	6	6,025	9	4	14	B	13
Malaikudipatti-Pudukottai District	30.03.71	5	6,113	11	5	12	A	13
Kayarambedu - Kanchipuram District	02.10.71	20	8,674	34	4	14	A	127
Ponnai-Vellore District	24.06.69	9	3,933	12	4	NA	C	12
Gobinallur-Erode District	10.03.59	4	12,054	9	3	14	A	16

Note: Year of registration: dd.mm.yy

Source: Compiled from Audit Reports of sample PACS for various years

skills, new techniques and new facilities. Therefore, it almost invariably leads to physical and organizational changes in the structure of the business organization, which means a distinct break with its past experiences (Nanjundaiah and Ramesh 2001). In this background the results of the study are presented hereunder.

Performance of PACS

The working capital of PACS consists of both owned funds and borrowed funds. Share capital and reserve fund constitute the owned fund, while the deposits and borrowings constitute the borrowed fund. As there is direct correlation between share capital and borrowings and reserve fund and net surplus, the performance of PACS in Tamil Nadu is measured in terms of deposit mobilization and loan operations only.

Deposit Mobilization by PACS

It was found that the PACS face inter and intra - sectoral competitions in mobilizing resources through deposits. Inter - sector competition refers to the competition posed by commercial banks and Regional Rural Banks (RRBs). Intra - sector competition refers to the competition posed by other cooperative banks especially (Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) and branches of CCBs). In the outer circle Urban Cooperative Banks (UCB) and TNSC Bank and also pose competition to PACS.

It was found that the total deposits mobilized by all the cooperative banks in Tamil Nadu increased from INR⁵ 2 0119.02 crore⁶ in 2008-2009 to INR 36918.48 crore⁶ in 2012-2013. The relative share of PACS in the total deposits mobilized increased from 10.86 percent to 16.15 percent during the period, while the other players reduced their share in the total deposit mobilized over the period. However borrowings from CCB constituted the major share in the working capital of PACS (Table 4.2).

In the case of sample PACS, deposits were found to have significant stake in the working capital. For the Kayarambedu PACS, the total deposits mobilized were INR 482.21 lakhs⁷ in 2008-2009, which had increased to INR 2458.80, constituting 94.1 percent in the total working capital. This PACS had given credit linkage to 127 Women Self help Groups (SHGs),⁸ which helped to augment deposits to the present level (Tables 4.1 and 4.3).

Table 4.2. Trends in deposits outstanding in cooperative banks, Tamil Nadu, 2008-2013

Cooperative Societies	2008-09	2009-10	2010-11	2011-12	2012-13
PACS	2,184.67 (10.86)	3,342.64 (14.05)	3,585.33 (13.66)	4,308.19 (14.05)	5,961.15 (16.15)
PCARDB	38.74 (0.19)	38.95 (0.16)	46.27 (0.18)	47.97 (0.16)	76.95 (0.21)
CCB	10,317.31 (51.28)	11,892.29 (49.98)	13,274.66 (50.58)	15,287.08 (49.84)	17,759.38 (48.10)
TNSC Bank	4,465.23 (22.19)	5,152.35 (21.66)	5,453.34 (20.78)	6,620.00 (21.58)	7,881.11 (21.35)
UCBs	3,113.07 (15.47)	3,366.51 (14.15)	3,885.57 (14.80)	4,410.53 (14.38)	5,239.89 (14.19)
Total	20,119.02 (100.00)	23,792.74 (100.00)	26,245.17 (100.00)	30,673.77 (100.00)	36,918.48 (100.00)

Note: Exchange rate: USD 1= INR 63.1890 as of December 2014

Source: Malaysia Co-operative Societies Commission (MCSC)

Loan Operations of PACS

PACS in Tamil Nadu provide loans both for farm and non-farm activities. The PACS also distribute inputs of fertilizers, pesticides and seeds and also run Fair Price Shops under Public Distribution System. The total crop loan provided by PACS in Tamil Nadu increased from INR 1570.99 crore to INR 4069.44 crore, during the period between 2008-2009 and 2012-2013. Consequently the number of borrowers also increased from 691,192 to 1,020,845.

Table 4.3. Trends in deposit mobilization in sample PACS, 2008-2015

PACS	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Karaimeedu	71.47 (29.7)	75.81 (22.1)	88.26 (20.7)	162.60 (26.1)	174.30 (20.7)	246.59 (25.2)	255.72 (25.6)
Malaikudipatti	236.11 (51.3)	288.72 (51.4)	322.12 (62.6)	333.25 (58.2)	350.10 (56.2)	406.90 (57.4)	468.54 (62.2)
Kayarambedu	482.21 (86.9)	697.46 (87.5)	1300.33 (90.7)	1538.05 (92.4)	1807.27 (93.4)	2095.70 (94.4)	2458.80 (94.1)
Ponnai	134.19 (31.3)	135.58 (22.7)	128.20 (21.6)	121.86 (24.5)	162.87 (24.2)	145.98 (21.2)	183.49 (25.1)
Gobinallur	218.51 (45.9)	280.46 (46.5)	390.04 (58.2)	515.50 (55.2)	515.63 (51.8)	754.54 (72.3)	803.09 (71.9)

Note: Figures in brackets are percentage of deposits to total working capital, INR in Crore

Source: Compiled from Audit Reports of sample PACS for various years.

In the case of investment credit, the total loan issued during the period increased from INR 114.20 crore to INR 278.67 crore (Table 4.4). One of the indicators for the better performance was the coverage of new members by PACS in lending, especially crop loans. It was found that INR 436.22 crore was advanced as crop loan to 212440 new members during 2008-2009, which was 31 percent to total crop loan beneficiaries. The relative figure of 2012-2013 was 20 percent. However, the total loan provided to new members doubled during the five years and stood at INR 804.86 crore (Table 4.5).

Table 4.4. Trends in loan issued by PACS, Tamil Nadu, 2008-2013

Year	Crop loan (ST)		Investment Credit	
	Number	Amount	Number	Amount
2008-09	691,192 (-)	1,570.99 (-)	38,659 (-)	114.20 (-)
2009-10	898,540 (30.0)	2,169.48 (38.10)	99,009 (156.11)	142.80 (25.04)
2010-11	899,685 (0.13)	2,778.54 (28.07)	49,579 (-49.92)	190.39 (33.33)
2011-12	915,674 (1.78)	3,280.42 (18.06)	67,071 (35.28)	281.24 (47.72)
2012-13	1,020,845 (11.49)	4,069.44 (24.05)	65,195 (-2.80)	278.67 (0.91)

Note: Figures in brackets are percentage of change over previous year, INR in Crore

Source: Compiled from the publications of TNSC Bank, Chennai for various years.

Table 4.5. Crop loan issued to new members, Tamil Nadu, 2008-2013

Year	No. of Beneficiaries	Loan Issued
2008-09	212,440 (-)	436.22 (-)
2009-10	272,901 (28.5)	645.58 (47.9)
2010-11	261,696 (-4.0)	765.76 (18.6)
2011-12	187,331 (-28.4)	644.87 (-15.5)
2012-13	204,184 (9.00)	804.86 (24.8)

Note: Figures in brackets are percentage of change over previous year, INR in Crore

Source: Compiled from the publications of TNSC Bank, Chennai for various years

The highest performance in loan operation of the sample PACS was recorded by Kayarambedu PACS, which was followed by Gobinallur PACS. However, it is to be noted here that the share of crop loan was less than 50 percent in all sample PACS, as nowadays PACS are interested in secured loans, like jewel mortgage loans (Table 4.6).

Table 4.6. Trends in loan issued in sample PACS, 2008-2015

PACS	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Karaimeedu	303.72 (24.4)	554.66 (23.3)	713.03 (20.8)	902.39 (11.4)	1,157.14 (11.8)	1,009.66 (13.2)	939.00 (18.9)
Malaikudipatti	449.59 (1.5)	714.93 (4.1)	745.64 (7.6)	825.11 (10.7)	808.06 (13.3)	892.04 (11.3)	858.65 (14.2)
Kayarambedu	1,264.65 (0.0)	1,493.73 (0.4)	2,392.20 (0.3)	2,892.28 (0.4)	3,056.96 (0.3)	3,024.36 (0.4)	2,911.20 (0.4)
Ponnai	173.50 (29.9)	338.82 (31.4)	356.16 (24.4)	520.28 (6.5)	541.28 (2.5)	599.00 (31.1)	563.09 (43.9)
Gobinallur	632.73 (4.6)	959.45 (5.4)	1,272.18 (4.5)	1,790.64 (3.4)	2,023.90 (3.4)	1,771.31 (3.7)	1,122.43 (5.9)

Note: Figures in brackets are percentage of crop loan to total loan issued, INR in Lakhs

Source: Compiled from Audit Reports of sample PACS for various years.

Business Diversification Strategies followed by PACS

The Government of Tamil Nadu encouraged PACS to diversify their functions through fund based and non-fund based approaches (Government of Tamil Nadu 2011-2012). The prominent areas identified for diversification by PACS in Tamil Nadu are given in Figure 4.1.

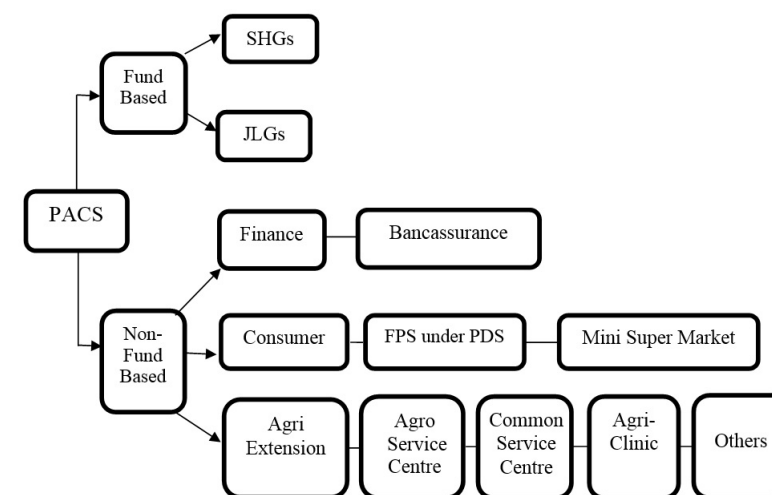


Figure 4.1. Areas for diversification of PACS, Tamil Nadu

Performance of PACS in Fund Based Diversification

The major fund based diversification strategy adopted by PACS is the adoption of group approach in lending. It is lending through SHGs and Joint Liability Groups (JLGs).⁹ Other areas of fund based diversification include micro credit, credit to women entrepreneurs, and weaker sections.¹⁰ It was found that generally cooperatives (both CCBs and PACS) in Tamil Nadu follow Bank – SHG linkage model in the micro finance. In the case of PACS – SHG linkage, there are two models exist across the State of Tamil Nadu. They are SHG Members' Livelihood Model and PACS Business Centered Model. In the second model again two approaches are coming to surface that include the Target Approach and Umbrella Approach (Ravichandran 2012).

It was found that more than 70 percent of PACS in Tamil Nadu have been given credit linkage to SHGs. The number of SHGs formed and given credit linkage increased from 78,875 to 90,176 during 2008-2009 and 2010-2011. The total SHG loan outstanding¹¹ in 2010-2011 was INR 365,589.94 lakhs, which was more than 33 percent to total of all loan outstanding at PACS level. During 2014-2015, it was proposed to disburse INR 615 crore as loan to SHGs (Government of Tamil Nadu 2014-2015).

Sample PACS showed interest in providing credit linkage to SHGs as this line of credit business ensured maximum percentage of repayment. Also, the interest income through SHG linkage had significant stake in the total interest income earned by sample PACS. Among the sample PACS, Ponni PACS showed higher performance in the interest earned through SHG linkage (Table 4.7).

Table 4.7. Interest income earned through SHG linkage by sample PACS, 2008-2015

PACS	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Karaimedu	2.06 (7.2)	1.92 (6.8)	1.84 (4.5)	2.15 (3.6)	2.62 (2.9)	2.84 (3.1)	3.99 (3.8)
Malaikudipatti	1.20 (3.1)	1.30 (2.3)	2.10 (3.3)	2.45 (3.6)	2.80 (3.8)	3.10 (3.7)	3.35 (3.8)
Kayarambedu	2.76 (3.5)	3.01 (3.3)	3.46 (2.6)	3.19 (1.4)	2.92 (1.1)	2.48 (0.7)	3.90 (1.2)
Ponnai	7.34 (29.7)	14.01 (30.4)	16.80 (32.9)	23.70 (29.5)	21.40 (27.6)	26.32 (31.2)	25.44 (31.3)
Gobinallur	7.22 (17.3)	7.71 (11.8)	7.95 (10.8)	16.94 (7.6)	9.57 (7.5)	9.71 (7.1)	8.42 (6.4)

Note: Figures in brackets are percentage of interested earned through SHG linkage to total interest income earned by sample PACS, INR in Lakhs

Source: Compiled from Audit Reports of sample PACS for various years

In the case of JLG linkage, generally target approach was adopted by PACS in Tamil Nadu. It was found that during 2008-2009, for 9,776 JLGs, INR 106.67

crore was issued as crop loan. During 2012-2013, the total crop loan advanced was INR 422.82 crore and the total number of JLGs benefited was 22,726 JLGs. However, the rate of growth was uneven (Table 4.8). In the case of sample PACS too, the target approach was adopted in lending through JLGs.

Table 4.8. Crop loan issued to Joint Liability Groups by PACS, Tamil Nadu, 2008-2013

Year	No. of JLG	Issued Loan
2008-09	9,776 (-)	106.67 (-)
2009-10	14,302 (46.30)	178.19 (67.05)
2010-11	20,923 (46.29)	304.73 (71.01)
2011 -12	23,017 (10.01)	367.14 (20.48)
2012-13	22,726 (-1.26)	422.82 (15.17)

Note: Figures in brackets are percentage of change over previous year, INR in Crore
Source: Compiled from the publications of TNSC Bank, Chennai for various years

Performance of PACS in Non-Fund Based Diversification

The non fund based diversification covers both financial and non financial business activities. However the performance of PACS in agri extension services only was analyzed here. Agri-Clinics¹² were used by members for conducting soil testing and water testing. PACS have started Agri-Clinics in all districts of Tamil Nadu and earned INR 31.38 lakhs as non-fund based profit. More number of Agri-Clinics were started in Thiruvannamalai and Tuticorin District. Over the period of three years 190 Agri-Clinics were established and the profit of the PACS increased to INR 68.43 lakhs (Table 4.9).

Table 4.9. Performance of agri-clinic service centre of PACS, Tamil Nadu, 2010-2013

Year	No. of Agri-Clinic	No. of Soil Test	No. of Water Test	Net Profit
2010-11	182	112,471	27,810	31.38
2011-12	190	142,114	47,296	63.88
2012-13	190	143,224	53,044	68.43

Source: Compiled from the publications of TNSC Bank, Chennai for various years
Note: Net profit INR in Lakhs

In Tamil Nadu Agro Engineering Service Cooperative Societies were functioning to provide agro engineering services to farmers. However these cooperative societies could not sustain their business due to various reasons. This

trend has given scope for establishment the Agro Service Centers¹³ by PACS. Initially, PACS hesitated to establish such centers due to limited manpower. The number of Agro Service Centers established by PACS increased in 2014 and earned a net income of INR 534.43 lakhs during 2012-2013. The number of PACS involved in this business increased from about 20 percent to 39 percent from out of the total PACS in Tamil Nadu (Table 4.10).

Table 4.10. Performance of agro service centre of PACS, Tamil Nadu, 2010-2013

Year	No. Agro Service Center	Agri Machine Purchased	Net Income
2010-11	883	2,027.92	100.18
2011-12	1,238	3,135.25	309.38
2012-13	2,104	8,044.77	534.43

Note: Agri. Machine purchased and net income INR in Lakhs

Source: Compiled from the publications of TNSC Bank, Chennai for various years

Both PACS and PCARDBs were encouraged to establish Common Service Centers (CSC)¹⁴. It was found that during 2012-2013, 1,638 such centers were established by 1538 PACS and 100 PCARDBs in the State. The net income earned through these centers increased from INR 90.91 lakhs to INR 328.24 lakhs during the period between 2010-2011 and 2012-2013 (Table 4.11). Region wise analysis showed that during all these three years Thiruvannamalai District continuously stood first in terms of number of CSC established and net income earned. It is found that the net income earned through non-fund based Agri Extension Services like CSC, Agro Service Centre, and Agri-Clinics by PACS have been on the increasing trend. The sample PACS also adopted these non-fund based diversification strategy. However, the rate of performance was uneven.

Table 4.11. Performance of common service centres, Tamil Nadu

Number of Common Service Center			Net Income earned by Common Service Centre (INR in lakhs)		
PACS	PCARDBs	Total	2010-11	2011-12	2012-13
1,538	100	1,638	90.91	238.12	328.24

Note: Net income earned by Common Services, INR in Lakhs

Source: Compiled from the publications of TNSC Bank, Chennai for various years

In general, among these diversification strategies, PACS – SHG linkage was both customer diversification and product diversification, whereas JLG was product diversification. Hence, for intensive study five PACS, representing different districts were purposively selected. From the figures given in Table 4.7, it was found that PACS – SHG linkage had significant impact on the income of

the PACS. This trend clearly shows that the interest income based diversification has become sustainable.

Entrepreneurial Competencies of PACS

Based on these trends, an FGD was held with the primary stakeholders of sample societies to enlist the entrepreneurial competencies projected out of the business diversification strategies followed (Figure 4.2).

It was found that the drivers for business diversification were from the collective action of the members, leaders, employees, and bureaucrats. The competencies projected out of the business diversification strategies were acts on opportunities, risk taking, and consistency.

Acts on Opportunities

The Government of Tamil Nadu permitted the PACS to form and provide credit linkage to SHGs by admitting them as members of PACS. The Financing Bank, DCCBs, also made arrangements to provide separate line of credit to PACS for on-lending to SHGs. In the meantime, during this period the Integrated Cooperative Development Project was also being implemented in selected districts through which other facilities for SHG linkage by PACS were provided.

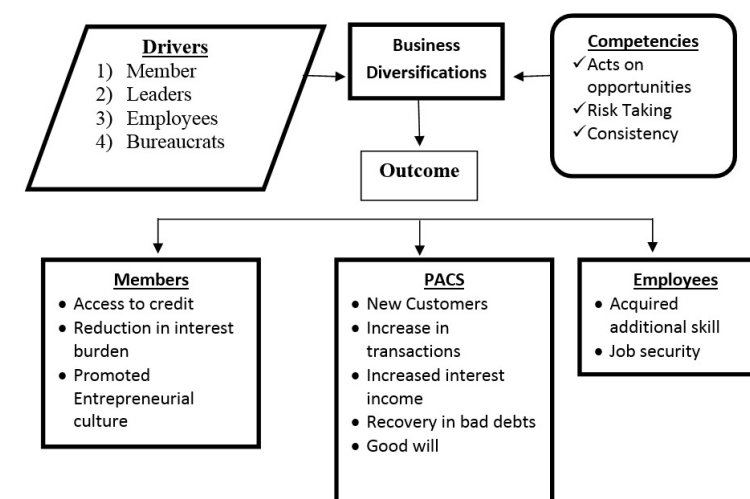


Figure 4.2. Business diversification strategies for members, PACS and employees

Beyond all these reasons, PACS experienced bad weather in the agricultural credit portfolio, as hitherto it was based on individual borrower. From the FGD

conducted among the stakeholders, it was found that they were waiting for such opportunities and acted upon it, and based on the following reasons, adopted now group approach in lending for sustainability.

1. The yields from other non-interest based business are meagre and seasonal, whereas the volume of transactions in the SHG linkage has been high during the years under study.
2. Higher level morale among the SHG borrowers in loan repayment
3. Interest spread is attractive and its contribution to total income is at increasing trend. For example the contribution of interest earned through SHG linkage was as high as 31.3 percent in the sample PACS (Table 4.7).

Risk Taking

In Tamil Nadu, SHGs were formed both by the Commercial Banks and the NGOs and hence this approach was new to PACS. In majority of the cases, SHGs were under the control of NGOs. When the opportunities emerged, PACS took the risk either forming new SHGs or making partnership with NGOs for linkage. The employees of PACS did not have any formal training on SHG linkage. From the FGD conducted among the stakeholders, it was found that those PACS which provided training for their employees in SHG linkage and identified genuine SHGs/NGOs, adhered strictly to the norms and procedures stipulated by government, National Bank for Agriculture and Rural Development (NABARD) and Financing Bank for linking and grading to provide loans and augmented the support of the village spokes persons withstand in this business and showed success.

Consistency

When the PACS were permitted to give credit linkage to SHGs, target approach was adopted throughout the State. Hence, some of the PACS started to finance the SHGs without grading the quality of SHGs. Also, when the target was accomplished, these PACS started to concentrate on other business. From the FGD, it was found that those PACS which are consistent on the following become successful in SHG linkage.

1. Providing leadership training to the members for conducting regular meetings of SHG and maintaining the books and records and also lead the group activities;
2. Enabling the members of SHGs to acquire entrepreneurial skills and to undertake entrepreneurial activities;

3. Enabling the members of SHGs to upgrade their standard of living by providing awareness on key issues which influence their livelihood system;
4. Enabling the members of SHGs to realize concern for neighborhood community;
5. Participate in the meetings organized by SHGs and facilitating them in book keeping and decision making;
6. Periodical review of the functions of SHGs; and
7. Other location specific activities which ensure the harmonious and fair relationship among the members of SHGs and PACS.

Above all, the benefits (outcome) accrued out of these competencies were felt not only at PACS level but also at individual member and employees level.

Conclusions

From the results of the study it is hard to define whether these said competencies are member driven or employees driven or bureaucratic driven. It is the outcome of collective action of these groups. However, this study found that sample PACS have experienced the success in their business diversification from the point of view of (i) increasing the customer base through coverage of women from the small and marginal farming community (ii) mobilizing the small savings, which were hitherto saved with village private chit funds, (iii) increasing the loan consumption capacity of SHGs through the creation of credit discipline and entrepreneurial culture among members and (iv) recovery of loan in time thereby increased the interest income. Apart from the direct business generated, the good-will being created through these enhanced services of PACS in the villages gets translated into other indirect benefits to PACS.

Results of the field study also revealed that members of SHGs were induced to come to PACS not merely for getting loans but also for easy access to an institution and availability of services in their neighborhood. Both the stakeholders enjoyed benefits and in fact this new line of strategy increased the access to institutional credit for the poor especially the women and thereby increased the Ground Level Credit flow. The outcome was that there was an increase in the interest income to the sample PACS and improved the livelihood of the members. Hence, it is concluded that those PACS which exhibited their entrepreneurial competencies was able to sustain their business through location specific business strategies.

SUMMARY

Cooperatives are one of the important economic organizations which have generated a huge employment potential and diversified their activities covering all possible sectors, touching the needs of the producers as well as the consumers across the world. The reach of these organizations, their local know how and risk sharing potential are assets for the economy as a whole. However, entrepreneurship literatures rarely look in to the relationship between entrepreneurship and cooperatives. In the cooperative literatures, very little has been addressed about the synergy between entrepreneurial competencies and the degree of economic success or the failure.

In this context, the study analyzed the entrepreneurial competencies of selected Primary Agricultural Cooperative Credit Societies in Tamil Nadu, India. Findings revealed that sample societies experienced success in their business diversification by adopting entrepreneurial competencies. This resulted in increase in the interest income of the sample PACS and improved the livelihood of the members. The chapter concluded that those PACS which exhibited entrepreneurial competencies could sustain their business through location specific functions and serve as change agents at village level.

Notes

1. *The STCCS function as three tier structure in 16 States; while in 13 smaller States and Union Territories, PACS are directly affiliated to the SCBs as a two-tier structure. In 3 States, a mixed structure, i.e., two tier in some districts, and three tier in the other districts operate (RBI: 2013, p-6).*
2. *The Long-Term Cooperative Credit Structure consists of 714 PCARDBs and 19 SCARDBs as of March 31, 2012 (<http://nafcard.org/home.html>).*
3. *Revenue village: It is a small administrative region in India with a defined borders. One revenue village may contain several hamlets.*
4. *The participants of the FGD were the member users of the services of PACS, members of SHGs and employees of PACS. During visit to the sample PACS, these stakeholders who were having interest for FGD were invited by briefing about the purpose of the study. The results obtained were based on the perception of these stakeholders.*
5. *INR: Indian Rupee*
6. *crore: Indian unit of number indicating one followed by seven zeros*
7. *lakh: Indian unit of number indicating one followed by five zeros.*
8. *Self-help Groups (SHGs): Self-help group is a small economically homogeneous and affinity group of rural / urban poor, voluntarily formed to save and contribute to a common fund to be lent to its members as per the group's decision and for working together for social and economic uplift of their families and community.*

9. *A Joint Liability Group (JLG): JLG is an informal group comprising preferably of 4 to 10 individuals coming together for the purposes of availing bank loan either single or through the group mechanism against mutual guarantee. The JLG members would offer a joint undertaking to the bank that enables them to avail loans. The JLG members are expected to engage in similar type of economic activities like farming. The management of the JLG is to be kept simple with little or no financial administration within the group.*
10. *Weaker Sections: All those sections of the population, who are living below the poverty line and with the annual income level of less than the ceiling fixed by the Government from time to time, are considered as weaker sections. Small and Marginal farmers, landless labourers, tenant farmers and share croppers, artisans, Schedule Castes and Schedule Tribes and Self-Help Group Members are generally classified under this category.*
11. *Loan Outstanding: The loan amount (Principal + Interest) of the bank which remain to be recovered with the borrower on a particular date.*
12. *Agri Clinic: Agri-Clinics are established to provide expert services and advice to farmers on cropping practices, technology dissemination, crop protection from pests and diseases, market trends and prices of various crops in the markets and also clinical services for animal health etc., which would enhance productivity of crops/animals.*
13. *Agro Service Center: These Centers are established to provide input supply, farm equipments on hire and other services.*
14. *Common Service Center: Common Service Center is a strategic multiple-services-single-point model for providing facilities for multiple transactions at a single geographical location. The main purpose of these centers is to provide a physical facility for delivery of e-Services of the Government to the people thereby contributing to a digitally and financially inclusive society.*

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CHAPTER 5

Mainstreaming Co-operatives in the Agribusiness Sector of Malaysia

MOHD SHAHRON ANUAR SAID

Agriculture in Malaysia

For many years, the agriculture has been an important sector and the backbone of Malaysian economy. The agriculture sector produces agricultural products for domestic consumption and contributes about 7.16 percent to the national Gross Domestic Products (GDP). In 2013, contributed to the total export earnings of the country, constituting more than 23 percent of the total earnings (Economic Planning Unit, Prime Minister Department). It also provides major employment for the people, especially from the rural areas, wherein more than 1.3 million people or 10.8 percent of the total employment were agriculture-related.

The contribution of agriculture in Malaysia's economy has increased from MYR51.3 billion in 2010 to MYR54.8 billion in 2012, MYR56.3 billion (2013) and forecasted to further increase to MYR58.0 billion (2014). However, despite the increase in absolute value, the share of the agricultural sector in the Malaysia's economy is declining every year. The share of the agricultural sector in GDP declined from 29.9 percent in 1970 to 22.9 (1980), 18.7 percent (1990) and 8.4 percent (2000). In the more recent years, the share of agricultural sector in GDP declined from 7.58 percent in 2010 to 7.29 (2012), 7.16 percent (2013) and around 7.0 percent in 2014.

Background of Agriculture, Agro-based Industry and Plantation Co-operatives in Malaysia

Before the advent of co-operatives, farmers used to obtain loans from individual lenders at excessively high interest rates, putting the farmer into indebtedness. Consequently, the early establishment of co-operatives was to provide a source of financing to members who were invariably farmers and market their farm produce.

At present, the co-operative movement in Malaysia is recognised as a key engine of growth national development, together with the public and private sectors. The government is committed in supporting and assisting co-operatives as evidenced by the amount of financial and non-financial resources allocated to

the movement directly and indirectly through the country's various development programs.

As of December 2014, there are already 11,871 co-operatives nationwide, which have a total membership of 7.4 million people (Table 5.1). Particularly, 21.5 percent (2,547) co-operatives were registered as agricultural co-operative, with a total membership of 744,406 individuals. However, only part of those co-operatives is actively involved in agricultural, agro-based industry or plantation activities.

Table 5.1. Total numbers of co-operatives, number of members, and turnover (in MYR million), Malaysia 2014

Function/Sector	No. of Co-operatives	No. of Members	Turnover
Banking	2	993,593	6,093.65
Credit	597	1,338,057	1,878.66
Agriculture	2,547	744,406	2,823.06
School co-operatives	6	457	0.07
Housing	217	154,944	530.45
Industrial	253	18,155	35.97
Consumer	2,609	607,967	804.85
School co-operatives	2,307	2,140,193	321.90
Construction	196	130,614	87.47
Transportation	460	149,273	700.67
Services	2,677	1,131,888	21,674.21
Total	11,871	7,409,547	34,950.98

Note: Exchange rate: USD 1.00 = MYR 3.50 as of December 2014

Source: Malaysia Co-operative Societies Commission (MCSC)

The agricultural, agro-based industry and plantation sector for co-operatives is included activities of selling, purchasing and services of agricultural commodities. It also includes value chain activities for integrated farm, nursery, agricultural inputs, transportation (logistics), processing and marketing. In agriculture and agro based industry, various activities can be carried out by the co-operatives such as plant operations and selling vegetables, fruits, fisheries, aquaculture, livestock, commodity, seeding, breeding, agricultural input supply and livestock food. Total turnover of co-operatives from agriculture and agro based activities reached MYR596 million (Table 5.2). On the other hand, palm plantation acreage owned by co-operatives is estimated area of 30 thousand hectares. Total turnover of co-operatives from oil palm activities reached MYR338 million in 2014.

Table 5.2. Total numbers of co-operatives involved in agricultural, agro-based industry and plantation and their turnovers, Malaysia, 2014

Sector	Number of Co-operatives	Turnover (MYR)
Agriculture and Agro-based Industry	839	596,726,500
Plantation	122	338,960,000
TOTAL	961	935,686,500

Note: Exchange rate: USD 1.00 = MYR 3.50 as of December 2014

Source: Malaysia Co-operative Societies Commission (MCSC)

During the 1970s, the co-operatives in Malaysia involved in agricultural activities were supervised by various agencies. Among these were Lembaga Pertubuhan Peladang (Farmers Organization) (LPP), Lembaga Kemajuan Ikan Malaysia (Fisheries Development Authority) (LKIM), Federal Land Development Authority (FELDA), Federal Land Consolidation and Rehabilitation Authority (FELCRA) and Rubber Industry Smallholders Development Authority (RISDA) (Noor Zeeta and Haslinda 2012).

Currently, all co-operatives are under the auspices of the Malaysia Co-operative Society Commission (MCSC), a government agency responsible for the establishment, development and supervision of cooperatives and for implementing the rules and regulations regarding the movement as a whole. The co-operative movement is under the purview of the Ministry of Domestic Trade, Co-operatives and Consumerism (KPDNKK). This movement supported by the government from time to time with the implementation of the National Co-operative Policy (NCP) 2002-2010 and NCP 2011-2020, which is discussed in the next section.

Promoting the Implementation of Agribusiness Sector in Malaysian Co-operatives Movement

National Co-operative Policy (NCP) 2011–2020
[Malaysia Co-operative Societies Commission]

The National Co-operative Policy (NCP) 2011-2020 was extended from previous NCP (2002-2010). This policy has been implemented through programs which include business development, access to financial resources, inculcation of entrepreneurial culture and enhancing the laws regulation and supervision of co-operatives. The impact of the programs implemented can be seen in the increased growth of the co-operatives movement, well-being of the co-operative community and its contribution towards national development.

At the macro level, the policy aims to transform the co-operative movement into an effective contributor towards national development. From the micro perspective, co-operative should become a generator of economic growth and competitive business entity in areas where it is strong. In implementing the above policy, focus is given on the economic activity result areas, namely financial services, wholesale and retail, tourism, health care, agriculture, and plantation.

Agriculture and Agro-based Industry

Although the services sector is expected to contribute significantly to the economic development of the nation, agricultural activities and agro-based industries are still vital in determining the efficient and optimal utilization of available resources, thereby assuring adequate food supply. Co-operatives are encouraged to participate in high value agriculture activities and operate on large-scale basis with the application of modern technology for increased results.

Plantation

In the nation's plantation sector, it is estimated that 100,000 hectares of land will be replanted with oil palm, which will benefit a total of 1,362 (19%) co-operatives that are involved in plantation activities. Having a strong capital base, these co-operatives together with co-operatives owning land, are encouraged to develop this sector through mergers or strategic alliances. Through mergers, the co-operatives will be able to participate in the management of plantations while the smaller co-operatives are encouraged to operate nurseries to supply oil palm seedlings to the local plantations. Co-operatives are suggested to appoint successful co-operatives in this sector as mentors and also collaborating with government technical agencies, namely the Malaysian Palm Oil Board (MPOB) and other technical agencies.

Role of Government Agencies

Concerned government agencies such as MCSC and CCM play their roles to achieve the development of co-operatives involved in the agricultural sector in Malaysia. MCSC and CCM have the main responsibility to implement programs and activities under the NCP 2011-2020. The implementation is based on the five established strategic thrusts and assigned to specific divisions in MCSC and CCM. The strategic thrusts for the development of co-operatives as follows:

- Strategic thrust I - Stimulate participation of co-operatives in high value economic sector

- Strategic thrust II - Strengthen the capacity and capability of co-operatives
- Strategic thrust III - Create and develop the capability of human capital in co-operatives
- Strategic thrust IV - Improve public confidence in the co-operative movement
- Strategic thrust V - Strengthen co-operatives through effective supervision and enforcement

Strategic thrusts I, II, IV, and V are implemented by MCSC, while strategic thrusts III is implemented by CCM. For each of the strategic thrusts, a working committee will be established to ensure programs and activities are implemented. In addition, Malaysian National Co-operative Movement (ANGKASA), the apex body for co-operative movement in Malaysia, has also been entrusted with the responsibility of consolidating the co-operatives for implementation of the programs drawn up the NCP 2011-2020.

Other National Policy related to Agribusiness Sectors in Malaysia

Besides National Co-operative Policy 2011-2020, the agribusiness sector is strengthened to increase the contribution to the national economy through other policies initiated by other ministries .

National Agrofood Policy (NAP) 2011–2020 [Ministry of Agriculture and Agro-based Industry (MOA)]

The National Agrofood Policy (NAP) 2011-2020 will be a reference and guideline in the transformation of national agrofood industry to strengthen and increase the contribution to the national economy. The main objectives the NAP are:

- to ensure adequate food security that is safe to eat;
- to make agrofood industry as a competitive sustainable industry; and
- to increase agro based entrepreneur's level of income.

The agrofood industry is very significant to the economic development of Malaysia. This industry contributes to the country's food supply, provides job opportunities, and leads to higher income for the target group. In the computation of GDP, the contribution of the agri-food industry is placed under the agricultural sector.

National Commodity Policy 2011-2020

[Ministry of Plantation Industries and Commodities (MPIC)]

The National Commodity Policy 2011-2020 provides strategic direction for the development of the plantation and commodities industry until 2020 and strategic thrusts to further transform the commodity sector.

The main objectives of the National Commodity Policy are:

- to increase the contribution of plantation industrial commodities to the nation's economy;
- to modernize and transform the commodity industry towards a more competitive and sustainable level;
- to encourage the development of the commodity industry along the value chain;
- to increase the income of operators and smallholders in the commodity industry; and
- to promote Malaysia as the center of excellence in R&D, technology development and the downstream processing of industrial commodities.

Studies on Involvement of Agricultural Co-operatives in Malaysia Agri-Food Industry

The results of the study by Noor Zeeta et al. (2012) show that the majority of the co-operatives involved in agri-food activities are under the micro category in terms of size with capital and asset totalling less than MYR500,000 each. About 40 percent have an annual turnover of less than MYR200,000 each.

The majority of the co-operatives are producers of agri-food, concentrating on traditional products and not having capitalized on the opportunities to go into the supply chain as well. The study also reveals that utilization of technology in the operation process is deemed vital, besides other important production factors like supply, labor and capital.

The biggest challenge faced by agricultural co-operatives is capital constraint. The business capacity of co-operatives is thus limited due to a lack of funds, land, agricultural input, automation and technologies. In addition, there are also risks associated with agri-food production activities. The number of workers in the co-operatives is still small with the majority having less than five. The number of permanent staff of most co-operatives is also small, except for large co-operatives that may have more than 50 employees. Lastly, even though the number of co-operatives involved in agri-food business is still small, this industry offers tremendous opportunities for the farmer. However, it must be emphasized that technology is the key to the success of agri-food production.

Issues and Challenges Agribusiness Sector

Labor shortage factor coupled with increasing costs of production, a shortage of suitable land and uneconomic farm sizes have raised new issues and challenges in the agribusiness sector in Malaysia. Among these issues and challenges faced by agribusiness sector are listed below:

- An aging factor and migration of labor force from agriculture to non-agricultural sector has led to labor shortages in the agriculture sector. Labor shortage led to dependence on foreign labor.
- Increase in production cost due to the increase of wages, the price of agricultural inputs and capital cost.
- Land resources suitable for agriculture are getting scarce because much of the land once utilized for agriculture have been converted for other more profitable use.
- Lack of infrastructure, using traditional and semi-commercial technology often led to inefficient operations affecting productivity and low competitiveness.
- Weak food supply chain of agribusiness sector, where there is very little integration between food production and downstream food chain activities resulting to inefficient market.
- Exposure to the risk of disease and pest.
- Less effective management and leadership in agribusiness activities.
- Less participation of co-operatives members in the agriculture activities.

Direction and Strategy Implementation

New programs that incorporate innovative knowledge and technologies need to be formulated to address these challenges with the objective of increasing productivity, competitiveness and the income of co-operatives and farmers' co-operatives. This sector and co-operatives needs sustainable transformation programs. Among others, the strategic recommendations are suggested:

- Intensify land use by introducing integrated farming systems that maximize land use. Integrated farming may be promoted by incorporating short and medium-term cash crops and livestock rearing during the immature stage of perennial crops. For example, oil palm smallholders could benefit from planting crops such as bananas, watermelons, and pineapples, which are suitable candidates to be cultivated during the immature stage of oil palm growth. Livestock that are suitable for integration into oil palm farms are cattle, sheep and goats.
- The use of fertigation and hydroponic systems under greenhouses for high-value fruits and vegetables is another potential intensive farming system that can substantially increase crop yield and farmers' incomes.

Productivity is also boosted by the more efficient use of water, fertilizer and labor. However, both systems require significant capital investment.

- Strengthening the supply chain and marketing through domination of value chain in the agribusiness co-operatives by increasing the number of distribution center (DC), sub-DC, co-operative shops, co-operative supermarkets, franchises and virtual mall.
- Increase the center of collection for co-operatives and members products.
- Encourage agri-entrepreneurs to establish agricultural co-operatives.
- Develop suitability of existing co-operatives to do agribusiness activities.
- Promote the existence of the consortium of agricultural co-operatives.
- Establish co-operatives stores that supply agricultural inputs.
- Ask the government to provide financing sources to potential co-operative as capital or fund upgrading farm infrastructure.
- Ensure the use of quality seedlings.
- Encourage the participation of young farmers in the agribusiness industry and establish agricultural co-operatives.
- Establish strategic partnerships with relevant technical agencies.

SUMMARY

Agriculture is an important sector in Malaysia. For many years, this sector has been the backbone of Malaysian economy by producing agricultural products for domestic consumption and as the earner of foreign exchange. It also provides major employment for the people, especially from the rural areas. In 2014, the agriculture sector contributed about 7 percent of Malaysia's GDP. In 2014, there are 2,547 of 11,871 co-operatives were registered as agricultural co-operatives with a total membership of 744,406 members.

This chapter discussed the issues and challenges on the agribusiness sector of Malaysia in the context of agricultural co-operatives and the corresponding direction and strategy to implement to address such problems. Co-operatives are encouraged to participate in high value agriculture activities and operate on large-scale basis with the application of modern technology for increased results and make as an effective contributor towards national development. They are also encouraged to develop this sector through mergers or strategic alliances and appoint successful co-operatives in this sector as mentors and also collaborating with technical agencies.

Concerned government agencies such MCSC, CCM and the apex body for co-operative movement in Malaysia, ANGKASA, play their roles to achieve the development of co-operatives involved in the agricultural sector in Malaysia based on the established strategic thrusts under NCP 2011-2020.

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Part II

Human Resource Development in Cooperatives

CHAPTER 6

Assessment of Cooperative Officers' Leadership Competencies in Oroquieta City, Philippines

AXEL JOSEPH L. BINAORO

Introduction

The cooperative is a unique form of enterprise guided by a set of values and principles that promote social and economic development. Its goal is to address the problem of economic crisis and poverty among its members and their communities. In a cooperative, decision making emanates from the members regardless of capital contribution given. The success of cooperative model was first realized by the Rochdale Equity Pioneer Society during the Industrial Revolution in England in 1844. A group of industrial workers organized themselves to deal with unfair labor practices and economic disparity among the poor workers and the capitalists.

Inspired by the Rochdale Pioneers, the government has initiated massive cooperative organizing in the Philippines since the year 1906 primarily to improve agriculture and economic life of the farmers. However, the early cooperative movement failed due to the negative impact of government intervention and the absence of adequate incentives to encourage cooperative expansion. In addition, cooperatives can be criticized for their over reliance upon government and for their slowness to assume leadership and responsibility for their own development (Van Steenwyk 1987). Other reasons why cooperatives failed in the past are related to weak leadership and inefficient management and supervision resulting from poor cooperative education among members (i.e., lack of basic understanding of the basic principles of cooperation), inadequate professional skills, lack of trust, ethical character and moral responsibility of management, and lack of democratic procedure in the election of officers, particularly the treasurer (Fajardo and Abella 1999).

At the local context, after 17 years of implementation of Republic Act 6938, there are still small and medium category cooperatives that are stagnant in their economic growth. Cooperative dissolution cases are high in Oroquieta City, Misamis Occidental. In 2006, the city had 49 registered cooperatives, of which 18 (37%) were identified active, nine (18%) were inactive in terms of not submitting financial reports, five (10%) were cancelled while 17 (35%)

were dissolved (OCCDC 2006). One of the common factors that affect the sustainability of cooperatives is leadership development.

The impact of cooperatives in promoting self-reliance and harnessing people power towards the attainment of economic development and social justice will depend on the strength of its leaders. Leadership competencies are a cluster of related knowledge, attitudes and skills that define winning leaders. In high performance leadership, Simons, Vasquez and Harris (1992) have identified in detail the demands that put on leaders in the new work culture and identifies core competencies and values as autonomy and control over work space, participation and involvement in enterprise, communication and information orientation, information and synergistic relationships, enhanced quality of work life, creative organizational norms, high performance and productivity, entrepreneurial orientation, technological orientation, and research and development culture. Shibelski (2004) stressed that leadership competence among people differs significantly and is affected by their personal values, skills and attitudes, and style (Buensalida 2006).

In this light, this study examined the stagnancy, inactivity, and dissolution of cooperatives in Oroquieta City. Particularly, the study assessed the cooperative officers' leadership competencies in Oroquieta City, in terms of directing change, leading people and becoming results-oriented. It also determined the significant relationship of their demographic and socio-economic characteristics and their leadership competencies. Lastly, it determined the gray areas and some intervening factors that hinder the growth of primary cooperatives. The findings of this research shall be the basis in formulating a cooperative leadership development program of different institutions that will assist in strengthening the cooperative sector in order to prevent cases of stagnancy, inactivity, and dissolution of cooperatives.

Methodology

This study is grounded on the Senior Executive Service – Executive Core Qualifications, a Leadership Competency Framework of the Office of the Personnel Management of the United States Government, which covers five areas of competencies. However, for this study, the respondents' leadership competencies under assessment only considered three categories, which include Directing Change, Leading People and Results Oriented.

Primary data were collected through a survey among 100 respondents from 13 cooperatives in Oroquieta City. These cooperatives were chosen based on the following criteria: (1) the cooperative must have at least 100 active members; (2) must have at least three hired management staff; (3) operating business within the province of Misamis Occidental; and (4) have established permanent office

within the city. Respondents are all elected and appointed incumbent cooperative officers, namely the Board of Directors, Committees, Secretary, Treasurer, and Manager, employing complete enumeration sampling method. The survey was aided by a questionnaire.

Each item that defines each leadership competency was assessed and measured by the respondents himself/herself through the assistance of the interviewer using a five-point Likert scale method, as indicated in Table 6.1.

Table 6.1. Respondents' leadership competency rating scale

Rating Scale	Qualitative Description
1	No Competency at All
2	Poor
3	Satisfactory
4	Very Satisfactory
5	Outstanding

The total score of all statements that defines leadership competency are computed to determine the mean rating which the results are categorized in

Table 6.2. Respondents' computed competency mean rating scale

Mean Rating	Qualitative Description
1 to 2	Low
Between 2 and 3	Below Average
3	Average
Between 3 and 4	Above Average
4 to 5	High

The data were analyzed using descriptive-evaluative method, which is a combination of qualitative and quantitative approaches. Particularly, the following analytical tools were employed:

- Frequency Counts – it was used to determine the proportion of the sample displaying a particular response of the respondents' personal profile such as age, sex, tribe, educational attainment, marital status, household size, length of service as officers, monthly gross income from all sources;
- Cross Tabulation (crosstab) of responses – it was used to display the joint distribution of two or more variables. They are usually presented as a contingency table in a matrix format. Whereas a frequency distribution provides the distribution of one variable, a contingency table describes the distribution of two or more variables simultaneously. Each cell shows the number of respondents that gave a specific combination of responses, that is, each cell contains single cross tabulation;

- Chi Square Test and Analysis of Variance (ANOVA): Multi-factors– this determined the relationship between the respondents' demographic and socio-economic characteristics and the level of leadership competencies of cooperative officers.

The statistical software used in analyzing the data was SPSS version 16 and Windows Excel Tool Pack.

Results and Discussion

Demographic and Socio-economic Characteristics of the Respondents

Table 6.3 summarizes the demographic and socio-economic characteristics of the cooperative officers who participated in the survey. Out of the 100 respondents, the majority are female (68%), married (78%) and aged 46 and older (72%), which imply some level of maturity to face responsibilities as leaders of their cooperative organizations. Eighty percent (80%) of them are Cebuanos reflecting the dominance of Christian settlers in the province of Misamis Occidental. Correspondingly, they are dominantly Roman Catholics (72%).

Table 6.3. Demographic and socio-economic characteristics of the respondents

Demographic and Socio-Economic Characteristics		Frequency/ Percentage (n=100)
Gender	Male	68
	Female	32
Age	Old	72
	Young	28
Marital Status	Married	78
	Not Married	22
Tribes	Cebuano	80
	Non-Cebuano	20
Religion	Roman Catholic	72
	Non-Roman Catholic	28
Household Size	Large Size	76
	Small Size	24
Monthly Income	High Income (Above PHP 8,681.75)	38
	Low Income (Below PHP 8,681.75)	62
Educational Attainment	High Education	64
	Low Education	36
Length of Service in the Cooperative	Long-term Service	44
	Short-term Service	56

The average household size of cooperative officers is six, which is consistent with the national average. About 62 percent of the officers belonged to the low income category of which majority of them have income below the national poverty threshold of PHP5,999.00 per month. As to their educational attainment, it is found they generally have high education level since more than half of the cooperative officers attended or finished college or post graduate education. This made them qualified to their current positions. More than half of the officers have served the cooperative in a limited number of years in span of five years and below.

The Leadership Competencies of the Respondents

The findings on the respondents' leadership competencies yielded the following results:

In Directing Change

Cooperative officers have mostly above average competencies in directing change as indicated by the mean rating of 3.63 in all leadership competencies that comprised directing change (Table 6.4).

Table 6.4. Directing change competency of respondents

Directing Change Competencies	Mean Rating	Competency Category
Continual Learning	3.84	Above Average
Creativity and Innovation	3.65	Above Average
External Awareness	3.31	Above Average
Flexibility	3.77	Above Average
Resilience	3.58	Above Average
Service Motivation	3.68	Above Average
Strategic Thinking	3.60	Above Average
Vision	3.61	Above Average
Overall	3.63	Above Average

Summary of findings are enumerated in detail below:

1. **Continual Learning.** It is here where respondents have better competency compared to other aspects being measured. In all actions that lead to continual learning competency, the great majority of cooperative officers have demonstrated above average competency with the mean rating of 3.84. It means that most cooperative officers are seeking new information or knowledge through trainings, seminars and forum, pursuing master's degree, reading resource materials and seeking knowledge from tri-media that can enhance the operation of the cooperative.
2. **Creativity and Innovation.** For most items that define creativity and innovation competency of cooperative officers, the competency level of the respondents fell under the above average competency rating, as denoted by the mean rating of 3.65.
3. **External Awareness.** Most statements that describe external awareness have indicated that cooperative officers in this locality have been assessed with an above average competency based on its mean rating of 3.31. This was the lowest mean rating among the competencies measured.
4. **Flexibility.** For most attributes that depict cooperative officers' flexibility, the majority have indicated above average competency level as indicated by the mean rating of 3.77. This competency level is particularly observed among respondents who said that they are open to change, ability to adopt changes in information and technology, and situations in life.
5. **Resilience.** On the statements that make cooperative officers' resilience, majority of them have above average competency level with the mean rating of 3.58.
6. **Service Motivation.** Result showed that most cooperative officers have above average competency in all actions that make up service motivation competency. Their mean rating in this aspect is 3.68. They have encouraged quality service and performance, willingness to share tools and are committed somehow to public service.
7. **Strategic Thinking.** For the actions that describes strategic thinking competency of cooperatives officers, majority have demonstrated above average competency as explained by the 3.60 mean rating.
8. **Vision.** Each statement describing vision competency of cooperative officers have an above average competency level, given its mean rating of 3.61 rating.

In Leading People

Cooperative officers have an overall mean rating of 3.74 or an above average rating in all leadership competencies that comprised leading people category.

The findings are explained in detail below and summarized in Table 6.5.

1. **Conflict Management.** Most cooperative officers have an above average competency or on the mean of 3.59 rating in all actions leading to conflict management ability. Its mean rating is the lowest among the components of leading people competencies. One reason for this is the difficulty in resolving internal conflict in the cooperatives, which affects cooperative development.
2. **Leveraging Diversity.** The mean rating for all statements describing leveraging diversity is 3.70, which is equivalent to above average competency level of cooperative officers.
3. **Integrity/Honesty.** The great majority of the cooperative officers have possessed above average competency or mean ratings above 3.88 in all actions that displayed integrity/honesty. It is the highest among the leading people competencies being examined. This positive attitude of the officers should be maintained and be promoted to all members.
4. **Team Building.** The cooperative officers in terms of team building trait mostly belong to the above average competency level, given its mean rating of 3.80 in all displayed attributes.

Table 6.5. Leading people competency of respondents

Leading People Competencies	Mean Rating	Competency Category
Conflict Management	3.59	Above Average
Leveraging Diversity	3.70	Above Average
Integrity/Honesty	3.88	Above Average
Team Building	3.80	Above Average
Overall	3.74	Above Average

In Results Driven/Goal Achievement

Cooperative officers have an overall mean rating of 3.74, which indicates above average competency level in all leadership competencies that comprised results driven/goal achievement category (Table 6.6). Summary of findings are discussed below:

1. **Accountability.** For all qualities that defined accountability competency of the cooperative officers, an above average competency level as denoted by their 3.65 mean rating is reported.
2. **Customer Service.** Most cooperative officers have demonstrated an above average competency based on their mean rating of 3.66 in all actions that displayed customer service competency.

Table 6.6. Distribution of respondents' results driven competency mean ratings

Results Driven Competencies	Mean Rating	Competency Category
Accountability	3.65	Above Average
Customer Service	3.65	Above Average
Decisiveness	3.66	Above Average
Entrepreneurship	3.48	Above Average
Problem Solving	3.66	Above Average
Technical Credibility	3.53	Above Average
Overall	3.61	Above Average

- Decisiveness. Most cooperative officers have been assessed to have an above average competency as reflected by their mean ratings of at least 3.66 in all actions that lead to decisiveness attributes.
- Entrepreneurship. Most of the cooperative officers possess above average competency in all abilities indicated for entrepreneurship competency, as explained by the mean rating of 3.48. This is the lowest among the result driven competencies mean rating.
- Problem Solving. For the items that depict problem solving skill, most of the cooperative officers have an above average competency as indicated by the mean rating of 3.66.
- Technical Credibility. Majority of the cooperative officers have demonstrated above average competency or a mean rating of 3.53 in all actions that demonstrated technical credibility.

Relationships of Respondents' Demographic and Socio – Economic Characteristics and Their Leadership Competencies

No significant relationship exists between the respondents' demographic and socio-economic characteristics such as gender affiliation, age, marital status, ethnic and religious affiliations, income, educational attainment and length of service to coops with the leadership competencies that they have (Appendix Table 6.1). The computed chi-square values in all these variables are found lower than its tabular values implying that no association exists between and among variables being studied.

Conclusions and Recommendations

Based on the findings of the study, the following conclusions can be drawn:

- Most of the cooperative officers in Oroquieta City are found to have an above average level of leadership competencies. Specifically, in the aspect of directing change, it is concluded that its strength is in the continual learning of cooperative officers and its weaknesses lies in their external awareness. As to their competencies in leading people, their highest competencies lies in their integrity/honesty followed by their abilities to build teamwork but their lowest competency rating is in their ability to manage conflict in their organization. As to their competencies to arrive at desired goals or results, cooperative officers have equally high of the majority of its competencies, only entrepreneurship competency is the lowest.
- Leading people got the highest level among the leadership competency aspects. The result driven competency has the lowest while the directing change leadership competency aspect of cooperative officers are found at the middle. It is therefore concluded that future actions to improve the leadership competencies of cooperative officers will center/focus more in goal attainment and in making leaders become more proactive in their perspectives in leading.
- Cooperative officers in Oroquieta City have found to have potentially adequate competency in leading people by modelling themselves in the aspects of integrity/honesty and in building teamwork. Both are ideally required for all leaders to possess.
- Leadership competencies of cooperative officers are not significantly related with any of their demographic and socio-economic characteristics

This study offers the following recommendations as blueprint for improvement and development of cooperatives in Oroquieta City. It is recommended to the Oroquieta City Cooperative Development Council through the City Cooperative Office, and the Cooperative Development Authority represented by the Provincial Cooperative Specialist to craft a Cooperative Leadership Development Program (CLDP) that will respond the leadership needs of every cooperative in Oroquieta City. The program must outline the following areas/competencies according to its urgency, as follows:

- The cooperative officers' results-oriented/goal achievement leadership competency aspect must be improved. At the end of the program, cooperative officers shall be able:
 - to possess skills in accountability, customer service, decisiveness, problem solving and technical credibility to meet organizational

- goals and customer expectations; and
 - to make decisions that produce high-quality results by applying technical knowledge, analyzing problems, and calculating risks.
2. The cooperative officers' leadership competencies must be enhanced. Specifically, at the end of the program, they will be able to demonstrate the following competencies in their respective cooperatives:
 - External Awareness. There are still rooms for improving awareness to vital issues affecting the officers outside their current locality, through identifying and keeping updated on key national and international policies and economic, political and social trends that affect the organization, and understand near-term and long-range plans and determine how best to be positioned to achieve a competitive business advantage in a global economy. This will allow them to override on available opportunities or prepare for the upcoming threats and turn it into opportunities instead.
 - Conflict Management. Difficulty in resolving internal conflict affects cooperative development. Cooperative officers need to acquire skills in identifying and taking steps to prevent potential situations that could result in unpleasant confrontations, and manage and resolve conflicts/disagreements in a positive and constructive manner to minimize negative impact.
 - Entrepreneurship. Cooperative officers need to acquire entrepreneurial skills that would make their cooperative viable and profitable, through identifying opportunities to develop and market new products and services within or outside of the organization; be willing to take risks; initiate actions that involve a deliberate risk to achieve a recognized benefit or advantage.
 3. After the above intervention, there must be a continuing leadership education program for the officers as well as members who are planning to become officer of the cooperative. A leadership education program that will also emphasize the leadership competency aspects of directing change and leading people.
In this way, cooperative officers will be able to develop their directing change leadership competencies which consist of continual learning, creativity and innovation, external awareness, flexibility, resilience, service motivation, and vision. These competencies will bring about strategic change both within and outside the cooperative organization, to meet organizational goals; there is a need to establish an organizational vision and to implement it in a continuously changing environment. Moreover, they will be able to gain also the leading people competency which comprises conflict management, leveraging diversity, integrity/

honesty, and team building. In leading people competencies, cooperative officers will be able to meet the organization's vision, mission, and goals. And to provide an inclusive workplace that fosters the development of others, facilitates cooperation and teamwork, and supports constructive resolution of conflicts.

SUMMARY

This chapter presents an assessment of the competencies of cooperative officers' leadership in Oroquieta City. The objectives of the study were to find out the cooperative officers' leadership competencies: directing change, leading people and becoming results-oriented, determine the significant relationship of their demographic and socio-economic characteristics and their leadership competencies. Data were gathered from 100 respondents of 13 cooperatives in the area through complete enumeration with the aid of a questionnaire. The officers were found to be at the above average level as indicated by the overall mean rating per aspect examined. In the directing change aspect, they have strength in the continual learning and have weaknesses in external awareness. In leading people, officers displayed the highest competencies in integrity/honesty followed by teamwork building ability but the lowest competency rating was in managing conflict in their organization. They have above average competency rating in desired goal attainment.

On the overall mean ratings of various aspects of leadership competencies, leading people got the highest mean rating, result driven competency has the lowest mean rating while directing change was found at the middle. Therefore, interventions will focus more on goal attainment and on making leaders become more proactive in their perspectives in leading. Officers were found to have potentially adequate competency in leading people in the aspects of integrity/honesty and in building teamwork. Both are qualities all leaders should possess.

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Appendix Table 6.1. Relationships of respondents' socioeconomic characteristics with their leadership competencies

Leadership Competencies	Computed Chi-square Value at 0.05 Level of Significance									Tabular Chi-square Value at 0.05 ($\alpha, r-1, c-1$)	Decision
	Gender	Age	Marital Status	Tribe	Religion	HH Size	Monthly Income	Educ. Attainment	Length of Service		
A. Directing Change											
Continual Learning	7.43E-11	3.14E-11	2.53E-12	2.69E-13	2.52E-12	1.19E-11	4.98E-11	1.64E-12	3.43E-11	5.05	No significant relationships, so reject all hypotheses
Creativity and Innovation	1.90E-08	3.84E-09	2.09E-09	1.16E-09	2.66E-09	3.70E-09	4.70E-08	3.08E-08	1.23E-07	5.41	No significant relationships, so reject all hypotheses
External Awareness	2.34E-06	9.43E-07	1.99E-07	2.80E-07	1.45E-06	2.23E-07	2.36E-06	1.05E-05	4.01E-06	5.79	No significant relationships, so reject all hypotheses
Flexibility	3.41E-06	1.28E-07	2.61E-07	4.30E-07	4.34E-07	1.29E-07	1.77E-06	4.46E-07	3.66E-06	5.79	No significant relationships, so reject all hypotheses
Resilience	1.30E-10	8.31E-10	2.68E-11	3.23E-11	2.40E-10	1.33E-10	4.72E-09	5.43E-09	6.56E-08	5.41	No significant relationships, so reject all hypotheses
Service Motivation	6.91E-14	1.01E-11	1.06E-14	2.08E-14	1.01E-12	5.68E-14	1.20E-12	6.45E-12	2.44E-10	5.41	No significant relationships, so reject all hypotheses
Strategic Thinking	1.68E-11	1.84E-09	1.23E-13	2.41E-13	2.68E-12	5.09E-13	2.89E-08	4.92E-09	9.67E-11	5.41	No significant relationships, so reject all hypotheses
Vision	4.12E-07	2.87E-08	1.32E-10	1.93E-08	1.49E-08	1.22E-09	6.88E-07	8.84E-08	4.07E-07	5.79	No significant relationships, so reject all hypotheses
B. Leading People											
Conflict Management	2.81E-05	4.36E-06	1.23E-04	2.29E-06	1.35E-05	1.11E-05	3.59E-05	1.94E-05	7.03E-05	6.61	No significant relationships, so reject all hypotheses
Leveraging Diversity	5.60E-09	2.21E-10	8.08E-11	3.44E-10	2.17E-09	5.51E-10	1.02E-09	4.04E-10	5.29E-09	5.41	No significant relationships, so reject all hypotheses
Integrity /Honesty	1.88E-08	2.65E-08	4.17E-09	2.97E-09	1.30E-08	2.25E-08	2.08E-07	2.18E-08	1.05E-07	5.79	No significant relationships, so reject all hypotheses
Team Building	2.29E-13	4.50E-16	2.11E-15	5.62E-16	6.16E-15	4.48E-16	1.30E-13	1.11E-14	5.94E-14	5.19	No significant relationships, so reject all hypotheses

Leadership Competencies	Computed Chi-square Value at 0.05 Level of Significance							Tabular Chi-square Value at 0.05 ($\alpha, r-1, c-1$)	Decision		
	Gender	Age	Marital Status	Tribes	Religion	HH Size	Monthly Income			Educ. Attainment	Length of Service
C. Results Driven											
Accountability	1.05E-14	5.71E-15	2.61E-16	9.82E-15	5.42E-16	1.20E-14	2.57E-14	1.55E-15	2.11E-13	5.19	No significant relationships, so reject all hypotheses
Customer Service	9.81E-17	4.58E-17	2.04E-19	6.54E-18	5.25E-17	2.04E-18	4.39E-15	5.16E-15	1.50E-15	5.19	No significant relationships, so reject all hypotheses
Decisiveness	6.80E-12	6.17E-12	2.37E-11	7.92E-12	9.98E-13	8.84E-12	3.76E-11	1.48E-12	3.53E-11	5.41	No significant relationships, so reject all hypotheses
Entrepreneurship	5.70E-09	8.71E-08	8.32E-10	4.31E-10	5.47E-10	1.19E-07	1.94E-08	5.22E-09	2.08E-07	5.79	No significant relationships, so reject all hypotheses
Problem Solving	3.39E-07	9.10E-08	1.54E-08	1.44E-08	1.27E-07	2.95E-08	5.32E-07	1.15E-06	1.20E-06	5.79	No significant relationships, so reject all hypotheses
Technical Credibility	6.16E-09	2.44E-09	9.14E-11	1.18E-09	5.24E-09	2.83E-10	2.29E-07	3.50E-08	5.05E-08	5.79	No significant relationships, so reject all hypotheses

CHAPTER 7

Development of Human Resource for the Malaysian Co-operative Movement

NORBIHA BINTI KASMURI

Introduction

Human resources development is an important component for the success of any organization. Human resource management plays a crucial role in the implementation of strategic management in co-operatives. The co-operatives will have to evolve sound personnel policies encompassing proper manpower planning and assessment scientific staffing norms. There should also be a conscious policy for developing the second line of management in all key functional areas. It has, however, not been accorded the importance it deserves in the co-operative institutions. The co-operatives are generally headed by a committee of elected members, who are not necessarily professionals. Conscious and well specified HRD principles in crucial areas like recruitment, placement, training, career progression, managerial grooming, etc., are lacking in most of the co-operatives. This paper tackles the human resource development issues and challenges of co-operatives in Malaysia and the strategies to enhance it.

Concept of Human Resource Development in Co-operative

Co-operative is one of the sectors, which renders services to the poor people and uplifts the socio-economic status of members. It is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. The co-operatives are considered to be one of the strong instruments to involve the available human resources as well as explore the potentials for employment generation. Being the people-centered organization, there is need for creating awareness and acceptance of human resource development within a co-operative to achieve the organizational goals and objectives. Human Resource Development (HRD) activities in co-operatives will need to be much more systematically organized with a long range perspective. Co-operatives must realize that enlightened members, competent office bearers and employees are their own need and no one from outside may be expected to support activities to build such human resources for them. A highly competent motivated team of

employees and office bearers and enlightened and empowered members should be the mission of the HRD policies in co-operatives.

ICA Policy on Human Resource Development (1990) stated that the overall aim of the ICA Policy for Human Resource Development is to contribute to the effective implementation of the ICA Policy for Co-operative Development, viz. “the establishment and growth of independent, democratic and viable co-operative organizations, in which men and women participate on equal terms. These organizations must be capable of serving their members efficiently and contributing to economic growth and social equity in their respective communities and or countries.”

Peter Davis (2006) asserts, the range and depth of human capital could hardly be matched and certainly not surpassed by any other organization of comparable size to the co-operative and that it provides a unique and potentially powerful competitive advantage. This is why it has been recommended that in many developing countries, the co-operative movement takes the responsibility for the training of their staff and for educating and informing their members. Through management training and members’ education an economically viable co-operative movement providing better services to members could develop, with greater participation by the members in the affairs of their co-operatives. He concludes that co-operative human resource management function’s overriding goal is the facilitation of these relationships into a coherent market and community led strategy.

Situational Assessment from a Macro Perspective: Issues and Challenges on HRD in Malaysian Co-operative Movement

Co-operative movement in Malaysia has witnessed significant growth in the past years. In December 2014, there were total of 11,871 co-operatives in Malaysia with 7.4 million members. Together with the growth in the number of co-operatives, the average Malaysian income earned measured by the GDP per capita also increased, showing the shift of Malaysia to being a more developed nation. However, a higher income does not necessarily means higher living standards and it also does not mean every aspect of society is benefiting from the higher income generated by the economy. There could be a societal disparity in terms of living standards, with some members of society having relatively much higher standard of living than others. This is an area in which co-operative movement draws relevance. Co-operatives enable members of society to raise living standards by meeting common needs hereby bridging the socioeconomic disparities.

The National Co-operative Policy (NCP) 2011-2020 was launched to increase the contribution of the co-operative sector to the national GDP, whereby

the revenue contribution is targeted to be RM50 billion in 2020. The increased economic contribution is expected to help improve the socio economic status of the co-operative members. Five key economic activities were initially identified under the NCP 2011-2020 as the key focus areas with property development subsequently added. Thus the six entry point projects of the co-operative sector are as follows:- financial services, wholesale and retail, tourism, personal and healthcare, agriculture and agro based industry, plantation and property development. In order to ensure the goals are achieved, five strategic thrust were formulated to guide the implementation of NCP 2011-2020:

1. stimulate participation of co-operative in high value economic sector;
2. strengthen the capacity and capability of the co-operatives;
3. create and develop the capability of human capital in co-operatives;
4. improve public confidence in the co-operative movement; and
5. support co-operatives through effective supervision and enforcement.

Malaysian co-operatives can be classified into four clusters based on the amount of their turnovers. It can be observed there is imbalance growth in the development of co-operative in the country, where micro co-operatives or those with turnover less than RM200,000 dominate the sector, with the number totaling to 9,889 or 83 percent of the total number of co-operatives in Malaysia (Table 7.1).

Table 7.1. Total number of co-operatives by cluster, Malaysia, 2014

Clusters	Criteria	Total Number of Coops
Micro Co-operative	Annual Turnover less than RM200,00	9,889 (83%)
Small Co-operatives	Annual Turnover from RM200,000 to less than RM1 Million	1,289 (11%)
Medium Co-operative	Annual Turnover of RM 1 Million to less than RM5 Million	507 (4%)
Large Co-operative	Annual Turnover of RM5 Million and above	186 (2%)
Total		11,871 (100%)

Note: Values in parentheses are percentage shares to total number of co-operatives.

Source: MCSC Website

In the current development, changes in the environment such as globalization, political, social, economic and technological have put pressures and challenges to small and micro co-operatives. One of the greatest challenges that small organizations face is the uncertainty. External uncertainty may result to lack of power and influence in a market place and vulnerability of small and micro co-operatives.

According to Snell and Lau (1994) more management competencies need to be developed for the growth of small organization compared to larger organizations. In the case of Malaysia small co-operatives generally failed to develop skills, knowledge and competencies among workers because of financial constraints and insufficient training. Gupta and Cawthon (1996) argued that small organization especially managers need adequate capacity building trainings for the development of the organization and its employees. The small organization receives major challenges from larger firms, whose command of resources and global reach can be significant. In a case study research of Hill and Stewart (2000), on human resource development, the link between career structures and training in organizations of all sizes was examined. Evidence from this study showed that small organization's lacked of career structure and low motivation of employees to perform hampered promotion and training among its employees. Therefore, small firms have difficulties to progress and compete with larger firms.

The study of KPMG (2014) on Contribution of Co-operative Sector towards Nation's Economic Development identified the following key issues and challenges of Malaysian co-operatives on human capital capacity.

Lack of Succession Planning

From the conducted survey, it was found that 20 percent of co-operative board members were aged 61 and older. About 2 percent of co-operative members were below the age of 30, showing a relatively small participation rate from the younger generation. For the younger generation to take over the operations of the co-operative, active participation is needed to understand their direction guide the co-operative towards. The regulatory body, Malaysian Co-operative Societies Commission (MCSC) agreed that there is a need to raise awareness and boost the co-operative spirit of inculcating the values of self responsibility among current and potential co-operative members

Low Co-operative Member Participation

Member participation is vital as co-operative requires support from the members to grow. It is the effectiveness of a member in the co-operative economic activities which could be in terms of being productive or by patronage of the products and services of their own co-operative. From the survey, only 52 percent of the respondents had members of their own co-operatives as active patrons of the co-operatives.

Lack of Expertise in Business Planning and Marketing

The survey results revealed that approximately 52 percent of the respondents cited Malaysian Higher School Certificate or commonly known as STPM and below as the highest qualification obtained by a mixture of board members and management. There is room for human capital improvements, in terms of skills and education. In the economic literature entitled "The Role of Cognitive Skills in Economic Development", it was found that economic development was strongly affected by the skills of workers. In relation to the co-operative, the level of skill by both management and the Board could be improved in order to aid in the development of the co-operative members.

The dynamic improvement in the performance of the co-operatives is dependent on continued advancement in the level of human capital. A method of doing this is by constantly recruiting young minds to complements experienced staff with new and innovative ideas. Fresh graduates with suitable skills and knowledge are the potential candidates to be hired by the co-operative in Malaysia. Higher education institutions constantly revise and update their curricula as they strive to provide students with relevant and up to date knowledge. The human capital required by the co-operative sector is similar to that of other businesses in the market. However, the co-operative sector particularly requires the inflows of competent human capital equipped with relevant management and technical skills set and entrepreneurial spirit.

Enhancing HRD in Malaysian Co-operative

In a study entitled "Involvement of Members in the Economic Activities of Co-operative (2005), it was reported that approximately 14 percent of the total Malaysian labor force were involved in the co-operative sector and based on the survey, 22 percent in particular were directly employed in cooperatives. The employees were form several operational ranks, in which half were employed in non-executive level positions (Table 7.2). Seven percent were on the executive board level, determining the direction of the co-operatives while 29 percent were in the co-operative management, operating day to day operations.

Positioning knowledge management can enhance the way co-operatives operate and human resource development. Leading management and organization theorists have popularized the concept of treating organizational knowledge as a valuable strategic asset. Furthermore, it is emphasized the significant factor of knowledge management in its relationship to organizational competence because the act of managing information has now become the most important economic tasks of individual business and nation. Knowledge management can be positioned in co-operatives by way of training and education.

Table 7.2. Operational and board level rankings in co-operatives, Malaysia

Level of Involvement in Operation	Proportion (%)
Non Executive Level (General operations worker or equivalent)	50.0
Executive Operations	14.0
Management Level (project manager or equivalent)	29.0
Executive Board Level	7.0
Total	100.0

Note: Total number of sampled respondents was 1,500

Source: Jamilah et al. (2005)

The effort to provide training and education to the co-operative movement in Malaysia is done by the Co-operative College of Malaysia (CCM). Established in 1956, CCM is the one and only cooperative education institution in Malaysia. To date, CCM has organized and conducted many seminars, workshop and short-term courses for co-operative societies. CCM also accountable in conducting mandatory courses for Board of co-operative and also Internal Audit Committee (IAC). All newly appointed members in the Board and IAC of co-operatives have to attend a mandatory course. The Mandatory course for Board comprises of three modules; Governance, Financial Management and Strategic Planning. With all of the efforts done by CCM, it will help the co-operative to improve the level of accountability of co-operative in discharging its responsibilities to its members and government.

Based on the study of The Internal Audit Committee in Co-operatives: Compliance to the Co-operative Societies Act 1993 (2006), it was found that of the 473 IAC members respondents (64% response rate), only 53 percent had a good level of knowledge of their functions, and the same proportion (33%) do not comply with the requirement to audit at least once every three months. There is a substantially high incidence of non compliance in submitting the required number of audit reports.

Education is a critical factor through which efforts are taken in building the capability of human capital, developing intellectual strength, improving business knowledge and molding of attitudes. The development of human capital with knowledge, skills and positive attitudes determinants of successful co-operative. Under the NCP 2011-2020, CCM is assigned to be responsible of the Strategic Thrust III to create and develop the capability of human capital in co-operatives in Malaysia. The objectives of the strategic trust are to shift the mindset of co-operative leaders and members in a manner that they will become proactive, creative and innovative with entrepreneurial culture to enhance professionalism in the management and administration of co-operatives and to encourage co-operative members to participate in lifelong learning to acquire knowledge in various fields.

Performance target indicators have been set to measure the success of CCM in achieving these objectives. These include the following:

1. 100 percent of board members and IAC of the co-operatives attend compulsory courses;
2. 50 percent of co-operative members exposed to co-operative knowledge;
3. 80 percent of co-operative in the large and medium clusters have full time qualified managers; and
4. co-operative provides training for their members, board members, IAC and employees.

In addition, NCP 2010-2020 also encourages co-operatives to become an effective self-help organization capable of improving the socio-economic standards of members. Co-operative must be sensitive and proactive towards environment. In implementing the above policy, focus is given on the economic activity results area, namely financial services, whole sale and retail, tourism, health care, agriculture and plantation and property development.

Since 2009, CCM has been producing approximately 300 students per year. However, only 40 percent of the students are found to work in the field of cooperatives. Currently the younger generations are mostly employed by the public and private sector as they are not aware of the job opportunities available in the co-operative movement. This implies the need to further promote the existing opportunities in the co-operative movement. This implies the need to further promote the existing opportunities in the cooperative sector and encourage fresh graduates with cooperative expertise to work in the field of co-operatives. The co-operative movement is in need of highly workforce to venture into high impact, skill specialized project.

In order to attract younger generations to be part of the co-operative workforce, these cooperation projects intends to establish collaborations between Universities and sector apexes in providing internship programmed. Exposing the university students to co-operatives through internship can contribute in fostering their awareness and, appreciation of the co-operative principles, which can in turn develop their interest to seek employment in co-operative.

Study on Contribution of Co-operative Sector towards Nation's Economic Development (2014) suggested and proposed that co-operative education be streamlined where CCM will be the sole custodians of the co-operative syllabus. CCM will educate at primary, secondary and tertiary levels about co-operatives with the aid of developed syllabus to develop quality human resource and human capital. CCM will work hand in hand with various ministries and several government agencies to develop syllabus courses that are in line with the NCP 2011-2020. The teaching method will either be carried out online or on site at school. It was also recommended to push for the formation of a co-operative

university by CCM to provide a highly educated and competent workforce for the co-operative movement in Malaysia. The University will be the co-operative Centre of Excellence (CoE) for co-operative education. The time span required for CCM to become a full-fledge university co-operative is estimated to be 10 years.

Conclusion

HRD in the organizational context is the process of organizing and enhancing the physical, mental and emotional capabilities of individuals for productive work. Human resources are important for the sound development of the co-operative enterprise. Co-operatives need to ensure human resource development for its members and employees. HRD should specifically deal with training and development of the employees which a worthwhile investment with both immediate and long ranges of tangible and intangible returns. Building strong membership and human resources, aside from building capital, is an important basis for building co-operatives that are both economically strong and sustainable.

The organizations should focus more on human resource development so that the organizations can lower their employee turnover ratio by developing their employee's skills from time to time through an extensive training, giving the college rights to the employment and preparing the ability of the employee to adopt newer technology, tools and software. The organizations should also prepare a proper budget for the human resource development. Employees must be given opportunities to upgrade their educational qualification and when necessary employee should be provided with an e learning facility. Fully developed employees are expected to be highly motivated to work. Thus, in order to motivate employees to work and to decrease the employee turnover ratio, human resource development is absolutely essential.

SUMMARY

This chapter discusses the issues and challenges of human resource development and ways to enhance the human resource development particularly in the context of the Malaysian cooperative movement. Building strong membership and human resources, not necessarily capital, is the basis for building cooperatives that are both economically strong and sustainable. However, conscious and well specified HRD principles in crucial areas like recruitment, placement, training, career progression, and managerial grooming are lacking in most cooperatives.

HRD is an important component for the success of any organization. It plays a crucial role in the implementation of strategic management in cooperatives. It has, however, not been accorded the importance it deserves in the cooperative institutions. The cooperative is one of the sectors, which renders services to the poor people and uplifts the socio-economic status of its members. It is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.

Since the inception of the movement, there has been a need for creating awareness and acceptance of human resource development to achieve the organizational goals and objectives. Cooperatives need to ensure that members and employees are regarded as human resources important for the sound development of the cooperative. The part of human resource management that specifically deals with training and development of the employees is essential. Effective training is an investment in the human resource of an organization, with both immediate and long range returns.

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CHAPTER 8

Workplace Competency among Cooperative Management Students in the Philippines

MARIA CORAZON M. SAMORIN AND LOURDES F. ESPESOR

Introduction

The increased pace of changes in the business world has resulted to the emergence of new ventures, new industries and new professional services. Now, there is a greater need for employees who have the technical and functional expertise. As such, business schools should provide business industries with graduates who have the competencies to respond professionally and effectively to global, national and local business pressures. Evers, Rush and Berdrow (1998) in Berman and Ritchie (2006), were concerned with the match between what students learn in college business programs and what they need to know and be able to do in the actual workplace. They believed that knowledge alone was not sufficient in business. Rather, students need to be competent in solving problems and be able to adapt to change. Hence, schools should impart skills and competencies that will prepare them to function effectively in the business world.

The New Zealand Qualifications Authority (1997) as cited by Hodges and Burchell (2003) defines competency as the ability of individuals to apply knowledge, skills, attitudes and values to standards of perfection required in specific contexts. Business organizations have developed management systems around employee competence considering that these competencies are the basis for employee selection, compensation and performance measurement. To realize this, competencies should be continuously assessed by the educational institutions in order to match the industry's requirement.

Assessment is an important phase in determining the quality of teaching and learning in higher education. Well-designed competency assessment activities provide opportunities for students to self-monitor, improve and receive feedback. Assessment is an integral component of a coherent educational experience. It also provides opportunities for the academic community to engage in self-reflection of its learning goals, to determine the degree to which these goals correspond to student and societal needs, and to evaluate if students' activities or performances coincide with the academic community's expectations. This can also offer

information to students about the knowledge, skills, and other attributes they can expect to possess after successfully completing coursework and academic programs (<http://explore.kent.edu/aa/guide/fulltext.html>). Learning assessment also establishes ways for academic units to understand the dimensions of student learning when seeking to improve student achievement and the educational process (Bagheri and Pihie (2011).

Assessing the competencies of management/business graduates in preparing them for the workplace will also be useful to employers. As a response to the mission of higher education in the Philippines in promoting quality instruction, research, and extension, West Visayas State University (WVSU) implemented the Student Learning Assessment Plan wherein it aims to determine the competencies acquired by the graduating students. It is an attempt to systematize the university-wide student learning outcomes assessment. This University assessment plan is an evolving document subject to continuous review and improvement since program-level assessment are expected to change and develop given the data and feedback from the learning assessment activities (WVSU Learning Assessment Plan 2010-2015).

Review of Literature

This section presents some materials that discuss about competency of management students, its importance and assessment.

In a developing country, like the Philippines, it is expected that university graduates should be able to find employment as soon as they graduate but there are many who do not. The labor market hesitates between the skills shortage on one hand and the number of graduates who are without work on the other. It seems inconsistent that a country with a high unemployment rate needs foreign professionals be lured to the country for work. This situation may arise from the fact that students lack employability skills. Behavioral (soft) skills such as those gained through curricula that embed critical outcomes such as analytical skills, teamwork, organize and manage oneself, usually deliver more competent and employable graduates (Coll and Zegwaard 2006).

Employers have indicated that students are often not prepared for the workplace and call on universities to produce more employable graduates (Barrie 2006; Kember and Leung 2005) by providing transferable skills that can be taken into the workplace (Smith et al. 2007). Students' subject matter knowledge is usually satisfactory (Crebert et al. 2004; Hind et al. 2007) but by improving and developing their competencies such as interpersonal skills, teamwork, communication and problem solving skills, value will be added to their intellectual capabilities making them more employable (Hind et al. 2007; Maher and Graves 2007). Employers are expecting graduates to be work-ready and demanding a range of competencies and qualities of them (Yorke and Harvey

2005). Educational institutions should be critical of their program offerings and question if they are nurturing the appropriate competencies and consider how best to ensure these are developed (Kember and Leung 2005).

Competency

The definitions and meaning of competency are numerous and often used in a similar context to the terms generic skills and attributes (Barrie 2006; Coll and Zegwaard 2006; Spencer and Spencer 1993; Weisz 2000). Spencer and Spencer (1993) view competency as a characteristic of an individual, that is causally related to job performance. Competencies can be accumulated within an individual and represent a capacity to perform at some future point (Boam and Sparrow 1992; Page et al. 1993). Mostly, these definitions relate to enduring characteristics possessed by an individual that, under normal conditions, should result in an acceptable or superior job performance. This notion is based on the premise that competencies are causally linked to individual performance outcomes (Boyatzis 1982; Spencer and Spencer 1993).

In a workplace context, competency is a combination of cognitive skills (technical knowledge, expertise and abilities), and personal or behavioral characteristics (principles, attitudes, values and motives), which are a function of an individual's personality. Successful performance, while dependent on a number of factors, will require the presence of both components. Spencer and Spencer (1993) suggest that, if people with the right personal characteristics are recruited initially, then they should have the capacity to quickly acquire the relevant (technical) knowledge and skills in order to attain their employers' performance objectives. Weisz (2000) comments that many co-op employers used the terms attributes, competencies and behaviors interchangeably to mean non-discipline specific skills, or generic skills. Barrie, (2006) in a study of Australian academics, found that there was a lack of common understanding of the terms. For the purpose of this paper and to allow comparison with similar studies the term competency will be used and represented as:

"The personal characteristics of an individual that result in superior performance in a given situation ... Competency is related to the manner in which individual attributes, such as knowledge, skills and attitudes are drawn on in performing tasks in specific work contexts, which result in overall job performance. (Coll & Zegwaard, 2006, p. 31)"

Studies of Competencies Required of Graduates

The academe now recognizes the importance of preparing students for the workplace by developing generic and specific competencies useful to the student

and employers. While most employers recognize the importance of graduates' personal characteristics, there is little agreement on the balance expected between these and their discipline specific technical knowledge (Harvey et al. 1992).

Various competencies are required by the workplace as proposed by different authors. Maes et al. (1997) consider oral communication, problem-solving skills and self-motivation to be the three most important competencies required of graduates. Stasz (1997) likewise sees problem-solving, teamwork, communication skills, and personal qualities, as the most important competencies, but suggests that the workplace context determines their relative importance. Joseph and Joseph (1997), in a survey of 280 New Zealand graduate employers, found the top ranked competencies in descending order were: willingness to learn; having a positive attitude; being motivated; having good communication skills; and, possessing the ability to work independently. Hence, the literature suggest that employers of graduates now place major emphasis on generic, behavioral competencies, both in the recruitment of graduates for employment, as well as their performance on the job (Raymond et al. 1993; Weisz 1999). As a consequence, undergraduate courses must seek to develop these competencies in order to meet the needs of business (Haber 1993).

Soft Skills versus Hard Skills as Competencies in the Workplace

Whatever the definition of competency, individuals hold and seek to enhance their individual attributes via education, particularly cooperative education. Individual attributes fall into two categories - cognitive and behavioral. Attributes which are drawn on to perform tasks competently consist of cognitive skills, such as technical knowledge, skills and abilities - such skills being a function of the job requirements. Behavioral skills, on the other hand, are built up from personal characteristics such as principles, attitudes, values and motives. These skills, in contrast to cognitive skills, are a function of an individual's personality (Birkett 1993). Birkett (1993) developed a taxonomy of cognitive skills and behavioral skills. According to Birkett cognitive skills include technical skills - the application of technical knowledge with some expertise; analytical/constructive skills - problem identification and the development of solutions; and appreciative skills - evaluating complicated situations and making creative and complex judgments. Behavioral skills include: (1) personal skills - how one responds and handles various situations; (2) interpersonal skills - securing outcomes through interpersonal relationships; and (3) organizational skills - securing outcomes through organizational networks.

There is growing emphasis in the literature on the importance of 'soft' skills which are now seen as complementary to 'hard' skills and required for successful workplace performance (Ashton 1994; Caudron 1999; Georges 1996; Mullen 1997; Strebler 1997). The literature also suggests that there is a lack of emphasis

placed on the development of soft skills by many tertiary education providers.

Hard skills are skills associated with technical aspects of performing a job and usually include the acquisition of knowledge (Page, Wilson, and Kolb 1993). They thus are primarily cognitive in nature and are influenced by an individual's Intelligence Quotient (IQ). Spencer and Spencer (1993) described technical skills and knowledge as being a threshold in that they represent a minimum level necessary to be able to perform a job with basic competence. Hard skills are essentially equivalent to cognitive skills as categorized by Birkett (1993).

Soft skills are skills often referred to as interpersonal, human, people, or behavioral skills, and place emphasis on personal behavior and managing relationships between people. Soft skills are primarily affective or behavioral in nature, and have recently been associated with the so-called Emotional Quotient (EQ) popularized by Daniel Goleman (Caudron 1999; Kemper 1999; McMurchie 1998). EQ is regarded as a blend of innate characteristics and human/personal/interpersonal skills (Kemper, 1999).

Hard and soft skills are now regarded by many authors as being complementary, with successful individual performance in the workplace seen to require both types of skills, and superior performers having high EQ as well as high IQ ratings (Kemper 1999; McMurchie 1998). For example, research by Spencer and Spencer (1993) suggests that superior performers are not distinguished solely by the technical skills, but by the demonstration of certain motives, values, traits and attitudes, in other words, by manifestation of good behavioral skills in addition to their technical ability.

Methodology

This section describes the subjects, the instrument used, and the data analysis procedure.

All graduating bachelor in cooperatives management students were asked to participate in the 2012 Terminal Competencies Assessment. Management of cooperatives is one of the areas assessed. A total of 43 students took the test. The distribution of student-subjects participants in this study is shown in Table 8.1.

Table 8.1. Distribution of students by sex

Gender	<i>f</i>	%
Entire Group	43	100
Sex		
Female	36	84
Male	7	16

A four-part 135 point examination was designed and developed by the WVSU Specialized Knowledge Competence Assessment Team. The test was based on the indicators identifying the different competencies required by employers of cooperative management graduates. The first part consisted of a 90-item multiple choice test covering the following competencies: understanding of the operation of a cooperative business, customer service, teamwork, interpersonal communication, and leadership skills. Part 2 and part 3 consisted of matching type items and identification of financial transactions covering the personal effectiveness competency. Part 4 included preparation of income statement and balance sheet to cover the competency of result focus.

Student scores for each competency of the cooperative management assessment test were obtained. The total scores were converted to percentages and the proficiency level was determined using a scale defined in Table 8.2. The results of the assessment were analyzed descriptively using means and standard deviations and were presented in a bar graph.

Table 8.2. Proficiency level by percentage test score

% Score	Proficiency level	Description
Below 25	Novice	Students performing at this level of cooperative management proficiency demonstrates little cooperative business skills. One is competent in the performance of a range of varied work activities, most of which may be routine and predictable.
25-49.99	Basic	Competence in a significant range of varied work activities in a variety of contexts. Some of the activities are complex or non-routine, and there is some individual responsibility or autonomy. Working with others, perhaps through membership of a work group or team, may often be a requirement.
50-74.99	Proficient	Competence in a broad range of varied work activities performed in a wide variety of contexts, and most of which are complex and non-routine. There is considerable responsibility and autonomy, and control or guidance of others is often required. This level approximates many supervisory functions.
75 and above	Advanced	Competence in a broad range of complex technical or professional work activities performed in a wide variety of contexts and with a substantial degree of performed responsibility and autonomy. Responsibility for the work of others and the allocation of resources is often present. This level approximates many management functions.

Results and Discussion

The cooperative management competency test had 4 four parts. Part I is a 90-item multiple choice type; scoring for each item is 1 if the item is correctly answered, 0 if wrong. 20 out of the 90 items measure the competency of understanding the operation of a cooperative business, 10 items for customer

service, 20 items for teamwork, 20 items for interpersonal communication and 20 items for leadership. Part 2 and part 3 includes matching type items and identification of financial transactions covering the personal effectiveness competency. Part 4 consisted of the preparation of income statement and balance sheet to cover the competency of result focus. The mean score per item represents the proportion of students in a group that correctly answered the item.

The identified cooperative management business competencies were adopted from the Commonwealth of Virginia Competencies Assessment Tool. Table 8.3 shows the indicators of the competencies required among cooperative management graduates.

Generally, cooperative management graduates are proficient in terms of competency to work in cooperatives (Table 8.4). They are also proficient in terms of understanding the operations of a cooperative business, customer service, teamwork, and result focus. They have basic proficiency level when it comes to interpersonal communication, leadership and personal effectiveness.

Figure 8.1 presents the proportion of students by proficiency level per competency indicator. In terms of the overall all cooperative management competency, 49 percent of the graduating BCM students obtained basic proficiency level, while 51 percent had proficient level. In terms of result focus, 5 percent of the students had novice proficiency level, 30 percent had basic, 44 percent had proficient level and 21 percent had advanced proficiency level. For personal effectiveness, 12 percent obtained novice proficiency level, 84 percent had basic proficiency level and only 5 percent obtained proficient level. When it comes to leadership, 14 percent of the graduating BCM students fell under novice proficiency level, 51 percent under basic proficiency, and 35 percent under proficient level of competence to work. In terms of interpersonal communication 9 percent were novice, 58 percent had basic proficiency and 33 percent were proficient.

The items included in the terminal assessment exam to assess the cooperative management competency level were based on some indicators of the Specialized Knowledge Competence in the WVSU Student Learning Assessment Plan 2010-2015. Cooperative Management as the specialized knowledge was one of the tests taken by graduating Bachelor in Cooperatives Management students. Other tests included competency for critical thinking, research, historical perspective, civic responsibility, technological facility, scientific literacy, information literacy and effective communications.

Table 8.3. Cooperative management competencies and its indicators

Competencies	Indicators
Understanding the operation of a cooperative business	Understands the cooperative's services and priorities Appreciates the political dynamics that exist inside and outside the organization Combine efforts to address common issues in the cooperative Understands how the job impacts the business of the cooperative Responds to both external and internal forces affecting the environment of the cooperative
Customer service	Anticipates the needs of the customers and the members Provides services in a respectful manner Delivers services accurately and on time Establishes and maintains effective contacts with consumers Suggests ways to improve processes to fulfil consumers' needs
Team work	Values the input and know-how of being a cooperative member Builds trust and respect among fellow cooperative members Take actions that demonstrate consideration for the feelings and needs of others Works with other team members toward a common goal
Interpersonal communication	Communicates openly and honestly Expresses facts and thoughts in writing in a clear and organized way Communicates with tact Resolves conflicts in a positive way
Leadership	Influences others in a positive way Assesses impacts of decisions on the general assembly Set goals and develops plan to reach goals
Personal effectiveness	Develops self and others Defines and solves problems Considers costs, benefits and risks when making and implementing decisions Use time and resources wisely
Result focus	Applies innovative ideas Adapts to varying work situations and is flexible in approaching solutions to challenges Takes initiative with a clear business purpose in mind Continually seeks to improve business processes

Based on the assessment of the cooperative management competencies, students were found to be more comfortable dealing with customer service, as 51 percent of the students correctly answered the test items. Cooperative management students are taught to value customers considering that the orientation in the cooperative business is that usually consumers are often the members and the owners of the business.

Table 8.4. Cooperative management proficiency level

Competency	Mean Score	Description	SD
Overall Competency	50.7	<i>Proficient</i>	8.21
Understanding of the operation of a cooperative business	52.6	<i>Proficient</i>	11.82
Customer Service	74.0	<i>Proficient</i>	10.50
Teamwork	55.3	<i>Proficient</i>	14.20
Interpersonal Communication	42.6	<i>Basic</i>	12.93
Leadership	38.8	<i>Basic</i>	13.13
Personal Effectiveness	35.8	<i>Basic</i>	7.97
Result Focus	58.0	<i>Proficient</i>	20.30

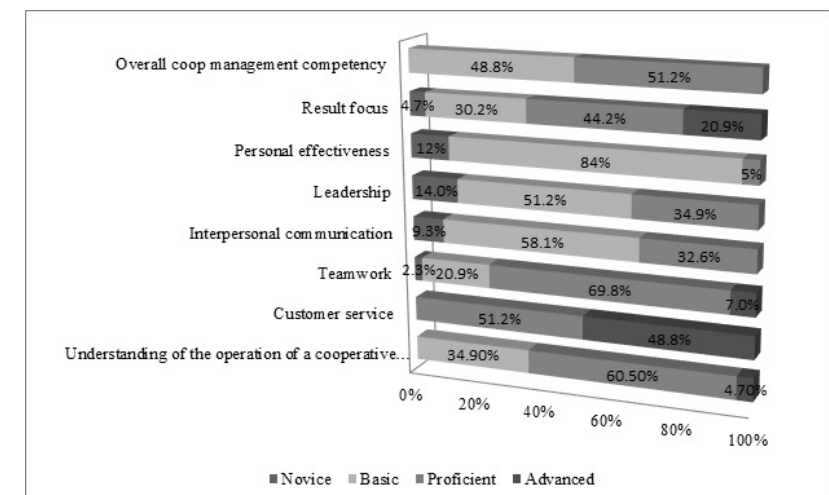


Figure 8.1. Distribution of students by competency indicator and proficiency level

Likewise, they performed well when understanding the operations of a cooperative business, indicating that they are prepared to work with cooperatives as 60 percent of them are adept with the peculiarities of managing or operating a cooperative.

As to personal effectiveness and leadership, results showed that students played a relatively low performance as revealed by low mean scores. Graduating students found it difficult to weigh the impact of a decision towards the stakeholders or specifically to the general assembly. This may later lead to the problem on why some students find it difficult to stay on a job. As what Casey (1999) in Hodges and Burchell (2003) noted that future employers expect employees to take responsibility for their own professional development- independent of the employing organization. However, generally, results revealed that graduating

students possess the necessary competencies required by cooperatives and its related agencies as 51 percent of them performed well in the assessment .Only very few of the students have little or no skill in performing a job appropriately.

Conclusions and Recommendations

The graduating cooperatives management graduates appear to have the competencies needed to perform a wide variety of situations that could be intricate and non-routine. They are prepared to take responsibilities but needs to be guided or mentored once they are employed. The findings also seem to indicate that once the graduates enter the world of work, they can anticipate the needs of their client-members or can deliver and provide the needed services with substantial degree of performed responsibility and autonomy. The graduates seem to have a greater understanding of and focus on the commercial realities of the cooperative as a business workplace. Such realities as cited by Hodges and Burchell (2003) include operating in a global, rapidly changing and highly competitive business environment, that requires both attention to detail and effective people skills with a need to address client needs whether this is through quality of service, quality of product, handling of complaints, or in the resolution of problems.

The performance of the students in the assessment test comes up to the challenge that graduates are often not prepared for the workplace and call universities to produce more employable graduates through the provision of transferable skills that can be brought into the workplace.

Based on the findings and conclusions, the following are recommended:

1. The syllabi for subjects that incorporate personal effectiveness and leadership be reviewed to include activities that will enhance these skills among students. Teachers handling these subjects should be made aware of these results so they can enrich their syllabi with more stimulating topics involving personal effectiveness and leadership. The faculty members should be encouraged to tailor the contents of the different courses in the curriculum to meet the needs of employers. As such, the students will likewise develop a better understanding of the requirements in the workplace with respect to the development of their skills.
2. The Specialized Knowledge Competence Assessment Team should continue to monitor the progress of students along this line to be able to assess to what extent the deficiencies are being addressed.

SUMMARY

The 21st century of managing a business including a cooperative is more complex and unpredictable than it was years back. The interchange of different outlooks, products and ideas has increased the complexity of business' environment and their operations. As such, business and management schools should provide the commercial and cooperative industries with graduates who have the skills to respond professionally and efficiently to global, national and local business pressures. This chapter ascertains that cooperative management graduates have acquired the management skills for them to contribute to the development and growth of cooperatives in the country. The study, which was conducted in a state-funded university in the Philippines AY 2011-2012, involved 43 graduating students taking up Bachelor in Cooperatives Management. A four-part 135-point examination was used to determine the business competencies.

Results showed that majority of the students are proficient in terms of understanding the operations of a cooperative business, customer service and teamwork. Less than half are advanced in terms of customer service. They also have basic proficiency level in terms of interpersonal communication, leadership and result focus. Notably, a very little percentage was considered as novice in the areas of teamwork, leadership, personal effectiveness and result focus. Generally, results seem to reveal that cooperative management students who will soon join the cooperative movement and the business industry are equipped with the competencies needed by their future employers.

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Part III

Cooperative Governance and Management

CHAPTER 9

Cooperative Business Failures in Batangas Province, Philippines: A Postmortem Analysis

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Introduction

Agricultural cooperatives play an important role in the economic development of communities and the country as a whole. A number of small-scale farmers in different countries established cooperatives to minimize the problems with market failures. The agriculture-based cooperatives assisted the small-scale farmers in improving their bargaining power. It helped the farmers tap support services and access institutional markets. As a result, cooperative development has been considered as a strategy to alleviate poverty and to promote rural progress. However, according to Nkhoma (2011), sustainability of these cooperatives has been a great challenge.

In its several years of existence in the country, cooperatives played an important role in the growth of the Philippine economy. As stated by Araullo (2006), during the year 2003, the cooperative sector contributed about PHP517 billion which is equivalent to 12.5 percent of the Gross Domestic Product (GDP) of the country. Furthermore, cooperatives have become the primary conduit of the government in stimulating the efficiency of agriculture in the Philippines (Castillo 2003). However, the GDP contribution of cooperatives fell from 12.5 percent in 2003 to 3.12 percent in 2011 (CDA 2011). This is quite alarming given the fact that the number of registered cooperatives continued to grow. Castillo (1994) stated that cooperative development has been relatively slow and trends show a general failure of cooperatives to grow and prosper. Araullo (2006) also explained that agricultural cooperatives in the Philippines are too small to become viable. In this regard, there is a need to study the factors affecting the sustainability of cooperatives, primarily, agriculture-based cooperatives. This study mainly analyzed the status of the agricultural cooperatives in Batangas City, Philippines, and examined the cases of two (2) selected agriculture-based cooperatives which failed.

Review of Literature

Agricultural Cooperatives in the Philippines

Through the years, agricultural cooperatives have been experiencing challenges, changes and developments externally and internally. In this connection, several studies were conducted to look at the situation, performance and status of agricultural cooperatives in the country. For instance, Castillo (2003) studied the top four cooperatives in Region IV. He conducted a case study on these four cooperatives to demonstrate the importance of cooperatives in modernizing agriculture in the Philippines. On the other hand, another study by Araullo (2006) dealt with the innovations and opportunities of Philippine agricultural cooperatives in the 21st century. Furthermore, Sibal (2011) analyzed the problems and prospects in the Philippine cooperative movement.

Araullo (2006) explained that input supplies, production, post-harvest, processing and marketing are some of the important aspects of agricultural cooperatives in the Philippines. Credit and financing are also associated with agricultural cooperatives in such a way that most of the production cooperatives undertake relending to its members. This is the reason why most cooperatives are registered as multi-purpose cooperatives. In addition, most of the agricultural cooperatives are engaged in production. Multi-purpose cooperatives supply and provide the input requirements of its members. A number of agricultural cooperatives in the Philippines are either too small or have not yet fully matured to take on agro-industrial activities such as processing.

In the study of Sibal (2011), cooperatives problems and prospects were identified and analyzed. These problems include the following: large number of unviable cooperatives, more competitive business environment due to globalization and liberalization, continuous unionization and threats in unionization in some medium and big-size cooperatives, mentality of relying too much on state protectionism, parochialism and close-doorism. Furthermore, agriculture-based cooperatives, specifically those from the agrarian reform communities and plantations, showed no improvements in productivity and demonstrated poor management.

On the other hand, Castillo (2003) sought to analyze the top four cooperatives in Region IV using secondary data from the Cooperative Development Authority (CDA) in Quezon City and its Calamba Extension Office as well as case studies of these cooperatives. The top four (4) multi-purpose (agricultural) cooperatives in Region IV in 1998 that were chosen as cases for the study included: (1) LIMCOMA Multipurpose Cooperative in Lipa City; (2) Cavite Farmers Feed Milling and Marketing Cooperative (CAFFMACO) in Silang, Cavite; (3) Soro-Soro Ibaba Development Cooperative (SIDC) in Batangas City; and Padre

Garcia Multi-purpose Cooperative in Padre Garcia, Batangas. After analyzing these four cooperatives, Castillo (2003) concluded that these outstanding organizations were conceived, initiated, nurtured, and managed by local talents and resources in accordance to a felt need for the cooperative. Furthermore, he was able to determine that mobilizing talents and resources may lead to the success of agricultural cooperatives because these two variables appear to be the cooperatives' sources of strength and stability.

While there are studies (Araullo 2006; Romano 2009; and Sibal 2011), that explained the problems, prospects and challenges with regards to cooperatives and agriculture-based cooperatives in the Philippines. However, there are limited studies that dealt with the identification of sustainability factors that resulted to success and failure of the cooperatives as well as sustainability and survivability issues and challenges.

Factors Affecting Sustainability of Agricultural Cooperatives

Extensive literature which focused on determining the key factors affecting sustainability of different firms in varying industry sectors as well as cultural backgrounds exist (Araullo 2006; Castillo 2003; Ndifon et al. 2012; Nkhoma 2011; Romano 2009; Valenzuela 1991).

Nkhoma (2011) theorized the problems affecting sustainability of agricultural cooperatives in Malawi. The factors affecting sustainability of agricultural cooperatives could be categorized into four, namely, marketing access, leadership skills, governance and start up incentives. Under the market access problem, the marketing system, supporting regulatory framework and government pricing policy affect the sustainability of agri-based cooperatives. Moreover, subsidized credit and external support influence cooperative business sustainability relative to incentives. Lastly, inexperienced and unqualified personnel, business capacity, governance problems and leadership might be some of the factors that affect sustainability under the categories pertaining to governance and leadership.

Similarly, Valenzuela (1991) also conducted a study to analyze a primary cooperative and identified the factors affecting sustainability of this cooperative. The sustainability of the cooperative rests on initial funding received and the ability to self-finance, the programs initially ventured into, interaction and commitment of the management staff, participatory membership involvement, peace and order, linkages established and its responsiveness to changing environmental conditions. It was observed that Nkhoma (2011) and Valenzuela (1991) identified external support and/or linkages as a factor affecting sustainability of cooperatives.

Castillo's (2003) work, after analyzing the top four cooperatives in Region IV-A, Philippines, mentioned that local talents and resources are needed for the

survival and improvement of cooperatives in the country. Araullo (2006) added that in the Philippines, the lack of sustainability of agricultural cooperatives is attributed to weak enabling policy environment; lack of government support; weak capability building systems; and absence of strong, centralized, agricultural cooperative financial, production and marketing systems. These factors are manifested by proliferation of small and very small-scale and weak cooperative organizations with narrow activity and membership base, lack of government funding support, and the absence of a centralized coordinating or integrating institution on capacity building and continuing education and training as well as promotion of integrated cooperative marketing and production systems. Moreover, Romano (2009) after analyzing one Philippine cooperative identified the weak financial stability as a problem.

The study of Ndifon, Agube and Odok (2012) showed that poverty might be a problem of agricultural cooperatives. In this study, it was revealed that out of the total loan advances made by cooperative members, more than 50 percent went for consumption purposes. Rough estimates show that about 50 percent of the cooperative members fall below the poverty line which in turn demonstrates that these cooperative groups belong to the zone comprised mostly of the economically poor.

Most of the research studies used different case study approaches (e.g. simple case study, comparative case study, and multi-case study) in dealing with the analysis of the sustainability as well as the performance of different cooperatives. In this regard, the researchers chose to use the same approach in undertaking this study considering that work done by Valenzuela (1991), Castillo (2003), Romano (2009), Nkhoma (2011) and Mukhjang (2012) used also the case study approach.

Methodology

Nature and Sources of Data

This study used both primary and secondary data. The primary data consisted of the relevant information about the selected cooperatives and farmer-members. The primary data were obtained through interviews and questionnaires. Semi-structured questionnaires were used in conducting personal interviews.

Secondary data, on the other hand, encompassed pertinent information taken from different institutions and published and unpublished materials concerning the cooperative sector, agricultural cooperatives and sustainability as well. Information coming from certain institutions such as the CDA Calamba Extension Office was also gathered.

Data Collection

The data from the CDA Calamba Extension Office included a database constituting a list of the 406 registered cooperatives in the Province of Batangas. In addition, the database included information on the nature of business, commodities involved, type of cooperative, number of members, number of directors, asset size and capitalization among others.

The primary data was collected through the conduct of interviews with the use of semi-structured questionnaires for the case analysis. The collection of primary data was started in the third week of December 2013. Interviews and focus group discussions (FGD) with the leaders, board of directors and/or top management were conducted. Moreover, selected farmers and key informants were also interviewed to obtain information about the members' perception towards the cooperatives.

Selection of Cases

From 406 agricultural cooperatives in Batangas, two (2) non-operating and/or dissolved cooperatives were selected. These cases were selected from the list obtained from CDA Calamba Extension Office.

The cases were purposively selected based on their status and performance as the main criterion, followed by availability of records and years of operation. Furthermore, asset size was considered in selecting the cooperatives in the case. Lastly, commodities involved in cooperative operations were also considered in the selection. Cooperatives with relatively the same commodities and are agriculture-related were considered.

Data Analysis

The primary and secondary data collected were analyzed using qualitative and quantitative measures. The qualitative approach of the study included a multi-case study of selected non-operating and/or dissolved cooperatives in Batangas which made use of Financial Ratio Analysis. On the other hand, quantitative approach employed the Probit regression method in analyzing the status of the cooperatives in the province that may enable the identification of some variables affecting the operational sustainability of cooperatives which in turn may lead to determining the factors affecting sustainability of such cooperatives in the long run.

Qualitative Approach

A multiple case study approach was used in analyzing the qualitative measures of the research. This study utilized the descriptive and evaluative types of research design in order to deal with the problems and objectives as stated earlier. These were used in the analysis and as a basis for explaining the sustainability issues and challenges of the selected agricultural cooperatives in Batangas province. Moreover, it allowed the researchers to examine and scrutinize thoroughly the selected cooperatives and to comprehend the factors affecting sustainability as well as the success and failure of these cooperatives.

Upon the collection of the primary and secondary data, the information gathered was analyzed. Descriptive analysis was initially used to present the selected cooperatives. The responses from interviews and FGDs were descriptively reported. Analytical tools such as the different financial ratios, and problem identification and analysis were utilized in this study to identify the factors affecting sustainability of agriculture-based cooperatives in the province. The different success and failure factors and the problems and constraints by the agriculture-based cooperatives relative to sustainability were analyzed and provided the basis for formulating the recommendations.

Quantitative Approach

Descriptive statistical tools such as frequency count, range, and mean were used in the analysis and interpretation of the data provided by the CDA Calamba. The Probit regression analysis was used to determine the factors that affect the sustainability of the agriculture-based cooperatives in Batangas. The response variable that was considered was, operating or not (OPER), which is a binary outcome. OPER = 1 implies operating, OPER = 0 otherwise. STATA 11 software was used in the statistical analysis of the data. The Probit equation was expressed as follows:

$$\text{Prob(OPER)} = F(\text{LENDING, LIVESTOCK, CROPS, ASSET, MEMBER, PRODUCTION, INPUTS})$$

where:

OPER = dummy (1 if the cooperative is operating, 0 otherwise)
 AGRI = dummy (1 if the cooperative is agri-based, 0 otherwise)
 PRODUCTION = dummy (1 if the cooperative is into production, 0 otherwise)
 LENDING = dummy (1 if the cooperative is into lending/credit, 0 otherwise)

LIVESTOCK = dummy (1 if the cooperative's main commodity is poultry and/or livestock, 0 otherwise)
 CROPS = dummy (1 if the cooperative's main commodity are crops, 0 otherwise)
 ASSET = asset size of the cooperative (in PHP)
 MEMBER = number of cooperative members
 INPUTS = dummy (1 if the cooperative's commodity are farm inputs, 0 otherwise)

Results and Discussion

Qualitative Factors Affecting Failure of Cooperatives A and B

The business failure factors of agricultural cooperatives were obtained from the cases of two agricultural cooperatives: Cooperative A and Cooperative B. The factors contributing to the failure of these agricultural cooperatives are as follows:

Lack of Funds Needed to Comply with the Requirements of CDA

Both Cooperative A and Cooperative B identified this issue to be one of the factors that lead to the failure of their operations. According to the manager of Cooperative A, during their operating years, they had no problems regarding CDA accreditation. But during the later years, they encountered problems with different requirements which needed to be complied with for CDA accreditation. Moreover, trainings and seminars for officers and members became a burden for them since they had to shell out money to cover transportation costs and other miscellaneous fees.

According to Cooperative B, it was hard for them to really acquire some of the needed requirements since they will need to pay a big amount of money that will be sourced from cooperative funds. For example, since the cooperative had no accountant, they were paying PHP8,000 annually to hire a private accountant to prepare their financial statements. Moreover, they were also paying for sanitary records, BIR permits, among others. As a result, according to the chairman of Cooperative B, they were forced to stop operations in 2010. They ran out of funds to operate the cooperative. The trainings and seminars, the annual cost of securing necessary permits to remain operational had been a recurrent problem during their operating years.

Member's Delinquency and Lack of Member's Participation

In all the cooperatives interviewed and analyzed, even in the case of operational cooperatives, problems regarding members' participation were observed. Having a large number of members who actively participate in general assemblies, meetings and even the daily operations of the cooperatives greatly affects the sustainability of the cooperatives. Due to their non-participation, only a limited number of members and officers shared in the operational and strategic planning of the cooperative.

In the case of Cooperative A, majority of the members were inactive and were dependent on their general manager. This can be connected to their loan delinquency. Inability of the members to pay their loans on time may cause accumulation of loans that will result to a substantial net loss for the cooperative.

Lack and/or Mismanagement of Resources

One factor that has been observed to lead to cooperative business failure was the lack or mismanagement of resources. Some cooperatives have lots of resources that can be used for the improvement of the cooperatives but most of these were under-utilized. For example, Cooperative A is not maximizing the use of its resources to enhance the sustainability of the cooperative; while Cooperative B does not have real properties. This affects some activities in their operations.

Lack of Financial Consultant

It was seen that the absence of a financial consultant resulted to problems for Cooperatives A and B. In the case of Cooperative A, the untimely death of its accountant led to inefficient recording and management of financial resources. They do not have an adviser regarding finances.

Cooperative B, on the other hand, experienced the same situation. Since most of the members are not knowledgeable about finance, they mostly relied on their traditional knowledge about money. They can only get financial advice when they hire a private accountant for the preparation of their financial statements.

Lack of Effective Marketing System

Cooperatives A and B did not practice good marketing schemes to effectively improve their operations. The cooperatives relied mostly on agents in the selling of their products. Promotion was not given much attention. The cooperatives failed to successfully identify the market for their products and competition

due to lack of market information. Cooperative A does not follow any standard method in pricing its products and services.

Analysis of Factors Affecting Business Failures

To further understand the factors that affect business failure among cooperatives and agricultural cooperatives in Batangas, the Probit method was utilized. The result of the Probit estimate is shown in Table 9.1. Based on the results, operations involving crops such as crop production and processing have a significant and negative relationship on the operating status of an agricultural cooperative. This is significant at the 10 percent level and can be attributed to the occurrence of natural calamities. As stated by Anciano (2007), natural calamities affect the harvest of the farmer and their income. Planting seasons are delayed and the harvest is really adversely affected. Natural disasters and calamities tend to decrease the production of vegetables and as a result, increase the prices of vegetables in the market that affect the operations of some cooperatives that were in crop production, marketing, and trading.

Table 9.1. Determinants of sustainability among agricultural cooperatives in Batangas

Variables	Coefficient	P > z
Trading	-0.3689468	0.420
Lending	-0.2734266	0.384
Livestock	-0.1861477	0.619
Crops	-0.6483159*	0.086
Assets	1.65e-07*	0.067
Member	0.0008594	0.627
Production	0.0142642	0.967
Inputs	-0.5212918	0.136
Constant	1.20694	0.023
Log Likelihood		-44.5661
Number of observations		120.0000
LRchi ² (8)		25.2100
Prob>chi ²		0.0014
Pseudo R ²		0.2205

Note: * indicates significance at 10% level

On the other hand, asset size has a significant and positive relationship with an agricultural cooperative's operating status as seen with an exact significance level of 0.067 while engaging specifically in crop operations has an inverse relationship with a cooperative's operating status (e.g., exact significance level of 0.086). Cooperatives with higher asset sizes tend to be operational than those with low asset sizes. This result favored Araullo's (2006) argument that

Philippine cooperatives are too small to become viable. The result showed that smaller agricultural cooperatives are more likely to become non-operating or dissolved. On the other hand, it appears that engaging in crop operations tends to negatively impact on an agricultural cooperative's operating status.

The Probit estimate also showed that the following variables—trading, lending, production, livestock, member, and inputs - are not significant in terms of the operational sustainability of agricultural cooperatives. It seems that venturing into financial services such as lending and credit does not affect the survivability of agricultural cooperatives. Moreover, trading and production in general are also not significant which implies that the nature of the agricultural cooperative business generally does not affect operational sustainability of agricultural cooperatives. Being a poultry and/or livestock-related cooperative has no bearing on whether an agricultural cooperative will remain operational or not.

Moreover, the Probit method was also used to analyze the factors affecting the sustainability of both agricultural and non-agricultural cooperatives in Batangas. As shown in Table 9.2, membership and trading both have significant relationships with the operational sustainability of cooperatives at the 5 percent level of significance. The number of members has a positive relationship while trading exhibits a negative relationship on the operational sustainability of cooperatives. Trading operations tend to have an inverse effect on the operational sustainability of cooperatives.

Table 9.2. Determinants of Sustainability in Cooperatives in Batangas

Variables	Coefficient	P > z
Agri	-.2116589	0.320
Trading	-.4856272**	0.023
Lending	.0033247	0.986
Assets	2.76e-08	0.319
Member	.0023118**	0.029
Production	-.0004584	0.999
Constant	1.121622	0.000
Log Likelihood		-120.188
Number of observations		335.000
LRchi ² (6)		27.660
Prob>chi ²		0.001
Pseudo R ²		0.103

Note: ** indicates significance at 5% level

Conclusion and Recommendations

The main objective of the study was to analyze the sustainability issues and challenges of agricultural cooperatives in Batangas province in the Philippines. This paper described and analyzed the status and problems that lead to sustainability problems of these cooperatives.

Lack of funds and several internal problems led to the dissolution of Cooperatives A and B. The cooperatives failed to utilize their resources to expand the earning capacity of the cooperative. Members' delinquency on the part of Cooperative A greatly affected the profitability of the cooperative. The harmonious relationship between the management and members was lacking in the cooperative. The absence of an effective marketing system also affected their sustainability. Likewise, asset size was seen as a significant and positive determinant of operating sustainability of agricultural cooperatives while membership emerged as a significant indicator of operating sustainability for both agricultural and non-agricultural cooperatives in Batangas, Philippines.

The results of this study have some policy implications. The following strategies are being recommended to improve the chances for sustainability of agricultural cooperatives:

For the cooperatives

- Increase sense of responsibility of members through various activities that will boost their self-confidence and will raise their cooperative participation.
- Employ experienced and trusted officers that know the nature of the business and the agricultural cooperative.
- Exercise collective decision making in the cooperative.
- Develop a strategic planning and management control system.

For Government and Non-Government Institutions

- Cooperatives should be aided in gaining access to low-cost technology.
- Cooperatives should be provided with strong regulatory framework that will improve their operations.
- Cooperative education should be strengthened.
- Cooperatives should be assisted in conducting regular cooperative-related trainings and seminars for free.

In doing these recommendations, cooperative operational sustainability can be enhanced.

SUMMARY

Cooperatives all over the world are said to be imbued with inherent weaknesses and challenges and therefore, steering these entities towards sustainability is seen as an uphill climb. This chapter delves on the reasons why some cooperatives in the Philippines get dissolved or stop operating. Specifically, the study aimed to: (1) analyze factors affecting cooperative business sustainability and failures; (2) present and analyze two cases of failed multipurpose cooperatives; and (3) offer recommendations to operating cooperatives for their continued sustainability. Data were gathered through key informant interviews and secondary sources and analyzed using the case approach and descriptive analysis. Extant literature primarily pinpoint issues such as poor management, lack of capital, property rights and portfolio problems as the culprits behind cooperative conversions, failures and restructurings. What made the two multipurpose cooperatives unsustainable were the insufficiency of funds needed to meet CDA requirements, delinquency of members and their inactive participation in cooperative affairs, mismanagement of resources, absence of a viable marketing system and the lack of a capable financial manager. Cultivating managerial and leadership skills, improving governance, establishing private sector and government linkages and support, encouraging participatory membership, utilizing an effective marketing system, proper resource management and expanding financial knowhow are suggested for cooperative sustainability.

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CHAPTER 10

Assessing the Capacities of Cooperatives to Manage a Business: The Case of St. Marcos Multi-Purpose Cooperative

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AND JOANNE V. ALVAREZ

Introduction

Cooperatives play a significant role in the Comprehensive Agrarian Reform Program (CARP) of the Department of Agrarian Reform (DAR). Besides serving as conduits of support services to farmers, they are also expected to implement agri-based projects that will help increase income and productivity of their members and other community members.

One of the existing projects of the DAR is the Agrarian Reform Community Connectivity and Economic Support Services (ARCCCESS). In the ARCCCESS, Agrarian Reform Beneficiaries Organizations (ARBOs) which are most often cooperatives, undertake income-generating projects. In line with the concept of ARCCCESS, the St. Marcos Multi-Purpose Cooperative (SMMPC), which operates in Barangay Gapasan in the Municipality of Magsaysay, Occidental Mindoro submitted a proposal for consideration in the ARCCCESS program. Entitled “Enhancement of Agricultural Productivity and Marketing,” the proposed sub-project intends to increase farm productivity and income through introduction of new technologies while SMMPC is expected to earn additional income by renting out of common service facilities (CSFs) such as 35-HP four-wheel tractor and combined harvester-thresher. These CSFs will be provided for free by the DAR but the Cooperative is required to have equity. Given the current general weak financial status and management capabilities of cooperatives in the Philippines, the question on whether SMMPC can operate its proposed project and sustain its operation arose.

Of the total 2,897 cooperatives in Region IV, there are only seven agrarian reform cooperatives while multi-purpose cooperatives had a total of 1,791 (CDA 2014). Only 1,569 cooperatives (54%) reported in 2014 their financial standing to the Cooperative Development Authority, while the remaining 1,328 cooperatives (46%) were unable to submit the required financial statements. This is somehow an indication of the capability of the cooperatives to prepare

financial reports which is often cited as one of their weaknesses. The non-submission of financial statements may even be a reflection that some of these cooperatives are incurring losses. Of the 1,569 reporting cooperatives, 89 (6%) incurred net losses. Given the doubts on the capability of the cooperatives to undertake projects, the DAR Occidental Mindoro commissioned the College of Public Affairs and Development (CPAf), UPLB to conduct an Organization and Enterprise Needs Assessment and Design Assessment (OE-NADA) to determine the appropriateness of the proposed sub-project and evaluate whether SMMPC is capable of undertaking the enterprise. This paper is part of the OE-NADA report submitted by CPAf to the DAR.

Objective

This study aimed to present the assessment conducted on the capacity of the SMMPC to manage and sustain the operation of the project. Specifically, it sought to discuss the relevance, acceptability, and estimated returns of the proposed ARCESS sub-project.

Analytical Framework

Figure 10.1 presents the framework in assessing the capacity of SMMPC in operating the proposed sub-project on Enhancement of Agricultural Productivity and Marketing. The capacity of SMMPC will be evaluated in terms of its profile, services rendered/businesses undertaken, assistance/support services received, financial status, and strengths, weaknesses, opportunities and threats. Perceptions of the community member, which include the ARBO affiliated ones as well as those who are not, will also be considered.

Meanwhile, details of the proposed sub-project and its relevance and acceptability to the community will be described. Projections on income and expenses that the cooperative may incur will be presented. The community practices and needs and the facilities available to the village will be looked into as well.

Methodology

The study conducted focus group discussions (FGDs) among SMMPC members and officers and Barangay Officials and other community members of Gapasan. Secondary data were also obtained from the ARBO and Department of Agrarian Reform Provincial Office (DARPO) to support the primary data collected through FGDs. These include Barangay, ARC, and ARBO profiles;

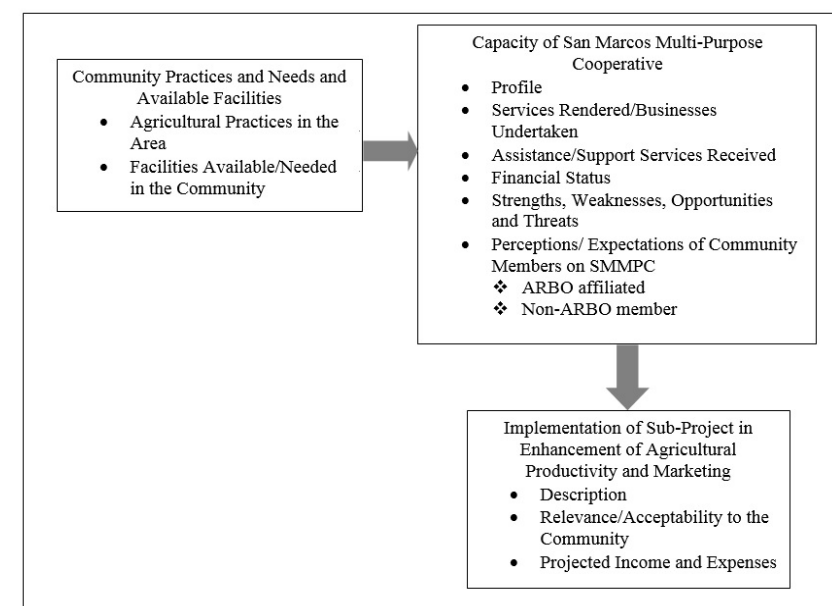


Figure 10.1. Analytical framework for assessing the capacity of the San Marcos Multi-Purpose Cooperative to undertake the proposed ARCESS sub-project

ARBO Constitution and By-Laws; and ARBO audited financial statements. Draft report was presented to the DAR Technical Working Group (TWG) and SMMPC for validation.

Results and Discussion

Description of the Proposed Sub-Project

The proposed sub-project, Enhancement of Agricultural Productivity and Marketing, aims to lessen production losses during production activities and consolidation of farm produce, enhance agricultural productivity in the ARC, as well as increase income of the ARBO and the individual members of the ARBO. Specifically, the sub-project aims to: (1) provide extension services to the Organization; (2) develop project management skills of the ARBO; (3) increase crop yield from 80 cavans to 120 cavans; (4) decrease labor cost by 35 percent; (5) cheaper, earlier, and timely land preparation; (6) decrease losses from hauling and spoilage; (7) increase quality of products in order to command higher prices; and (8) increase household income from PHP74,500 to PHP100,000.

The sub-project has two major components namely, institutional development and agriculture and enterprise development. Under the institutional development

component is the capability building of the ARBO. On the other hand, the second component covers the training on enhanced rice productivity using the Unladsaka Technology and the provision of common service facilities (CSFs) for land preparation and hauling. These CSFs include one 35HP 4WD tractor with trailer and one combined harvester-thresher. The 4WD tractor shall be used for tilling and hauling of farm inputs and seedlings during planting season and hauling of palay and corn from the farm to the storage facility during harvest season. It will also be utilized to transport palay to the marketing center to lessen transportation cost. On the other hand, the proposed combined harvester-thresher will be used for harvesting and threshing of palay in order to reduce labor cost. Meanwhile, the CSFs will be rented out by the ARBO to its members as well as to non-members in order to generate additional income.

Profile of St. Marcos Multi-Purpose Cooperative

SMMPC operates at Barangay Gapasan, Municipality of Magsaysay in Occidental Mindoro. It was initially registered with the Cooperative Development Authority on October 12, 2001 under Certificate of Registration/Confirmation No. LGA-5089. However, with the advent of Republic Act (RA) No. 9520, otherwise known as the “Philippine Cooperative Code of 2008,” it was issued another Certificate of Registration (Reg. No. 9520-0400121) on October 25, 2009 after complying with the requirements prescribed under RA 9520.

The Cooperative was able to frame its vision, mission, goals and objectives. It has developed its strategic development plan and annual operational plan. SMMPC was also able to come up with policies, systems and procedures for its various enterprises.

SMMPC is a well-structured organization, composed of a total of 34 members, 20 of whom are ARBs. More than half (19) of the members are female while 15 members are male. The low number of members can be attributed to its strict recruitment process. SMMPC requires a one-year probationary status to determine if the applicant can follow the policies, systems, and procedures of the Cooperative. Despite the low number of members, SMMPC has an elected board of directors, five active committees (credit, education, election, mediation and conciliation and audit and inventory) and a core management team which is comprised of a manager, secretary, and treasurer.

For the past five years, SMMPC has maintained an OMA rating of 5. This corresponds to its successful operations and stable financial condition. Since 2011, its return on assets (ROA) and return on equity (ROE) continue to increase. Its current ratio is above the ideal ratio of 2. Its debt to equity ratio is also below 1. It has also proven its creditworthiness to the Land Bank of the Philippines (LBP) and equipment suppliers.

SMMPC is a beneficiary of the Agrarian Production Credit Program (APCP) in 2014, which provided the Cooperative a production loan amounting to PHP1 million (M) through the LBP. The Cooperative also has an existing loan of PHP100,000 from the LBP, which was used as working capital for palay trading. Meanwhile, it has entered into an installment agreement with the supplier of combined harvester-threshers that were acquired in 2012 and 2014. The first unit was fully paid already. On the other hand, during the conduct of this study, the Cooperative has still an existing loan of PHP1M plus interest for the second unit.

Moreover, the Cooperative’s audited financial statement shows that it had secured a loan amounting to PHP20,000 in 2011. But the source of loan was not stated and the Cooperative Officers could not identify when asked during the validation of results. According to them, this has already been paid. It was also reported in the 2012 and 2013 audited financial reports the initial payment made for the combined harvest-threshers as the units’ value. These show some weaknesses or limitations of the Cooperative in terms of record-keeping.

SMMPC’s Current Income Generating Projects and Financial Status

SMMPC currently operates three main enterprises that include: (1) renting out of farm machineries such as one hand tractor, a thresher, sun drying facility, one flatbed dryer, and two units of combined harvester-thresher; (2) provision of credit; and (3) operation of a consumer store where rice produced by members are sold. SMMPC also undertakes other income generating projects such as joining trade fairs to sell rice produce of their members.

Financial records of the Cooperative showed that from 2011 until 2013, SMMPC has generated positive net surplus (Table 10.1). Among its various services, rental business of CSFs had the highest revenue in those three years. It is notable that total income grew nearly three times from 2012 to 2013 mainly due to the surge in revenues from CSF rental from nearly PHP154,000 to almost PHP1.4 M. With its stable financial conditions, SMMPC has established its creditworthiness with the LBP and could provide additional funds to the ARBO should the officers decide to get a loan for its operations.

Based on its financial records, the net income earned from the rental of combined harvester-threshers was PHP301, 504 in April 2014 (from the second crop) and PHP660,850 in October 2014 (from main crop). From the flatbed dryer rental, the ARBO earned a net income of PHP7,068. From the actual experience of SMMPC, the viability of returns from a rental business of such farm machineries is proven.

Table 10.1. Gross income, total expenses and net surplus of SMMPC, 2011-2013

Item	Year		
	2011	2012	2013
<i>Income</i>			
From Credit Operations	96,277.00	102,662.00	-
From Consumer Operation	50,590.45	55,856.59	26,146.96
From Rental of CSFs/ Services Operations	137,234.89	135,769.61	1,112,884.22
Other Sources	119,983.50	185,990.2	258,140.00
<i>Total</i>	<i>404,085.84</i>	<i>480,278.40</i>	<i>1,397,171.18</i>
<i>Growth Rate (computed)</i>		18.86	190.91
<i>Expenses</i>			
Financing Cost	8,752.65	1,810.00	-
Service Costs	-	-	320,027.50
Selling/Marketing Cost	-	28,752.33	103,225.99
Administrative Cost	291,255.51	310,179.14	264,422.78
<i>Total</i>	<i>300,008.16</i>	<i>340,741.47</i>	<i>687,676.27</i>
<i>Growth Rate (computed)</i>		13.58	101.82
<i>Net Surplus</i>	<i>104,077.68</i>	<i>139,536.93</i>	<i>709,494.91</i>
<i>Growth Rate (computed)</i>		34.07	408.46

As reported in its audited financial statement, the Cooperative had a net income of PHP119,146.00 from thresher rental in 2012. The ARBO also earned PHP16,623.61 net income from hauling. But during the presentation of report to the ARBO officers, participants could not ascertain that the said amount was earned from tractor or truck rental, which are both used for hauling. Nevertheless, net surplus of the Cooperative kept escalating, growing by 34 percent from 2011 to 2012 and at a much higher rate (408%) in 2013.

During the conduct of the study, ARBO officers reported that they have not encountered problems with its credit operation. This was supported by its audited financial statements that show a drop in the restructured loans of members with overdue accounts from 2012 to 2013, an indication that the concerned members are paying their dues.

Agricultural Practices and Farm Facilities Used/Available in the Community

Gapasan is one of the five cluster barangays that comprise the PAPULONG ARC. Other clusters are Paclolo, Purnaga, Lourdes, and Nicolas. The ARC covers an agricultural area of 546 ha (324 ha irrigated and 222 ha rain fed) or 17 percent of the covered agricultural land area, which is 3,251 ha. Barangay Gapasan is characterized by 25 percent mountainous and 75 percent plain terrains. According to SMMPC officers and members, soil analysis was conducted five years ago. The result showed that the land was suitable for rice, although recently, the ARBO members observed that some areas have

started becoming acidic. Thus, some farmers combine organic practices with conventional farming. Specifically, they use rice straws as fertilizers. ARBO members estimated a pile of rice straws is equivalent to 6 bags of urea. Also, about 70 percent of ARBO members use vermicompost in seedbeds. Although ARBO members were aware of the positive impacts of organic agriculture in the environment, they were hesitant to adopt complete organic farming because of the possible lower yields.

During the FGD, SMMPC members and officers reported that a farmer in their community produces about 80 cavans per hectare on the average. In low-lying areas, about 70 cavans per hectare are produced. During the dry season, a farmer can produce as high as 100 cavans per hectare, which is higher than the average yield produced during the wet season. Yield is also higher from hybrid variety of rice compared to inbred variety. During the dry season, the average yield for hybrid rice can be up to 120 cavans per hectare.

Farmers use machineries such as hand and 4WD tractors and threshers or combined harvester-thresher during planting and harvest seasons. The 4WD tractors are used not only in land preparation but also in hauling of palay during harvest season. There are only 3 owners of 4WD tractors in the community and only 2 of them are renting out their tractor to farmers. Meanwhile, about 40 to 50 percent of the farmers have their own hand tractors. SMMPC also owns one unit of hand tractor and about 70 percent of its members also possess a hand tractor. Some of these farmer-owners are renting out their tractors. Hence, the lack of tractors for land preparation did not seem to be a problem but during harvest season, the number of 4WD tractors available in the community is limited to accommodate the simultaneous demand of farmers in hauling their palay.

Moreover, during harvest season, combined harvester-thresher receives higher demand than threshers due to its time-efficiency and minimal production costs. Compared to threshers, which consume 2 to 3 days for threshing alone, harvesting and threshing can be done within a day with the use of combined harvester-thresher. According to ARBO members, harvesting and threshing in 5 ha of a well-levelled field can be done in one day.

FGD participants estimated only 10 percent of the farmers in the community are now using threshers. These include farmers whose farms are situated in hilly or upland areas and those who are not accommodated by the simultaneous demand for the combined thresher-harvester. In the community, there are seven operators of threshers including SMMPC. The Cooperative also owns two units of combined harvester-thresher. Another two units of combined harvester-thresher are owned and rented out by private individuals.

There are also a limited number of dryers in the area. During the FGD with the SMMPC officers and members, it was pointed out that farmers prefer to use the flatbed dryer rather than the sun drying facility because of changing

weather conditions. During the data gathering period, the Cooperative is the only operator of the flatbed dryer in the community. It can accommodate 100 cavans per loading, within 8 to 12 hours of operation depending on the initial moisture content of the palay.

Perceptions of SMMPC Officers, Members and Non-Members on the Proposed Sub-Project

During the FGD, SMMPC officers and members expressed their interest to engage in the proposed enterprise, which is actually an expansion of its current rental services. Initially, SMMPC requested for 90HP 4WD tractor because farmers in the community use tractors for land preparation and hauling but the proposal was not approved by the DAR. Instead, it was changed to 35HP, which is only more appropriate given that the covered project area is only 80 hectares.

Besides the two proposed CSFs, the Cooperative is also interested in operating another flatbed dryer since its current unit is not enough to meet the demands of its members and other farmers in the community. Mechanical dryers are preferred in the area due to varying weather conditions.

Machinery rental is not a new business to SMMPC. It started its rental business in 2002. However, ARBO officers admitted that they need to enhance their knowledge and skills in negotiation, marketing, and equipment maintenance and repair. Meanwhile, the non-members of the ARBO believed that the proposed ARCESS sub-project will be beneficial to their community. They also believed that SMMPC is capable of operating such enterprise.

Strengths, Weaknesses, Opportunities and Threats of SMMPC

Strengths. Owning CSFs such as hand tractor, flatbed dryer and combined harvester-thresher are also advantageous to SMMPC as these assets are essential to farmers in the community and are therefore rented out. In addition, the Cooperative officers and members have gained sufficient knowledge on the proposed sub-project given their experience from managing a farm machinery rental business, with SMMPC showing its capability to operate such livelihood project. Moreover, the ARBO officers are also farmers and users of farm machineries. Thus, they are well-aware of the existing arrangement of equipment rental in the community. Given its knowledge and experience, positive financial record, creditworthiness, and established market, the ARBO has indeed the potential to earn higher income from farm equipment rental.

Although the number of members of SMMPC is low, the Cooperative is proud that they have a cohesive organization composed of dedicated members. They believe that their screening process will ensure that the recruited members

will be committed to the cause of the ARBO. Its high OMA rating is also a positive factor for the ARBO.

Weaknesses. The Cooperative still has to improve its record keeping and accounting procedures and marketing/negotiation skills as pointed out by some ARBO officers. It was also mentioned during the FGD that additional trainings on CSF maintenance are needed. These are consistent with the recommendations of some studies (Castillo 2003; Teodosio 2009; Araulo 2006), which pointed out that majority of cooperatives in the Philippines need to invest in capability building activities to enhance their financial and human resources.

Opportunities. At present, the ARBO has a marketing contract with the National Food Authority (NFA). About a year ago, traders have also started to do business with the farmers in the area. According to the community members, prices offered by the traders are higher than NFA.

Threats. In marketing the palay, the Cooperative earns more from transactions with the traders. Thus, SMMPC preferred them rather than its regular market, which is the NFA. However, with the possibility of traders finding other farmers who offer lower price, Cooperative members should allot a certain proportion of their produce to market to NFA. It is a long-term agreement compared to the traders whose arrangements are on a per season basis only.

Financial Assessment of Proposed Sub-Project

As indicated in Table 10.2, the expected returns of the Cooperative from the rental of the combined harvester-thresher is 5 cavans per hectare as payment for harvesting services and 5 percent of total production for threshing done. At PHP18 per kilogram of palay and 50 kilogram of palay per cavan, SMMPC will earn PHP4,500 per hectare. The costs of fuel and oil per hectare amounts to PHP525 per hectare (15 liters per hectare at PHP35 per liter), while the combined harvester-thresher operator is paid at the rate of 9 cavans per hectare (equivalent to PHP900 per hectare). Thus, on a per hectare basis, the ARBO will earn PHP6,547 per hectare. Considering only 27 hectares or one-third of the project area since the ARBO has two other combined harvester-threshers, then the total annual net earnings from this CSF is PHP353,538. However, this is a modest estimate since the area that the ARBO could cover is higher than 27 hectares. Considering that PAPULONG ARC where Barangay Gapasan is a part of, has a total of 2,324.60 hectares of rice area. Hence, the demand for combined harvester-thresher is much larger than the 27 hectares or even the 80 hectares tilled by the SMMPC members. This is supported by the higher actual net earnings of the Cooperative as reflected in its financial records.

Table 10.2. Projected annual income for combined harvester-thresher

Item	Assumptions	Amount (PHP)		
		Per Hectare	For 27 Hectares	Total Annual
<i>Gross Income</i>		8,100.00	218,700.00	437,400.00
Rental/ha for harvesting	5 cav/ha; 50 kg/cav; PHP18/kg	4,500.00	121,500.00	243,000.00
Rental/ha for threshing	5 percent of TP; average yield/ha = 80 cav	3,600.00	97,200.00	194,400.00
<i>Gross Expense</i>		1,553.00	41,931.00	83,862.00
Fuel and oil	15 liters/ha; PHP35/liter	525.00	14,175.00	28,350.00
Labor	PHP9/cav	720.00	19,440.00	38,880.00
Meals	PHP300/day, 3 has./day	100.00	2,700.00	5,400.00
Mending of sacks	PHP60/day; 600 cavans/day	8.00	216.00	432.00
Bagging of palay	PHP600/day; 600 cavans/day	80.00	2,160.00	4,320.00
Hauling of palay	PHP900/day; 600 cavans/day	120.00	3,240.00	6,480.00
<i>Net Income</i>		6,547.00	176,769.00	353,538.00

Meanwhile, although the demand for combined harvester-threshers is high, threshers are still used in farms located in hilly areas. They are also used by farmers for their main crop. In 2013, ARBO reported PHP60,000 net income from its thresher rental. At present, however, the ARBO's thresher is under repair. Annually, the Cooperative spends about PHP5,000 for the maintenance of the thresher.

In the case of renting out tractor, the projected net income would be PHP218,096 (Table 10.3). Since a lot of farmers own their own hand tractors, only a portion of the farmer-members will rent the 35 HP 4WD tractor that will be given to the Cooperative. Assuming that only 30 percent of 80 has. (24 hectares) of the Cooperative members will be utilizing the tractor, the net income of SMMPC from renting out the tractor for land preparation purpose will be about PHP140,496 for one year. Since the proposed equipment, 4WD tractor, does not include implements, the Cooperative is willing to shoulder the trailer that will be used for hauling.

Furthermore, with the high demand for flatbed dryer, the Cooperative is interested to operate another mechanical dryer. A projected annual net income of around PHP38,707 can be generated by the Cooperative from flatbed dryer rental (Table 10.4). Hence, as shown in Table 10.5, St. Marcos MPC can generate a total annual net income of PHP610,341 from rentals of the three CSFs.

Table 10.3. Projected annual income for 35HP 4WD tractor

Item	Assumptions	Amount (PHP)		
		Per hectare	Per Season	Per Year
<i>Land preparation</i>			For 24 Hectares (30% of 80 has.)	
<i>Gross Income</i>				
Rental/ha			133,920.00	267,840.00
Tractor with squadron, single pass (60% of 24 hectares)	PHP 2,200/ha, 6 has/day	2,200.00	31,680.00	63,360.00
Tractor with squadron, double pass (40% of 24 hectares)	PHP 2,200/ha x 2, 3 has/day	4,400.00	42,240.00	84,480.00
Tractor with rotovator (used for main crop)	PHP 2,500/ha, 3-4 has/day	2,500.00	60,000.00	120,000.00
<i>Gross Expense</i>			63,672.00	127,344.00
Fuel and oil	20 liters, 1 ha; PHP35/liter	700.00	16,800.00	33,600.00
Labor	35 percent of the rental fee		46,872.00	93,744.00
Tractor with squadron, single pass (60% of 24 hectares)	PHP 2,200/ha, 6 has/day	770.00	11,088.00	22,176.00
Tractor with squadron, double pass (40% of 24 hectares)	PHP 2,200/ha x 2, 3 has/day	1,540.00	14,784.00	29,568.00
Tractor with rotovator (used for main crop)	PHP 2,500/ha, 3-4 has/day	875.00	21,000.00	42,000.00
<i>Net Income from Land Preparation</i>			70,248.00	140,496.00
<i>Hauling</i>			For 40 hectares (50% of 80 has.)	
<i>Gross Income</i>			64,000.00	128,000.00
Rental/ha	PHP20/bag	1,600.00	64,000.00	128,000.00
<i>Gross Expense</i>			25,200.00	50,400.00
Fuel and oil	2 liters	70.00	2,800.00	5,600.00
Labor	35 percent of the rental fee	560.00	22,400.00	44,800.00
<i>Net Income from Hauling</i>			38,800.00	77,600.00
<i>Overall Net Income</i>			109,048.00	218,096.00

Note: About 70 percent of the ARBO members have their own hand tractor. Thus, the possible market of the 35HP 4WD tractor is the remaining 30 percent of the members. Farmer-users of the existing three units of 4WD tractor in the community is not considered in the assumption. February – March: Land Preparation, October – January: Harvest.

Table 10.4. Projected annual income for flatbed dryer

Item	Assumptions	Amount (PHP)		
		Per cavan	Per Season	Total Annual
<i>Income</i>			72,000.00	144,000.00
Rental Fee of flatbed dryer (capacity -100 cavans/loading) 20 Members	PHP25/cavan, 1.8 ha/member; 80 cav/ha	25.00	72,000.00	144,000.00
<i>Gross Expense</i>				105,292.80
Fuel/Oil	8 liters/8hrs, PHP35/liter	4.20		21,772.80
<i>Wet Season (drying is 12 hours)</i>		4.20	12,096.00	
<i>Dry Season</i>			9,676.80	
60% of total production need 8 hours drying (semi dry palay)		2.80	4,838.40	
40% of total production need 12 hours drying		4.20	4,838.40	
Labor	40 percent of the rental fee		41,760.00	83,520.00
20 Members		10.00	28,800.00	57,600.00
Labor (packing of rice hull/ipa)	PHP450/100 sacks, 20 sacks/8hrs	4.50	12,960.00	25,920.00
Net Income				38,707.20

Table 10.5. Projected annual income (in PHP) by common service facility

Common Service Facility	Annual Additional Income/ Reduced Expense	Annual Reduced Income/ Additional Expense	Annual Net Income
35 HP WD Tractor	395,840.00	177,744.00	218,096.00
Combined Harvester/Thresher	437,400.00	83,862.00	353,538.00
Flatbed dryer	144,000.00	105,292.80	38,707.20
Total Income	977,240.00	366,898.80	610,341.20

Summary and Conclusions

The ARC which covers Barangay Gapasan has a total agricultural land area of 3,251 hectares. This indicates the possible area that can be serviced by the proposed agri-enterprise. Although the intended beneficiary organization, SMMPC, covers an agricultural land area of only 80 hectares, it is still large enough given the current number of farm equipment in the community.

The demand for farm equipment is high not only from ARBO members, but also from non-ARBO members, since rice farming is the common livelihood activity of the people in the community. Hence, SMMPC is interested to offer more farm equipment in addition to its current possession (1 tractor, 1 thresher,

and 2 combined harvester-thresher, and sun drying facility and flatbed dryer). It has an existing rental business, which has generated revenues since it started. Between thresher and combined harvester-thresher, the demand for the latter is higher because it incurs lower labor cost and is efficient to use. On the other hand, the hand tractor is commonly rented out for hauling than for harrowing. This is because many farmers own a hand tractor, which they can use during land preparation. But during harvest season, the existing number of tractors is not sufficient to accommodate the demand of farmers simultaneously. Meanwhile, there are only three units of 4WD tractors in the community which are owned by private individuals, only two of which are rented out to farmers. Moreover, between solar and flatbed dryers, sometimes farmers prefer to rent out the latter because of the changing weather conditions.

With regards to the capacity to implement successfully the proposed project, the high OMA rating of the Cooperative is an indication of its good performance in terms of human resource and financial management. The rental services offered by the ARBO started in 2002, which implies that it has the capacity to engage in such enterprise and operate it viably for more than 10 years. However, there are agriculture extension and advisory services as well as business development services that should be provided to the ARBO to ensure sustainability of the project.

Recommendations

With the high demand for the 4WD tractors and combined harvester-thresher, it is recommended that the proposed CSFs be granted to SMMPC. Specifically, these include 1 unit of 35HP 4WD tractor and 1 unit of combined harvester-thresher. Aside from tractor and combined harvester-thresher, the provision of flatbed dryer is also recommended. At present, the Cooperative is the only operator of the flatbed dryer in the community. It can accommodate 100 cavans per loading, which can take from 8 to 12 hours (for highly wet palay). Members and non-members are renting out the dryer for PHP25 or PHP30, respectively. Farmers prefer to use the flatbed dryer because of the changing weather conditions. ARBO officers plan to use a portion of the sun drying facility area if they would be granted with another flatbed dryer. However, with the additional earnings the Cooperative will gain from the CSFs provided by DAR, SMMPC could use these earnings to purchase an additional unit of flatbed dryer instead of waiting for another government entity to give them a new one. If the Cooperative will have difficulties in paying in cash, it could negotiate for a terms payment arrangement.

Given the weaknesses of the ARBO, the provision of the CSFs should be accompanied by capacity-building activities which are also included in the

proposal as Agri-Technology and Extension (AES) and Business Development Services (BDS). Since the DAR has limited manpower due to its reorganization in 2014, the DAR will have to hire private organizations, state colleges and universities and non-government entities to provide the AES and BDS. For the agri-extension services, soil analysis should be conducted given that the last one was done five years ago and soil quality may have changed within that period. Although some of the farmers use organic fertilizers, ARBO officers were hesitant to adopt complete organic farming because of the possible lower yield they will produce. Indeed, many studies show that production from organic farming within the first few years is lower compared to conventional farming. However, the Cooperative officers should be provided with continuous technical assistance in vermicomposting - an existing cooperative project. Similarly, information dissemination campaigns should be conducted on hybrid rice production since farmers noted that hybrid varieties of seeds produce higher yield than inbred seeds. The AES provider should also help the Cooperative establish linkage with hybrid seed growers/suppliers, which can provide its members and other farmers in the ARC good quality seeds.

For the business development services, capacity-building activities should be provided to the SMMPC to enhance their knowledge and skills in marketing, recordkeeping, financial management, accounting procedures, and equipment maintenance and repair. The marketing contract with NFA should also be continued and strengthened as this provides the definite market of their product.

SUMMARY

Cooperatives play a significant role in the Comprehensive Agrarian Reform Program of the Department of Agrarian Reform (DAR). Besides serving as conduits of support services to farmers, they are also expected to implement agri-based projects that will help increase income and productivity of their members and other community members. SMMPC, which operates in Barangay Gapasan in the Municipality of Magsaysay, Occidental Mindoro submitted a proposal to DAR for funding. The proposed project intends to increase farm productivity and income and entails renting out of CSFs such as 35-HP four-wheel tractor and combined harvester-thresher by SMMPC. The CSFs will be provided for free by the DAR but the Cooperative is required to have equity.

Given the current general weak financial status and management capabilities of cooperatives in the Philippines, the question on whether SMMPC can operate its proposed project and sustain its operation arose. This chapter assessed the capacity of the Cooperative to manage and sustain the operation of the project. Furthermore, the relevance, acceptability, and estimated returns of the proposed project were also examined. Data were gathered through focus group discussions with the cooperative members and barangay residents who are not affiliated with the organization. Key informant interviews with the DAR personnel and gathering of secondary data were also conducted. Results indicated that SMMPC has a stable financial base and its officers are capable of running the proposed project. Moreover, the high demand for the CSFs assures that SMMPC will earn a profit.

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CHAPTER 11

Democratic Governance and Participation: The Key to Success of San Dionisio Credit Cooperative Inc.

KAREN P. QUILLOY AND PILIPINAS M. LUIS

Introduction

A cooperative is a type of corporation jointly organized, owned and democratically controlled by individuals or groups of individuals or businesses, who voluntarily pool their resources together to invest them in the cooperative for their own benefit. The people – its members, are the very reason for a cooperative's existence.

In general, cooperatives have three unique characteristics or general principles that set it apart from other types of businesses: (1) the user-owner principle; (2) the user-control principle; and (3) the user-benefit principle. The user-owner principle states that the people owning and financing the cooperative are those who use it. The user-control principle means that the people using the cooperative are those who control the cooperative. Lastly, the user-benefit principle explains that important purpose of cooperative, which is to provide and distribute benefits to members on the basis of their use (Frederick 1997). These principles define the significant position and role of cooperative members in their organization. It implies that cooperatives are associations of persons rather than of impersonal organization of capital (Castillo et al. 2003). Hence, in aiming to become viable enterprises pursuing both economic and social responsibilities, it is essential for the cooperatives to put its people at the heart of its business, guided with the core values of cooperation and cooperative principles.

The San Dionisio Credit Cooperative (SDCC) is one of the most successful cooperatives in the Philippines that clearly exemplifies a strong adherence to the above principles of cooperative enterprises. The management and operation of SDCC is performed with strategies that allow its members to become the owners, the controllers, and the financiers of their own cooperative. For more than 50 years now, SDCC has remained faithful to its operative philosophy that “the cooperative is about people more than money” and to the belief that “members are the true measure of success of the cooperative” (Villamin 2011).

The Humble Beginnings of SDCC

Even before the introduction of the cooperatives in Barrio San Dionisio in Parañaque City, some people in the community had already practiced cooperativism. During one camping activity of the Rover Scouts in Corregidor, Bataan, a group of people from San Dionisio participated in the activity, who was accompanied two parish priests, namely Father (Fr.) Francisco Wittazaele and Fr. Walter Hogan. Fr. Hogan noticed the exemplary voluntary activities of the group, which promote service to people, love of God, and love of country.

With San Dionisio group's sincere dedication and will to serve people, especially their fellow community members who are struggling in the midst of poverty, Fr. Hogan introduced to them the concept of credit union and cooperative as a collective search to solve community problems and advance social and economic development of the poor. While some people of the San Dionisio community were against the organization of a cooperative union due to task and credibility issues, a general assembly and a series of seminars to push the plan were still successfully held. Earning the trust of the community people and believing in the potential of a cooperative to address rural poverty had been the key to organizing the cooperative of San Dionisio.

The San Dionisio Cooperative Credit Union, Inc. (SDCCUI) was formally organized on July 28, 1961 by 28 founding parishioner members with a starting capital of PHP380.00. SDCCUI was registered with the Cooperative Administration Office (CAO) about two months after its organization and with the Bureau of Agricultural Cooperatives Development (BACOD) in 1973. Later on, it changed its name to San Dionisio Credit Cooperative (SDCC), which was re-registered with the Cooperative Development Authority (CDA) under the Philippine Cooperative Code (Republic Acts 6938 and 9520).

Fostering member-oriented cooperative management has resulted to continuous expansion of SDCC membership, already reaching 15,899 individuals as of December 2012 from San Dionisio and other barangays within and outside Parañaque City and even abroad (Table 11.1). Along with the increase in membership base is the continuous increase in its net surplus, climbing up to PHP29.6 million in 2012, which in turn led to increasing amount of interest on share capital and patronage refund distributed to its members (Figure 11.1). To date, SDCC is considered as one of the oldest and biggest community-based credit cooperatives in Asia.

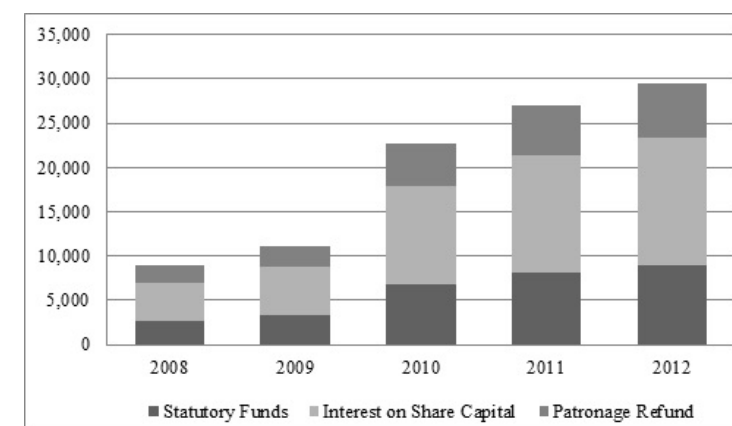
SDCC Goals and Commitments

SDCC is a community-based cooperative run by people from San Dionisio and nearby barangays for the purpose of meeting their economic, social, cultural, political, and spiritual needs. It was initially organized as a credit cooperative

Table 11.1. SDCC membership composition, December 2012

Member Characteristics	No. of Members
<i>By sex</i>	
Male	4,724
Female	11,175
<i>By age group</i>	
18-20 years old	63
21-30 years old	1,902
31-40 years old	3,982
41-50 years old	4,082
51-60 years old	3,504
61-70 years old	1,518
71 years old and above	848
Total	15,899

Source: SDCC Annual Report 2012



Source of basic data: SDCC Annual Reports, 2008-2012

Figure 11.1. Net surplus generation and allocation ('000 PHP) of SDCC, 2008-2012

to provide access to affordable financial services that will help its members and their communities uplift their lives. Later on, its line of services expanded, with the Cooperative now already providing insurance, education, healthcare, mutual aid, manpower services, and other social services.

As a cooperative providing multiple products and services to its members, SDCC does not want people to see them as a mere credit service provider. More than a business, SDCC exists for a higher purpose, which is the full development of man in all aspects of life (SDCC 2014). It describes itself as an organization of people helping each other and providing services to address their needs because of love for one another and as children of God, with the aim

of total development of man. This total human development involves economic development by addressing the basic needs of the members, social development by replacing “crab mentality” behavior with the true spirit of co-operativism, cultural development by nurturing the good manners and practices of Filipinos, political development by being non-partisan and choosing wisely the leaders of the nation, and spiritual development by operating the Cooperative with service, love, and compassion. This definition of SDCC is summarized in what they refer to as their “Cooperative Cake” (Figure 11.2).



Source: SDCC

Figure 11.2. SDCC Cooperative Cake

Vision and Mission

SDCC envisions to become “the innovative global cooperative leader, united in and committed to uplifting the quality of life of its members and their community.” In support of this vision, its mission involves the following:

1. continuous mainstreaming of consolidated efforts toward the empowerment of its members;
2. relentless strengthening of total human development as the foundation for innovative global co-operative leadership and environmental stewardship;
3. purposive development of leaders and staff with the proper values, required competence, global mindset, and spirit of co-operativism as exemplified by SDCC founding fathers;
4. fervent support to one another to achieve unity of purpose with one mind and one heart; and
5. courageous leadership in the development of new products, services, markets, and technologies.

In line with its vision and mission, SDCC aspires to achieve: “(1) a well-informed and loyal membership conscious of and performing its duties and responsibilities, and actively involved in the affairs of the Cooperative; (2) a strong and properly functioning Pook-Tulungan (PT) system that would enhance the active and democratic participation of the members in the activities of their cooperative and their community; and (3) an enlightened and dedicated leadership willing and able to share its knowledge, time and effort for the welfare of the members, the Cooperative and the community, as a whole.”

In its path towards becoming a global cooperative leader, SDCC also hopes to hone and inspire its members to become individuals who are able to serve efficiently, effectively, and ethically, with will and integrity, as well as to instill in them the qualities of being morally driven, experienced (in cooperative activities), nurturing, trustworthy, open, and responsive. This is the brand that the Cooperative wants its members to carry and live to inspire others. SDCC coined this brand as WISE MENTOR under its Branding or Cooperative Identity Program. WISE MENTOR is an acronym which stands for Will; Integrity; Serve; Efficiently, Effectively and Ethically; Morally-driven; Experienced; Nurturing; Trustworthy; Open; and Responsive. Under this program, members who are able to possess the qualities of a WISE MENTOR are selected to become officers and staff of the WISE MENTOR Circle based on certain criteria and are given due recognition as role models in the Cooperative.

Key Services of SDCC

Credit and Savings Program

With the main goal of uplifting the life of its members, SDCC responds to the people’s needs and problems, which often concern having a sustainable source of income for their families. One of the major services provided by the Cooperative to address its members’ needs is its loan service. More than just providing financial assistance, SDCC hopes that through its lending program, it will be able to develop among its members the values of thrift, wise use of money, and self-reliance.

SDCC’s lending program is composed of different loan services that are designed for specific purposes such as income generation, business capital, financial relief, health use, education, home needs (house and appliances), food, and emergency needs. The following are the major loan products of SDCC: Productive Loan, Provident Loan, Special Loan, Special Loans–Housing, Emergency Loan, Secured Loan, Appliance Loan, Other Special Types of Loan (Additional Educational Loan, Additional Secured Loan, and Character Loan), Medicine/Consumer Loan, Privilege Loan, Rice Loan, COOP Healthcare Loan,

Back to School Loan, and Share Capital Loan.

Of these loan windows, provident loan and productive loan are the most common, comprising almost 75 percent of the total amount of loans granted by the Cooperative. These types of loan have been very helpful to the members primarily in enabling them to do entrepreneurial activities, start a business, and find a job to earn income. In granting loans, SDCC uses the 6 C's of Credit Granting as its criteria to ensure that the credit support it provides will be used wisely and productively by the member-borrowers and at the same time, will be able to improve the Cooperative's money circulation, enable capital investments, and contribute to the members' equity. Below are the 6 C's of credit granting:

1. Character of the member-borrower as shown by his reputation in the community and workplace, depositing and repaying habits, and participation in cooperative meetings and activities;
2. Capacity of the member-borrower as shown by the amount of uncommitted income, health, age, size of family, resourcefulness and other obligations;
3. Collateral offered by the member-borrower to secure the loan. Ex. TCT, memorial lot certificate, motor vehicle, machinery and equipment, home appliances;
4. Capital of the member-borrower in the form of his/her share capital and savings deposits;
5. Condition or the factors affecting the member-borrower, which includes the nature of the project, business and kind of competition it has, profile of customers and suppliers as well as the prevailing socio-economic and political condition of the community; and
6. Co-makers/guarantors of the member-borrower which refer to the credit standing of other members who, by written agreement, commit to conditionally answer for the payment of the member-borrower's obligation when due and demandable.

To complement the credit services, SDCC has also put in place its savings mobilization program through its deposit services which include savings deposits and time deposits (e.g., level payment program and Sinag deposit). The deposit services are open to cooperative members and special depositors, which offer competitive interest rates that are computed daily, compounded quarterly, and are exempted from withholding tax. Only a minimum of PHP1,000 balance is required for the members' savings deposit to earn interest. SDCC members are provided with their own passbooks for them to be able to monitor their savings in the Cooperative.

In addition, SDCC implements retention in savings deposit and share capital, where in a certain percentage (2% to 5%) of their loan amount is withheld and

added to their savings deposit and share capital. Lastly, it launched its latest savings project entitled "Alkansya ko sa Koop" in 2012. Under this project, small coin banks or "alkansya" are given to new members for free for them to store their saved coins in. Members can request for additional "alkansya" from the Cooperative for a minimal fee. Once the "alkansya" is full, the members can bring it to the office and use the saved money to complete their paid-up share capital, pay portions of their outstanding loans or contribution dues, or deposit it to their savings account. Through this project, SDCC hopes to teach its members to save and develop the value of thrift. Just in 2012, a total of PHP2.57 million was deposited by the members from their "alkansya".

Education Service

Living by its education motto, "Excellence and equity in education, in the spirit of co-operativism", SDCC has especially committed to provide affordable quality education to its members and their children as part of its service to the people. In March 2004, it successfully established its cooperative school namely, Escuela de San Dionisio, Inc. (EDSD) and was registered with the Securities and Exchange Commission (SEC) and given the authority to operate by the Department of Education (DepEd) later in the same year. With the aim to develop children's potential and their love for learning and to prepare them for responsible adulthood, EDSD provides its students from nursery to high school level a people-oriented, creative, and innovative learning environment that fosters a balanced life and drives them to become competent, productive, caring and responsible citizens striving for the nation's welfare under God's divine guidance (SDCC).

Since its operation in 2004, EDSD has been performing well and its total number of students has been generally increasing, especially the enrollees in elementary level (Figure 11.3). Besides the relatively lower tuition fees and school charges compared to that of its neighboring private schools, EDSD provides quality education services using state-of-the-art technologies and facilities and to the extent possible, practices the cooperative values and principles in school and teaches co-operativism as a way of life, making it worth choosing for both SDCC members and non-members.

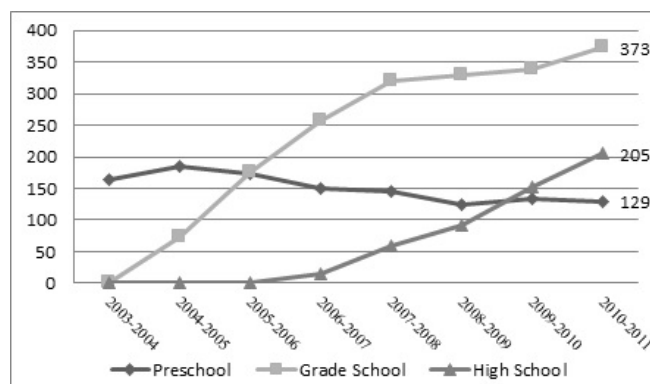


Figure 11.3. Total number of enrollees in Escuela de San Dionisio Inc., school year 2004-2011

SDCC has also been very active in participating in the Aflatoun Program, a youth program brought to the Philippines by the National Confederation of Cooperatives (NATCCO)¹ in partnership with the Aflatoun Child Social and Financial Education Organization based in Amsterdam, the DepEd, CDA, and local cooperatives. This program aims to develop young minds to be socially-aware and financially literate by teaching them the concepts and skills of social and financial education. It also seeks to maintain and increase youth participation in influencing public policy issues that are relevant to them and to the cooperative sector.

In September 2013, SDCC became a partner cooperative of NATCCO in the Aflatoun Program and since its participation, it has already launched the program in nine schools in Parañaque, which include the following: Parañaque Elementary School, Parañaque Elementary School Unit II, San Dionisio Elementary School, La Huerta Elementary School, Silverio Annex Elementary School, Fourth Estate Elementary School, Sampaloc Site II Elementary School, San Agustin Elementary School, and Col. E. De Leon Elementary School. Through the program, students have been given the opportunity to save under SDCC's child-friendly banking system and to learn the value of thrift and savings.

Another education program that SDCC supports is the Alternative Learning System (ALS) of DepEd. ALS is a ladderized non-formal education program in the Philippines, which uses a module-based learning system (DepEd 2014). It serves as an alternative to the existing formal education instruction for school dropouts, out-of-school youths, working Filipinos, people with disability, elderly, and others with no formal schooling who wish to complete elementary and secondary education. SDCC sponsors the production of different modules of ALS and actively supports the promotion of the program. It also supports the

Learning English Application for Pinoys (LEAP) Program of DOST, which aims to enhance English proficiency skills of individuals, so as to increase possibilities for Parañaque residents to grab job opportunities available in business process outsourcings in Metro Manila. Other educational activities of SDCC include conduct of teaching sessions among children during Feeding Programs, Book Drive donation projects, and Brigada Eskwela.

An additional education project established in November 2013 is the Community eCenter (CeC). CeC is a self sustaining shared facility of SDCC that provides access to information and communication technologies (ICT)-enabled services such as, education, skills training, Learning English Application for Pinoys (LEAP), government eservices, and RCPSA services. The beneficiaries of the project are out of school youth and adults, high school graduates, college students, general public and seamen. Through this project opportunities will open up for those who want to re-enter college, the formal school system and more importantly the beneficiaries will learn practical life skills to be productive members of the community.

Entrepreneurial and Livelihood Activities and Employment Service

The cooperative, being a social and business enterprise, hones the business and entrepreneurial skills of its members through its services, with the view of enhancing their income. One of the main purposes of the lending service of SDCC, particularly its productive loan, is to provide a start-up capital for members who want to engage in small-scale businesses. Complementing this service are the trainings and seminars on business and enterprise development that the Cooperative conducts for its members (e.g., business orientation, business plan and feasibility study, business risks and safety, supply chain, prices and competition, direct selling, franchising, etc.).

In terms of livelihood activities and employment, SDCC implements livelihood projects in partnership with the local government and private organizations and conducts skills development trainings in electrical, carpentry, plumbing, craft making, perfume and soap making, baking, basic reflexology, and organic and urban agriculture, among others. SDCC held a skills development program in partnership with the University of Perpetual Help College of Engineering held in March 2010 to April 2011, to promote productivity among its members, and the community as a whole, towards sustainable development. The courses — plumbing, carpentry, basic electrical services, and urban agriculture— offered in the program are free. The target participants are cooperative members, the member's spouse and children above 18 years old.

To further support its entrepreneurial members, SDCC has launched its Social Enterprise Project, which seeks to support and recognize the entrepreneurial efforts of its members. Under this project, selected members

who have successfully run a business will be accredited and will have a partnership with SDCC. The accredited businesses provide special discounts or promo to SDCC members patronizing their products and services, with the Cooperative subsidizing the discounts. With that, SDCC is able to help both the entrepreneurial members and the member-consumers. It also holds trade fairs as part of the project activities to give venue for the members to promote their products and services. Lastly, SDCC provides manpower services to help its members find a job or build business linkages outside the Cooperative. To support this, it maintains a manpower service directory of its members which contains their professions and businesses and their contact numbers for possible hiring or collaboration. It also created a business advertisement board at the main office to provide a space where members can post or advertise without additional cost their products, services, profession, and skills offered.

Healthcare Services

“Healthy members translate to a progressive cooperative.” This is the principle to which the Coop Health Care Program of SDCC is anchored. SDCC hopes to keep its members healthy through delivery of affordable yet effective healthcare services to its members and their families. Basically, the program works similar to a health insurance program, wherein the cooperative members pay a reasonable annual membership fee of PHP1,300 (with additional fees for their dependents) to have entitlement to a number of healthcare benefits. SDCC’s accredited healthcare service providers include nine clinics owned by IMS Wellth Care, Inc. (IWC) as well as hospitals and specialists that are members of the IWC Network. At present, members can receive healthcare services from at least nine IWC clinics, 300 member hospitals, and 7,000 accredited specialists nationwide. In addition, SDCC has tied up with dental clinics, lying-in clinics, and laboratories to enhance members’ healthcare access.

Another major initiative of SDCC to improve its members’ access to affordable healthcare products and services is the operation of its own pharmacy-convenience store, Botica de San Dionisio. The store offers quality medicine at a reasonable price and provides free basic healthcare services such as blood pressure check-up, blood sugar screening, and use of nebulizer apparatus to both cooperative members and non-members. Application and release of medicine or consumer loan and rice loan can also be transacted in the store for more convenience.

Social and Community Services

Guided by the cooperative principle of “concern for community,” SDCC does not only operate for the purpose of improving the quality of life of its members

but also of the communities it is serving. In its by-laws, it allocates 3 percent of its total net surplus every year for its projects and activities for community development. Among the community services provided by SDCC are medical and dental missions, blood-letting, feeding programs, donation drive (i.e., for victims of Typhoon *Ondoy*), senior citizen assistance (for SDCC members), free reflexology service, free haircut service, and conduct of skills and livelihood trainings. It also financially contributes to parish churches and foundations (e.g., The Cathedral Parish of St. Andrew, District 3830 Rotary Homes Parañaque Foundation, Inc.), which it believes will help develop a living, loving, and caring community. SDCC’s infrastructure facilities such as its PT hall, seminar rooms, and basketball court are made open for use of the public for conduct of meetings, community and family gatherings, and other social activities for a reasonable fee, if not for free.

SDCC also provides BEEF (business, employment, education and food) opportunities among its members. Its housing projects include the Mother of Perpetual Help Village in La Huerta, Coop Village in Sucat and Teoville in BF Sucat. Moreover the Cooperative participates in environmental activities such as the 2013 Manila Bay Coastal Clean-up was organized by the Manila Bay Sunset Partnership Program, Inc., which is part of the Corporate Social Responsibility program of the government-owned Land Bank of the Philippines.

Organizational and Governance Structure

According to SDCC, its success could be attributed to three major factors that build its strong foundation as a cooperative – (1) enlightened leadership, (2) good management, and (3) members’ active participation (Figure 11.4). In keeping this tripod of success, SDCC has uniquely designed its organizational structure in a way that enables itself to optimally serve its members and their communities.

With members’ active participation as one of its key success factors, SDCC maintains an organizational structure with its members as the highest policy-making body of the Cooperative (Figure 11.5). The full membership duly assembled for the purpose of exercising all the rights and performing all the obligations pertaining to the Cooperative, as provided by RA 9520 and the Cooperative’s articles of cooperation and by-laws comprises the General



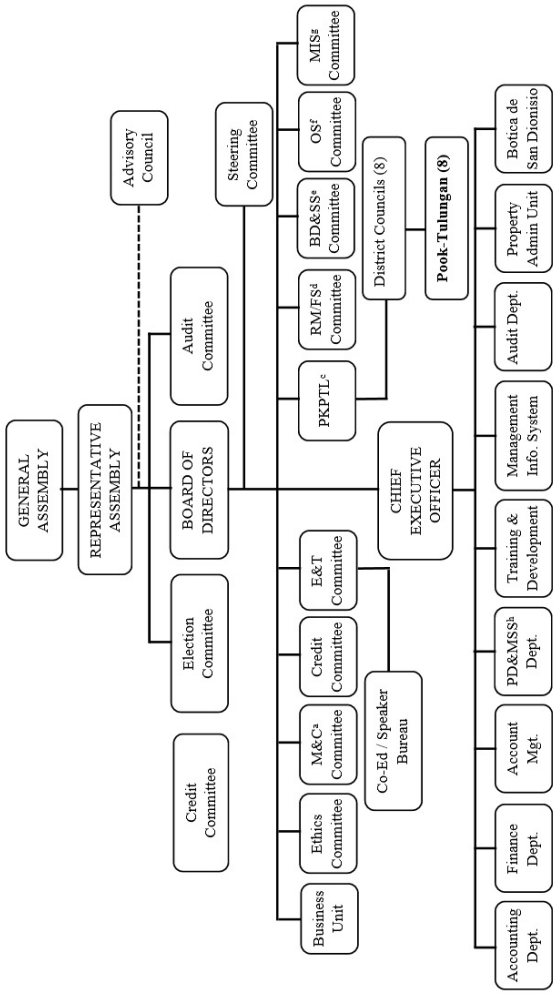
Source: SDCC

Figure 11.4. SDCC Tripod of Success

Assembly. The General Assembly conducts an annual gathering of members for the general election, where members vote the Board of Directors and Committee Heads of the Cooperative. This gathering also serves as a venue for the members to strengthen the solidarity among them through social bonding activities, hence is also sometimes called their “social assembly”.

Membership size is often blamed for decreasing democratic member control in cooperatives. As a cooperative grows, members might lose the sense of ownership of the cooperative and the management might become bureaucratic. Given the large number and geographic dispersal of the cooperative members, SDCC has also formed its Representative Assembly to make the conduct of assembly meeting easier and more inclusive.

As defined in RA 9520, the Representative Assembly refers to the full membership of the body of representative for each cooperative district elected by the General Assembly, duly assembled for the purpose of exercising such powers that the General Assembly lawfully delegated unto them in accordance with the Cooperative by-laws. Every year, it conducts a Special Representative Assembly meeting to discuss the policies, plans, and programs of SDCC and a Regular Representative Assembly meeting or what they call the “business assembly”, to discuss and hold dialogues with other SDCC officers regarding matters concerning the business of the Cooperative.



^a Mediation and Conciliation
^b Education and Training
^c Pamunuan ng Kapulungan ng Pook-TulanganLider
^d Risk Management / Financial Stability
^e Business Development and Social Services
^f Organizational Strength
^g Management Information System
^h Program Development and Member Support Services
Source: SDCC

Figure 11.5. SDCC organizational structure, 2012

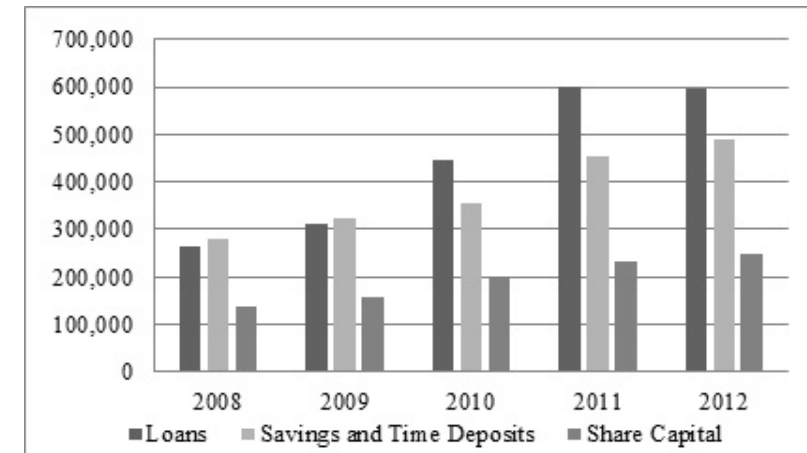
Account Management System

Another important unit of SDCC that upholds the cooperative principles of member economic participation and democratic control is its Account Management System. Under this system, the Member Relationship Management Program is implemented. Its key objectives include (1) strengthening and sustaining the relationship of the Cooperative with every member in all aspects of human development; (2) guiding members to become responsible and productive citizens; and (3) strengthening the lending program and other services of the Cooperative for its members. With its Account Management System, SDCC hopes to deepen its relationship with the members of the Cooperative. It also ensures to bring the services of the Cooperative closer to its members by expanding its “sphere of operation”. In 2012, SDCC expanded its “sphere of operation” by including more barangays within Parañaque City and Las Piñas City, establishing a satellite office in Sucat, Parañaque, and adding “modest extension offices” in Brgy. Manuyo Uno, Las Piñas City and in Brgy. Moonwalk and Ipil Site/Clinicville, Brgy. BF, Parañaque City.

From the time a person becomes a member of SDCC, the Account Management gives personalized attention to the member. In particular, an account officer is assigned to every member to give advice and assist them in managing their loans and to provide them better access to services that will boost their economic productivity, with the view of helping them improve their standards of living. In addition, there are “volunteer associate account officers” in every cooperative district or PT who support the account officers in helping SDCC members in their PT units. These officers act as the “shepherds of the members”, who monitor the accounts of the members and provide assistance, knowledge, and guidance on credit, savings, proper use and investment of money, and other related matters.

A Financial Literacy Seminar among cooperative members is also conducted to further teach them proper financial management and investment. The account officers and other member employees in Account Management are also given adequate trainings and seminars such as values formation seminars and customer service trainings to better perform their duties and responsibilities to SDCC members.

The continuous education, financial counseling, and well-implemented credit and savings programs with friendly, just, and fair policies seem to have borne fruit for the Cooperative as its loans, savings, as well as paid-up share capital have constantly increased over the years. From only PHP264.2 million worth of loans granted in 2008, the total loan releases of SDCC already reached PHP596.2 million in 2012 (Figure 11.6). The same trend is observed for savings and time deposits wherein total savings of depositors increased from PHP278.8



Source of basic data: SDCC Annual Reports, 2008-2012

Figure 11.6. Total amount of loan releases, members' deposits, and share capital (in PHP), SDCC, 2008-2012

million in 2008 to PHP490.0 million in 2012. The increase in SDCC's total share capital build-up from PHP137.2 million to PHP247.0 million during the same period also shows that besides the increase in cooperative membership, members were able to save and set aside money to contribute to their Cooperative equity.

Social Audit

The Audit Department of SDCC also plays a significant role in providing satisfactory services to the members of the Cooperative. It carefully conducts a social audit for the Cooperative based on a set of measuring tools developed by CDA. As stated in RA 9520, social audit is “a procedure, wherein the cooperative assesses its social impact and ethical performance vis-à-vis its stated mission, vision, goals and code of social responsibility for cooperatives to be established by the Authority in consultation with the cooperative sector. It enables the Cooperative to develop a process whereby it can account for its social performance and evaluate its impact in the community and be accountable for its decisions and actions to its regular members.”

In the social audit, SDCC conducts a systematic monitoring and evaluation of the practices, values, and importance and level of solidarity among its members, which also includes a review of the policies, programs, and activities of the Cooperative that affect its members. The auditing is done through a questionnaire-aided survey conducted during PT meetings. The key questions that are expected to be answered during social audit are as follows:

1. Has SDCC able to run as an organization that values its members who

- actively participate in, benefit from, and patronizes services of the Cooperative?;
2. Has SDCC continued to support the seventh cooperative principle, which is the concern for community?; and
 3. Has the activities of the Cooperative promoted development of its members and the community?.

During social audit, members are also asked about their needs and problems concerning the Cooperative. Suggestion box is also provided in SDCC offices to collect written feedbacks and suggestions from the members, which are then opened, listed and reported to the CEO of the Cooperative for appropriate actions. Based on the outputs of the social audit, the Cooperative then takes strategic actions to address the members' needs and provide them with improved service.

SDCC received a very satisfactory rating of 89.4 percent in social audit it conducted in cooperation with CDA on May 10, 2012, using the criteria of the "Pilot-Testing of the Social Audit Tool" of CDA (Table 11.2).

Table 11.2. SDCC social audit rating using CDA pilot-testing of the social audit tool, as of May 10, 2012

Areas of Consideration	Weight (%)	SDCC Rating (%)
1. Membership	30	27.4
2. Officers	10	9.0
3. Staff/Employees	10	9.0
4. Cooperation among cooperatives	20	15.0
5. Community and nation	25	25.0
6. Network, alliances and linkages	5	4.0
Total Score	100	89.4

Source: SDCC Annual Report 2012

"Place of Help" System

As SDCC membership base continues to expand over the years, it has developed an effective strategy to maintain the spirit of democracy and to ensure that members are still able to actively participate in the cooperative. In 1975, SDCC started the community-based system of "Pook-Tulungan" (PT), which means "place of help". In the PT system, the Cooperative adopts bottom-up principle of development, wherein improvement is initiated at community level based on the real problems and needs from the grassroots rather than decisions coming from the top management.

PT is the smallest organizational unit of SDCC composed of 30 to 50 cooperative members within a geographical area. Its organization allows

members' involvement in the formal decision-making process in the Cooperative and for discussing the feedbacks, issues, and concerns of the members. The power of SDCC members is rooted in the PTs. Through the PT system, the Cooperative is able to strengthen its connection with the members and the community, stimulate active member participation in the Cooperative, and promote cooperative education among the members and the community. It brings members together to help each other and grow together as one.

All SDCC members are assigned to their respective PT units. PT members meet every other month to discuss concerns of the members and other matters affecting their PT unit and the whole cooperative. Each PT unit has its own PT leaders (Chairperson and Vice-Chairperson, Secretary, Treasurer, and Auditor) who are elected for a two-year term by the PT members. The PT leaders make up the Representative Assembly of SDCC to represent their PT units in the Cooperative business assembly, where business decisions are made for the Cooperative. They also attend basic and advanced cooperative trainings and activities such as leadership seminars and cooperative tours to equip them with new knowledge and skills that are useful in performing their duties and responsibilities in their PT units. Together with all the PT members, they organize programs and projects for their PT units like livelihood activities, fund-raising programs, and savings program to help their members develop their economic capabilities. With all these activities, the PT System also serves as a good training ground for the future leaders of SDCC.

As of December 2012, SDCC has already 132 PT units with at least 650 PT leaders but still continues to further expand the development of its PT system. The PT leaders have formed the Kapulungan ng mga Pook-Tulungan Leader (KPTL), which is composed of all the PT Chairpersons to take in charge of the continuous development of SDCC's PT system. Specifically, a special unit called the Pamunuan ng Kapulungan ng mga Pook-Tulungan Leader (PKPTL) was formed, which is comprised of five elected PT Chairpersons, who sit in the Board of Directors as ex-officio members.

To summarize, the democratic system of governance of SDCC basically involves its members at three levels: (1) at PT level where voice of the members regarding their needs, concerns, and suggestions are directly heard; (2) at Representative Assembly level where members through their PT leaders participate in cooperative business decision-making and represent their interests in the Cooperative; and (3) at General Assembly level, where they practice their rights in choosing the leaders of their cooperative. At all levels, members are given access to all information about SDCC and opportunities to get involved in the operations of the Cooperative.

Staff Development and Professionalization in SDCC

While SDCC focuses on providing the best products and services to its general membership, it has never overlooked the specific needs of its member officers and employees. Recognizing their critical roles in providing the best services to its members and other clients and in attaining success as a cooperative, SDCC is more than willing to invest in its present and prospective officers and employees, primarily in terms of education, capacity development, and professionalization. This is in line with the mission of SDCC to strengthen total human development and to develop leaders and staff with the proper values, required competence, global mindset, and spirit of co-operativism. As such, SDCC through Training and Development Department and Education Committee, implements several programs and conducts series of trainings and seminars to continuously enhance the knowledge, skills, and competency of its members who are serving as officers and staff of the Cooperative.

One of the flagship programs of SDCC is the Competency-based Education Program. In this program, present and potential SDCC officers, PT leaders, and staff are given trainings to enhance their technical knowhow on their respective tasks and responsibilities. Trainings range from very basic courses such as how to conduct PT meetings and how to take minutes of meeting to more complex ones such as financial literacy. Another flagship program is the Leadership Succession Program (Council of Leaders and Career Development), which is especially designed to prepare potential future PT leaders and officers of the Cooperative through trainings so as to equip them with adequate knowledge and skills even before they assume any position and to enable a smooth turnover and flow of plans and programs of the Cooperative.

Officer and staff development is also strengthened through its Kooparalan Program or back-to-basics cooperative education to continuously inculcate in the minds and hearts of its member officers the cooperative values and principles and broaden their cooperative knowledge. In addition, a number of seminars and workshops on cooperative leadership, competency mapping, communication skills, computer skills development, to name a few, are regularly conducted by SDCC to further capacitate its members as cooperative officers and employees. Besides all these capacity development efforts, SDCC also works towards professionalizing its management system. The first step starts with hiring of management staff and employees who have adequate educational background related to their jobs and instilling in their minds that working for the Cooperative is a “career” that seeks to improve human development. As part of professionalization, SDCC is also working on effective and competitive salary scale and salary rates for its staff and employees to motivate them more in their work.

Conclusion

SDCC is just one of the many successful cooperatives in the Philippines that have put an extraordinary emphasis on members as the real measure of success of a cooperative. Holding to this ideal has shaped SDCC to become a highly member- and community-oriented cooperative that primarily works for total human development of its members. Its commitment to improve the lives of its members and their communities clearly defines that members are the main reason for SDCC’s existence. Thus, in every decision and action that it makes, SDCC ensures that members are involved in the decision-making and action implementation of the Cooperative. Its unique system of governance and management, guided by the cooperative values and principles, has allowed the active participation of its members in the Cooperative, which in turn, has honed them with the values of cooperativism and volunteerism. For SDCC, the success of its members is the success of the Cooperative. It is not about how much the Cooperative owned and earned, but rather how many lives it has changed for the better. Putting its members at the heart of everything SDCC does has indeed contributed to the Cooperative’s success.

SUMMARY

One of the unique characteristics of cooperatives is that it is organized, owned, and democratically controlled by its members. The management and operations system of cooperatives is typically characterized by having democratic governance and strong member participation. Cooperatives are associations of persons rather than an impersonal organization of capital.

This chapter features the San Dionisio Credit Cooperative (SDCC), one of the most successful cooperatives in the Philippines that clearly exemplifies a strong adherence to the principles of cooperative enterprises— (1) the user-owner principle; (2) the user-control principle; and (3) the user-benefit principle. These principles define the significant position and role of cooperative members in their organization.

The case of SDCC demonstrates how this kind of system works in the cooperative and how it contributes to its success and to the improvement of lives of its members. The important role of members in the cooperative is emphasized in the study. SDCC is a member- and community-oriented cooperative that primarily works for total human development of its members. How it provides an enabling environment for its members to fully participate in decision-making processes and to practice democracy in governing the cooperative through its programs and service is explained in detail in this case study.

Notes

1. *The National Confederation of Cooperatives (NATCCO) is a secondary type of cooperative, with primary cooperatives as direct members. NATCCO is currently the biggest federation of cooperatives in the Philippines, in terms of geographical reach, membership, financial capacity and array of services. PHCCI is a member of NATCCO Network.*
2. *SDCC expanded its “sphere of operation” by including the following additional barangays (Brgy.): Brgy. Tambo, Brgy. Moonwak, Ilang-Ilang and Sampaguita Brgy., Marcelo Green, Ipil Site/Target/Clinicville, Brgy. BF, and Brgy. Masville in Parañaque City and Brgy. Manuyo Uno in Las Piñas City*

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CHAPTER 12

A Study on Governance System in Primary Agricultural Cooperative Credit Societies in Tamil Nadu, India

KRISHNACHETTY RAVICHANDRAN

Introduction

The cooperative movement in India is one of the largest in the world. As early as 1892, the efforts for organizing cooperatives was undertaken by the then Government of Madras by appointing one of its senior officers, Sir Frederick Nicholson, to study the methods of working of Land and Agricultural Banks in European Countries, and to report how best such institutions could be adapted to Indian conditions specifically in the Madras Presidency, in order to relieve the rural people from indebtedness. Sir Frederick Nicholson after an elaborate investigation recommended cooperative credit societies on the lines of Raiffeisen societies in Germany. His Report “Find Raiffeisen” was submitted in two parts in 1885 and 1897. The Government of India circulated this Report among the Provincial Governments for consideration and action. Mean while, an officer of the Government of United Provinces, Mr. H. Duperne, published a booklet “Peoples’ Bank for Northern India”, based on the result of an enquiry conducted in that Province. These Reports attracted wide attention, as there was severe famine in different parts of the country at the end of that century.

In 1901, Lord Curzon, the Viceroy of India, referred the subject to a committee, with Sir Edward Law, the Finance Member of the Government of India, as Chairman and Sir Frederick Nicholson and Mr. H. Duperne as its members. This committee recommended the introduction and promotion of cooperative credit societies and for the purpose suggested a separate enactment to regulate and confers them with certain special privileges. Accordingly, the Cooperative Credit Societies Act was enacted on 25 March 1904. The objective of the Act was to encourage thrift, self-help and cooperation among agriculturists, artisans and persons of limited means through cooperative credit societies.

The Governments machinery devised the mechanism for implementing this legislation became to known as the ‘Classical British-Indian Pattern of Cooperation’ (Hans-H Munkner 2006) and had given structure for governance system for cooperative societies in India. Government of India repealed the 1904 Act by enacting the Cooperative Societies Act 1912 to promoted cooperative

societies in other fields of economic activities. When Cooperation became a Provincial subject under the Montague – Chelmsford Reforms in 1919, Provinces like Bombay, Madras, Bihar, Orissa and Bengal enacted their own Cooperative laws on the lines of 1912 Act.

The post independence era for cooperative Act commenced with the recommendations of all India Rural Credit Survey Committee 1954 and remained till 1990. The concept of ‘State Partnership’ as recommended by this committee gave new direction to the movement. States made amendments in their Cooperative Societies Acts and Rules, then and there to meet the recommendations of various other Committees and Commissions appointed subsequently on cooperatives². During this period, the contribution of cooperative sector to green revolution and white revolution has been felt across the country. However, in practice, the cooperative law has given enormous powers in to the officials and made the cooperatives, as quasi-government bodies. Some of the ill effects³ of cooperative law on the governance system of cooperative societies were first widely reported by Committee on Model Cooperative Societies Act 1991 (Government of India 1991).

The introduction of New Economic Policy witnessed major changes in the history of cooperative movement. The State of Andhra Pradesh took the lead in introducing the Andhra Pradesh Mutually Aided Cooperative Societies Act 1995, as parallel law. Meantime the restatement of Principles of Cooperation by the ICA in 1995, insisted the autonomous character of cooperatives. On 13th March 2002 the Union Cabinet approved the National Policy on Cooperatives, which promotes cooperatives on the lines of ICA. On 3 July 2002, the Multi-State Cooperative Societies Act⁴ came into force. The Companies (Amendment) Act 2002 came into force from 6 February 2003, which encourages cooperative form of Producers’ Companies. These trends have kindled the interests of some State Governments, which resulted in parallel law or liberal law for cooperatives. The Task Force for the Revival Short-term Cooperative Credit Structure (STCCS)⁵ 2004 recommended for separate legal framework for the STCCS (Ravichandran 2014).

Though cooperatives have made significant contribution to various sectors of national economy and achieved voluminous growth, it has shown weakness in safeguarding the interest of members and fulfilment of objects for which these institutions were organized. There have been instances where elections have been postponed indefinitely, and nominated office bearers or administrators remaining in charge of these institutions for a long time. This reduces the accountability of the management of cooperative societies to their members. Inadequate professionalism in many of the cooperative institutions has led to poor services and low productivity. Cooperatives need to run on well established democratic principles and elections to be conducted periodically in a free and

fair manner. Therefore, there was a need for initiating fundamental reforms to revitalize these institutions and strengthen their governance system so as to ensure their contribution in the economic development of the country and to serve the interest of members and public at large and also to ensure their autonomy, democratic functioning and professional management. Hence Government of India brought 97th Constitutional Amendment⁶ in 2011(<http://www.prsindia.org/> 2012) for giving Autonomy to Cooperatives. Now the cooperatives in India have now emerged as a vital segment of Indian economy and enjoy the support of 250 million members, covering all the villages and 98 percent of the rural households in the country. There are 610,020 cooperatives functioning at all levels in the country.

Governance System in Cooperatives

Good governance has been an order of the day. It has generated a lot of discussions among scholars. Governance is one of the characteristics of a management and it reflects the quality of management system. The theoretical arrangement for good governance in cooperatives is that members are expected to actively participate in setting their policies and making decisions, as cooperatives are democratic organizations controlled by member-users themselves. The management of a cooperative society is vested with the elected Board of Management (BoM)⁷ and the BoM is accountable to the General Body⁸ of members. Executives are appointed to carry out the regular work. All the transactions of the society are opened to the inspection of the stakeholders, as the supreme authority is vested with the General Body who are individual members at primary level and societies at the federal level. The role of General Body, BoM and the executives are clearly defined. The Principle of Democratic Member Control exhibits accountability, while the Principle of Member Economic Participation ensured by availing of services. The Principle of Cooperative Education, Training and Information make the transactions of cooperatives transparent. The Growth Principle promotes predictability. This governance model differentiates the cooperatives sharply from other forms of business.

Statement of the Problem

In India, Tamil Nadu is considered to be the cooperatively developed States (<http://www.ncdc.in/downloads/POA.pdf>). The policy of the State Government has always been to strengthen the cooperative societies, which is vital for the economic prosperity of the people; especially the weaker sections. The outreach of cooperatives in the State covers all sectors of the economy. Cooperative

Credit Structure in Tamil Nadu is among the oldest, having close proximity to public and have largest institutional credit delivery system in terms of reach and network (Government of Tamil Nadu 2016). Among various types of cooperatives in the credit structure, the agricultural cooperative credit structure consists of both long term⁹ cooperative credit structure and STCCS. In Tamil Nadu, the STCCS is three tier¹⁰ consisting of 4530 PACS, 23 CCBs and the Tamil Nadu State Apex Cooperative Bank. On an average a PACS covers four revenue villages. Over the years, the growth and development of PACS in Tamil Nadu is influenced by the recommendations of various Committees and Commissions appointed on cooperatives by the Government of India, RBI, NABARD and the Government of Tamil Nadu. In this background the present study titled 'A Study on Governance System in Primary Agricultural Cooperative Credit Societies in Tamil Nadu, India was undertaken with the following objectives.

Objectives of the Study

The objectives of the study were to:

1. Illustrate and discuss how does democratic governance work in sample PACS;
2. Identify the practices of PACS that keep member engagements alive; and
3. Suggest how democracy as a policy option be practiced by PACS to protect the interest of primary stake holders.

Methodology and Sampling

Survey method was followed for the study. By adopting purposive sampling method, three sample PACS from three different districts were selected across the State of Tamil Nadu (Table 12.1). Required data for this study was collected both from primary and secondary sources especially the Annual and Audit Reports of the sample PACS for the study period. Apart from these, Focus Group Discussions (FGDs) was held with the primary stakeholders to have in depth understanding on the governance system. The study covered the period from 2005-06 to 2014-15¹¹.

Results and Discussion

The concept of cooperative governance does not result in set rules that can be applied to every cooperative. Governance is process of self-defined rules influenced by the type, size, sector, geography, and philosophy of every institution. There is a common understanding that cooperative governance has to

Table 12.1. Profile of sample PACS

Sample PACS	Year of Registration	No of villages covered	No. of Members	No of Employees	No of Business Diversifications	Dividend declared	Audit Classification
Malaikudipatti (Pudukottai District)	March 30, 1971	5	6113	11	5	12	A
Kayarambedu (Kanchipuram District)	October 2, 1971	20	8674	34	4	14	A
Gobinallur (Erode District)	March 10, 1959	4	12054	9	3	14	A

permeate the entire organization and be centered on mutual senses of belonging, a shared identity, common shared values and meaningful participation of all stakeholders in the affairs of the cooperative society. The business performance of sample PACS showed that they have been financially viable and hence could be able to obtain "A" class in Audit classification. In this background, the results of FGD conducted among the select stakeholders are given below. These results exhibit the nature of governance system in PACS.

Status of Democratic Management

The General Body is the ultimate authority on all the affairs of cooperative society as per the Section 32 of TNCS Act 1983 (Ravichandran 2015). The General Body elects the members to the BoM. According to the Section 33 of the said Act, the management of every registered society is vested with the BoM.

However, the BoM of all cooperatives in Tamil Nadu were superseded as early as July 9, 1976. Elections were conducted in October 1996 (after a gap to two decades) only to primary societies and in 1997 to central and scheduled societies.¹² Again the BoMs of cooperatives were superseded on February 2, 2004. In the absence of elected BoMs, the Government appointed the officers to manage the cooperatives. The worst was the condition when a Special Officer was made responsible for more than one cooperative society. Keeping all these developments in view, the Task Force on Revival of Cooperative Credit Institutions, recommended for the restoration of democratic governance in the institutions in STCCS. Consequent to this an Ordinance was promulgated to amend the Tamil Nadu Cooperative Societies Act 1983 on October 20, 2008. The same was published in the Gazette on October 21, 2008 (Tamil Nadu Ordinance

8 of 2008). Further the Act was passed on November 14, 2008 in the Legislative Assembly and received the assent of the Governor on November 30, 2008, as Act No. 62 of 2008. To give effect to the provisions, elections to the BoM of PACS were conducted May 2013 and at present, the management of PACS are vested with the elected BoM. The number of members and its composition in the BoM of PACS is decided as per the provisions of the Act and Rules 13. The powers and functions of the BoM are defined in the Section 32 and 33 of the Tamil Nadu Cooperative Societies Act 1983, the Rules framed there under and the by-laws of the respective PACS.

The results of the FGD revealed that in majority of the cases there was close nexus between political system and elections to the BoMs of cooperatives. Also, new generation of members came to the BoM who were in majority of the cases not the primary member users and had little or no knowledge on the foundations of cooperatives and their governance system. Hence, if the cooperatives fail, either the people or the cooperative form of organization will be blamed and not the policy makers (Attwood and Baviskar 1987).

Relationship between Members and their Cooperatives

The Principles of Cooperation stresses the role of members in the affairs of the cooperatives. Evidences showed that members' participation is the essential requirement for the development of cooperative (Cooperative Initiative Panel 1988). The results of the FGD revealed that the relationship between the members and their cooperatives are decided by: (1) the level of access to the economic benefits of PACS to the members, especially the availability of loan for farm and non-farm activities due to Government's interest subventions schemes and waiving policies; and (2) the availability of other benefits under various Government schemes.

This trend stems out from the fact that over the years PACS have been conditioned to perform as delivery channels of Government schemes and programs. From this perspective, the members look the governance system of the PACS. Hence, the level of members' participation in General Body meeting and decision making processes were based on immediate economic benefits arising out of transactions held by them with their PACS. It is observed that this trend is neutral among all classes of cooperatives in the State. However, sample PACS tried to overcome these growth hinders and strengthen their governance system by adopting certain best practices.

Best Practices that strengthen the Governance System

Results of the study showed that continued PACS specific education of

members is vital for the success of PACS. Also, the governance system in PACS is strengthened by following practices:

- Through continuous dialogue the executive team facilitated the members of BoM to fully aware of their duties and responsibilities in the management of PACS;
- Clear cult division of legal responsibilities between the BoM and the Executive Management were set for bringing accountability and responsibility and were also made known to all stakeholders; and
- Different strategies have been developed and practiced for cooperative education and information, so as to ensure the participation all stakeholders and maintaining transparency in transactions.

Apart from the above, the paid executive team of sample PACS adopted certain other best practices that keep members engagement alive and strengthen their governance system. These include:

- Dissemination of information on the functions of PACS through bulletin boards periodically;
- Maintaining of books and records systematically and maintaining transparency in transactions;
- Dovetailing benefits under various Government schemes and link with the products of PACS and make the members to get benefits under various Government schemes;
- Good Public Relations with village opinion leaders, Government Departments and other stakeholders for the development of PACS
- Continuous training of employees on various aspects of management of PACS;
- Diversifying the business of PACS so as to meet the emerging needs of members and others in the village; and
- Continuous thirst on maintaining tradition and quality in the services

However, the drivers of good governance were from executive team and not from the members of BoM. This is due to the fact that the status of cooperative democracy to PACS has been restored only recently. Hence, the nature of cooperative management and democratic process are new to the members and members of the BoM. But at the same time wherever the members of executive team were trained, motivated and brought up under cooperative culture, they facilitated the members of General Body and BoM to deliver their duties and responsibilities as per the set rules and more specifically as per the traditional moral standards in the locality. Further, it has been learned that the existence of role conflict among the stakeholders – members, members of BoM and executive team – has been the major factor which weakens the governance system of some of the PACS in the State.

Conclusion

The Principles of Cooperation 1995 states that Cooperatives are autonomous and independent entities. Hence, the primary member users of these institutions should be facilitated to function democratically and run the business as per the set rules and standards. But with a century of experience, majority of the PACS in Tamil Nadu have not improved their governance system as the State continuously decides the style of functioning of PACS and made the PACS to remain as the channel to deliver its schemes and programs to the public.

At the same time PACS that are financially viable and continuously meet the demands of the primary stakeholders stood as model with good governance system. The drivers for good governance in these PACS came from the executive team and not from the members of BoM. Hence, the primary challenge for governance in PACS remains as to how the balance between principle of democratic control and the importance of professional management to be maintained to safeguard the interest of primary member – users by explaining the role clarity of different stakeholders. The Government as the first official promoter of the cooperative movement should look in to these governance challenges and further facilitate the PACS to function as democratic institutions that are owned, operated and controlled by only the primary user - members of the services of the PACS as enunciated by the Principles of Cooperation.

SUMMARY

Good governance is a pre-condition for sustainable development. However, very little attention has been paid to study the governance system of Cooperatives. More specifically, the challenges faced by cooperatives in their governance system are yet to be addressed. Governance in PACS permeates the entire organization. It is not restricted to Boards of Management alone. In this context, this chapter attempts to find answers to the question “How does system of democratic governance work in sample PACS in Tamil Nadu?”. The study revealed that the central challenge for governance in PACS remains as to how the balance between principle of democratic control and the importance of professional management be maintained to safeguard the interest of primary member – users.

Notes

1. Hans-H Munkner (2006) argued that the Cooperative Credit Societies Act 1904 enacted in India was tested first in India as an experimental legislation and applied in South Asia (Burma / Myanmar, Ceylon / Sri Lanka), spread in Africa in 1930's and after the second world war it was recommended to the Governments of all British dependencies as a Model Ordinance, supplemented by Model Rules. It even influenced the French Colonial Cooperative Degree of 1955. As a model, it became one of the first global laws.
2. The other important Committees and Commissions appointed on cooperatives during this period were Committee on Cooperative Law 1957, Vikunth Lal Mehta Committee on Cooperative Credit (1960), Committee on Cooperative Administration (1963), Mirdha Committee on Cooperation (1965), the Working Group on Cooperative Administrative Reforms Commission (1967), the Committee on Integration of Cooperative Credit Institutions (1976) Committee to Review the Arrangements for Institutional Finance for Agriculture and Rural Development (1981), Agricultural Credit Review Committee (1986) and Committee on Cooperative Law (1987).
3. The ill effects of cooperative law on the governance system of cooperative societies, as reported by Committee on Model Cooperative Societies Act 1991, were (1) Compulsory Amendment of byelaws by the Registrar, (2) Nomination to the Committee of Management, (3) Power of Government to Veto, Annual / Rescind Resolutions, (4) Power of Registrar / State Government to give directives, (5) Supersession / suspension of Committee of Management, (6) Restrictions on Term of Office or Office Bearers of Cooperatives, (7) Compulsory Amalgamation and Division of Societies by the Registrar and (8) Compulsory Audit by the Registrar.
4. Those cooperative societies which are having the object of serving the interest of members in more than one State and registered under Multi-State Cooperative Societies Act 2002 are called as Multi-State Cooperative Societies.
5. The Task Force for the Revival of STCCS was constituted by the Government of India under the Chairmanship of Prof. A.Vaidyanathan in August 2004. The institutions covered under STCCS are PACS, Central Cooperative Banks (CCBs) and State Cooperative Banks (SCBs). Based on the Statement of Consensus, the Revival Package prescribing the financial, legal and institutional measures for restricting of the STCCS were prepared and circulated among the States. The Revival Package was aimed at reviving and rejuvenating STCCS and makes the structure a vibrant member centered institutions by: (i) providing financial assistance to bring the institutions in the STCCS to an acceptable level of financial health (ii) introducing legal and institutional reforms necessary for the democratic, self-reliant and efficient functioning of STCCS, and (iii) taking other appropriate measures to improve the quality of management. The Task Force considered that all the three components of the Revival Package are equally important. Hence the Government of India treated and implemented this Revival Package as an Integrated Package.
6. For giving Autonomy to Cooperatives. Part IX B – Articles 243 ZH to ZT – The Constitutional Amendment Bill was first introduced by the Government of India in 2006, and referred to the Standing Committee on Agriculture, and again introduced in Parliament on November 30th 2009 and was passed on December 28, 2011.

7. *BoM is the governing body of a registered cooperative society to which the direction and control of the management of the affairs of the society is entrusted.*
8. *According to Section 32 of the Tamil Nadu Cooperative Societies Act 1983 General Body is the ultimate authority in the management and administration of the affairs of the co-operative society. It is composed of primary user members who are entitled to vote. The general body holds at least one meeting a year.*
9. *The Long Term Cooperative Credit Institution in Tamil Nadu consists of the Tamil Nadu Cooperative State Agriculture and Rural Development Bank and 180 Primary Cooperative Agriculture and Rural Development Banks at Taluk /Block levels.*
10. *The STCCS functions as a three tier structure in 16 States i.e., PACS, CCB and SCB; while in 13 smaller States and Union Territories, PACS are directly affiliated to the SCBs and the STCCS functions as a two tier structure. In three States, a mixed structure, i.e., two tiers in some districts, and three tiers in the other districts operates.*
11. *This study is not far from limitations. One of the most important limitations is that the status of cooperative democracy to PACS has been recently restored after a period of three decades due to various political reasons in Tamil Nadu. Hence the nature of cooperative management and democratic process were new to the present generation of stakeholders. The perceptions of these stakeholders on the governance system of their PACS were based on the economic advantage realized by them through their business transactions with their PACS. Further, only financially viable PACS alone were identified and responses were enlisted from stakeholders. However, this has not affected the purpose of this study and its logical presentation.*
12. *Primary societies mean registered societies but do not include an apex society or a central society. Central societies means a registered society whose area of operation is confined to a part of the State of Tamil Nadu and which has as its principal object the promotion of the principal objects of and the provisions of facilities for the operations of other registered societies affiliated to it and classified as a central society by the Registrar of Cooperative Societies. Scheduled cooperative society means any registered society specified in Part A or Part B of the Schedule to this Act.*
13. *The members to BoM of PACS are elected from the members of General Body consisted of 2 representatives from Schedule Caste / Scheduled Tribe community, 3 women and the remaining 6 members from the general category totaling of 11 members.*

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CHAPTER 13

Organizational Capacities of Selected Cooperatives in the Upland Areas of Nueva Vizcaya, Philippines

CRISTINA R. SALVOSA

Introduction

The province of Nueva Vizcaya is in the heart of Northern Luzon. It is one of the five (5) provinces of Region II and one of the four (4) mainland provinces of the region. It is the third largest province in the Region in terms of area with 14.55 percent share of the regional area. It is geographically located at the southernmost part of the Region and is regarded as the gateway to Cagayan Valley.

With the establishment of the Nueva Vizcaya Agricultural Terminal (NVAT) along the National Highway in Bambang, Nueva Vizcaya, production of vegetables increased. Accordingly, Nueva Vizcaya is one of the top producers of tomato, beans, squash, and ginger, in the country as shown in Table 13.1. However, the income of farmers is claimed to be low with poor marketing system, inadequate pre-and post-harvest facilities, poor access and high cost of credit since they lack the needed capital to finance their farming activities. Price of vegetables is often dictated by middlemen dominating the operations of the NVAT (DAR 2012). With this situation, the provincial government and other national agencies had been looking for cooperatives as one of their partners in addressing these issues.

Table 13.1. Comparative production volume of selected vegetables (in MT)

Vegetables	Nueva Vizcaya	Cagayan Valley	Philippines
Tomato	658.00	872.55	16,742.27
Habitchuelas	560.00	588.65	3,353.76
Squash	1,210.00	2,137.21	12,756.98
Ginger	220.00	429.75	3,501.50

Objective of the Study

The study aims to assess the organizational capacity of selected cooperatives in the three upland municipalities of Nueva Vizcaya in terms of human resource,

policy, systems and procedures, access to credit and market, governance, fiscal resources and existing enterprises operation to develop, establish and manage new agri-enterprises.

Methodology

Eight cooperatives from three upland municipalities of Nueva Viscaya were the subject of this study. These included the municipalities of Dupax del Norte, Kasibu, and Kayapa. These have mountainous terrain with fertile land and favorable climate suited for agricultural production. The cooperatives included in the study were: Conwap Valley Cooperative, Giyan Credit Cooperative, and St. Joseph Parish Balance Cooperative in Dupax del Norte; St. Patrick Multi-Purpose Cooperative, Kasibu Farmers Development Cooperative, and Marigold Savings and Credit Cooperative in Kasibu; and Pingkian Community Development Cooperative and St. Joseph Parish-Kayapa Multi-Purpose Cooperative in Kayapa.

Focus group discussions (FGDs) and key informant interviews (KIIs) were used to gather the data needed in the study. FGDs were conducted among officials and management staff of the cooperatives, respective municipal officers, and other officials of national agencies. On the other hand, KIIs with farmers-members and other officials of the cooperatives and local government unit (LGU) officials not included during the conduct of FGDs were used to supplement the data gathered from the FGDs. Actual visits and personal observations of the sites, cooperatives and its operations, secondary data gathering and the conduct of validation workshops were also done.

Results and Discussion

Organizational Capacities of Cooperatives

The selected cooperatives had formulated their own vision, mission and goals (VMGs) which were approved by the general assembly. Signages and billboards indicating the VMGs were posted inconspicuous places. The VMGs were also discussed during the pre-membership seminars as part of the introduction of the cooperative to the potential members. However, the VMGs are written in English and may not be well understood by all the members. Statements are very long, vague, and not properly stated especially the objectives.

Annual plannings were done by the cooperatives to set their targets and to determine if they have achieved their set goals. Various programs and projects that were implemented during the year were reviewed and were considered in

planning for the projects and activities for the succeeding year. The officers were very much aware of their specific roles and responsibilities and all members were informed of such as stipulated in their respective constitution and by-laws. Tenure of officers is well defined and understood. The smaller cooperatives such as the Giyan Credit Cooperative (GCC) and Marigold Savings and Credit Cooperative (MSCC), although subscribed to the Cooperative Development Authority (CDA) requirements were not able to complete their set of active officers.

Based from the FGD and annual reports, majority of members of the cooperatives were active as shown by their growth of assets, payment of dues and participation during the general assembly. It was also a plus factor that officers and managers are committed to improve themselves by attending to mandated trainings of CDA (Table 13.2).

Table 13.2. Training requirements for the officers of the cooperative

Officers	Training
1. Board of Directors	Basic Cooperative Course Cooperative Management and Governance Policy Development Financial Management Conflict Management Parliamentary Procedure Leadership and Values Re-orientation Strategic Planning Orientation on Labor and Other Related Laws
2. Secretary	Basic Cooperative Course Records Management for Non-Financial Transaction Parliamentary Procedure Basic Computer Program
3. Treasurer	Basic Cooperative Course Records Management (Financial Transaction) Basic Accounting for Non-Accountants Cooperative Standards Investment and Banking Procedures Financial Management
4. Audit Committee	Basic Cooperative Course Audit Management Records Management Basic Accounting for Non-Accountants Cooperative Standards Internal Control including Inventory System
5. Election Committee	Basic Computer Program Basic Cooperative Course Records Management Rules Formulation Leadership and Value Re-orientation Basic Computer Program

Table 13.2 continued...

Officers	Training
6. Ethics Committee	Basic Cooperative Course Leadership and Value Re-orientation Conflict Management Records Management Basic Computer Program
7. Meditation/Conciliation Committee	Basic Cooperative Course Leadership and Value Re-orientation Conflict Management Records Management Effective Communication Basic Computer Program
8. General Manager/Chief Executive Officer	Basic Cooperative Course Cooperative Management and Governance Cooperative Standards Human Resource Management Effective Communication Skills Entrepreneurial and Business Management Course Labor and other related Laws Leadership and Values Re-orientation Computer Literacy Course Strategic Planning and Management

The bigger cooperatives had a system of member recruitment and pre-membership seminars were conducted regularly every month. The smaller cooperatives have slower growth in terms of membership due to the fact that there are bigger and more well-known cooperatives in their areas of operation. During general assemblies and BOD meetings, decisions and policies were made; and approved through BOD resolutions and confirmed during the annual general assemblies. All the cooperatives have no past due loan with any financial institutions (FIs). In fact, some of the cooperatives avoided loans and even the small cooperatives, (GCC and MSCC) have no financial obligations because of their fear of credit risks. Pingkian Credit and Development Coop and St Joseph Parish Balance MPC have existing loans but paid on time. Other cooperatives have also existing credit lines but did not avail them.

In terms of networking and participation in community affairs, all the cooperatives have been beneficiaries of Non Government Organizations (NGOs) and Government Agencies (GAs) projects. They were also very active in participating to government activities and projects. All of them sit in municipal and barangay development councils. Aside from their participation in LGUs and community affairs, they are members of cooperative federations. All the cooperatives were organizationally capable to manage their present businesses and services. However, some of the BODs and managers still lack the mandated trainings of the CDA to improve their capacities and skills to manage the present programs, businesses and services of their respective cooperatives.

Assessment of the Cooperatives' Capabilities to Implement Agri-enterprises

Based on the internal and resource assessment of the respective cooperatives, several potential agri-enterprises may be established by cooperatives, as shown in Table 13.3.

Table 13.3. List of potential agri-enterprises of the cooperatives

Cooperative	Agri-enterprise
Conwap Valley Cooperative	Farm input Trading and Ginger tea Processing
Giyon Credit Cooperative	Bagsakan Center
St. Joseph Parish Balance Cooperative	Squash Dried Noodles and Organic Fertilizer Production
Kasibu Farmers Development Cooperative	Organic Fertilizer Production
Marigold Savings and Credit Cooperative	Ginger and Tomato Processing
St. Patrick Multi-Purpose Cooperative	Squash Flour Processing
Pingkian Credit and Development Cooperative	Vegetable Trading Post Operation
St Joseph Parish MPC Kayapa	Vegetable Trading

The cooperatives' organizational capacities to implement the above agri-enterprises were then assessed based on the criteria listed in Table 13.4.

Table 13.4. Criteria used to assess the cooperatives organizational capacities to implement agri-enterprises

Criteria	Assessment
Level of knowledge of the coop to potential enterprises	The cooperatives had insufficient knowledge and expertise to initiate the said enterprises
ARBO's current level of information about potential agri-enterprises	These agri-enterprises were their initial ventures, therefore their levels of information were low.
Details of production technology being adopted by the coops	The proposed agri-enterprises of the coops were mostly on processing and marketing of the products. In Nueva Vizcaya, farmers were updated with production technologies, in general.
Factors that inhibits the coops from venturing into the enterprise of its interest	<ul style="list-style-type: none"> • Lack of expertise on processing technologies • Inadequate capital to buy hauling trucks to market • Lack of market information including price, supply and demand situation of vegetables • Competition with existing processors • Coops were not familiar with processing technologies
Sources of the coops' uncertainties to venture into the enterprise of its interest	<p>The sources of coops' uncertainty especially in the operation of trading post and 'bagsakan' center include the following:</p> <ul style="list-style-type: none"> • Lack of infrastructure especially telecommunication and electricity in some areas in Dupax del Norte • Competition posed by NVAT which is very near to proposed Pingkian Trading Post and more accessible to both farmers and traders.
Financial risks involved in the agri-enterprise	Based from the information and discussion, the risks were more on the market side. Although, they may encounter financial risks like price fluctuation, it is still associated with the market movement.
Existing financial obligations of the coops	Although some of the cooperatives have existing financial obligations/loans from financial institutions, these will not affect the establishment of the proposed agri-enterprises since they required smaller initial investment.

Table 13.4 continued...

Criteria	Assessment
Type of records that prove the creditworthiness of the coops	All the cooperatives possessed audited financial statements except for the two smaller cooperatives.
Description of the product/s being marketed	For the coops interested in food processing, these products are saleable because they are alternative to junk drinks and foods and therefore healthier and nutritious. The squash flour, noodles, ginger tea and dried tomatoes which can be converted to candies and condiments depending on preparation are potentials. However, market competition with existing processors has to be studied and considered.
Target market segment of the agri-enterprise	The production of organic fertilizer is a commendable project since it will lead to sustainable agriculture. If found to be feasible and sustainable, this project may be replicated in Kayapa and in other vegetable producing areas of the province. The coop can sell directly to the customers/members through their agri-input stores which are accessible to members. The cooperatives may also sell their products through their federations both in retail and wholesale bases depending on their agreements as their middlemen; in this manner coop to coop marketing will be established.
Possible gaps that may arise in the operation/production, processing and marketing of the products	For the processing of vegetables: <ul style="list-style-type: none"> • Production- continuity of supply of raw materials • Processing-waste management of trimmings and processing waste of the raw materials, processing technologies, facilities and equipment to be utilized in the processing specifically the capacity. • Competitiveness of the product with existing brands and other competitive products. • Product taste and consumer acceptability. For the operation of trading post and Bagsakan center: <ul style="list-style-type: none"> • Lack of infrastructure- telecommunication and electricity in Dupax del Norte is a hindrance. The use of renewable energy like solar PV may be worth exploring • Presence of other well-known and more accessible trading center (NVAT) in the province

Conclusions and Recommendations

Based on the foregoing assessment, the proposed agri-enterprises will be viable if all the required assistance and support especially during the start-up stage shall be provided. These cooperatives are established financially and organizationally stable and therefore will be able to manage the proposed agri-enterprises with the assistance of the agencies; local and national and the respective municipal local governments.

The projects identified will boost the local economy of the province and at the same time provide job opportunities. The projects shall promote sustainable farming which is actually the call of our national and local governments. The agri-enterprises: vegetable processing, organic fertilizer production and trading post and or Bagsakan center are actually complementary.

Since the projects identified are the initial ventures of the cooperatives, they

have to be technically prepared in handling the business aspects of the proposed agri-enterprises.

The two smaller credit cooperatives; GCC and MSCC have to first comply with CDA regulations and seek advises from pertinent agencies if they can venture to these special projects aside from the approved services they currently provide to their members. It is advised that they have to strengthen first their organizational structure before venturing into new businesses.

The following are the recommended steps to be undertaken:

1. An initial meeting with all the stakeholders (cooperative officers, management and representatives from members) may be conducted to explain the proposed business. Representatives from the different sectors may be invited; from the Municipal cooperative Development Council (MCDC), local NGOs, Provincial Cooperatives Affairs Office, National Government Agencies (NGAs), and cooperative federations operating in the respective area.
2. A feasibility study for the above agri-enterprises should be prepared. The FS should spell out the marketing study, production and or technical process, organizational and management aspect and financial requirements of the proposed enterprise. The operational aspect, specifically the capacity of the cooperative to handle food processing business has to be carefully studied. Although there is a market for squash flour, its competitiveness to existing substitute products must be considered. Organic fertilizer production is being advocated by the provincial government, thus it is an advantage for the Kasibu Farmers Development Cooperative.
3. A techno-mission to any private or cooperative managing same business is proposed. This could also give them background in managing the business.
4. The cooperative may look into partnership with government agencies specifically during the start-up stage for technical and market assistance.

SUMMARY

Cooperatives carry a special purpose in helping disadvantaged groups in a society to obtain greater influence in market transactions by improving the purchasing power of the members and by providing cost advantage through elimination of unnecessary middlemen. Utilizing the DAR Organizational and Enterprise Needs and Design Assessment Tool as an assessment framework, the capacities to develop and establish agri enterprises of eight cooperatives from three upland municipalities of Nueva Viscaya were assessed in this study. Results revealed that the selected cooperatives have diverse and wide ranging characteristics in terms of membership, financial capability, experiences in cooperative governance and in starting and managing agri-based enterprises.

In the municipality of Kasibu, St. Patrick Parish MultiPurpose Cooperative and the Kasibu Farmers Development Cooperative were found to be more organizationally matured and financially capable to manage vegetable processing and organic fertilizer production respectively compared to the Marigold Savings and Credit Cooperative. On the other hand, the Conwap Valley Cooperative, Giyan Credit Cooperative and St Joseph Parish Balance Cooperative in Dupax del Norte have identified trading post operation, farm input trading and vegetable processing, respectively, as new agribusiness enterprise. However, the St. Joseph Parish Balance Cooperative is found to be more organizationally matured and got more business experience in managing agri-enterprises.

Lastly, the two cooperatives in the municipality of Kayapa namely: the Pingkian Community Development Cooperative and the St. Joseph Parish-Kayapa Multi-Purpose Cooperative chose to operate vegetable trading post. Both cooperatives were found to be capable to operate the trading post.

Since these are new business ventures, it was recommended that the cooperatives perform the feasibility studies of operating these agribusiness enterprises considering the markets, sources of facilities and raw materials and the required technical skills and capital requirements.

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Part IV

Financial Viability and Performance of Cooperatives

CHAPTER 14

Sustainability of Oro Integrated Cooperative, Cagayan de Oro City, Philippines

WILSON C. BATION

Introduction

Any organization tries its best to perform well in every endeavour to sustain its operations. The aim of this study was to look into the sustainability of OIC in Cagayan de Oro City from 2009 to 2014. One of the indicators of sustainability is the financial performance of the firm or cooperative. Performance is the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. Credit cooperatives use different strategies in order to survive, continue its existence, and guarantee its sustainability. There are no other roads in and out of the village except for one major road.

A strategy is a high level plan used to achieve one or more goals under conditions of uncertainty. The strategic plan execution may include programs or projects, key result areas, policies or procedures, and budget (Bitonio 2011). In this study, the term sustainability is defined as the capacity to cover all expenses by a cooperative's revenue and to generate margin to finance its growth. It is the capacity to carry out the cooperative activities without the need for subsidies in the form of loans or donations. True sustainability involves thinking not only about environmental resources but also about employees, customers, community, and the company's reputation (Heiner and Render 2014).

In the Philippines, government and non-government leaders emphasize that the cooperative movement in the country must be transformed into a Filipino way of life as the most peaceful and democratic springboard to economic progress. The first cooperative in the Philippines was the Agricultural Marketing Cooperative which the national hero, Dr. Jose Rizal, had organized in Dapitan while on exile in 1896 (Gapes 2011).

Cooperative is the most effective weapon to attain unity, fight poverty, achieve peace and order, and enhance sustainable growth and development. Considering the concept of poverty, cooperativism has an important role to play in the alleviation of poverty. Cooperatives are organized to serve their members by providing them the goods and services they need at a cost. A cooperative is a business enterprise in which the elements of ownership, control, and service are united in one group of persons (Laidlaw 1974).

In Cagayan de Oro City, it was observed that credit cooperatives applied good business management and administration, concern for members and cooperation, and good leadership for its survival and sustainability. These cooperatives continued their experiences in facing tremendous challenges which contribute to their strong commitment in advancing economic and social development to its members. They also remain active in creating employment and in helping reduce poverty in the country. In sustaining rural livelihood, sustainability of credit provisioning operations is highly essential. It assumes more significance in the case of developing nations with low per capita income and high level of poverty (Pati 2009).

OIC is one of the leading credit cooperatives in Cagayan de Oro City. It is trying its best to become a strong cooperative not only in the city but also in Mindanao and Visayas. The rural and urban areas in Cagayan de Oro are largely disconnected. OIC is one of the credit cooperatives which connect the areas and the people through loan products and other services. OIC was organized by 28 founding members in 1966 with a PHP88.00 start-up capital and was first registered as Oro Credit Union. It was then established as the first open-type“ community based ”cooperative in Mindanao under the name, Oro Integrated Cooperative. OIC was registered with the Cooperative Development Authority (CDA) pursuant to Republic Act (R.A.) No. 6938 on February 5, 1991 with Registration No. 309.

The aim of this research was to look into the sustainability of OIC in Cagayan de Oro City from 2009 to 2014. Specifically, it determined the: (1) historical background of the cooperative with regard to its initial capitalization, membership growth, and management on financial operations; (2) financial performance in terms of its assets, loan releases, deposit liabilities, share capital, net surplus, delinquency rate, and dividend rate; (3) stability ratios – solvency and liquidity; and 4) members’ perception on the sustainability of OIC.

Methodology

Descriptive research design was used in this study to describe the sustainability of OIC. It used secondary data from the annual report and online sources. To supplement the secondary data, interviews were conducted with 25 co-op members. These interviews were conducted outside of the OIC branch.

Table 14.1 shows the distribution of respondents by branch. Four to five respondents were interviewed per branch. A researcher-made interview guide was used to gather information about the respondents and the co-op. Interviews were conducted in the following branches: Agora, Bulua, Carmen, Cogon, Puerto, and Yacapin, all in Cagayan de Oro City.

Table 14.1. Number of interviewed respondents per branch

OIC Branch	OIC Members	Percentage
Agora Branch	4	16
Bulua Branch	4	16
Carmen Branch	4	16
Cogon Branch	4	16
Puerto Branch	4	16
Yacapin Branch	5	20
Total	25	100

Frequency tables were prepared to show the profile of the respondents and the financial performance of the cooperative. To facilitate quantification, responses pertaining to the cooperative members’ perceptions on sustainability of the cooperative were recorded and interpreted using the five-point Likert scale (Table 14.2).

Table 14.2. Five-point Likert scale

Score	Range	Interpretation
5	4.60 – 5.00	Strongly Agree
4	3.70 – 4.59	Agree
3	2.80 – 3.69	Undecided
2	1.90 – 2.79	Disagree
1	1.00 – 1.89	Strongly Disagree

CDA set the performance standard for Savings and Credit Cooperatives (SCC), that is, the COOP-PESOS rating. COOP is an acronym for Compliance, Organization, Operations and Governance, Plans/Programs and Performance. The word PESOS means Portfolio Quality Ratios, Efficiency Ratios, Stability Ratios, Operations Ratios, and Structure of Assets Ratios.

This COOP rating measures the compliance to legal and administrative requirements as well as effective governance and the PESOS rating measures the financial performance of the credit cooperatives. By COOP-PESOS rating, CDA was able to assist and ensure the protection and safety of the cooperative members’ money. CDA also determined the soundness of operations of credit cooperatives in order to give guidance and assistance to the co-ops. The equivalent rating or scoring system is presented in Table 14.3.

This study used some selected ratios to have a deeper understanding of the financial performance and sustainability of OIC such as stability ratios and liquidity ratios.

Table 14.3. CDA scoring system

Score	Rating
1- 90 to 100	Excellent
2- 80 <90	Very Good
3- 70 <80	Good
4- 60 <70	Fair
5- Below 60	Poor

Stability ratios comprise of solvency and liquidity. Solvency in finance refers to the degree to which the current assets of an entity exceed the current liabilities of that entity. Under solvency, the focus items are debt-to-assets, debt-to-equity, and equity-to-debt ratios. The debt-to-assets ratio indicates what portion of total assets is provided by creditors. Debt-to-equity ratio measures the proportion of borrowed capital to invested capital. Mathematically the ratios can be computed as follows:

$$\text{debt-to-assets ratio} = \text{total liabilities} / \text{total assets}$$

$$\text{debt-to-equity ratio} = \text{total liabilities} / \text{owners' equity}$$

$$\text{equity-to-debt ratio} = \text{owners equity} / \text{total liabilities}$$

Liquidity refers to a firm's ability to satisfy its short-term obligations as they due. It is measured by current ratio and current assets to total assets, which are defined as,

$$\text{current ratio} = \text{current assets} / \text{current liabilities}$$

$$\text{current assets to total assets} = \text{current assets} / \text{total assets}$$

Results and Discussion

Membership Growth

Table 14.4 shows the membership growth from 2009 to 2014. From year 2009 to year 2014, there was a continuous increase in membership of OIC. From the interview, the membership target for 2012 was set at 86,816. The cooperative was not able to achieve this target and only reached 85,778 members in the said year. However, the increase is still commendable, with a growth of 26 percent from 2011 membership. The increase in membership was mainly due to increasing need for financial assistance (e.g., loan) of the city residents. The cooperative salary loan borrowers increased by almost 100 percent in 2012.

Table 14.4. Membership growth of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Members	43,351	54,951	67,956	85,778	104,069	121,913
Numerical Increase		11,600	13,005	17,822	18,291	17,844
Percentage increase		26.76	23.67	26.23	21.32	17.15

Financial Performance

The management of OIC is responsible for all the information and representations contained in the financial statements such as Statement of Financial Conditions (Balance Sheet), Statement of Operations (Income Statement), and Cash Flow Statements. The financial statements have been prepared in conformity with the Financial Reporting Standards applicable to cooperatives registered with CDA and reflect amounts that are based on the best estimates and informed judgment of management.

The management also maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Board of Directors review the financial statements before such statements are approved and presented to the members of the Cooperative. The OIC Management includes the Auditor's Responsibility in expressing an opinion on the financial statements based on their audits in accordance with the Philippine Standards on Auditing.

An entity needs cash, equipment, and other resources in order to operate. These resources are its assets. Assets are valuable resources owned by an entity (Anthony 2011). These are economic resources, such as inventory owned or controlled by the firm as a result of past transactions (Garovillas 2009).

There are also accounts peculiar to the cooperative such as Cash in Cooperative Federation, Due from Accountable Officers and Employees, and other Funds and Deposits. The major component of the asset growth from 2010 to 2011 were the increases in deposit liabilities and share capital of the cooperative. Since 2009, the amount of assets of OIC had an increasing trend up to 2014 and the cooperative experienced a greater percentage increase in 2012, equivalent to 37.63 percent (Table 14.5).

Loan is an act of lending or something lent on condition of being returned, especially a sum of money lent at interest. Loan amortization is the determination of the equal periodic loan payments necessary to provide a lender with a specified interest return and to repay the loan principal over a specified period (Gitman 2013). Table 14.6 shows that from 2009 to 2014, there was a continuous increase of loan releases. Loan releases in 2012 of OIC surpassed their target by 18 percent. The bulk of loan releases were used for commercial, financing, salary,

and agricultural purposes. Most of the branches that overshot their loan targets were from the rural areas particularly in Bukidnon province. The demand for loan in the new branches was more than three times higher than their loan budget.

Table 14.5. Assets growth (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Assets	564,099,214	737,099,214	963,878,770	1,326,601,088	1,724,946,593	2,187,355,636
Amount		173,000,000	266,779,556	362,722,318	398,345,505	462,409,043
Increase						
Percentage		30.67	30.77	37.63	30.03	26.81
Increase						

Table 14.6. Loan releases (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Loan	766,338,553	911,059,218	1,147,522,555	1,539,453,630	1,724,946,593	2,098,055,431
Releases						
Amount		144,720,665	236,463,337	391,931,075	185,492,963	373,108,838
Increase						
Percentage		18.88	25.95	34.15	12.05	21.63
Increase						

The acceleration in loan growth had led eventually to a surge in loan losses, reducing bank profits and sparking a new round of bank failures. The view that faster loan growth leads to higher loan losses should not be dismissed lightly; nor should it be accepted without question (Keeton, 1999).

Deposit means to place for safekeeping or in trust or to place into a banking institution or cooperative for safekeeping. Liabilities are obligations of the entity. The OIC's deposit liabilities include the savings, time deposit, and special deposits. Table 14.7 shows that a significant increase in deposit liabilities came from the regular savings and time deposits. Ward and McKillop (2005) and Goddard and Wilson (2005) reported higher growth and better financial performance for credit cooperatives with many members. For OIC, membership continued to grow from 2009 to 2014. This therefore implies an increase also of deposit liabilities.

Table 14.7. Deposit liabilities (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Deposit	253,592,079	335,827,831	435,115,903	612,769,986	782,344,670	971,452,274
liabilities						
Amount		82,235,752	99,288,072	177,654,083	169,574,684	189,107,604
increase						
Percentage		32.43	29.57	40.83	27.67	24.17
increase						

OIC's share capital also significantly increased from PHP305 million in 2011 to PHP417 million at the end of 2012 (Table 14.8). The increase of more than PHP100 million came from the increase in Common Shares by PHP80 million and preferred shares by PHP20 million.

Table 14.8. Share capital (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Share	190,870,843	238,008,092	305,591,801	417,176,696	552,330,229	728,268,132
capital						
Amount		47,137,249	67,583,709	111,584,895	135,153,533	175,937,903
increase						
Percentage		24.70	28.40	36.51	32.40	31.85
increase						

Despite the two typhoons, Sendong and Pablo calamities in the city experienced by OIC for two consecutive years, the cooperative net surplus grew from PHP72 million in 2011 to PHP94 million in 2012, PHP124 million in 2013, and PHP136 million in 2014 as shown in Table 14.9.

Table 14.9. Net surplus (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Net	41,471,492	57,175,888	72,187,189	94,623,911	123,885,839	136,108,172
Surplus						
Amount		15,704,396	15,011,301	22,436,722	29,261,928	12,222,333
Increase						
Percentage		36.59	26.25	31.08	30.92	9.87
Increase						

The average increase per year was 31 percent except in 2014 which was 10percent. The rise in net surplus from 2010 to 2013 was attributed to the good performance of some of the new branches and the stepping up of the old branches who had experienced challenges in their earlier stages. The 2011-2014 period was very challenging but these were the successful years of the cooperative.

After OIC recovered from the extent of damage caused by Typhoon Sendong, another typhoon Pablo came. Some of the branches in Bukidnon like Baungon, Talakag, Manolo, and Aglayan were heavily affected. Based on the provincial annual report, almost PHP70 million agricultural crop productions were affected. Due to this tragedy, the farmer members of OIC were unable to settle their accounts. However, even though the cooperative experienced another tragedy, the management still maintained the delinquency rate to 12percent from 2009 to 2011 and even lowered it to 11 percent in 2012 (Table 14.10). However, delinquency rate became 15 percent in 2014.

Table 14.10. Delinquency rates (in percent) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Delinquency rate	12	12	12	11	11	15
Percentage change		0	0	-1	0	-5

The OIC management introduced counter measures on the possible impact of the affected farm productions to the delinquency. The cooperative initiated and formulated remedial programs that lightened the repayment of the farmers and provided new capitalization. The first program was the restructuring of loan with amendment of term, payment mode, and frequency of payment. The second program was the refinancing scheme. Under the second program, the borrower had to pass the new criteria before the OIC member can avail additional loan for production.

Year 2012 was a very challenging but successful year for OIC. As a result, the Board of Directors declared a dividend rate of 10.5 percent the second highest rate ever for the cooperative at that time (Table 14.11). For years 2013 and 2014, it was 10.75 percent.

Table 14.11. Dividend rates (in percent) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Dividend Rate	9.15	9.5	10	10.5	10.75	10.75
Percentage increase		0.35	0.50	0.50	0.25	0

In spite of the increasing dividend distribution, the management strengthened the cooperative by maintaining the 29 percent allocation to their General Reserve Fund (GRF), which started in 2008. The increasing allocation for GRF truly solidifies OIC as one of the trusted financial institutions in Mindanao and Visayas.

Table 14.12 shows the comparative COOP-PESOS performance of OIC from 2010 to 2014. The rating equivalent achieved by the cooperative from all years was always Very Good (80% - 90%) with 2012 reporting the highest total rating of 87.8 percent.

Table 14.12. COOP-PESOS performance of OIC, 2010-2014

Indicator	Standard		Year 2010		Year 2011		Year 2012		Year 2013		Year 2014	
	Score	% Rate	Score	% Rate	Score	% Rate	Score	% Rate	Score	% Rate	Score	% Rate
COOP	100.0	20.0	93.0	18.6	94.0	18.8	99.0	19.8	93.0	19.8	99.0	19.8
PESOS	100.0	80.0	78.5	62.8	82.5	66.0	85.0	68.0	78.5	69.6	82.5	66.0
Total		100.		81.4		84.8		87.8		89.4		85.8
Rating		1		2		2		2		2		2
Equivalent		E		VG		VG		VG		VG		VG

Note: E-Excellent, VG-Very Good, G-Good, F-Fair, P-Poor

Sustainability of Oro Integrated Cooperative (OIC)

In this study, the sustainability of OIC was measured through its stability ratios. Stability of a company refers to its ability to weather the ups and downs in the economy or its ability to continue operations despite anticipated risk in business. Stability ratios comprise of solvency and liquidity. Solvency in finance refers to the degree to which the current assets of an entity exceed the current liabilities of that entity. Under solvency, the focus items are debt-to-assets, debt-to-equity, and equity-to-debt ratios.

Table 14.13 shows that OIC maintained an average of 45 percent portion of total assets provided by the cooperative members from 2009 to 2014. In this regard, OIC experienced an average of 1.42 debt-to-equity ratio from years 2010 to 2013. The average for Years 2009 to 2014 was 1.33. Equity-to-debt ratio indicates the margin of safety to creditors. From 2009 to 2014, OIC achieved an average of 0.71 equity-to-debt ratio which is lesser than one but still the cooperative is solvent and can answer the members' savings and shares in the event of liquidation of the co-op's assets and liabilities.

Table 14.13. Solvency data (in PHP) of OIC, 2010-2014

Indicators	2009	2010	2011	2012	2013	2014
Assets	564,099,214	737,099,214	963,878,770	1,326,601,088	1,724,946,593	2,187,355,636
Deposit						
Liabilities	253,592,079	335,827,831	435,115,903	612,769,986	782,344,670	971,452,274
Share Capital	190,870,843	238,008,092	305,591,801	417,176,696	552,330,229	728,268,132
Debt-to-Asset ratio	0.45	0.46	0.45	0.46	0.45	0.44
Debt-to-Equity ratio	1.33	1.41	1.42	1.47	1.42	1.33
Equity-to-Debt ratio	0.75	0.71	0.70	0.68	0.71	0.75

Current assets to total assets ratio indicates the liquidity of the total assets. Current ratio indicates the ability to pay current obligations. In Table 14.14, it can be observed that the current ratio of OIC constantly declined from 1.71 in 2009 to 0.69 in 2014. The same trend is observed in current assets-to-total assets, where the ratio decreased from 0.91 to 0.37 during the same reference period. The factors that caused the decline were due to the increase in deposit liabilities, increase in share capital, and increase in current liabilities.

Table 14.14. Liquidity (in PHP) of OIC, 2009-2014

Indicators	2009	2010	2011	2012	2013	2014
Total assets	564,099,214	737,099,214	963,878,770	1,326,601,088	1,724,946,593	2,187,355,636
Current assets	515,725,278	475,420,446	762,431,860	901,761,619	662,843,149	807,490,901
Current liabilities	301,193,118	403,945,893	524,084,277	732,110,244	932,037,807	1,168,788,006
Current ratio	1.71	1.18	1.45	1.23	0.71	0.69
Current assets-to total assets	0.91	0.65	0.79	0.68	0.38	0.37

Members' Perception of OIC's Sustainability

From the interviews, 84 percent of the respondents agreed that the cooperative tried to give the best services; 56 percent agreed that OIC helped and met the financial need of the members; and only 20 percent strongly agreed of an easy access of facilities and processing of loans.

As members of the cooperative, 40 percent of the respondents strongly agreed that they follow rules and other relevant protocol promptly; 48 percent agreed that they were aware of their duties and responsibilities; 20 percent strongly agreed of their consciousness on capital build up, education and vigilance; 8 percent strongly agreed that they participated in the activity and continued savings; 48 percent agreed that they supported the good management of OIC; and 36 percent strongly agreed that OIC is strong and sustainable. Table 14.15 presents the summary of the respondents' answers.

Strategies for Sustainability of OIC

The expansion program of OIC is considered as the key strategy for its sustainability. It focused on the following areas: branching, human resource development, partnership and collaboration, and community involvement.

OIC opened its 17th branch last April 18, 2013 in Butuan City, Province of Caraga. It also launched the opening of its 18th branch in Don Carlos last May 8, 2014. The Human Resource of OIC, supported by NATCCO consultancy

Table 14.15. Summary of the respondents' Likert Scale answers to selected statements

Statement	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree	Total
The OIC...						
1. Tries to give the best services	0.16	0.84	0	0	0	1.00
2. Helps and meets the financial needs of the members	0.44	0.56	0	0	0	1.00
3. Is beneficial to members due to efficient management	0.36	0.44	0.20	0	0	1.00
4. Facilitates easy access and processing of loans	0.20	0.60	0.20	0	0	1.00
As a member of OIC, I...						
5. Follow rules, prompts, and other relevant protocol	0.40	0.48	0.12	0	0	1.00
6. Am aware of their duties and responsibilities	0.12	0.48	0.40	0	0	1.00
7. Am conscious to capital build-up, education and extra vigilant	0.20	0.64	0.16	0	0	1.00
8. Patronize/participate in any activity, and continued savings	0.08	0.24	0.68	0	0	1.00
9. Support the good management of OIC	0.20	0.48	0.32	0	0	1.00
10. Believe that OIC is sustainable and strong	0.36	0.28	0.36	0	0	1.00

services, developed a new program for managerial positions dubbed as Management Trainee Program (MTP).

The livelihood program of Oro Integrated Cooperative was with the Canitoan housing beneficiaries and OIC had a tripartite agreement among Land Bank of the Philippines and Habitat for Humanity, with OIC as the implementing partner.

OIC continued in expanding the scholarship program for collegiate scholars to high school thru the program dubbed as "Piso Mo, Edukasyon Ko" (PMEK) and the program was able to add new scholars. It participated in the "Save our Mother Nature, Plant a Tree and Nurture" project in partnership with the Community Environment and Natural Resources Office (CENRO) of Gingoog City.

Oro Integrated Cooperative Awards

The success of OIC has been recognized by CDA over the years. In 2012 and 2013, it was chosen as one of the Most Outstanding Primary Cooperatives (Large Scale Category) in the prestigious Gawad Parangal Awards.

OIC was recognized as one of the best managed cooperatives in Mindanao based on financial growth and social programs for its members and community. It consistently exhibited operational and administrative efficiency, Liquidity, solvency, asset quality and capital adequacy for the past years. This was evident in its increasing trend in net surplus and other key result areas.

The cooperative also received the 2013 Gawad Parangal Special Citation in recognition of its “Excellence in Membership Growth and Expansion Program,” particularly in its exemplary performance in terms of mainstreaming its membership with the use of unique strategies and efforts to promote cooperativism on a national scale chosen and presented by the Cooperative Development Authority at the SMX Convention Center, SM Mall of Asia, Pasay City.

Conclusion and Recommendations

The study concludes that since its organization in 1991, the cooperative assets and membership have already grown substantially as a result of more than P2 billion of Total Assets in 2014 and 122,000 of regular members in 2014. By this, OIC became one of the leading cooperatives in the city of Cagayan de Oro.

From the conclusions drawn, the following recommendations are offered: (1) the cooperative’s management should further improve the recruitment of members through the use of online facilities; (2) OIC should review the policies on loans and enhance the collection mechanisms; (3) given the fact that the delinquency rate has been increasing, the finance department should update its accounting records of all transactions; (4) members should protect their interest through active participation of activities and training; and (5) considering the absence of online co-op service facilities, the management should upgrade their existing systems to facilitate real-time and mobile banking transactions.

SUMMARY

Rural and urban areas in Cagayan de Oro City are largely disconnected. Oro Integrated Cooperative (OIC) is one of the credit cooperatives in the city connecting the areas and people through loans and services. The aim of this study was to look into the sustainability of OIC. Descriptive research design was used in the analysis. Most of the respondents noted that the cooperative was sustainable. Role of leaders, commitment, and dedication were among the values noted as important contributors to a cooperative’s sustainability.

There was continuous increase in membership since 2009 to 2014. Year 2012 was a great year for the cooperative. Membership grew by 17,822. It should be noted that the cooperative started with 28 people and PHP88 initial capital in 1966. Management maintained a system of accounting and reporting. The growth in assets is derived from the increase in Deposit Liabilities, Share Capital, and General Reserved Fund. Assets grew by 38 percent, from PHP963 million in 2011 to PHP1.33 billion in 2012. Loan Releases in 2012 surpassed their target by 18 percent. At the beginning of the year, it had a deficit in loan releases target but it was recovered in the third quarter. The bulk of loan releases were commercial, financing, salary, and agricultural.

The study recommends that the cooperative should review the policies on loans and enhance the collection mechanisms, management should further improve the recruitment of members through the use of online facilities, members should protect their interest through active participation of activities and training, and the management should upgrade their existing systems to facilitate real-time and mobile banking transactions.

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CHAPTER 15

Performance of the Multipurpose Cooperatives in the Province of Marinduque, Philippines

VERNA LIZA L. CAPIÑA

Introduction

A growing literature stresses the importance of cooperatives worldwide as alternative models for local businesses that are responsive to community needs and can stimulate local economic growth. The International Labour Organization (ILO 2012), an agency of the United Nations that has specific mandate for cooperative development, states that cooperatives as business organization contribute to economic development providing more than 100 million jobs worldwide. ILO further estimated that the livelihood of nearly a quarter of the world's population have been made secured by cooperative enterprises.

In the Philippines, several success stories of cooperatives were also written though history revealed that despite various laws passed and government interventions implemented, early cooperatives were generally a failure. The case of the cooperatives in the province of Marinduque is not an exception. This is evident in more than half of registered cooperatives being non operational and dissolved as reported by the Cooperative Development Office of the province in December 31, 2012. Data from the Cooperative Development Authority (CDA) in Marinduque showed that at the end of year 2012, about 19 percent of the 333 registered cooperatives or a total of 64 cooperatives from 1990 to 2012 were confirmed with active registration. The other 268 cooperatives or 81 percent were dissolved and cancelled. Out of these 64 cooperatives confirmed and with active registration, 20 were found to be non-operational as of December 2012.

Based on the foregoing, the researcher felt the profound need to assess the performance of the multipurpose cooperatives (MPCs) in the province of Marinduque as economic entities. Specifically, the study aimed to assess the level of contributions of the MPCs to the economic welfare of their local communities and to evaluate as well the level of entrepreneurial management competencies of the MPCs' key players. Results of the analysis served as bases for the researcher to formulate specific strategies that the cooperatives may adopt to improve and sustain their business performance in the future.

Methodology

The study was conducted in Marinduque, one of the island provinces in the MIMAROPA Region, Philippines. A total of 19 MPCs were selected to participate in this study selected through purposive type of non-probability sampling test. From the subject MPCs, the key informants or individual participants were represented by the executive officers (Board of Directors and manager), and the employees. The participants were chosen using the following criteria: (1) have performed or been performing their respective positions for at least five years; and (2) have been active in the business affairs of the cooperative for at least five years. These individual respondents were also chosen on the premise that they possess the authority and knowledge in assessing the performance of the subject cooperatives in terms of their contribution to economic development as well as to their individual competencies as key players, since they are the ones directly involved in the daily management of their respective MPCs.

To validate the responses or assessment made by the respondent key players, the members were also asked to give their individual assessments on the performance of their respective cooperatives as an entity as well as on the competencies of the key players considering that they are the ones directly benefitted or adversely affected by the performance outcome of the aforementioned. The criterion applied in selecting the individual respondent-members was that he or she must be actively participating in the affairs of the cooperative for at least five years. The help of the BOD Chairman or the Cooperative Manager was secured to identify the individual member respondents actively engaged in the affairs of the cooperative for at least five years. On the other hand, respondents from the corresponding localities of subject MPCs include the barangay chairman.

For the institutional participant cooperatives such as those which membership is exclusive only for the institution's officials and employees, random personal interviews were made with some hosts of the institutions or their respective representatives. The same questionnaire for the barangay chairman was used as guide, to validate responses from the community most specifically on the contributions made by the subject cooperatives to the economic development of such community. The opinions of the Provincial Cooperative Development Specialist and the Department of Trade and Industry Provincial Director were also gathered to verify the participant cooperatives economic contribution to their respective communities.

There were three sets of structured questionnaires which were answered by the subject cooperatives and their individual key informants including the members; while the local officials from the corresponding localities were interviewed using a guide. A five-point Likert Scale was used to measure the

perception of the key players and members with regard to the contribution of the MPCs to the economic development of the communities, the level of entrepreneurial management competencies of the key players, and the perception of the respondents as to the problems encountered by the subject MPCs that affect their growth. Moreover, in establishing the financial profile of the MPCs, the CDA PISO Instrument was utilized. The PISO Instrument, issued through CDA Memorandum Circular No. 2013-15 (Performance Report Standards for Cooperatives), prescribes four financial standards with corresponding ratios to determine the financial performance of the cooperatives.

This study utilized the descriptive method of research. The descriptive technique was used to describe the profile of the MPCs in terms of capitalization, nature of business, years in operation, financial condition, scope of operations, and number of members. The profile of the key players, such as board of directors, managers, key officers and employees of the respondent cooperatives, in terms of educational attainment, work experience, and trainings attended was also described in the study. Same technique was also applied in the analysis of the level of performance of the cooperatives in terms of economic development, such as employment generation, capital formation, revenue generation, and community involvement, and in terms of entrepreneurial management competencies of key players, such as strategic awareness, leadership, communicating, task orientation, and members focus.

Results and Discussion

The Profile of the Multipurpose Cooperatives as an Economic Entity

Capitalization

Table 15.1 shows the profile of the capitalization in terms of Paid-up Share Capital of the MPCs. Beginning paid-up share capital refers to the portion of the subscribed share capital, which has been paid by the members of the cooperative upon formation. Using the classification of business by Fajardo (2007), a big majority (73.7%) of the MPCs have started as micro type of business.

Table 15.1. Capitalization of the MPCs

Capitalization (Paid-up Share Capital in PHP)	Beginning		As of Dec. 31, 2012	
	Frequency	Percent	Frequency	Percent
150,000 and below	14	73.7	3	15.8
150,001 – 1,500,000	4	21.0	8	42.1
1,500,001 – 15,000,000	1	5.3	8	42.1
Total	19	100.0	19	100.0

About 21 percent started as cottage type of business while only about 5 percent which is consisted of one cooperative only started as a small business. As of December 31, 2012, the number of MPCs classified as micro type had decreased to three (16%) while the number of the cooperatives classified as cottage business respectively increased from four to eight, constituting 42 percent of all MPCs. The number of small business type cooperatives, which increased from one to eight, also comprised 42 percent of the MPCs. The significant changes are attributed to increase in the range of capitalization brought by the increase in members' capital contributions and allocations from the generated net surplus aside from the increase in number of membership. This also manifests capacity of the cooperatives to raise additional capital.

Nature of Business

Article 23 of the Cooperative Code of the Philippines defines multipurpose cooperative as one which combines two or more of the business activities of the different types of cooperatives. However, the majority of the MPCs (47%) are found to be engaged in lending service, which is their lone business activity (Table 15.2).

Table 15.2. Nature of business of the MPCs

Nature of Business	Frequency	Percent
Lending	9	47.4
Trading (Consumer Store), Lending	3	15.8
Production, Processing, Lending	1	5.3
Trading (Consumer Store), Service (Canteen, Recreational Facilities, Copy Center), Lending	1	5.3
Trading (Consumer Store), Service (Catering), Lending	1	5.3
Trading (Copra Buy and Sell), Lending	1	5.3
Trading (Copra Buy and Sell), Processing (Abaca), Lending	1	5.3
Trading (Pharmacy), Lending	1	5.3
Trading (Rice Retailing), Lending	1	5.3
Total	19	100.0

Years in Operation

Table 15.3 shows that majority of the MPCs (90%) have been in the operation for more than ten years. Only two cooperatives have been operating for five to ten years. This implies ability of the MPCs to sustain life for a longer period.

Table 15.3. Number of years in operation of the MPCs

No. of years in operation	Frequency	Percent
More than 10 years	17	89.5
Five to 10 years	2	10.5
Total	19	100.0

Financial Performance

Despite high earnings per share ratio and rate of interest on share capital, many of the MPCs still exhibited poor profitability performance as evidenced by the inability of MPCs to generate sufficient revenues from their main operations, very low and fluctuating profitability growth rates, and weak asset efficiency rates (Table 15.4). Most of the MPCs have also demonstrated poor institutional strength which can be blamed to their weak level of reserves and inadequate provisions for probable losses.

Table 15.4. Average financial performance of the MPCs

Performance Indicators	Average Performance	Average Standard (per PISO Instrument)
a. Profitability Performance		
Profitability Ratio	-580.55%	≥30%
Earnings Per Share Ratio	PHP 17.17	≥2.50
Profitability Growth Rate	23.46%	≥100%
Asset Efficiency Rate	5.78%	≥20%
Rate of Interest on Share Capital	15.26%	Within Inflation Rate (3.2% ^a)
b. Institutional Strength		
Net Institutional Capital	-18.22%	≥10%
Adequacy of Provisioning	6.19%	≥100%
c. Structure of Assets		
Percentage of Non-earning Assets to Total Assets	29.18%	≤10%
Members' Equity to Total Assets	32.08%	40% to 50%
Deposit Liabilities to Total Assets	16.89%	30% to 40%
External Borrowings	24.24%	No external borrowings
Receivables to Total Assets	73.25%	60% to 70%
d. Operational Strength (Staying Power)		
Volume of Business to Total Assets	103.18%	≥100%
Solvency	33.81%	≥110%
Liquidity	650.33%	15%-30%
Cost per Volume of Business	0.22	≤25¢
Administrative Efficiency	8.67%	≤10%

^aAnnual Inflation for Year 2012 (www.census.gov.ph)

Furthermore, majority of the MPCs have weak structure of assets as manifested by the following:

1. Low proportion of assets financed by members' equity which make the cooperatives exposed to losses because a large portion of earnings is spent in paying interests for external loans;
2. Too much reliance to external borrowings much costly than internal sources of funds like members' share capital and deposits;
3. Low ratio of members' deposit (savings, time), a much cheaper funding source and easily obtainable (near-time source); and
4. High volume of loan portfolio as compared to the standard range exposing the MPCs to danger of high uncollectible accounts.

Scope of Operations

As Table 15.5 indicates, most of the MPCs (74%) cater to members only. This is a manifestation that the cooperatives have not considered yet expanding their networks and linkages by doing business with non-members.

Table 15.5. MPCs scope of operations

Scope of Operations	Frequency	Percent
Members Only	14	73.7
Members and Non-Members	5	26.3
Total	19	100.0

Number of Members

Table 15.6 shows the average number of members of the MPCs from 2008 to 2012. About 84 percent of the MPCs are composed of from 15 to 1,000 members. These are mostly consisted of community based and institution-based cooperatives. About 5 percent have a total membership from 1,001 to 2,000 and only 10 percent have a total membership from 2,001 to 3,000. These include MPCs of which members are coming from the whole province of Marinduque. It was further observed that many of the members joined cooperatives solely for membership convenience which eventually led to dual membership from one cooperative to another, and resulted to very high records of delinquent accounts.

Table 15.6. Number of members of the MPCs

Average Number of Members	Frequency	Percent
15 – 1,000	16	84.2
1,001 – 2,000	1	5.3
2,001 – 3,000	2	10.5
Total	19	100.0

The Profile of the Multipurpose Cooperatives' Key Players

Educational Attainment

Table 15.7 indicates that 54 percent are college graduates while 14 percent have post graduate degrees. These findings imply that key members have basically attained sufficient level of education.

Table 15.7. Educational attainment of the key players

Educational Attainment	Frequency	Percent
College	54	54.6
High School	19	19.2
Post Graduate	14	14.1
College Undergraduate	4	4.0
Vocational	3	3.0
Elementary	2	2.0
Two-Year Course	2	2.0
Associate in Commerce	1	1.0
Total	99	100.0

Work Experience

In terms of work experience of the participant key players prior to working in the cooperative, 30 percent worked as clerks; 15 percent were farmers or fishermen; 12 percent were businessmen or entrepreneurs; 11 percent were professionals; 10 percent were consisted of government officials, executives, managers, and supervisors; and the remaining 21 percent included service workers, housewives, laborers and unskilled workers (Table 15.8).

Table 15.8. Work experience of the key players prior to cooperative

Work Experience Prior to Cooperative*	Frequency	Percent
Clerks	30	30.3
Farmers/Fishermen	15	15.1
Others (Housewives/Laborers/Unskilled Workers)	15	15.1
Businessmen/Entrepreneurs	12	12.1
Professionals	11	11.1
Government Official/Executives/Managers/Supervisors	10	10.1
Service Workers	6	6.1
Total	99	100.0

*Per Philippine Standard Occupational Classification of 1992

Only about 12 percent of the key players were businessmen or entrepreneurs prior to joining their respective cooperatives. This indicates that despite sufficient educational attainment as aforementioned, the MPCs are confronted with great challenge in the effective management of their business operations since majority of them are not equipped with related experience in terms of business enterprise management.

Trainings Attended

Table 15.9 summarizes the trainings attended by the respondents. It can be deduced that not everyone among the key players has attended the training requirements to enhance their capabilities as prescribed in the Philippine Cooperative Code of 2008 that specifically stipulates officers of the cooperative to undergo necessary training conducted by cooperatives, Federations and/or other trainers or training institutions duly accredited by CDA. For the smaller MPCs, the Cooperative Education and Training Fund (CETF) is not enough to finance the training requirements of the key players and members. This is attributed as one of the reasons why the MPCs exhibited poor performance in financial and business operations management. It is further worthy to note that the Code requires only the attendance of the cooperative officials in trainings, consequently resulting to a greater number of uneducated members as to the true nature and characteristics of cooperatives as an enterprise with unique personality designed for both social and economic purpose.

Assessment on the Level of Performance of the Multipurpose Cooperatives

Contribution to Economic Development

Both the key players and members believed that their respective cooperatives give “fair contribution” to the economic development of their community with respect to employment generation, revenue generation and community involvement (Table 15.10). On the other hand, they all believed that their respective cooperatives give a “high contribution” when it comes to capital formation.

Further investigations however, revealed that the ability of the MPCs to promote their level of economic contributions are confronted with certain limitations such as, (1) poor credit and collection policies, (2) inadequacy of jobs created due to limited business operations, (3) inefficiency in choosing and implementing feasible business ventures that can significantly contribute to their income generating activities, and (4) meager extent of initiatives and community partnerships with respect to sustainable environmental programs.

Table 15.9. Trainings attended by the MPC’s key players

Training Course	Count	Percent
Financial Mgt/Simple Bookkeeping	57	57.6
Policy Formulation	46	46.5
Leadership and Supervisory	38	38.4
Livelihood Trainings	26	26.3
Strategic Management	26	26.3
Waste Mgt and Environmental Protection	14	14.1
Planning and Control	13	13.1
Sales and Marketing	13	13.10
Cooperative Management and Good Governance	11	11.10
HR Management	10	10.10
Team Building	9	9.10
Business Plan Making	7	7.10
Basic Cooperative Course	6	6.10
Effective Communication	6	6.10
Entrepreneurial Skills	6	6.10
Fundamentals of Cooperative Thoughts and Practices	5	5.10
Leadership and Value Re-orientation	4	4.00
Conflict Management	3	3.00
Performance and Social Audit Orientation	2	2.00
Coop Women Leadership Transformation Seminar	1	1.00
Credit Administration and Remedial Management	1	1.00
Internal Control System	1	1.00

In relation, both opinions of the Provincial Cooperative Development Specialist and the Provincial Director of the Department of Trade and Industry coincide with the Position Paper featured in the website of the CDA, which strongly asserted that cooperatives in the Philippines are largely still in the development stage and need guidance and support.

Table 15.10. MPCs’ contribution in terms of economic development

Economic Development	Key Players			Members		
	R	Mean	Verbal Description	R	Mean	Verbal Description
Capital Formation	1	3.74	High Contribution	1	3.50	High Contribution
Revenue Generation	2	3.12	Fair Contribution	2	3.17	Fair Contribution
Community Involvement	3	3.00	Fair Contribution	3	3.15	Fair Contribution
Employment Generation	4	2.81	Fair Contribution	4	3.03	Fair Contribution

Entrepreneurial Management Competencies of Key Players

Table 15.11 reveals that as to the leadership skills, communicating skills, and members’ focus, the key players represented by the executive officers and employees believed that they are “more competent” in these areas, but ordinary

members believed that the key players on the average are only “fairly competent” on these skills. For strategic awareness, and task orientation, both key players and ordinary members agreed that the key players of the cooperatives are “fairly competent.” However, the foregoing result is contrary to the financial profile of the MPCs established through the use of the CDA’s PISO Instrument.

Table 15.11. Respondents’ opinion on entrepreneurial management competencies

Entrepreneurial Management Competencies	Key Players			Members		
	R	Mean	Verbal Description	R	Mean	Verbal Description
Leadership	1	3.68	More Competent	3	3.40	Fairly Competent
Communicating	2	3.63	More Competent	1	3.43	Fairly Competent
Members Focus	3	3.50	More Competent	5	3.34	Fairly Competent
Strategic Awareness	4	3.47	Fairly Competent	2	3.41	Fairly Competent
Task Orientation	5	3.40	Fairly Competent	4	3.35	Fairly Competent

Vis-a-vis the PISO Standard, most of the MPCs demonstrated poor financial performance which can be attributed to the following:

1. Inefficiency of the key management to utilize the cooperatives’ available resources at the most optimal manner;
2. Inability to skillfully use accounting information in recognizing and solving management problems as well as in planning and controlling activities;
3. Ineffectiveness of the management in formulating key strategies to generate sufficient volume of business like enhancing or improving current products or services, creating new products, and finding new customers; and
4. Inefficiency of Audit and Credit Committees in the performance of their functions prescribed in the Philippine Cooperative Code of 2008.

Conclusions

Based on the findings, the researcher concludes the following:

1. The poor financial performance of the MPCs resulting from poor financial management exhibited by the key players made the cooperatives become susceptible to losses and risks of possible failure.
2. Market has become limited as a result of the stiff competition among the MPCs with similar nature of business and target market. Likewise, sources of capital have been restricted because of limited number and quality of members.
3. The MPCs have the capacity to contribute to the economic development of the local communities in terms of employment and revenue generation,

community development, and on a high extent, to capital formation of the members. Yet they are still largely confronted and greatly challenged by several problems which hinder their capacity to grow and give the highest economic contribution.

4. The current level of competencies of the key players in entrepreneurial management affirmed their potential to improve and develop further given deliberate intensive trainings and viable institutional interventions.
5. The MPCs were endowed with great arrays of opportunities to take advantage of that will help them enhance and sustain their business operations, thus, they have the potentials to grow. Their capacity to exist for five years and beyond is a manifestation of their pursuit to stay in the industry amid difficulties that constantly defy the cooperatives’ full capacity to grow.
6. There is unavailability of a concrete guide and an appropriate approach that will give direction to the cooperatives’ management in their daily business undertakings and promote both social empowerment and economic goals.

Recommendations

The researcher would like to advance the following recommendations:

1. The MPCs in the Province of Marinduque, with intervention from CDA, should strengthen and professionalize their financial and auditing systems. As such, it is recommended that CDA Marinduque endorse the services of available Certified Public Accountants residing in the province, strictly conforming to the provisions of CDA Memorandum No. 2009-03, series of 2009 that prescribes the Guidelines for the Accreditation of External Auditors. Since there is no private auditing firm in the province, an association of cooperative auditors may later be organized, under the initiative of the CDA, to handle training programs for its members. Likewise, it is high time for the cooperatives to strengthen and professionalize their respective Audit Committees by strictly conforming to the provisions of Rule 7 of the Philippine Cooperative Code of 2008 stipulating the Functions, Responsibilities, and Training Requirements of Directors, Officers, and Committee Members of the cooperatives.
2. The CDA should encourage the MPCs to engage in merger or consolidation. Specifically, the cooperatives with similar nature of business operations and those that cater to same members due to their geographical territories resulting to multiple memberships should be encouraged to merge or consolidate. As such, the CDA must ensure

that Article 21 of the Philippine Cooperative Code prescribing the guidelines for merger and consolidation of cooperatives is strictly and effectively enforced. This strategy will allow pooling of resources and expertise among the cooperatives thus, maximizing their resources and subsequently helping them achieve economies of scale.

3. The CDA in collaboration with the Marinduque State College and concerned government agencies in the province should strengthen the capabilities of both cooperative sector and Marinduque Union of Cooperatives. This can be done through the establishment of an enhanced and continuing non-formal education programs directed toward improving members' understanding about the true nature and purposes of a cooperative enterprise, and improving the overall entrepreneurial and financial management capabilities of managers, key personnel, and directors of the cooperatives. The educational programs shall give focus on the following dimensions: (1) continuing Entrepreneurial Development Trainings, Seminars and Workshops, participated in by all cooperators, and (2) Membership Empowerment underscored on values formation, sense of ownership, and active involvement. The coursework should be aligned with that of a traditional business management or entrepreneurship program; however, the contents are tailored to the cooperative movement. In so doing, members will be provided with a deeper understanding and appreciation of the difference between managing in an investor-owned organization and a cooperative.
4. The CDA, in collaboration with the Marinduque State College, the Marinduque Union of Cooperatives, and concerned government and non-government agencies, should establish a Center for Research and Cooperative Development steadfast to Cooperatives Promotion in the Province of Marinduque. With a research center and library solely devoted to cooperatives, cooperators, students, instructors and resource persons directly working on cooperatives promotional work can be assured of a data center for their respective researches and sourcing of reference materials. The Center shall also be responsible for training and development of all cooperators (key players and members), and the publication of Guidebooks with topics highlighted on Business Management Designed for Cooperatives.
5. The proposed guidebook shall be intended for consumption of not only the leaders and management team but for the entire membership at all levels as well. It shall have two major components or modules. The first module shall cover special topics on Business Management Tailored for Cooperatives such as how cooperatives may develop innovative strategies encompassing the cross-functional areas of business

management and how the key management team may improve business management skills while the second module shall cover the Daily Guide for Business Operations of Cooperatives.

6. For Module One, among the sub-topics that may be discussed are as follows: (1) Entrepreneurship and Cooperatives which will specifically deal on Entrepreneurship, The Entrepreneurial Personality and Competencies, and The Entrepreneurial Dimension of Cooperatives; (2) Strategic Planning for Cooperatives which shall include sub-topics regarding Vision, Mission, Objectives, and Key Result Areas, and Environmental Scanning thru SWOT Analysis; (3) Strategy Implementation, Monitoring, and Control for Cooperatives, and (4) Developing Business Plan for Cooperatives.
7. On the other hand, Module Two shall include detailed policies, procedures, and guidelines that will serve as guide for the cooperative to carry out day-to-day business activities. It shall specifically cover the following:
 - History of the Cooperative;
 - Purpose of the Cooperative;
 - The Officers of the Cooperatives which shall discuss the Qualifications, and Duties and Responsibilities of the officers;
 - General Membership and General Assembly which shall also include Qualifications, and Duties and Responsibilities; and
 - The Responsibility Centers which deals on Human Resource Management, Production and Operations, Marketing and Financial Services, which shall all include details on the Responsibilities and Process Flow.
8. The proposed Guidebook is further recommended to be considered subject of future research undertakings to facilitate a more elaborative and substantial discussion of the contents.
9. The MPCs should expand the scope of cooperative business through new product and market development and diversification strategies. The MPCs in the province must engage in other business activities aside from lending to maximize the use of resources and capabilities. Since majority of the cooperatives cater only to their members, the cooperatives must also be encouraged to diversify in terms of market coverage. Through these business strategies, the cooperatives can enhance or improve current products or services, create new products, and find new customers, thus providing alternate sources of revenue. CDA Marinduque may collaborate with the Marinduque State College, through a Memorandum of Agreement or consortium, so the latter may

extend consulting services to the MPCs which need immediate assistance in the development of a feasible business plan that would allow optimal use of the cooperative's resources.

SUMMARY

Cooperatives are formed to play significant roles in the socio-economic development of their corresponding communities. In the Province of Marinduque, CDA reported in 2012 that from 333 cooperatives registered in 1990 to 2012, only 64 cooperatives stayed with active registration; from the 64, 20 were non-operational.

On this context, this chapter demonstrates the performance of multipurpose cooperatives (MPCs) in the province as engines of local economic development. The profile of both the cooperatives as economic entities and the key players, represented by the Board of Directors, managers, and employees, was established then the economic contributions of the MPCs and the entrepreneurial competencies of the key players were assessed. In addition, the problems confronting them were determined. In the analysis, the study utilized descriptive method with key players from the management and members of 19 MPCs, and barangay captains from corresponding localities as participants. The questionnaire instrument was used coupled with interviews, actual observation, and documentary analysis.

The cooperatives' contribution to local development is fair in employment and revenue generation, and community involvement, and high in capital formation of members. The key players demonstrated fair competence in leadership and communicating skills, strategic awareness, task orientation, and members' focus hence need improvement. The challenges identified include poor financial management, limited market made by stiff competition, restricted sources of capital due to limited number and quality of members, and inadequate strategies to sustain daily business undertakings. Results of the study signify the need for more intensive interventions for the MPCs which will enhance their performance as engines of economic development.

Acknowledgment

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CHAPTER 16

Reinvigorating the Sta. Lucia Agrarian Reform Community Cooperative in Dolores, Quezon Province, Philippines: A Cornucopia of Options

KEVIN R. RIPAS, MA. MAGDALENA R. RIPAS, AND
JEANETTE ANGELINE B. MADAMBA

Introduction

The Sta. Lucia Agrarian Reform Community Cooperative (SARC-MPC) started in the early 2000s as the Tinig ng Magsasaka ng Sta. Lucia Multi-purpose Cooperative. Formed initially by 16 farmers in the area, the goal was to provide leverage for farmers. The cooperative is located in the village of Sta. Lucia at the north-eastern part of the town of Dolores, Quezon Province, Philippines. The building itself is located near the village proper beside a public elementary school and high school. The entrance faces the major road of the town and is accessible by land vehicles. The following village next to Sta. Lucia is Kinabuhayan, after which is already a dead end. There are no other roads in and out of the village except for one major road.

After its inception, SARC-MPC created three business units namely: microfinance, consumer store and the Banahaw Candle units. At the moment, the candle-making business is on hold and is replaced by tie-ups with local businesses such as: Johnny Refran Farm (Sta. Lucia, Dolores), Mt. Banahaw Bee Farm (Sta. Lucia, Dolores), and Herbs of the Field (Bayanihan, Dolores). Tie-ups started in 2015 only and so potentials for the business are not yet realized. SARC-MPC resolutions with these businesses state that two percent of the gross receipts shall be earned by the cooperative. So far, from the three business tie-ups hatched, Herbs of the Field already has a Memorandum of Agreement (MOA) issued. As for its pending tie-up with Mt. Banahaw Bee Farm, the MOA is in the works; the cooperative is just waiting for the equipment from the Department of Trade and Industry (DTI)-Shared Service Facilities (SSF). The current situation of the cooperative presents a very big potential as far as strategizing is concerned. Right now, the cooperative is considering whether it should lie low with candle production and microfinance and focus more on their consumer store. The reason why they are seriously considering this is because

of the lack of opportunity to loan from banks and the increasing opportunity of business tie-ups.

From the initial study, it was determined that the cooperative had problems stabilizing its performance. At that time, SARC-MPC concentrated on improving the business units individually. Thus, the recommendations formulated had not been strategic and therefore did not answer a specific problem. This study attempts to reinvigorate the cooperative by offering strategic options it can undertake towards its sustainability. Specifically, this paper aims to present the current status of the cooperative, identify a major business issue it needs to address, assess courses of action which could address this issue and recommend the best option.

Methodology

This paper follows the case study approach. Analyses of the firm's financial, marketing, operational and organizational functions were made on the basis of key informant interviews (KIIs) with SARC-MPC officers and staff as well as through observation and access to records and archives of the cooperative. Secondary data used in the study included the unpublished Special Problem Report of Ripas (2011) and actual records of the cooperative including available financial statements, incidence reports, minutes of meetings and annual reports from 2012 to 2014.

Financial ratios and trend analysis were used to assess the current financial situation of the SARC-MPC. Operating cycle diagrams and a problem flow chart were constructed to identify the major business issue while strategic alternatives were formulated using the SWOT matrix and were assessed using the Quantitative Strategic Planning Matrix.

Results and Discussion

Brief Profile of the SARC-MPC

The operational coverage of the cooperative is mainly within the municipality of Dolores. Some members reside in nearby towns and cities such as San Pablo City, Laguna and Tiaong, Quezon. Key players or competitors in the area likewise remained the same as before. These include cooperatives such as Dolores Development Cooperative (DDC), Samahan ng mga Kababaihan (SAMAKABA) Multi-Purpose Cooperative, Pinagdanlayan Multi-Purpose Cooperative, Pinagdanlayan Rural Improvement Club Cooperative, Yakap at Halik Multi-Purpose Cooperative, CARD Bank and Rural Bank of Dolores, Inc. SARC-MPC management explained that there had not been any significant

changes in terms of competition, particularly within the area as there are no new players within the town. Whereas before, the main issue with their candle production unit pointed to the bargaining power of their supplier, this time it was the United Coconut Planters Bank (UCPB) claiming repossession of the candle machine at the beginning of 2014 if unpaid dues were not settled. This forced SARC-MPC to stop candle production for a year, awaiting repossession of the machine. UCPB, however, decided not to repossess the machine but charge interest instead.

According to the SARC-MPC management, it has resorted to becoming a business liaison where the cooperative serves as a liaison to a start-up business of its member which enables it to provide identity, proper documentation, and government help in a mutual manner. So far, the cooperative was able to do this with some local businesses such as the Johnny Refran Farm, Mt. Banahaw Bee Farm, and Herbs of the Field Farm. These farm owners initially needed leverage for their businesses and through tie-ups with the cooperative, they were able to get government subsidy.

The total land area occupied by the cooperative is 400 square meters (m²). The floor plan, on the other hand, measures 12 meters (m) by 17 m or roughly around 250 m². The physical layout of SARC-MPC emphasizes security and simplification of work. The cooperative has a single-storey building that houses their office, production area, and inventories. It also serves as their sales area for all of their ventures.

Marketing Strategies of SARC-MC

The cooperative still maintains its marketing strategy of providing goods cheaper than competitor prices by way of bulk or volume selling as well as keeping most small-time resellers as their main clientele. The study identified, that somehow, there are already vestiges of market segmentation and niching in the conduct of their business. This is quite evident in their lending and savings deposit services where a brand they call the "Impok Bulilit Club" is used to refer to their savings deposit for schoolchildren. The "Impok Bulilit Club" was part of their laboratory cooperative. Annually, an average of PHP18,000 in revenues is raised from this activity. The Club has more than 342 members with about one-third being very active in managing their savings deposits.

In 2014, the cooperative halted operations of their candle-making unit pending advice from UCPB of repossession as payables were left unsettled. But the repossession never materialized and so the cooperative is left with their machine and interest payments to UCPB. Right now, management is still deciding whether they should continue with the candle-making business or pursue new ventures.

Income Performance of SARC-MPC

Figure 16.1 shows the income performance of the three business units of the cooperative in the last three years.

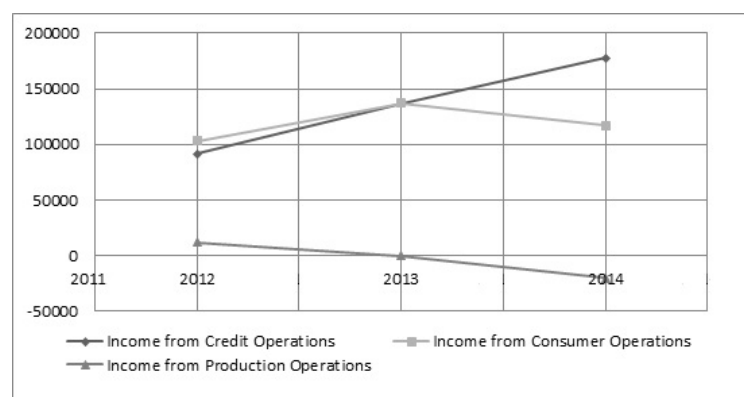


Figure 16.1. Comparative income performance of SARC-MPC business units (in PHP), 2012-2014

The income from candle production declined drastically in the last three years while the credit or microfinance business continued to grow (Figure 16.1). Compared to the previous study, improvements in loan collection were instituted and this accounted for the better performance in microfinance or credit operations. For its microfinance business, the cooperative continues to adapt an undifferentiated segmentation strategy for its market.

It was determined that record keeping is done manually. This may significantly affects the accuracy of records, particularly, financial records. Moreover, the lack of financial control as well as overall management control has led to losses. For example, the cooperative discovered only a year or so ago that cooperative funds to the tune of PHP300,000 were missing. Fortunately, the management was able to identify the member who was responsible for it. However, because of poor recordkeeping and the lack of a comprehensive management control system, only PHP60,000 of the PHP300,000 loss can be attributed to this erring member.

A look at the cooperative's liquidity profile is seen in Figure 16.2. The figures indicate the ability of the firm to pay off short term debts. It can be seen that though the current ratios (averaging 3.88 a year) and quick ratios (averaging 3.06 a year) demonstrate that liquidity performance is satisfactory, there is a high risk of not being able to pay short term debts in the long run if the liquidity ratios continue to decline. In addition, informal cash flow movements are apparently not recorded properly which may imply that the current and quick ratios must actually be lower than these levels. Cash availability is very important as the

cooperative relies very much on flexibility in terms of addressing client needs. For example, one client may decide they would like to order supplies for their consumer store by bulk. The cooperative needs to have cash in order to address spikes in demand. This is most important right now when they are at the point of deciding if they would keep their candle business or not. This means focusing greatly on their consumer store. In addition, if they decide to keep their candle store, cash would still be important as that means they have to employ a “make-to-stock” strategy.

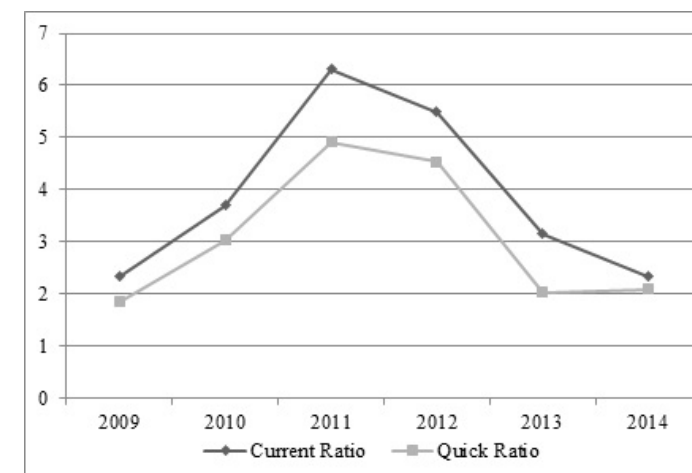


Figure 16.2. Liquidity ratios of SARC-MPC, 2009-2014

Now it appears that insufficient or unstable cash levels have been impinging on the cooperative's business operations, thus limiting its ability to generate revenues (Figures 16.3 and 16.4). Profitability performance shows dismal dips, ending in negative territory in 2013 and 2014, as seen in the profitability ratios relative to net profit margin (NPM), operating profit margin (OPM) and gross profit margin (GPM).

Weak revenues coupled with cash mismanagement and a dishonest member account for how the cooperative's assets, equity and long term investments translate to minimal income or net losses over the period from 2009-2014 (Figures 16.3 and 16.4). The poor profitability condition of the cooperative puts its business continuity in jeopardy.

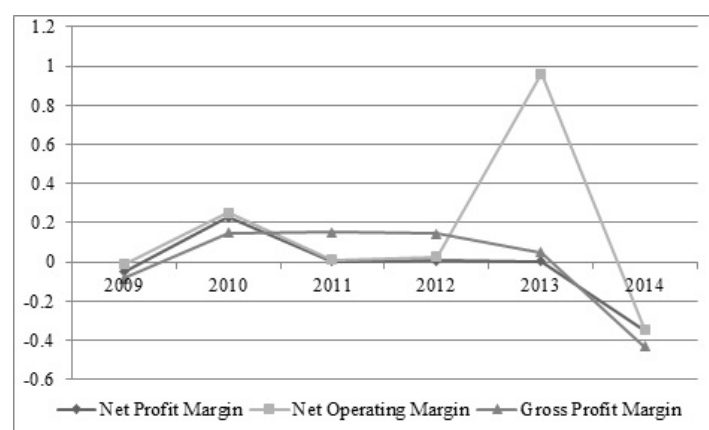


Figure 16.3. Net profit margin, net operating margin and gross profit margin ratios of SARC-MPC, 2009-2014

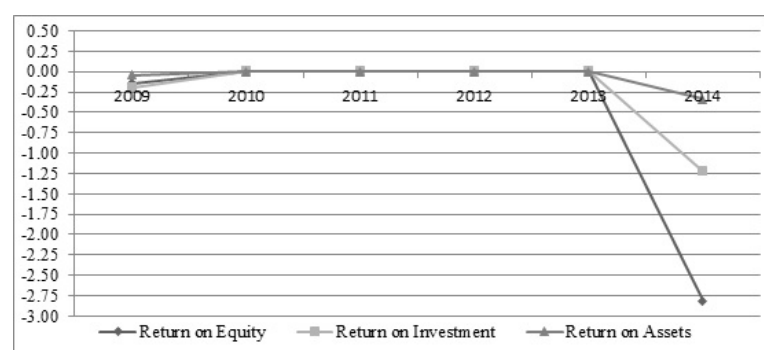


Figure 16.4. Return on equity, return on investment and return on assets ratios of SARC-MPC, 2009-2014

Relative to leverage or debt management, the cooperative seems to be dependent on debt rather than equity. Because of the repossession issue with UCPB as well as weak revenue generation, the cooperative has failed to meet its loan obligations (Figures 16.5 and 16.6).

As reflected in the graphs above, the cooperative poses a very high risk to its creditors as it shows inability to absorb losses and meet its loan obligations. This is manifested in the repossession issue the cooperative has with UCPB. The increasing trend in the capitalization ratios of the cooperative is not a good sign as it is evident that the cooperative's operations heavily rely on creditors, with more than 80 percent of its capital comprised of debt by the end of 2014. The Interest Coverage Ratios and LTD to NWC Ratios also show that the cooperative has been defaulting on its debt payments.

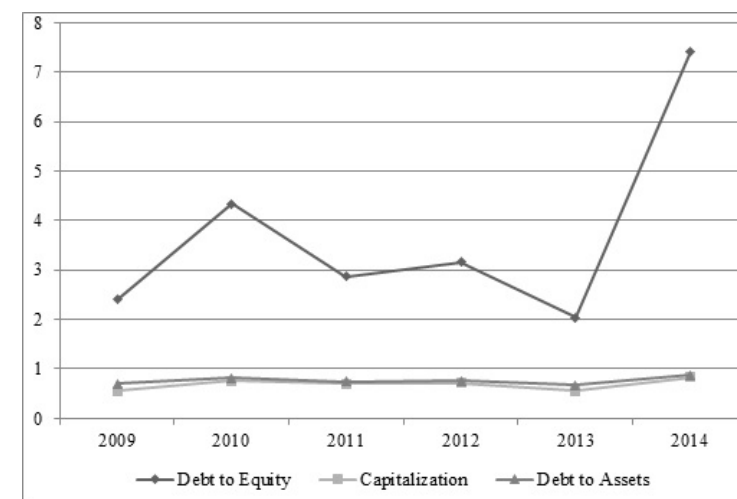


Figure 16.5. Debt to equity, capitalization and debt to assets ratios of SARC-MPC, 2009-2014

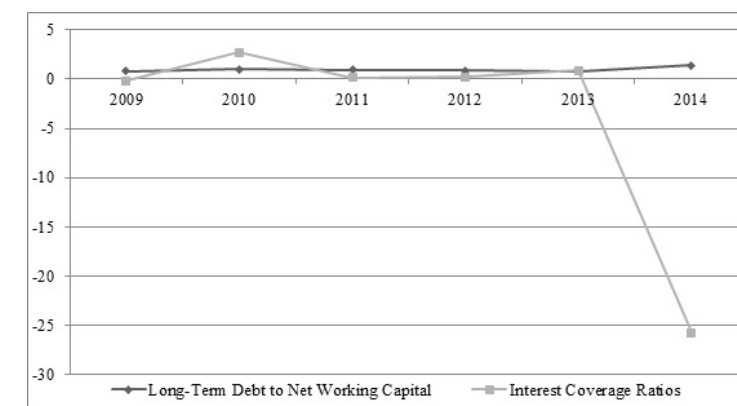


Figure 16.6. Long term debt (LTD) to net working capital (NWC) and interest coverage ratios of SARC-MPC, 2009-2014

The problem of cash mismanagement shows in the way payables and receivables are handled as seen in the activity ratios (Table 16.1). This is specifically essential when compared to how the cooperative performed from 2009 to 2011. It is also noticeable how the cash turnover is significantly getting higher in 2013 and 2014. Following the thread of the analysis, this can be attributable to the losses the cooperative is experiencing due to weak revenue generation, poor collection of receivables and the long period of time before payables are settled.

Table 16.1. Activity ratios of SARC-MPC, 2009-2014

Activity Ratios	2009	2010	2011	2012	2013	2014
Cash Turnover	10.0511	1.6892	11.0327	9.4625	23.1212	24.2763
Working Capital Turnover	1.4695	0.7405	0.5612	0.3559	0.7724	1.5915
Total Asset Turnover	0.6950	0.5121	0.2924	0.3015	0.3623	0.6232
Fixed Asset Turnover	2.5480	2.4307	1.6991	1.3321	2.0935	2.8401
Days Sales in Receivables	309.0000	378.0000	575.0000	987.0000	427.0000	344.0000
Accounts Receivable Turnover (ART)	1.1232	0.7832	0.5235	0.4488	1.0539	1.1155
ART in Days	325.0000	466.0000	697.0000	813.0000	346.0000	327.0000
Inventory Turnover (IT)	3.2454	1.8032	1.3225	1.5677	1.2483	11.5260
IT in Days	112.0000	202.0000	276.0000	233.0000	292.0000	32.0000
Operating Cycle	437.0000	668.0000	973.0000	1,046.0000	639.0000	359.0000
Days Payables Outstanding	206.0000	246.0000	279.0000	143.0000	208.0000	224.0000
Payables Turnover	2.4323	1.7371	1.7095	1.5867	1.6612	1.7007
Payables Turnover in Days	150.0000	210.0000	214.0000	230.0000	220.0000	215.0000

In summary, the most critical issue of the cooperative at the moment is that due to the absence of a strategic plan aligned with its objectives, it is headed for bankruptcy, trapped in a cycle of debt dependency. Moreover, this blocks their ability to generate more revenue which is one of the keys towards long-term sustainability. Specifically, the cooperative is beset with the following problems:

Lack of an Overall Management Control System

The current lack of an overall management control system (inclusive of financial control procedures) such as a computerized information management system is not helping this current situation where cash flow, specifically, receivables and payables are monitored. Because of this, the cooperative incurred a loss of PHP300,000. Eventually, the loss will be recorded as bad debt because it was only able to produce evidence for losses totalling PHP60,000.

Anent to this, average collection periods ranged from almost half a year to a whole year or more. The same issue as before has persisted in that the cooperative allowed members to purchase goods from the merchandise store on credit without regard to their ability to pay. The member only shares the risk of losing his capital share once the borrowed value was considered uncollectable. Increasing cases of borrowed money that is in litigation continue to be reported. The cooperative, in the conduct of its microfinance and lending operations has been utilizing the municipal small claims court in compelling erring members to pay.

Limited Marketing

Interviews with management indicate they do not engage too much in marketing to enhance the cooperative's image. Promotional tactics such as raffle draws were done in the past only to boost patronage of their offerings.

Lack of Business Mindset of Officers and Members

The lack of a strategic plan for the long-term sustainability of the cooperative is borne of the fact that the business mindset within management and its members still needs further honing. In fact, there are no specific people assigned to do known business functions. The cooperative's officers do not have business training based on their educational attainment. No specific person could be held liable for any business failure, however, because strategies are mainly implemented after consultation with and approval of the general assembly as provided for by the democratic principle of cooperatives. Government intervention regarding the matter has been done with the passage of the 2008 Cooperative Code where cooperatives are required to finish a defined set of training.

Corollary to this, there is a problem in terms of accountability for the business units as demonstrated by the candle production issue they had back in 2014. A years' worth of potential income from candle-making was lost due to the evident lack of communication with the bank.

To formulate alternatives which can address the long-run sustainability of the cooperative a SWOT matrix was developed (Table 16.2). Evidently, the objective now of the cooperative is to be able to turn around from their bad financial situation. The strategies suggested range from conservative to high-risk. The goal is to implement plans that have taken in the market, consumer, as well as internal data that will lead into plans that utilize factors that are already in place for the cooperative. The recent loss for 2014 made the chances of borrowing money practically nil for the coming year. Therefore, intense capital investments cannot be part of the options. Three alternative options are identified for the cooperatives.

Table 16.2. SWOT Analysis

SWOT MATRIX		STRENGTHS	WEAKNESSES
		a) Access to government support through tie ups with small businesses b) Networking and connections c) Labor availability d) Opportunity to channel resources e) Ability to tap community for sources of fund f) The coop will be untaxed until it reaches a total asset worth of 10 million pesos	a) Lack of systematized management b) Inability to meet creditor payments c) Low collection rate from borrowers d) Limited marketing e) Lack of business training
OPPORTUNITIES	THREATS	a) Dissolve the candle business b) Widen available products in the coop and process unsold inventory to make new products c) Referral system d) Process structure change e) Employ non-price oriented schemes to distribute candles to market f) Expand business tie-ups	a) Apply strict process of granting loans b) Increase production levels and simplify offerings c) Management Information System d) Product bundling and promotion e) Job reassignment and formation of an oversight committee f) Dissolve microfinance business
a) Trend towards business tie-ups b) Market potential for all business units is still lucrative	a) Increasing competition in re-selling industry b) Availability of informal sources of credit c) Equal opportunities for government services		

Alternative 1: Expanding Business Tie-ups

Being a “business liaison” is an activity of aiding small and start-up businesses within the community with limited ability to pay to legitimize through registration activities and finance its own activities. Through the cooperative, they are able to legally exist as units managed by the cooperative through a mutual relationship with the business owner and the cooperative. The businesses retain their business name and could use the cooperative to market its products. The cooperative and the business owner sign a memorandum of agreement to provide the specifics of the relationship and how much the cooperative will earn in return. The project requires taking in this new activity concurrent with the other business units. The arrangement will prioritize this activity and minimize allocations on candle and microfinance. This will reduce candle operations to

make-to-order arrangements while money for microfinance will be limited and planned though maintaining the same services.

Alternative 2: Dissolving Business Units in Candle Production and Microfinance

The cooperative will begin recuperation by dissolving only two of their business units and continuing only with their consumer store. The rationale behind this is that the consumer store had been the most stable of all the business units of the three and cash comes in daily for this business. In this alternative, the cooperative will sell the remaining inventory of candles and the candle-making machine. The microfinance unit will now be absorbed as a sub-unit of the consumer store but with limited amount of cash for loans at the onset. The objective is to increase consumerism and membership by providing a wider range of grocery and agricultural products and allowing potential and current members to borrow money or loan in kind. Cash borrowing will be limited and controlled based on stringent credit criteria. The cooperative will employ stricter policies coupled with lighter paying arrangements.

Alternative 3: Process Restructuring for the Candle Production, Consumer Store and Microfinance Units

This alternative is the most conservative of all. It will continue with the three business units but will adapt austerity measures in order to start sustainability in terms of controlling expenditures and payments. The objective will systematize the production of candle by limiting its budget, focusing on a make-to-order rather than make-to-stock strategy in order to minimize inventory. With respect to microfinance, the approval system will be much monitored and budget allocation will be observed. The goal is to minimize expenditure and restore the financial or credit standing as soon as possible. Budget allocation to the three units should be based on stringent forecasting methods.

From the three alternatives, the Quantitative Alternative Planning Matrix (Table 16.3) was used to determine which from the alternatives should be preferred. The matrix considers the set of strengths, weaknesses, threats, and opportunities that were listed above. The attractiveness of each alternative given the key factors is evaluated by the assigned numbers 1 to 5; with 1 representing the least attraction and 5 representing maximum attraction. The scores are then tabulated and the alternative that yielded the greatest score was chosen as the top priority alternative. The second alternative to yield the greatest score will have second priority and shall be regarded as a contingent alternative.

Conclusion and Recommendations

The study analyzed three alternatives through the QSPM preference matrix: (1) expand business tie-ups; (2) process restructuring for the candle production, consumer store, and microfinance units; and (3) dissolve business units in candle production and microfinance. These three alternatives have their own advantages and disadvantages in terms of benefits and cost. The first alternative offers the greatest realizable benefit among the three alternatives as the result depends on how well the cooperative will bargain with its potential partners when a MOA is made with a member-business owner. The QSPM matrix table above evaluated and scored the three alternatives based on the SWOT profile and among them; process restructuring came last while the alternative of expanding business tie-ups came in first. Thus, the first alternative shall be recommended to the cooperative to be part of its strategic plan for the next five years.

Prior to expanding business tie-ups, however, SARC-MPC needs a business mentor to guide it through its next steps. First, it has to contact a capable mentor willing to be with SARC-MPC as it journeys through its “recovery pains”. Such a mentor can be requested from the GoNegosyo team from the Philippine Center for Entrepreneurship. As a contingency plan, upon failure of the first alternative, the cooperative must adopt the second most preferred alternative which is dissolving the candle and microfinance units to provide focus on the cooperative’s cash cow which is operating the consumer store.

Table 16.3. Quantitative strategic planning matrix

Key Factors	Weight	Alternatives					
		Expand Business Tie-ups		Process Re-structuring for Candle Production, Consumer Store, and Microfinance Units		Dissolve Business Units in Candle Production and Microfinance	
STRENGTHS		AS	TAS	AS	TAS	AS	TAS
Access to government support through tie ups with small businesses	7.193	4	28.772	3	21.579	3	21.579
Networking and connection	5.051	4	20.204	2	10.102	3	15.153
Labor	5.051	2	10.102	4	20.204	3	15.153
Opportunity to channel resources	2.635	4	10.540	3	7.905	4	10.540
Ability to tap community for sources of fund	2.635	2	5.270	2	5.270	4	10.540
The coop will be untaxed until it reaches a total asset worth of PHP10 million	2.635	3	7.905	3	7.905	4	10.540
WEAKNESSES							
Lack of systematized management	11.95	3	35.850	2	23.900	4	47.800
Inability to meet payments	11.95	4	47.800	5	59.750	3	35.850
Low collection rate from borrowers	6.08	3	18.240	4	24.320	2	12.160
THREATS							
Increasing competition in re-selling industry	4.91	2	9.820	2	9.820	4	19.640
Informal sources of credit	4.91	3	14.730	3	14.730	3	14.730
Equal opportunities for government services	4.91	2	9.820	2	9.820	4	19.640
OPPORTUNITIES							
SARC-MPC remains the only cooperative within Sta. Lucia's of date	11.96	4	47.840	4	47.840	3	35.880
Market potential is still lucrative	18.13	5	90.650	3	54.390	3	54.390
SUM TOTAL ATTRACTIVENESS SCORE	100		357.543		317.535		323.595

Note: AS – Attractiveness Score; TAS – Total Attractiveness Score

SUMMARY

This research picks up from the results of a previous study on SARC-MPC, which was conducted by Ripas in 2011. It focuses on the status of the cooperative after the recommendations from the previous study were implemented and presents various strategic alternatives for SARC's continued operational and financial sustainability. The study, which utilized the case study approach in analysing the overall management of SARC-MPC's current business ventures, aimed to conduct an external and internal audit of SARC-MPC, identify a major business issue and present several courses of action for SARC-MPC to consider as it charts its future. Besides the prior study that was used as a key reference, additional data were gathered through key informant interviews and secondary sources from 2011-2014 after which such data were analyzed descriptively using trend, financial ratio, SWOT and quantitative strategic planning matrix analyses. An array of strategic options is offered for SARC-MPC management to decide on the cooperative's direction towards sustainability.

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CHAPTER 17

Support of State Universities and Colleges and Performance of Cooperatives in the Bicol Region, Philippines

CORNELIO E. FUNTANAR

Introduction

Under Republic Act (R.A.) 9520 or the Philippine Cooperative Code of 2008, a cooperative is defined as an autonomous and duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve their social, economic, and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles. Article 3 of the same Act, defines a cooperative as “a duly registered association of persons, with a common bond of interest, who have voluntarily joined to achieve a lawful common social or economic end, making equitable contribution to the capital, required and have accepted a fair share of the risks and benefits of the undertaking in accordance with the universally accepted cooperative principles.

Today, these principles are successfully applied throughout the world to a vast array of co-operative enterprises. Cooperatives contribute to poverty reduction and improvement of people's lives through provision of services and additional resources to the members and through direct investments on community programs and projects. In support to this endeavour, the responsibilities, rights and privileges of cooperatives have been provided in Chapter 5 of R.A. 9520. Government support would enhance the performance of the cooperatives that would lead towards the attainment of economic development and social justice of its members. Toward this end, the government and all its branches, subdivisions, instrumentalities and agencies, like State Universities and Colleges (SUCs) shall ensure the provision of technical guidance, financial assistance and other services. Figure 1 presents an overview of the various theories related to support of SUCs and performance of SUC-based Cooperatives.

This study was conducted in order to: (1) describe the profile of SUC-based Cooperatives in the Bicol Region in terms of type, category, membership, services offered, assets, liabilities, capital/shares, linkages, benefits and incentives; (2) determine the support services extended by SUCs to the cooperatives along

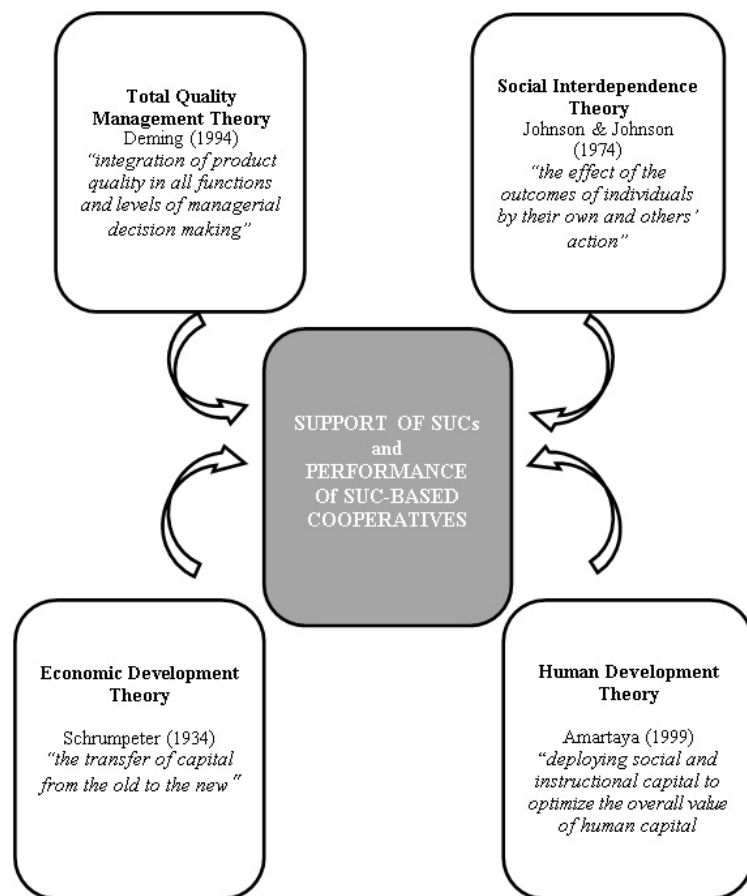


Figure 17.1. Theoretical paradigm of the various theories related to support of SUCs and performance of SUC-based Cooperatives

members' rights and privileges, education, trainings and seminars, curriculum, business opportunities, research and extension, linkages and networking; (3) assess the performance of the said cooperatives in terms of OSE-PISO and in relation to its characteristics; and (4) examine the support services of provided by SUCs to the cooperatives. The findings of the study can serve as springboard among the heads of the institutions and officers of the cooperatives for further enhancement of their cooperatives and establish stronger linkages between them and other agencies.

Methodology

The random stratified sampling technique was used to select the respondents

for the study. A total of 336 respondents were chosen from the eight SUC-based cooperatives in the Bicol Region (SUCs V). The distribution of member-respondents by SUC-based cooperatives in Region V is presented in Table 17.1.

Table 17.1. Category and distribution of respondents by SUC-based cooperatives in Region V, 2015

SUC-based Cooperatives	Category	N	n	%
1. CNSC- MPC	Medium	335	54	16.14
2. CBSUA MPC	Medium	298	48	14.35
3. TRADE CREDIT	Medium	192	31	9.25
4. CSPC MPC	Small	113	18	5.44
5. PSU CREDIT COOP	Micro	55	7	2.17
6. BU MPC	Small	394	64	18.98
7. SSC MPC	Medium	266	43	12.81
8. CSC MPC	Medium	433	70	20.86
Total		2,086	336	100.00

The Slovin's formula was used in computing the adequate sample size and percentage of error as follows:

$$n = \frac{N}{1 + Ne^2}$$

where: n is the sample size, N is the total population, and e is the margin of error. Based on the total population of the SUC based cooperatives in the Bicol Region, the following was computed:

$$n = \frac{2,086}{1 + 2,086(.05)^2}$$

$$n = \frac{2,086}{1 + 2,086(.0025)}$$

$$n = \frac{2,086}{1 + 5.215}$$

$$n = \frac{2,086}{6.215}$$

$$n = 335.63 \text{ or } 336$$

This study used the descriptive-qualitative approach in describing the profile of the SUC-based cooperatives; determining support services extended by SUCs, and in documenting the performance of the cooperatives based on the OSE-PISO indicators (Organizational Aspect, Social Aspect, and Economic Aspect - Profitability Performance, Institutional Strength, Structure of Assets, and Operational Strength). The correlational method, particularly the Pearson correlation, was then employed to examine the relationship between the characteristics of the cooperatives and their performance and between the support services of SUCs and the cooperative performance. Figure 17.2 summarizes the links among the characteristics or profile of the cooperatives, support of SUCs, and the performance of cooperatives.

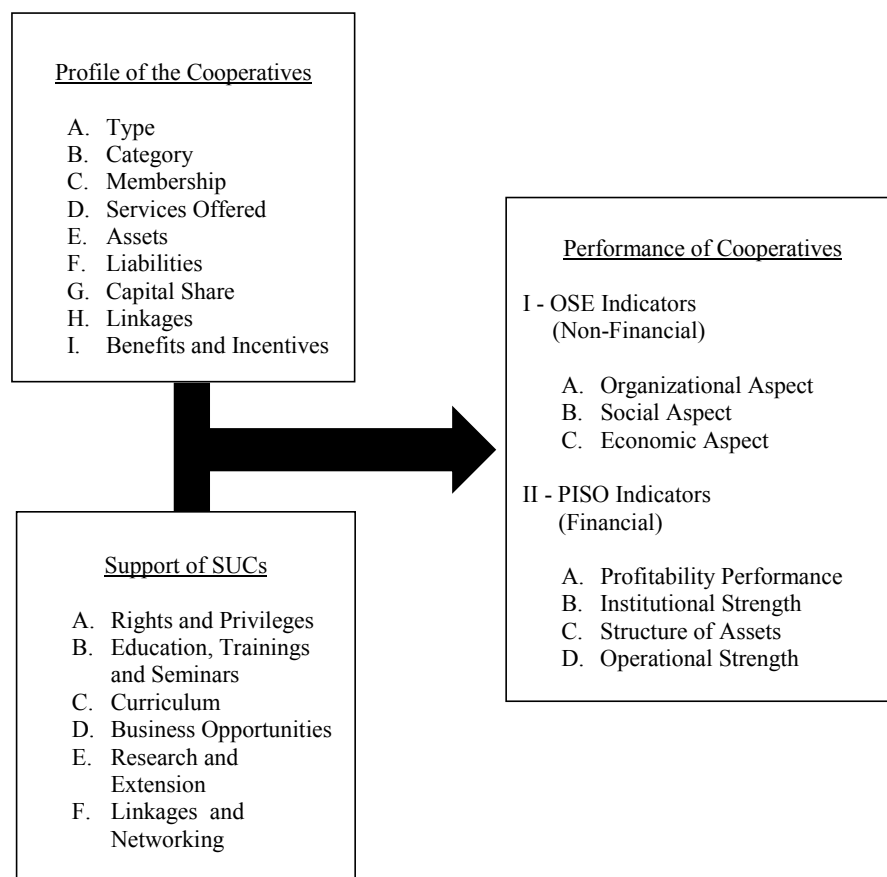


Figure 17.2. Conceptual framework showing the interrelationships of cooperative and dependent variables of the study

Results and Discussion

Profile of the Cooperatives

The cooperatives are characterized in terms of type, category, membership, services offered, assets, liabilities, capital share, linkages, benefits and incentives.

The key findings revealed that the SUC-based cooperatives are registered and evaluated annually by the CDA. They are classified as credit and multi-purpose and categorized as micro, small, and medium dividend and patronage refund were given to the members as benefits and incentives. CSC MPC is the largest while the PSU Credit Cooperative is the smallest. Cooperative categorization is based on the amount of capitalization set by the CDA. The most common support that SUCs extended to cooperatives was in line with rights and privileges, while the least support was on business opportunities, linkages and networking.

Correlation results showed that the profile of the cooperatives was not significantly related to their performance. On the other hand, the support of SUCs in line with business opportunities, and linkages and networking negatively affect the financial performance of the cooperatives, which means that SUCs lack support along these areas, while most of the support given was in line with rights and privileges which are non-monetary in nature.

Type, Category and Membership

The type of cooperative can be determined by the type of service that a cooperative is offering to its members. The most common type of cooperative is the multi-purpose cooperative (MPC). MPCs are those that offer a combination of two or more services. Another prevalent type is the credit cooperative - a cooperative that offers credit, savings and other financial services. In terms of asset size, cooperatives can be categorized as micro if their asset is PHP3 million (M) and below, small if PHP3M up to PHP15M, medium for PHP15M up to PHP100M, or large cooperative for PHP100M and above.

Cooperatives from large SUCs in Region V are mostly classified as multi-purpose type, since they are offering different services to their members like loans, financing, trading, canteen/consumers, and economic services. Out of the eight registered SUC-based cooperatives, six of them are multi-purpose and two belong to credit type (Table 17.1). In terms of asset, five of cooperatives fall under the medium category, two are small cooperatives, and one is categorized as micro cooperative.

As per membership size, the Catanduanes State College Multi-purpose Cooperative has the most number of members of 433 while the smallest membership size of 55 members is recorded in the Partido State University Credit Cooperative.

Services Offered

The checklist of the services offered by the cooperatives in State Universities and Colleges in the Bicol Region is shown in Table 17.2. It was classified into loans, financing, trading, and economic services. The most common type of service offered by cooperatives is loan while the least common is trading or purchasing. Findings show that more demand was needed in line with loans, that is why more kinds of loans were offered, while the least needed service is trading, perhaps this is because cooperative members were used to purchase groceries at the grocery stores.

Assets, Liabilities and Capital Share

Regular contributions and patronage of members are necessary for the continuous operation and success of the cooperative. The failure of the cooperative can be caused by the failure of the members to contribute their shares regularly. Table 17.3 presents the assets, liabilities, and capital share of cooperatives in SUCs V. The indebtedness of the cooperative to financial institutions, other cooperatives or person(s) are the liabilities, while the capital share is the amount paid by members to the cooperative as subscribed capital.

It can be noted that the average asset of the SUC based cooperatives in the Bicol Region is PHP16.86 million, with an average liabilities of PHP8.94 million and an average capital share of PHP6.15 million. A trend can be observed that the higher the total assets, the higher the liabilities. This means that the cooperatives increase their debt capital to be able to finance the expansion of their operations rather than depending on the members for capital shares alone.

Linkages

The Camarines Norte State College Multi-purpose Cooperative has established network and linkages with other agencies like the National Confederation of Cooperatives, Philippine Federation of Teachers and Employees Cooperative, Camarines Norte Koop Ugnayan Inc., CLIMBS Life and General Insurance Cooperative, Bicol Cooperative Union League, and Camarines Norte Chambers of Commerce and Industry. For Camarines Sur Polytechnic College Multi-purpose Cooperative linkages with United Coconut Planters Bank, Center for Graduate Education Initiative, Land Bank of the Philippines (LBP), and Local Government Unit of Nabua have been established. Catanduanes State College Multi-purpose Cooperative have linkage with LBP (Appendix Table 17.1).

Table 17.2. Checklist of the services offered by the cooperatives in SUCs V

Services	CNSC-MPC	CBSUA-MPC	Trade Credit	CSPC-MPC	PSU-Credit	BU-MPC	SSC-MPC	CSC-MPC	Total
A. Loans									
Anniversary loan		•							1
ATM loan		•					•		2
Calamity loan	•	•	•				•		4
Education and training loan	•								1
Emergency loan	•	•	•		•		•		5
Honorarium loan	•								1
Lending						•			1
Loan on deposit							•		1
Modified salary loan							•		1
Providential loan		•							1
Regular loan	•		•	•	•		•		5
Relending								•	1
Special loan	•			•					2
Special cash advance loan							•		1
Travel loan							•		1
Total	6	5	3	2	2	1	8	1	28
B. Financing									
Appliance loan	•	•				•			3
Cellphone loan	•	•							2
Laptop loan		•							1
Motorcycle/car loan							•		1
Real State –Mortgage	•								1
Total	3	3	0	0	0	1	1	0	8
C. Trading									
Grocery loan	0	1	0	0	0	0	0	1	2
D. Economic Services									
Bartenders				•					1
General services on deployment of utility				•					1
Maintenance				•					1
Sales clerk				•					1
Utility loan		•							1
Security Services				•					1
Assistance to community concerns and projects	•								1
Professional and technical assistance to microfinance	•								1
Special Package for SME		•							1
E-loading							•	•	2
ELAP loan		•							1
Marketing services and assistance	•								1
Total	3	3	0	5	0	0	1	1	13
Grand Total	12	11	3	8	2	1	10	3	51

Table 17.3. Assets, liabilities, and capital shares (in PHP) of SUC-based cooperatives in SUCs V, 2012

Cooperative	Asset	Liabilities	Capital Share
CNSC MPC	22,116,925.46	10,273,025.21	9,935,751.52
CBSUA MPC	17,035,082.72	8,669,706.66	6,625,860.35
Trade Credit	20,340,365.42	11,290,926.27	6,902,400.00
CSPC MPC	3,958,675.87	516,601.04	3,244,000.00
PSU Credit	750,321.20	63,210.00	687,111.20
BU MPC	14,982,564.11	4,419,668.86	6,706,500.00
SSC MPC	15,525,022.00	7,367,080.96	6,053,235.27
CSU MPC	39,703,853.82	28,955,953.58	7,972,585.58

Benefits/Incentives

The performance of the cooperative is usually associated with the benefits/incentives that it has given to its members for the one year patronage of the cooperative services. Appendix Table 17.2 summarizes the benefits/incentives received by the members of the cooperatives in SUCs in the Bicol Region. Results show that all the eight cooperatives give incentives and benefits to their members in the form of dividend and patronage refund.

Support of SUCs to Cooperatives

It was declared in Article 2 of R.A. 9520, to be the policy of the State to foster the creation and growth of cooperatives as a practical vehicle for promoting self-reliance and harnessing people power towards the attainment of economic development and social justice. The State shall encourage the private sector to undertake the actual formation and organization of cooperatives and shall create an atmosphere conducive to the growth and development of these cooperatives.

Toward this end, the government and all its branches, subdivisions, instrumentalities and agencies shall ensure the provision of technical guidance, financial assistance and other services to enable said cooperatives to develop into viable and responsive economic enterprises and thereby bring about a strong cooperative movement that is free from any conditions that might infringe upon the autonomy or organizational integrity of cooperatives.

The SUCs as one among government agencies shall provide the cooperatives the necessary support services as mandated by the law. It was found out that the most common support that SUCs extended to cooperatives is in line with rights and privileges, by serving as collection agent through payroll deduction from members' capital shares and loan payments. It was noted to be highly adequate. While, the least support was in line with business opportunities, and linkages and networking which was only adequate.

Rights and Privileges

The support of SUCs that can be extended to the cooperatives along Rights and Privileges are presented in Table 17.4. The support of SUCs are more on services, which are non-monetary in nature. The first and most common support that the SUCs provided to the cooperatives was on the collection of payments having an average weighted mean of 3.40 or highly adequate. SUCs serve having an average weighted mean of 3.40 or highly adequate. SUCs serve as collection agents through payroll deduction from members' capital shares and loan payments. The least support of the institutions to cooperatives was exempting them from paying their water and electricity bills with an average weighted mean of 2.25 or adequate.

Education, Trainings and Seminars

It can be gleaned from Table 17.5 the support services in line with education, trainings, and seminars that can be extended by SUCs to the cooperatives. The common support that the institutions shall provide to cooperatives as stated in R.A. 9520 is to allow cooperative officers and members to attend trainings, seminars, congress, meetings, and conferences on official time or during office hours on- or off-campus.

However, it was found out that the considerations and approval on this matter still depended on the discretion of the heads of the institutions. Some heads do not allow their faculty and staff to attend cooperative activities outside of the institution, because it will affect their regular functions. It was seldom on the part of the institutions to send cooperative officers and members to attend trainings and seminars unless they are teaching a subject on cooperatives. This could be the reason why along education, trainings and seminars the result shows only an average weighted mean of 3.00 or moderately adequate.

Curriculum

Table 17.6 reveals the support services that can be extended to the Cooperatives by SUCs V in line with curriculum. The first and most common support that the institutions provided to the cooperatives is to incorporate a cooperative subject in the curriculum as indicated by the average weighted mean of 2.33 or adequate. The least support was on the offering of a short-term course on cooperatives with an average weighted mean of 1.88 or adequate.

Table 17.4. Support of SUCs extended to the cooperatives along rights and privileges

Indicators	A	B	C	D	E	F	G	H	AWM	I	R
The institution served as a collection agent through payroll deduction.	3.67	3.18	3.35	3.65	3.40	3.33	3.15	3.45	3.40	HA	1
Gives the cooperative preferential right to utilize school facilities.	2.56	3.29	3.20	3.60	2.00	3.19	2.75	3.23	2.98	MA	2
Provides building to be utilized as coop office free of charge.	3.08	3.41	3.40	3.60	1.10	3.17	2.40	2.73	2.86	MA	3
Gives the cooperative the privilege to enjoy the free use of available space in the campus.	2.44	3.18	3.35	3.45	1.65	3.31	2.28	3.06	2.84	MA	4
Allows the coop to deposit their sealed cash boxes or containers, documents or any valuable papers in the safe place in the campus free of charge.	2.13	2.82	2.85	3.15	1.95	3.03	2.43	2.42	2.60	MA	5
Gives the cooperatives the right to manage the canteen and other related services.	2.72	2.59	2.15	2.30	1.40	3.31	2.53	3.02	2.50	MA	6
Exempts the cooperative from paying their water and current bills.	1.46	2.88	2.75	3.60	1.45	2.42	1.95	1.50	2.25	A	7
AWM	2.58	3.05	3.01	3.34	1.85	3.11	2.50	2.77	2.78	MA	
I	MA	MA	MA	HA	A	MA	A	MA	MA		
R	6	3	4	1	8	2	7	5			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	B – CBSUA F – BU
2	1.76 – 2.50	Adequate (A)	C – BISTCAST G – SOR
1	1.00 – 1.75	Inadequate (I)	D – CSPC H – CAT

Table 17.5. Support of SUCs extended to the cooperatives along education, trainings and seminars

Indicators	A	B	C	D	E	F	G	H	AWM	I	R
The institution incorporated a cooperative subject in the curriculum.	1.74	3.12	1.95	2.05	2.45	2.86	1.90	2.58	2.33	A	1
Conducts curriculum reviews to enhance the curriculum on cooperatives.	1.67	2.88	2.25	2.05	1.90	2.53	1.68	2.27	2.15	A	2
Offering cooperative courses on its regular program in the campus.	1.64	2.82	1.75	2.05	1.75	2.78	1.63	2.31	2.09	A	3
Offering a short-term courses on cooperatives.	1.54	2.82	1.65	1.80	1.30	2.67	1.45	1.84	1.88	A	4
AWM	1.65	2.91	1.90	1.99	1.85	2.71	1.66	2.25	2.11	A	
I	I	MA	A	A	A	MA	I	A	A		
R	8	1	5	4	6	2	7	3			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	B – CBSUA F – BU
2	1.76 – 2.50	Adequate (A)	C – BISTCAST G – SOR
1	1.00 – 1.75	Inadequate (I)	D – CSPC H – CAT

Table 17.6. Support of SUCs extended to the cooperatives along curriculum

Indicators	A	B	C	D	E	F	G	H	AWM	I	R
The institution allows coop officers and members to attend trainings, seminars, congress, meetings, and conferences on official time, in or off campus.	3.31	3.18	3.35	3.30	2.35	2.86	2.53	3.11	3.00	MA	1
Provides technical assistance to the cooperative	2.31	2.88	2.60	3.10	1.60	2.69	2.00	2.23	2.43	A	2
Provides trainings and seminars to cooperative officers and members.	2.31	2.88	2.75	2.15	1.85	2.50	1.88	1.83	2.27	A	3
Provides scholarships to cooperative members.	1.62	2.82	2.15	1.75	1.25	2.33	1.70	1.72	1.92	A	4
AWM	2.38	2.94	2.71	2.58	1.76	2.60	2.03	2.22	2.40	A	
I	MA	MA	MA	MA	A	MA	A	A	MA		
R	5	1	2	4	8	3	7	6			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	F – BU
2	1.76 – 2.50	Adequate (A)	G – SOR
1	1.00 – 1.75	Inadequate (I)	H – CAT

Table 17.7. Support of SUCs extended to the cooperative along business opportunities

Indicators	A	B	C	D	E	F	G	H	AWM	I	R
The institution does not subject the cooperative to taxes in any business transactions in the campus.	2.67	3.18	2.50	2.55	2.75	2.86	1.90	2.63	2.63	MA	1
Offers business transactions with the coop.	2.08	3.12	2.50	2.85	2.00	3.22	2.13	2.67	2.57	MA	2
Exempts the Cooperative from prequalification bidding requirements when transacting business with them,	1.82	2.82	1.80	2.00	2.10	2.81	1.68	2.20	2.15	A	3
Gives the cooperative the opportunity to supply them rice, corn, and other grains, fish and other marine products, meat, eggs, milk, vegetables tobacco & other agricultural commodities produced by their members.	2.00	2.59	1.70	2.25	1.45	2.39	1.55	2.14	2.01	A	4
Gives the cooperative preferential treatment in the allocation of fertilizers, including seeds and other agricultural inputs and implements, and rice distribution is being granted to the cooperative.	1.62	2.41	1.45	1.75	1.30	1.78	1.48	1.56	1.67	I	5
AWM	2.04	2.82	1.99	2.28	1.92	2.61	1.75	2.24	2.21	A	
I	A	MA	A	A	A	MA	I	A	A		
R	5	1	6	3	7	2	8	4			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	F – BU
2	1.76 – 2.50	Adequate (A)	G – SOR
1	1.00 – 1.75	Inadequate (I)	H – CAT

Not all SUCs in the Bicol Region had incorporated a cooperative subject in their curriculum, since it revealed only adequate support. Only CBSUA and BU are offering entrepreneurship where cooperative is considered as one of a business enterprise. The rest do not offer the subject in their academic programs.

Business Opportunities

The support services that can be extended by SUCs to the cooperatives in line with business opportunities is presented in Table 17.7. The highest and common support that SUCs provided to the cooperatives was exempting the cooperatives from taxes in any business transactions in the campus, and offering business transactions with the cooperative showing an average weighted mean of 2.63 and 2.57 respectively or both are moderately adequate. Others showed inadequate treatment in the allocation of fertilizers, including seeds and other agricultural inputs and implements, and rice distribution to the cooperative with an average weighted mean of 1.67.

It was revealed in the study that CBSUA and Bicol University were the only institutions that provided “moderately adequate” support in line with this area. It can be inferred that these two institutions were transacting business related to agricultural products and inputs, while others are not. Perhaps it is because other SUCs are not an agricultural institutions like CBSUA and Bicol University. Most of the institutions need to enhance their business capability and involve cooperatives in their business transactions in compliance with the Republic Act.

Research and Extension

Table 17.8 reveals the support services that can be extended to the cooperatives by SUCs V in line with research and extension. The highest support that the institutions provided to the cooperatives was communicating the value of a cooperative business as a means to enhance the vigor of rural communities with an average weighted mean of 2.25 or adequate.

Among the institutions, only coop B or CBSUA has given “moderately adequate” support for all the indicators in line with research and extension. Sorsogon State College showed “inadequate” support while the others supported the cooperatives adequately. This implies that these institutions did not fully consider the cooperatives in their school programs along research and extension activities, despite of the fact that this is one of the major functions of SUCs.

Table 17.8. Support of SUCs extended to the cooperatives along research and extension

Indicators		A	B	C	D	E	F	G	H	AWM	I	R
The institution communicates the value of a cooperative business as a means to enhance the vigor of rural communities.		2.08	3.06	2.35	2.35	1.90	2.69	1.55	2.05	2.25	A	1
Collaborate with the cooperative on its research and extension activities.		1.92	2.82	2.35	2.60	1.85	2.47	1.55	2.02	2.20	A	2
Provides researched-based information to cooperative leaders and members that will strengthen cooperative businesses.		1.92	3.00	2.05	2.10	1.80	2.28	1.55	1.88	2.07	A	3.5
Provides extension services to the cooperative.		1.92	2.82	2.10	2.10	1.85	2.19	1.60	1.95	2.07	A	3.5
AWM		1.96	2.93	2.21	2.29	1.85	2.41	1.56	1.97	2.15	A	
I		A	MA	A	A	A	A	I	A	A		
R		6	1	4	3	7	2	8	5			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	B – CBSUA F – BU
2	1.76 – 2.50	Adequate (A)	C – BISTCAST G – SOR
1	1.00 – 1.75	Inadequate (I)	D – CSPC H – CAT

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	B – CBSUA F – BU
2	1.76 – 2.50	Adequate (A)	C – BISTCAST G – SOR
1	1.00 – 1.75	Inadequate (I)	D – CSPC H – CAT

Table 17.9. Support of SUCs extended to the cooperatives along linkages and networking

Indicators	A	B	C	D	E	F	G	H	AWM	I	R
The institution worked in partnership with the Cooperative to provide networking and learning opportunities.	2.03	2.94	2.60	2.65	1.85	2.81	1.85	2.28	2.38	A	1
Collaborates with other agencies for the provision of a cooperative building through donation.	1.62	3.24	2.30	2.45	1.95	2.75	1.53	2.25	2.26	A	2
Supports the formation of cooperative businesses or "group-action" groups to strengthen the farm and food sector.	1.69	2.76	2.15	2.65	2.00	2.78	1.58	2.08	2.21	A	3
Entered into contract with the cooperative on its viable projects for the community.	1.67	2.94	2.05	2.25	1.65	2.64	1.55	2.09	2.11	A	4
Collaborates with other University Cooperative Academic Centers, Cooperative Development Centers, community economic developers, and other government agencies to enhance the economic vitality of cooperative businesses.	1.69	2.94	2.20	2.15	1.50	2.53	1.53	2.08	2.08	A	5
AWM	1.74	2.96	2.26	2.43	1.79	2.70	1.61	2.16	2.21	A	
I	1	MA	A	A	A	MA	I	A	A		
R	7	1	4	3	6	2	8	5			

Legend:

Value Scale	Mean Range	Interpretation	SUCs
4	3.26 – 4.00	Highly Adequate (HA)	A – Cam Norte E – PSU
3	2.51 – 3.25	Moderately Adequate (MA)	F – BU
2	1.76 – 2.50	Adequate (A)	G – SOR
1	1.00 – 1.75	Inadequate (I)	H – CAT

Linkages and Networking

The support services that can be extended by SUCs to the cooperatives in line with linkages and networking is shown in Table 17.9. The first support on partnership with the cooperatives to provide networking and learning opportunities was found “adequate” having an average weighted mean of 2.38.

All the indicators in this area were provided with almost equally “adequate” support from SUCs. However, CBSUA (coop B) and Bicol University (coop F) provided “moderately adequate” support. Some organizations in their institutions worked in partnership with the cooperative especially on their community involvement activities. These activities include: tree planting, cleanliness drive, information disseminations, and gift giving.

Performance of the Cooperatives

The performance and success of a cooperative depends, in part, upon its ability to mobilize its resources and members, not only in gaining market share and achieving economic growth, but also in maintaining members’ commitment and satisfaction. The cooperative performance is the overall result of the operation of the cooperatives which was evaluated using OSE-PISO indicators set by the CDA as the standard bases in evaluating cooperative performance.

The data were taken from the Cooperative Annual Performance Report submitted to the CDA for the Calendar Year 2012. The total rating of the cooperative can be obtained by adding 35 percent of the non-financial points, and 65 percent of the financial points. Based on the bracket ratings per category of the cooperative, the adjectival ratings were determined.

Table 17.10 presents the performance of SUC-based cooperatives in Region V. It can be noted, that the Partido State University (PSU) Credit Cooperative earned 79 points or 27.25 percent from the non-financial aspects and 60 points or 39 percent from the financial aspects with a total rating of 66.65 percent. This cooperative falls in micro category and the total rating was 66.65 percent which falls between 61-74 percent or “very satisfactory” performance.

CNSC - MPC, Trade Credit, BU - MPC, and SSC - MPC, show “satisfactory” performances. These cooperatives belong to the medium category which are rated under medium and large category where a much higher adjectival ratings were used. CBSUA MPC, CSPC MPC and CSC MPC, show “fair” performances. These coops earned only the minimum points.

Table 17.10. Performance of cooperatives in SUCs V, 2012

Coop	Non-financial		Financial		Total	Adjectival Rating
	Points	%	Points	%		
CNSC MPC	82	28.70	71	46.15	74.85	Satisfactory Performance
CBSUA MPC	81	28.35	58	37.70	66.05	Fair Performance
Trade Credit	83	29.05	73	47.45	76.50	Satisfactory Performance
CSPC MPC	55	19.25	58	37.70	56.95	Fair Performance
PSU Credit	79	27.65	60	39.00	66.65	Very Satisfactory Performance
BU MPC	89	31.15	60	39.00	70.15	Satisfactory Performance
SSC MPC	85	29.75	77	50.05	79.80	Satisfactory Performance
CSU MPC	73	25.55	64	41.60	67.15	Fair Performance

Reference: Appendix Tables 1 and 2

Legend:

Adjectival Rating	Category	
	Medium and Large (%)	Small (%)
Excellent Performance	91 - 100	81 - 100
Very Satisfactory Performance	81 - 90	71 - 80
Satisfactory Performance	71 - 80	61 - 70
Fair performance	61 - 70	51 - 60
Needs Improvement	60 and below	50 and below

Relationship between the Characteristics of Cooperatives and their Performance

The estimates of the Pearson correlation indicate that there is no significant relationship between the characteristics of cooperatives the non-financial and financial performance of the cooperatives (Table 17.11). It was noted that the membership, assets, liabilities, and capital share of the cooperatives do not affect the performance of the cooperatives. On the other hand, it is perceived that the performance of the cooperatives depends primarily on the leadership and management of the organization.

Table 17.11. Relationship between the characteristics of cooperatives and their performance

Characteristics of Cooperatives	Performance	P	P ²	SIG	STAT. SIG
Membership	Non-Financial	.262	.069	.531	NS
	Financial	.133	.018	.754	NS
Assets	Non-Financial	.048	.002	.911	NS
	Financial	.446	.199	.268	NS
Liabilities	Non-Financial	.071	.005	.867	NS
	Financial	.470	.221	.240	NS
Capital Share	Non-Financial	-.167	.028	.693	NS
	Financial	.422	.178	.298	NS

Note: NS: not significant (Sig.= ≥ 0.05)S: significant at 5% probability level (Sig.= ≤ 0.05)*Relationship between the Support Services of SUCs and Performance of the Cooperatives*

The support of SUCs in line with business opportunities and linkages and networking were found to have a significant negative relationship with the coefficients of -0.759 and -0.747 respectively (Table 17.12). One reason for this is because the support extended by SUCs to cooperatives were mostly on the management side financial performance of the cooperatives, as indicated by their Pearson which are non-monetary in nature and lack financial assistance. There could be more business activities and linkages between the institution and other agencies which did not realize income or profit to the cooperatives. It means that, if SUCs give more business opportunities it would incur more budget or expenses on the part of the cooperatives which would result to a negative effect on the financial aspect of the cooperatives. Likewise, if there are more linkages and networking, it would incur more expenses that would result to a negative effect on the financial aspect of the cooperatives.

Conversely, other support in line with rights and privileges, education, trainings and seminars, research and extension, and curriculum did not show any significant relationship with both financial and non-financial performance of the cooperatives, as denoted by their respective coefficients.

Table 17.12. Relationship between the support services of SUCs and performance of the cooperatives

Support of SUCS to Cooperatives	Performance	ρ	ρ^2	SIG	STAT. SIG
Rights and Privileges	Non-Financial	-.095	.009	.823	NS
	Financial	-.578	.334	.133	NS
Education, Trainings and Seminars	Non-Financial	.190	.036	.651	NS
	Financial	-.337	.114	.414	NS
Business Opportunities	Non-Financial	-.167	.028	.693	NS
	Financial	-.759*	.576	.029	S
Linkages and Networking	Non-Financial	-.095	.009	.823	NS
	Financial	-.747*	.558	.033	S
Research and Extension	Non-Financial	-.048	.002	.911	NS
	Financial	-.687	.472	.060	NS
Curriculum	Non-Financial	-.119	.014	.779	NS
	Financial	-.663	.440	.073	NS

Note: NS: not significant (Sig.= ≥ 0.05)S: significant at 5% probability level (Sig.= ≤ 0.05)

Conclusions and Recommendations

Based on the findings of the study, the researcher concluded that cooperatives should be registered and evaluated annually based on the criteria set by the CDA and the implementing rules and regulations under R.A. 9520. They are classified depending on the type of services they are providing to its members, and categorized as micro, small, medium, and large based on the amount of capitalization set by the CDA. The rights and privileges of cooperatives are mandated in R.A. 9520 which shall be provided by all government agencies.

Correlation results showed that the characteristics of the cooperatives is not significantly related to their performance. The performance of the cooperatives depends more on the leadership, management, and government support in line with their rights and privileges. A key factor for a successful cooperative is strong management regardless of its category.

The result of the study implies that other institutions have not been serious in their support for the cooperatives. Some institutions perhaps are still unaware of the Republic Act and its implementing rules and regulations. That is why only “adequate” support were given to cooperatives.

From the conclusions given, the researcher recommends the following:

More linkages with other agencies and enhance the services based on the priority needs of the members are essential. The Board of Directors of the SUC-based cooperatives should formulate a policy in order to realize the need for an increase in membership which shall correspond to an increase in capital that will lead to a subsequent increase in assets.

The officers and management staff should religiously implement the policies and harmonize resources to contribute to the success of the cooperatives. The cooperative managers in particular should fully implement total quality management to ensure the delivery of quality services for the satisfaction of the members. Satisfied members shall then have full trust and may have a great deal of commitment to the cooperative, and thus, lead to achieving economic development, social justice and successful cooperative.

The heads of the institutions and cooperative managers including the CDA should be aware of their duties and responsibilities. The 1987 Constitution being supported by RA 9520 and its implementing rules and regulations should be well enforced in order to ensure that the growth and development of the cooperatives be fully attained. This calls for long term plans and programs for sustainable linkages and networking between the concerned agencies. The SUCs should balance their financial and non-financial support to cooperatives in order to overcome its negative effect to the cooperative performance.

SUMMARY

This study determined the support of SUCs and assessed the performance of the cooperatives in the Bicol Region. Specifically, it aimed to: (1) describe the profile of SUC-based cooperatives in the Bicol Region in terms of type, category, membership, services offered, assets, liabilities, capital/shares, linkages, benefits and incentives; (2) determine the support services extended by SUCs to the cooperatives along members' rights and privileges, education, trainings and seminars, curriculum, business opportunities, research and extension, linkages and networking; (3) assess the performance of the said cooperatives in terms of OSE-PISO and in relation to its characteristics; and (4) examine the support services provided by SUCs to the cooperatives. The descriptive-qualitative analysis using correlational methods were used to describe the profile of the SUC-based cooperatives and determine the support services of SUCs extended to the cooperatives in line with rights and privileges, education, trainings and seminars, curriculum, business opportunities, research and extension, and linkages and networking, and the performance of the cooperatives based on the OSE-PISO indicators.

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Appendix Table 17.1. Linkages of cooperatives in SUCs V

Linkages	CNSC-MPC	CBSUA-MPC	Trade Credit	CSPC-MPC	PSU-Credit	BU-MPC	SSC-MPC	CSC-MPC	Total
NATCCO	•								1
PFTEC	•								1
CNKUI	•								1
CLIMBS	•								1
BICUL	•								1
CNCCI	•								1
UCPB				•					1
CGEI				•					1
LBP				•					1
LGU Nabua				•					1
LBP Malate, Manila								•	1
Total	7	1	1	5	1	1	1	2	19

Appendix Table 17.2. Checklist of benefits/incentives of cooperatives in SUCs V

Linkages	CNSC-MPC	CBSUA-MPC	Trade Credit	CSPC-MPC	PSU-Credit	BU-MPC	SSC-MPC	CSC-MPC	Total
NATCCO	•								1
PFTEC	•								1
CNKUI	•								1
CLIMBS	•								1
BICUL	•								1
CNCCI	•								1
UCPB				•					1
CGEI				•					1
LBP				•					1
LGU Nabua				•					1
LBP Malate, Manila								•	1
Total	7	1	1	5	1	1	1	2	19

CHAPTER 18

The Financial Performance of Selected Cooperatives in Cagayan de Oro City

RUSTUM D. GEVERO AND WILSON C. BATION

Introduction

Determining the financial performance of cooperatives is important. On the one hand, healthy financial ratios can point to sound policies and efficient operations. On the other hand, ratios that need to be improved are signals that certain actions need to be done in order to alleviate the financial situation of the co-op. Closed-type cooperatives do not just accept any member at any time. Usually, membership in an organization is a requirement. Open-type cooperatives are more liberal. They just call for certain simple criteria. The objective of this study is to determine the financial performance of selected credit cooperatives of Cagayan de Oro City. In this study, financial performance is limited to efficiency in terms of net profit margin and return on assets and effectiveness in terms of growth in revenue. Profit margin is net surplus divided sales while return on assets is net surplus divided by total assets. Financial statements analysis is a good gauge of the condition of cooperative. It can highlight the strengths as well as areas that need to be improved (Dayanandan 2012).

This study concentrated on the five selected existing credit cooperatives in Cagayan de Oro City from 2014-2015 based on their geographical locations. On the one hand, the type of cooperative will have a heavy impact on the net surplus margin and return on assets. Closed-type cooperatives are strict in terms of membership while the open-type accept members based on simple criteria (Bhuyan and Leistriz 2010). Thus, open-type cooperatives usually have a lot of members. According to Relampagos, credit cooperatives with many members may experience rising operating costs because of savings deposits mobilization (1990). Rising costs, *ceteris paribus*, will cause lower net surplus margins and return on asset ratios.

On the other hand, revenue growth will favor the open-type cooperatives, since they have significantly more members. They have more members because of their open membership policy (Bhuyan and Leistriz 2010). Consequently, they are able to generate more loans, the main source of revenue for credit cooperatives. Contrast this to the closed-type cooperatives which are limited to the employees of an institution or company. In short, the type of cooperative

may have an impact on the net profit margin, return on assets, and revenue growth. Relampagos mentions that the open-type cooperatives experience loan delinquency problems, while the closed-type cooperatives have little collection problems because loan repayment is done through payroll deduction (1990). Llanto discusses that the payroll deduction system had proven to be an effective loan collection system (1994). Such system is very easy to do with closed-type cooperatives, thus resulting to favorable financial performance ratios like net profit margin and return on assets when compared to the open-type co-ops.

Methodology

The time period included in the evaluation was year 2013-2014. Convenience sampling was used in the study. Five cooperatives in Cagayan de Oro were chosen, namely, Del Monte Philippines Incorporated – Employees and Community Credit Cooperative (Del Monte), First Community Cooperative (FICCO), Mindanao State University – Iligan Institute of Technology National Multipurpose Cooperative (MSU), Oro Integrated Cooperative (OIC), and Xavier University Community Credit Cooperative (XUCCCO). Geographical location was the primary consideration for the selection of the cooperatives. These cooperatives are within the boundaries of Cagayan de Oro City. Del Monte is in the easternmost part of the city while MSU is in the western area. FICCO, OIC and XUCCCO are in the heart of Cagayan de Oro.

In order to gather the needed financial data, the different branches were visited and they were then requested to provide a copy of their annual reports. The data collected from annual reports of the cooperatives comprised of the revenue, net surplus, and total assets covering the period of 2013-2014. With the data collected, financial ratios were computed using the following equations:

$$\text{Net profit margin} = \frac{\text{Net surplus}}{\text{Sales}}$$

$$\text{Return on assets} = \frac{\text{Net surplus}}{\text{Assets}}$$

The 2013 and 2014 revenue data were then put side by side in order to compute for the revenue growth rate. Vertical analysis was also made, looking at the ratios of one cooperative vis-à-vis the others.

Results and Discussion

FICCO, MSU, and OIC are open-type cooperatives. They are more relaxed in terms of membership requirements. Among the five co-ops, they have more employees, more members, higher total deposits, and larger assets. On the contrary, Del Monte and XUCCCO are of the closed-type. Their members are limited to the employees of Del Monte and Xavier University, respectively. Thus, they have less employees, fewer members, lower total deposits and smaller assets.

FICCO was registered in 1954, the earliest among the selected cooperatives. XUCCCO was registered in 1991, the latest among the five. In terms of number of employees, FICCO has the most number of employees, totaling to 320 workers. This is followed by OIC with 288 workers. On the other hand, XUCCCO has the smallest workforce with only five regular employees. As per membership base, FICCO again recorded the largest number of members with 222,160. This is followed by OIC with 137,726 members. XUCCCO has only 1,515 members, the smallest among the five cooperatives.

For the assets, FICCO has the largest amount of assets totaling to PHP8.5 billion followed by OIC with PHP2.2 billion worth of assets. The smallest amount of assets is reported by XUCCCO with PHP228.3 million. Correspondingly, FICCO has the highest total deposits amounting to PHP3.4 billion followed by OIC with PHP971.4 million. The cooperative with the lowest amount of total deposits is Del Monte. The total deposits may reflect the members' cooperation and desire to save which is crucial in developing the culture of saving among the members. Table 18.1 summarizes the profile of the selected cooperatives by year of registration, number of employees, number of members, amount of assets, and total deposits.

Table 18.1. Profile of the five selected cooperatives

Name of cooperative	Year registered	No. of employees	No. of members	Amount of assets (PHP)	Total deposits (PHP)
Del Monte	1963	11	2,871	369,078,787	31,099,844
FICCO	1954	320	222,160	8,513,576,979	3,382,734,735
MSU	1978	250	4,200	1,266,901,846	666,844,948
OIC	1966	288	137,726	2,187,355,636	971,452,274
XUCCCO	1991	5	1,515	228,272,152	71,926,581

The types of loans offered by the five selected cooperatives in Cagayan de Oro City are listed in Table 18.2. XUCCCO has the most with 25, followed by FICCO's 22. Del Monte and MSU have the fewest types of loans at 11.

Table 18.3 shows the profitability and revenue growth of the five cooperatives. Del Monte shows a profit margin of 87.46 percent, followed by XUCCCO's 74.87 percent.

Table 18.2. Types of loans offered by the five cooperatives

Name of cooperative	Types of loans
Del Monte (11 loans)	appliance and building, special, coop guaranteed, back to back, regular, educational, extra-regular, maxi loan, instant, loan against dividend, and members account reform loans
FICCO (22)	productive, providential, loan against savings deposits, loan against total deposits, petty cash, appliance, motorcycle, educational, travel/tour, rice, jewelry, optical, dental, cellphone, emergency, medical, salary, dividend, star loan, foreclosed property, pension, and hog raising loans
MSU (11)	petty cash, short-term, multi-purpose, back-to-back time deposit, equipment, medical emergency, COSA real loan, loan for entrepreneur, purchase order, coop care, and credit line
OIC (19)	instant loans, providential, commercial, real estate, appliance, motorcycle/motorela, vehicle, agricultural, salary, financial assistance for barangay officials, loan against time deposits, livelihood, show money, pension, receivable financing, allotment (OFW Seamen), petty cash, educational, and FASS loan for farmers
XUCCCO (25)	regular, multi-purpose, medical, MEAL, home assistance, educational, calamity, petty cash, water and light, furniture and appliance, emergency, travel, special occasion, healthcare/pension plan, memorial lot, buy-out, vehicle, loan against deposit, savings, share, <i>pabaon</i> , time deposit, loan restructure, <i>pamasahe</i> , and 13 th month pay

Table 18.3. Profitability and revenue growth of the five cooperatives, 2014

Name of cooperative	Type of cooperative	Profitability (%)		Revenue growth (%)
		Profit margin	Return on assets	
Del Monte	Closed-type	87.46	11.27	7.98
FICCO	Open-type	38.81	5.40	37.89
MSU	Open-type	18.27	1.74	11.02
OIC	Open-type	36.74	6.22	18.30
XUCCCO	Closed-type	74.87	7.51	5.63
Average		51.23	6.43	16.36

In terms of return on assets, Del Monte tops the list with 11.27 percent. This means that for every peso of asset, the cooperative gets PHP0.11 of net income. Put in another way, this shows how hard the assets are working in order to produce a net income.

FICCO shows the most positive revenue growth with 37.89 percent. OIC is a distant second with 18.30 percent. XUCCCO has the lowest with only 5.63 percent growth rate.

In terms of profitability, both Del Monte and XUCCCO performed very well as they are closed-type cooperatives. Loan and interest payment collection are very easy to do. The cooperative can just ask the member to sign a payroll deduction form and then the loan and interest payments are just forwarded to the cooperative passively and automatically.

In the case of FICCO, MSU and OIC, the open-type cooperatives, they may incur higher bad debts because of payment collection problems. Collectors may be needed in order to facilitate and hasten loan and loan interest payments.

The average profit margin of 51.23 percent shows that the five cooperatives are producing significant net surpluses out of their revenues and assets. This can mean prudence in terms of their usage of expenses. This can also point to sound financial management. In terms of revenue growth, the average of 16.36 percent reveals that revenues for the five cooperatives are going uphill. This can be good news for the members as more revenues, *ceteris paribus*, can mean more net surplus and ultimately, more dividends.

In the return on assets or the asset efficiency area, two things can be looked into: the type of cooperative (open or closed-type) and asset size (Table 18.1). The type of cooperative still has a high bearing, but other factors will then come into play why one closed-type cooperative would perform better than the other or why one open type cooperative would get a higher efficiency over another.

Del Monte is the most efficient (11.27%). It has a lesser amount of assets (PHP369 million) and members (2,900) to take care of when compared to the open-type cooperatives. The size of membership may have an effect on the efficiency of the cooperatives. The more members they have, the less efficient the cooperative tends to be. XUCCCO comes in second, having an ROA of 7.51 percent. It is a closed-type cooperative like Del Monte. Among the five cooperatives, it has the least amount of assets to manage (PHP228 million). Note that the two closed-type cooperatives have the highest ROA ratios. At third is OIC with an ROA of 6.22 percent. It performs better than FICCO because it has relatively lesser amount of assets and members to handle, PHP1.2 billion as against FICCO's PHP8.5 billion and around 137 thousand members versus the latter's 222 thousand. FICCO is at fourth with 5.40 percent. In fifth place is MSU with 1.74 percent. Though it has fewer assets to think about (PHP1.3 billion) when compared to FICCO and OIC, it has a smaller ROA ratio.

The revenue growth column in Table 18.3 is interesting to look at. In this area, FICCO has the highest with 37.89 percent while Del Monte and XUCCCO are the last placers with growth rates of 7.98 percent and 5.63 percent respectively. However, the two cooperatives (Del Monte and XUCCCO) are the most profitable

and the most efficient among the five. This shows that while revenue growth is commendable, this does not automatically lead to better overall performance. Still, revenue growth is something that needs to be considered as it can signify loyalty.

Conclusions and Recommendations

Based on the five cooperatives that were studied, the following conclusions are drawn: First, the closed-type cooperatives, Del Monte (87.46%) and XUCCCO (74.87%), obtain the higher net profit margins. Second, the open-type cooperatives in the study got lesser net profit margins. FICCO has 38.81 percent, MSU 18.27 percent, and OIC 36.74 percent. Third, among the five, the closed-type cooperatives have better asset efficiency performance. The closed-type cooperatives, Del Monte and XUCCCO, have the higher ROA at 11.27 percent and 7.51 percent, respectively. The open-type cooperatives have less ROA: OIC at 6.22 percent, FICCO 5.40 percent and MSU 1.74 percent. Fourth, greater revenue growth does not necessarily mean better profitability and higher efficiency. Del Monte (7.98%) and XUCCCO (5.63%) are the lowest in terms of revenue growth, but they are the top two performers in the profitability and asset efficiency areas.

It is recommended that the open-type cooperatives attempt to pattern their collection schemes after that of the closed-type. Whenever payroll deduction collection method is possible, this should be implemented. This may then lead to lower delinquency rates, thus, better profitability and asset efficiency. If the payroll deduction method cannot be done, then efforts should be expended on how to assure collection of loan repayments. Some options are to increase the number of collectors, to strengthen the co-maker system if one exists already, and to implement a checking system to make sure that net take home pays are still healthy before approving any loan.

Since the study was only limited to five cooperatives, to further validate the findings, it is proposed that future comparative studies will cover more cooperatives and more areas in Cagayan de Oro. It is projected then that the next studies will be intra-city studies (within city comparisons) and these will be followed by inter-city studies, that is, comparing Cagayan de Oro with Bukidnon, Camiguin and the other cities of Region X.

SUMMARY

This chapter discusses the financial performance of five selected credit cooperatives in Cagayan de Oro City. These cooperatives include the Del Monte Philippines Incorporated – Employees and Community Credit Cooperative (Del Monte), First Community Cooperative (FICCO), Mindanao State University – Iligan Institute of Technology National Multipurpose Cooperative (MSU), Oro Integrated Cooperative (OIC), and Xavier University Community Credit Cooperative (XUCCCO). The financial analysis covered the fiscal period 2013-2014 of the cooperatives. The annual reports were the key source of the financial data used in the study.

Findings show that the five cooperatives had healthy profitability rates and return on assets. Del Monte and XUCCCO, which are both closed type cooperatives, did very well in the profitability area as they posted net profit margins of more than 70 percent. FICCO and OIC registered the highest revenue growth rates. In terms of the return on assets ratio, all five cooperatives except MSU got more than 5 percent.

The following conclusions are drawn from the study: First, closed-type cooperatives obtain higher net profit margins and have better asset efficiency performances than open-type co-ops. And second, greater revenue growth does not necessarily mean better profitability and higher efficiency. It is recommended that future researches be done in other cooperatives in Cagayan de Oro City to confirm or refute the existing findings of this study. After which, cooperatives in the other cities of Region X can also be studied and compared with those in Cagayan de Oro.

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Glossary of terms

Assets – are economic resources that are controlled by an entity and whose cost (fair value) at the time of acquisition could be objectively measured.

Closed-type cooperative – a cooperative that is institution or employee based. Usually, company-based cooperatives are closed type cooperatives because being employed in the organization is a requirement for membership.

Credit cooperative – is one that promotes and undertakes savings and lending services among its members. It generates a common pool of funds in order to provide financial assistance to its members for productive and provident purposes.

Open-type cooperative – a cooperative that is community or market based. It has an open membership policy. New members are accepted provided that they meet the established criteria.

Profit – is the difference between revenue and expense.

Profit margin – measures the percentage of each sales peso remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted.

Return on total assets – often called the return on investment, measures the overall effectiveness of management in generating profits with its available assets.

Revenue – is the amount charged for the delivery of goods or services in the ordinary activities of a business over a stated period; the inflows of economic resources to a company over a stated period.

Part V

Financial Access through Cooperatives

CHAPTER 19

Assessment of the Capability of Hog Raisers' Cooperatives as Conduits of Agricultural Loans in Laguna, Philippines

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Introduction

In the Philippines, the hogs industry is considered as the second largest contributor to the country's agriculture coming in second to rice. In fact, in 2012 the country's total swine inventory was estimated at 11.7 million heads. It is also during the same year when this subsector had a share of two percent to 2.8 percent of the total value of the gross domestic product (GDP) (PCAARRD 2012). At present, 64 percent of the total hog populations are raised in backyard while 36 percent are raised commercially. The top producing regions are CALABARZON (13.1%), Western Visayas (11.6%), Central Luzon (10.7%), Bicol Region (7.8%), and Eastern Visayas (7.3%) (PCAARRD 2013).

With the preponderance of backyard hog raisers in the country it is argued that growth in this sector can be best achieved with the use of credit. This is supported by the Agriculture and Fisheries (AF) 2025 Summit which identified credit, or lack of it, as a major stumbling block to the attainment of the development goals of the various agriculture subsectors (ACPC 2011). It is common argument that farm credit, a means to externally finance small farms, enhances productivity, raises farmers' income level, and improves standard of living by breaking the vicious cycle of poverty of small-scale farmers (Pabuayon et al. 2013).

Notwithstanding the various efforts of the government to enhance credit accessibility and availability in the Philippine livestock subsector, hog raisers are still characterized as having limited absorptive capacity and bankability. At present, majority of the raisers obtained only a small portion of credit because small farmers, in general, are considered to be "non-bankable" and highly subject to risks and uncertainties. With these, hog raisers are experiencing financial difficulties with little or no capacity to expand and meet the demands of their clientele as they cannot comply with the necessary capital requirements particularly new technologies. The same results were reported in the study by Merrera (2004). This is also evident in the study by Piadozo and Malabayabas (2014) wherein hog raisers have difficulty in tapping the modern food stores because they do not simply meet the buyer's requirements such as product quality,

volume, and supply stability. In effect, more often, the hog raisers and even other farmers were compelled to obtain loans from informal lenders who are a lot of times considered as the local usurers and loan sharks just to meet these demands.

In response, forming and strengthening of hog raiser's cooperatives as a conduit of credit is deemed necessary to help the local swine farmers to increase their global and local competitiveness. As a countryside partner, the cooperative should not only be viewed as mere passive recipient of cheap credit but as a dynamic partner and supplier of loanable funds as well. Presently, the government through the Cooperative Development Authority (CDA) remains consistent in making strides to increase the cooperatives' capability for small hog raisers to access financing from banks or other formal sources and avail themselves of other critical support services such as training and extension and new production technologies. However, in spite of these government efforts, still the cooperatives have long been criticized for their inefficient decision making process and their capital constraints (Acuna et al. 2013). These criticisms could also be traced from the inability of these cooperatives to bring about significant financial performance from their operation and resolve their internal control weaknesses.

Up to this date, it is not known to what extent the credit cooperatives have used the basic financial tools to come up with a critical analysis necessary for them to enhance their decision-making process, and institute appropriate internal controls to safeguard their resources and minimize the impact of business risks. It is believed that unsound management of credit services as well as the improper regulations among members will result in financial collapses that affect their normal level of income.

The study therefore aimed to assess the capability of the hog raisers' cooperatives as conduits of agricultural loans in Laguna. Specifically, it sought to: assess the performance of the hog raisers' cooperatives as conduit of loans; determine the association between the cooperative's financial performance vis-à-vis the member-borrower's capability to pay on time; and recommend strategies and policy directions to address the issues and concerns affecting the cooperative's capability as a conduit of credit.

Methodology

The study used both secondary and primary data. These data were generated from all the cooperatives in Laguna with credit and savings services for hog raisers, namely: (1) Laguan Multi-Purpose Cooperative (Laguan MPC); (2) Luisiana Livestock Multi-Purpose Cooperative; (3) Adia Multi-Purpose Cooperative (Adia MPC); (4) Samahan ng Magsasakang Gatid Multi-Purpose Cooperative (SAMAGA MPC); (5) Famy Community Transport Services and Multi-Purpose Cooperative (FCTSMPC); (6) National Irrigation Authority (NIA) Region

IV Employees Multi-Purpose Cooperative; (7) KAP-WESL Multi-purpose Cooperative; (8) Barangay II-F Multi-Purpose Cooperative; and (9) Sandigan ng Mamamayan Multi-Purpose Cooperative. Data from secondary sources were also obtained to assess both the financial and nonfinancial performance of the cooperatives using the cooperative annual performance report taken from the CDA. Discussed herein are the various procedures used in the analysis.

Analytical Procedures

In assessing the capability of the hog raisers' cooperative as conduits of agricultural loans in Laguna, a two level analysis was done. The first part focused on the cooperatives' performance while the second part analyzed the capability of its hog raiser-members to make timely payments. As previously mentioned, the viability of the cooperatives with credit and savings services could be affected by the repayment performance of its member-borrowers.

Descriptive Analysis

Text, tables, and diagrams were used to describe the assistance provided by the hog raiser's cooperatives to their members. Furthermore, the key problem areas surrounding both the financial and administrative management functions of the cooperatives were also presented in this study through this analysis.

Analysis of Cooperative Performance

The study analysed the cooperatives' capability as conduits of agricultural loans to its farmer-members. For this purpose, the CDA's Cooperative Standard Performance Rating Approach was used. This approach encompasses both the non-financial and financial performance of the cooperatives. These performance indicators were derived from the Cooperative Standard Performance report prepared by CDA in collaboration with other supervisory and regulatory agencies. For the non-financial component, there are series of questions answerable by Yes or No. If the answer is "Yes", the cooperative has to make sure that it can be substantiated by necessary documents. A "Yes" response shall earn the full point to be noted in the points earned while a No response shall mean zero (0). On the other hand, the financial component of the cooperative's performance evaluation was based on the financial statements and cooperative's annual performance report in 2013. Through these secondary data, the financial condition including the profitability performance, institutional strength, structure of assets and operational strength of a cooperative was assessed.

The non-financial and financial components were weighted as 35 percent and 65 percent, respectively based from the CDA Memorandum Circular No. 2013-15 (CDA 2011). The sum of the sub-total points earned to the weight allocated in each component was multiplied and then their product was added to get the total percentage points. In Table 19.1, the adjectival rating of the total percentage score were scaled vis-à-vis the results obtained from the evaluation.

The rating scale include the following categories: excellent, very satisfactory, satisfactory, fair and needs improvement. An excellent rating means that the cooperative has a strong performance that consistently provides safe and sound operations. Furthermore, the cooperative complies with cooperative rules and regulations and is resistant to external shocks and financial disturbances. It is also able to withstand unexpected adverse changes in business environment and does not need supervisory concern.

On the other hand a very satisfactory performance means that the cooperative consistently provides safe and sound operations. The cooperatives in this group are able to withstand business fluctuations well. However, there are some areas of concern that require important attention which if unchecked, can potentially develop into conditions of greater concern. Supervisory response is limited to minor adjustments to ensure that operations continue to be satisfactory and sustainable.

Meanwhile, the third rating which refers to satisfactory performance means that a cooperative is flawed to some degree and is a supervisory concern. Results of key performance measures indicate that safe and sound operations may be adversely affected. The cooperatives in this group are only nominally resistant to adverse business conditions and may deteriorate if identifiable areas of weakness are not corrected immediately.

The fourth rating refers to fair performance rating. Under this rating, the cooperative is of serious supervisory concern. In fact, its performance if left unchecked would lead to conditions that could threaten its viability. A high potential for failure is present but is not yet imminent. The cooperatives in this group require very close supervisory attention.

Lastly, a cooperative with poor or needs improvement rating has unsatisfactory performance and is in need of immediate remedial attention. The cooperatives in this group have a very high probability of failure and will likely require liquidation.

The cooperative were also classified as micro, small, medium, and large cooperatives based on their total assets: micro (up to PHP3,000,000), small (PHP3,000,001 - PHP15,000,000), medium and large (above PHP15,000,000) (DTI 2008). The classification was used to determine the adjectival rating of the cooperatives under study (Table 19.1).

Table 19.1. Rating system for the overall performance of the cooperatives with credit and savings services in the Philippines (in percent)

Adjectival Rating	Medium and Large	Small	Micro
Excellent Performance	91-100	81-100	75-100
Very Satisfactory Performance	81-90	71-80	61-74
Satisfactory Performance	71-80	61-70	51-60
Fair Performance	61-70	51-60	41-50
Needs Improvement	60 and below	50and below	40 and Below

Source: Attachment in CDA Memorandum Circular No. 2013-15 dated February 25, 2013

Correlation Analysis

A correlation analysis was then used to determine if there is an association between the financial performance of the cooperative and the capability of the cooperatives' member-borrowers to pay on time. For this objective, two kinds of correlation analysis were employed, namely, Pearson correlation and Spearman correlation analyses.

For Pearson correlation analysis, the proportion of the member-borrowers who pay on time to the total cooperative's member-borrowers was correlated with the following cooperatives' financial measures, namely: assets, profitability, and operational strength.

On other hand, the Spearman correlation analysis was used to associate the proportion of the member-borrowers who pay on time to the total cooperative's member-borrowers with the other cooperatives' financial measures, namely: solvency and net institutional capital. This was employed as it measures the strength of association between two variables that are either ordinal, interval or ratio. Unlike Pearson correlation analysis, this analysis used the ratings for solvency and net institutional capital. Thus, this statistical tool was still valid.

The correlation coefficient (ρ) is given by

$$\rho = \frac{\sigma_{xy}}{\sigma_x \sigma_y} \quad (1)$$

where:

σ_{xy} = population covariance between X and Y,
 σ_x = population standard deviation of X values, while
 σ_y = population standard deviation of Y values.

The covariance between X and Y measured the co-variation between the two variables. This was computed using the following formula:

$$\sigma_{xy} = \sum_{i=1}^N \frac{(X_i - \mu_x)(Y_i - \mu_y)}{N} \quad (2)$$

where:

μ_x = population means of X, and

μ_y = population means of Y.

The value for ρ takes on values from -1 to +1. As a rule of thumb, the qualitative interpretation for the correlation coefficient is shown in Table 19.2.

Table 19.2. Qualitative interpretations of the different values of correlation coefficient (ρ)

Absolute Value of ρ	Strength of the Linear Relationship
(0.0-0.2)	Very Weak
(0.2-0.4)	Weak
(0.4-0.6)	Moderate
(0.6-0.8)	Strong
(0.8-1.0)	Very Strong

Source: Albacea et al. 2012

Results and Discussion

Status of Cooperatives in Laguna

Starting with a mutual fund of a few hundred pesos, cooperatives in the Philippines have grown and prospered through self-help, mutuality, and service to members. These include farmers, fisherfolks, farm workers, women, small vendors, teachers, government employees, military personnel, and people with disabilities. They have pooled together their meagre resources and harnessed their collective potential to help one another for the common good (CDA 2011).

There are 556 registered cooperatives in Laguna (CDA 2014). This accounts for 2.26 percent of the total number of cooperatives across the country in 2014. About 60 percent are multi-purpose cooperatives while 9.53 percent are credit cooperatives (Figure 19.1). The rest are consumer cooperatives, service cooperatives, marketing cooperatives, producers' cooperatives, and other cooperatives with different types of operations.

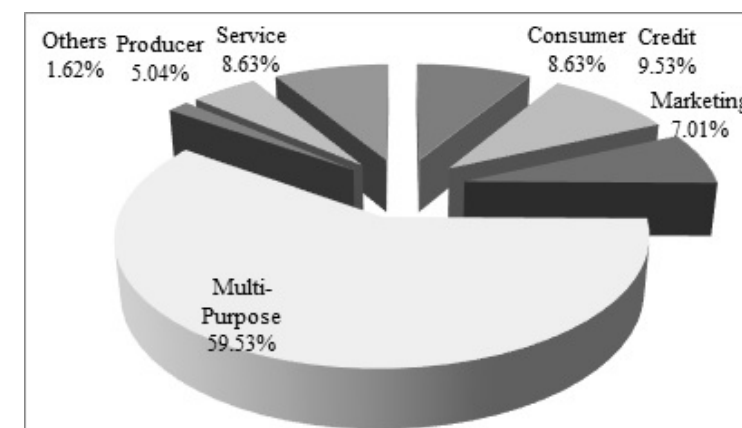


Figure 19.1. Distribution of cooperatives by type, Laguna, 2014

Hog Raisers Cooperatives in Laguna

As mentioned earlier, there are nine (9) hog raisers' cooperatives in Laguna all of which are primary multipurpose cooperatives. A multipurpose cooperative is composed of natural persons with resources that are pooled and invested to different business activities being undertaken by the cooperative (CDA 2011). Of these nine cooperatives scattered all over Laguna, 7 are located in the East while the other two cooperatives are found in the southern part of the province. This is due to the unique agro-climatic characteristics of the province which are suitable for hog raising.

Of these cooperatives, the NIA Region IV Employees MPC is the oldest and has the largest number of members (5,567) and general reserves of about PHP2,368,984. Its total paid-up share capital had reached PHP32,826,90. Not far from this is the Famy Community Transport Services and MPC with total paid-up capital of about PHP4,239,520. On the other hand, SAMAGA MPC is the youngest with only PHP117,300 paid-up share capital while the Adia MPC had the lowest total number of members (78) (Table 19.3).

As such, it is viewed that the older the cooperative the higher the number of members and paid-up capital. This means that membership must be given importance to expansion and profitability of a cooperative's operations.

Table 19.3. Characteristics of the hog raisers' cooperatives, Laguna, 2014

Cooperative	Location	Date Registered	Total Number of Employees	Characteristics		General Reserve Fund	Category of the Cooperatives
				Total Number of Members	Paid-up Capital		
Adia MPC	Santa Maria	May 30, 2005	13	78	570,910.00	130,975.00	Primary
Barangay II-F MPC	San Pablo City	August 5, 1991	6	1,699	3,645,040.00	357,949.00	Primary
Famy Community Transport Services & MPC	Famy	January 3, 2008	9	380	4,239,520.00	233,377.95	Primary
KAP-WESL MPC	Pila	July 15, 2008	4	115	25,500.00	1,088.61.00	Primary
Laguan MPC	Rizal	October 13, 2004	9	278	253,427.10	53,371.96.00	Primary
Luisiana Livestock MPC	Luisina	July 22, 2003	4	204	1,056,498.00	123,233.00	Primary
NIA Region IV Employees MPC	Pila	August 2, 1991	43	5,567	32,826,900.00	2,368,984.00	Primary
Samahanng Magsasakang Gatid MPC	Santa Cruz	February 26, 2010	8	96	117,300.00	39,178.00	Primary
Sandiganng Mamamayan MPC	San Pablo City	March 9, 1993	5	863	2,306,200.00	401,071.00	Primary

Source: CDA Calamba Regional Office

Sources of Loanable Funds

In reference to Table 19.4, almost all the cooperatives, except ADIA MPC and Luisiana Livestock MPC, have been sourcing their funds from the Land Bank of the Philippines (LBP). The two cooperatives chose not to borrow from LBP due to longer travel and transaction time to acquire loans because of their distant location. Hence, they were compelled to borrow from other formal moneylenders like United Coconut Planters Bank (UCPB), and other rural banks which are located near their vicinity. Meanwhile, it can also be observed that all of the cooperatives used the share capital of their members for the cooperative to earn more from their lending operation.

Table 19.4. Sources of funds of hog raisers' cooperatives, Laguna, Philippines, 2013

Cooperatives	Source of Loanable Funds					
	Land Bank of the Philippines		Share Capital		Others	
	Amount	%	Amount	%	Amount	%
Adia MPC	0.00	0.00	476,935	91.13	149,565	8.87
Barangay II-F MPC	5,200,000	48.28	3,569,304.85	33.15	2,000,229.15	18.57
Famy Community Transport Services & MPC	2,184,000	32.84	4,367,420	65.66	100,000	1.50
KAP-WESL MPC	74,000	66.62	25,500	22.96	11,572.10	10.42
Laguan MPC	1,360,000	42.37	996,115	31.03	853,885	26.60
Luisiana Livestock MPC	0.00	0.00	1,056,498	55.45	848,680	44.55
NIA Region IV Employees MPC	29,117,000	47.01	32,826,900	52.99	0.00	0.00
Samahanng Magsasakang Gatid (SAMAGA) MPC	490,000	68.38	117,300	16.37	109,310	15.25
Sandiganng Mamamayan MPC	224,000	6.39	2,306,200	65.80	974,800	27.81

Source of basic data: Analysis of Cooperative Annual Performance Reports and Financial Statements 2013

Nevertheless, it should be worth noting that majority of the cooperatives are not large enough to resort to their capital. This can be seen in NIA Region IV Employees MPC with almost half of the loanable funds coming from LBP. The Luisiana Livestock MPC also got 44.55 percent of their loanable funds from external borrowings.

Analysis of the Cooperatives’ Performance

Control is highly critical for the entire credit cooperatives to achieve financial sustainability and higher capability to effectively and efficiently manage their business activities. As a key step in the management control function in retailing credit, an analysis of the cooperative’s performance in its operation was carried out. This is to help the cooperatives in determining the problem areas causing their underperformance. The ensuing discussions show the details of the financial and non-financial performance of the nine identified hog raisers’ cooperatives with credit services. These are used to assess the cooperative’s capability as conduits of agricultural loans for 2013. However, only three cooperatives, namely Laguan MPC, Adia MPC, and SAMAGA MPC, had the complete information for the analyses.

Financial Performance of the Cooperatives

Results of the evaluation showed that except for Adia MPC, the cooperatives had a profitability ratio of less than 50 percent. The Luisiana Livestock MPC on the other hand had a negative profitability ratio of (-0.24) showing a net loss on the cooperative’s business activities. The low profitability provides a critical indicator of inefficiency in the operations that could impair the entire financial system. Increasing receivables and past dues pose another issue in managing the cooperative’s resources to keep its operations viable and sound. In fact, the inability of the cooperatives to manage such account is manifested in cash outflow. As claimed by the managers of the cooperatives during the interview, there seems to be a problem on the low generation of savings and share capital contributions from all the members. This scenario is detrimental to the cooperatives in attaining financial sustainability since the mobility of cash inflows in the cooperatives’ business become hampered as the receivables and past dues (cash outflows) increase through time.

Institutional Strength

Institutional strength determines whether financial services can be delivered to its members in a sustained manner. One way to do this is to increase the

institutional capital of the cooperatives instead of purely relying on the member’s share capital. This will allow the cooperatives sufficient liquidity to meet the financial needs of its members in a timely manner.

As shown in Table 19.5 the Laguan Multi-purpose Cooperative has the highest net institutional capital (69.42%) and net institutional capital adequacy for more than one (1) year (126.77%) and 31 days to 1 year (302.29%) ratings. The primary reason for these according to the manager of the said cooperative is their ability to manage the receivables from their members. This is done by increasing their reserves which is needed to meet net losses in its operations. An equivalent of at least 10 percent of their net surplus is set aside as their reserve fund. Furthermore, this cooperative intensifies their effort to avoid past due receivables or simply greater cash flow since receivables has tied up its cash resources in funding the cash requirements for these accounts.

Table 19.5. Institutional strength of the selected hog-raisers cooperatives (in percent), Laguna, 2013

Institutional Strength	Cooperatives		
	Laguan Multi-purpose Cooperative	Adia Multi-purpose Cooperative	Samaga Multi-purpose Cooperative
Net Institutional Capital	69.42	7.00	7.26
Adequacy of Provisioning (more than 1 year)	126.77	1.54	4.79
Adequacy of Provisioning (31 days to 1 year)	302.29	2.00	2.88

Source: Analysis of Cooperative Annual Performance Report 2013

Structure of Assets

The structure of assets determines the extent of the share of the cooperative’s various assets to its total assets and assesses the effective use of these resources to generate revenue. The investing decisions or activities were accounted for the bulk of the total assets that went to receivables among the three cooperatives (Table 19.6). Not too far from this was the members’ equity to total assets, the non-earning assets to total assets, and deposit liabilities to total assets. In particular, the Adia MPC had the highest percentage of non-earning assets and members’ equity to total assets at 19.78 percent and 55 percent, respectively; while the SAMAGA MPC had deposit liabilities and external borrowings of about, 23.58 percent, and 64.76 percent, respectively. On the other hand, the Laguan MPC had attained the highest receivable to total assets (59.45%) followed by SAMAGA MPC (52.65%).

Table 19.6. Structure of assets of selected hog-raisers cooperatives, Laguna, 2013

Structure of Assets	Cooperatives		
	Laguan Multi-Purpose Cooperative	Adia Multi-Purpose Cooperative	Samaga Multi-Purpose Cooperative
Percentage of non-earning assets to total assets	2.67	19.78	12.34
Members' equity to total assets	29.40	55.00	8.63
Deposit liabilities to total assets	7.58	0.91	23.58
External borrowings to total assets	40.54	0.00	64.76
Receivable to total assets	59.45	12.10	52.65

Source: Analysis of Cooperative Annual Performance Report 2013

Notably, Laguan MPC and SAMAGA MPC illustrated a significantly heavy dependence on external sources to finance the funding requirements of their operations. Their borrowings accounted for 40.54 percent and 64.76 percent, respectively, of their total assets. In simple terms, every peso of assets acquired by these cooperatives was financed through loans in the amount of 0.40 and 0.65 centavos, respectively. A greater implication of heavy dependence of Laguan and SAMAGA on loans was its impact on their capital structure and consequently on their solvency.

Meanwhile, the Adia MPC is noted for its zero external borrowings to total assets simply because they had already paid off their loans obtained from formal lending institutions even before the accounting period. However, it had a relatively high percentage of non-earning assets (19.78%) with very low deposit liabilities and receivables of only about 0.91 and 12.10 respectively. This implies inefficiency on the part of Adia MPC in investing their resources. Based on their claims, this could be explained by their inability to properly evaluate their allocation and use of assets and investments through the use of some financial valuation tools including the net present value, internal rate of return and payback period. These are the basic evaluation tools to assess the viability of capital expenditures. Unfortunately, no such analysis and evaluation was conducted by the cooperatives.

Operational Strength

In determining whether financial services are delivered and mobilized in a sustained manner, operational strength must be analyzed. Operational strength is determined by looking at an enterprise's volume to business to total assets, solvency, liquidity, cost per volume of business.

In reference to Table 19.7, Laguan MPC had the highest volume of business to total assets (133.59%) and solvency (285.54%). This indicates that the said cooperative has the ability to pay off all financial obligations if all assets were sold. Aside from this, the Laguan MPC had also attained the highest cost per volume of business and turn-over ratio of about 6.87 percent, and 4.56 percent, respectively. This is brought by very low percentage of non-earning assets to total assets of this cooperative. As such, this should have been considered decisively by the management to expand their assets and invest it in such a way that the cooperative will earn more.

Table 19.7. Operational strength of selected hog-raisers cooperatives Laguna, 2013

Operational Strength	Cooperatives		
	Laguan Multi-Purpose Cooperative	Adia Multi-Purpose Cooperative	Samaga Multi-Purpose Cooperative
Volume of business to total assets	133.59	60.92	66.53
Solvency	285.54	140.49	80.35
Liquidity	31.53	190.09	62.52
Cost per volume of business	6.87	1.40	3.13
Administrative efficiency	5.96	2.65	8.65
Turn-over ratio	4.56	5.00	2.34

Source: Analysis of Cooperative Annual Performance Report 2013

Profitability Performance

After assessing the three financial subcomponents above, profitability was analyzed. This generally determines the degree or extent to which the value of the cooperative's income derived from their set of resources exceeds their cost.

Among the three cooperatives, Adia MPC had attained the highest profitability ratio (63.80%) and earnings per share ratio (45.99%). Meanwhile, it should be noted that the SAMAGA MPC had the smallest profitability growth rate of 1.30 percent despite its relatively highest rate on interest on share capital. In terms of asset efficiency rate, the Laguan Multi-purpose Cooperative had reached only about 3.50 percent in their operations. The low profitability simply provides a critical indicator of inefficiency in the operations of this cooperative that are outside the contribution of the member-borrowers to their services (Table 19.8).

Table 19.8. Profitability performance of selected hog-raisers cooperatives, Laguna, 2013 (in percent)

Profitability Performance	Cooperatives		
	Laguan Multi-purpose Cooperative	Adia Multi-purpose Cooperative	Samaga Multi-purpose Cooperative
Profitability ratio	36.69	63.80	42.91
Earnings per share ratio	16.07	45.99	2.23
Profitability growth rate	13.00	10.00	1.30
Asset efficiency rate	3.50	13.71	9.61
Rate on Interest on share capital	16.07	17.28	78.02

Source: Analysis of Cooperative Annual Performance Report 2013

Non-Financial Performance of the Cooperatives

As indicated previously, the financial component has a higher weight in the rating system of the cooperative's performance. The importance of the management compliance to administrative requirements which comprise the non-financial component of the assessment should not be ignored. This is to help the cooperative in increasing their productivity and management skill level and other factors outside the financial functions in cooperative's operations.

The non-financial component of the rating system includes the organizational, social, and economic aspect of the cooperative's performance. Under organizational aspect, leadership, human resource and management, membership, structure, system and mechanism were examined.

Based on the analysis of the annual reports of the cooperatives, this study stresses certain issues where most cooperatives' non-financial weaknesses are rooted. These are: the inability of the board and committees to strengthen their skills and management enhancement programs and plans such as crafting and implementing of strategic and development plans, succession plans, annual budget plan; conducting training programs; and formulating policies and regulations which directly address the problem areas of both administrative and financial system.

Another area of concern which may contribute adversely in decision making is the absence of the financial valuation tools. Certainly, no such analysis was made by the cooperatives which may impair the operation of the other cooperatives with business activities other than micro-financing.

Overall Performance of the Cooperatives

In the overall performance of the cooperatives, it was found out that only the Laguan MPC had the highest overall rating (85.90%) classified as very satisfactory followed by cooperatives with satisfactory rating including Adia

MPC, Brgy. II-F MPC, and SANDIGAN MPC with 70.25 percent, 70.65 percent, and 64.85 percent garnered total rating, respectively. On the other hand, it was the same period where four out of nine cooperatives namely SAMAGA MPC (60.20%), NIA Employee MPC (60.80%), Luisiana Livestock MPC (57.80%) and FAMY-CTS MPC (65.43%) were assessed with fair performance; while only KAP-WESL MPC (36.10%) got an adjectival rating of needs improvement (Table 19.9).

It may be worth noting that successful financial service providers comply with cooperative rules and regulations, and are resistant to external shocks and financial disturbances. However, majority of the cooperatives as reinforced by the results may not be able to withstand business fluctuations. It may be detrimental for cooperatives under satisfactory rating, if the identifiable areas of weaknesses are not corrected immediately. Further, these may be capable nominally but may also indicate that its soundness and safe operation may be subjected to adverse condition. Similarly, cooperatives with fair rating need serious supervisory concerns due to high potential for failure that could threaten its capability. In the case of KAP-WESL MPC with needs improvement rating, there is a need for immediate remedial attention and there is a very high probability of failure and will require liquidation due to its unsatisfactory performance. Hence, their capability to retail agricultural credits is at risk.

Conversely, the Laguan MPC possesses a very satisfactory rating. It only reveals that this cooperative consistently provides safe and sound operations thus limited supervisory response is required to ensure that operations continue to be satisfactory and highly capable vehicle of agricultural credits. As this discussion continues, several glaring control weaknesses could be drawn out which need corrective actions to efficiently control the financial system of the cooperatives for their financial sustainability

Association of the Capability of Hog Raisers' Cooperatives as Conduits of Agricultural Loans with Capability of Member-borrowers to Make Timely Payments

As mentioned in the conceptual framework of the study, human resource is one of most considered essential inputs in the entire financial system of the cooperative. As conduits of credit, all the member-borrowers play a key role in making the cooperative viable. To test this null hypothesis, Pearson's Correlation Analysis and Spearman's Correlation Analysis were employed. Since the nine identified cooperatives with credit services for hog raisers constitute its entire population in Laguna, the association between the capability of the member-borrowers and cooperatives as conduits of loans reflects the actual relationship. Hence, the test of significance of the tools will not be needed to examine its validity (Albacea et al. 2012).

Table 19.9. Assessment of non-financial and financial status of hog raisers' cooperatives, Laguna, 2013

Cooperatives	Non-financial Component							Financial Component					Total Rating (%)	Adjectival Rating
	L ¹	HR&M ²	Organizational Aspect	MEM ³	STRUC ⁴	S&M ⁵	Social Aspect	Economic Aspect	P ⁶	I ⁷	S ⁸	O ⁹		
Adia Multi-Purpose Cooperative	24	12	11	4	4	18	4	20	19	6	8	25	70.25	Satisfactory Performance
Barangay II-F Multi-Purpose Cooperative	20	10	9	4	4	16	4	20	15	9	19	21	70.65	Satisfactory Performance
Fanny Community Transport Services & MPC	15	7.5	8	2	2	12.5	3	14.5	20	10	18	19	65.43	Fair Performance
KAP-WESL Multi-Purpose Cooperative	16	8	7	4	4	15	0	16	6	3	5	6	36.10	Needs Improvement
Laguan Multi-Purpose Cooperative	24	13	10	4	4	18	4	22	17	20	14	30	85.90	Very Satisfactory Performance
Luisiana Livestock Multi-Purpose Cooperative	19	13	9	4	4	22	3	19	6	6	12	17	57.80	Fair Performance
NIA Region IV Employees Multi-Purpose Cooperative	24	13	11	4	4	22	4	22	16	8	11	13	66.20	Fair Performance
Samahang Magsasakang Gatid (SAMAGA) Multi-Purpose Cooperative	24	8	9	4	4	14	4	22	14	8	16	19	66.80	Fair Performance
Sandiganng Mamamayan Multi-Purpose (SMMPC)	17	8	8	4	4	15	0	20	14	11	21	15	64.85	Satisfactory Performance

Note: ¹Leadership, ²Human Resources and Management, ³Members, ⁴Structure, ⁵System and Mechanism, ⁶Profitability Performance, ⁷Institutional Strength, ⁸Structure of Assets, ⁹Operational Strength (Slaying Power)
Source: Analysis of Cooperative Annual Performance Report 2013

The success of the cooperative is dependent on the capability of the member-borrowers to make timely payments on their loans. It was established in logit analysis that profitability, liquidity, and farm size affect the member's loan repayment performance. This in turn affect the financial performance of the cooperatives particularly in areas namely, the cooperative's assets, profitability, operational strength, solvency and net institutional capital.

As shown in Table 19.10, the profitability of the cooperative's business, on the other hand, has a very strong positive direct linear relationship with proportion of the capable member-borrowers to total member-borrowers. Therefore, to increase the viability and profitability of the cooperatives as conduits of loans, it is important that the member-borrowers must make timely payments on their loans.

Table 19.10. Results of Pearson's correlation analysis for quantitative variables

Correlation of capability with	Coefficient	Interpretation
Asset	0.1930	Positive, very weak
Profitability	0.8148	Positive, very strong
Operational Strength	0.3453	Positive, weak

Source: Authors' own computations

The asset of the cooperatives with estimated coefficient 0.1930 has weak positive direct linear relationship with the proportion of the capable member-borrowers to the total cooperative's borrowers. This very weak relationship in the cooperative's asset is due to the fact that there have been diversions of the cooperative's income generated from lending service to other activities which contribute less to accumulate more assets. Thus, this could be traced back to the identified cooperatives being multi-purpose cooperatives.

Similarly, the cooperative's operational strength has positive direct linear relationship with the proportion of the cooperative's capable member-borrower to its total member-borrowers. In fact, this weak relationship is due to the factors outside the influence of the loan repayment performance of the member-borrowers, particularly the management.

The next variables that were tested are the solvency and net institutional capital of the cooperatives' business activities with the capability of the member-borrowers. In this case, the Spearman's Correlation analysis was used due to the limited quantitative data necessary to use the Pearson's Correlation Analysis. This analysis is still valid as the Spearman's correlation analysis uses at least one ordinal variable. Furthermore, it was employed since the financial indicators are only ranked in the annual performance report of the cooperatives as provided by the CDA (Table 19.11).

Table 19.11. Results of Spearman's correlation analysis for ordinal variables

Correlation of capability with	Coefficient	Interpretation
Solvency	0.3286	Positive, weak
Net Institutional Capital	-0.3334	Negative, weak

Source: Authors' own computations

The result of the Spearman Correlation Analysis reveals that there is a weak positive linear relationship between solvency and the proportion of capable borrowers to the total member-borrowers with estimated coefficient of 0.3286. This indicates that those cooperatives with borrowers who pay on time have the ability to generate cash beyond one-year period to meet their current and future financial obligations.

Conversely, the variable net institutional capital is found to have a weak inverse linear relationship with borrowers' capability to make timely payments. This is due to the fact that the underperformance of member-borrowers in paying their loans makes the cooperative to borrow financial resources from external source.

In sum, it was found that member-borrowers' capability to pay their loans on time highly affect the viability of the cooperatives. Hence, as a retailer of credit to the hog farming households, greater effort to encourage member-borrowers to commit rigorously to their financial obligation can be a key to their success. This may in fact help the hog raisers' cooperatives to expand their operations and provide greater outreach to its members especially those who are engaged in the hog raising in the country.

Conclusions and Recommendations

The study made a modest attempt to assess the capability of the hog raisers' cooperatives as conduits of agricultural loans in Laguna. Using the Cooperative Annual Performance Report for 2013, the said cooperatives were assessed in terms of its capability in performing its business activities. Among these cooperatives, it was found out that only LMPC had the highest overall rating (85.90%) classified as very satisfactory followed by cooperatives with satisfactory rating including Adia MPC, Brgy II-F MPC, and SANDIGAN MPC with 70.25 percent, 70.65 percent, and 64.85 percent garnered total rating, respectively. On the other hand, it was the same period where four out of nine cooperatives namely SAMAGA MPC (60.20%), NIA Region IV Employees MPC (60.80%), Luisiana Livestock MPC (57.80%) and FAMY-CTS MPC (65.43%) were assessed with fair performance; while only KAP-WESL MPC (36.10%) got an adjectival rating of needs improvement.

It has been commonly argued that capability of the cooperatives as conduits of credits is affected by the performance of its member-borrowers. To determine

the association between the capability of member-borrowers and cooperatives as conduits of agricultural loans, the Pearson's Correlation Analysis (i.e., for quantitative variables) and Spearman's Correlation Analysis (i.e., for at least one ordinal variable) were employed. It reveals that the asset and operational strength of the cooperatives with estimated coefficient 0.1930 and 0.3453, respectively, have weak positive direct linear relationship with borrowers' capability. Specifically, as the proportion of capable borrowers to the total member-borrowers increases, the asset and operational strength increases as well. Variable profitability (with coefficient 0.8148), on the other hand, has a very strong positive direct linear relationship with borrowers' capability to make timely payments. Thus, to increase the viability and profitability of the cooperatives, it is important that the member-borrowers must pay on time. In the case of solvency, there is a weak positive linear relationship with the capability of the member-borrowers showing an estimated coefficient of 0.3286. Conversely, the variable net institutional capital is found to have a weak inverse linear relationship with borrowers' capability to make timely payments.

Therefore, cooperative are still viable conduits of credit as long as the capability of the member-borrower's performance is enhanced. However, at present only four out of nine cooperatives had achieved satisfactory to very satisfactory rating. These are Adia Multi-purpose cooperative, Barangay II-F Multi-purpose Cooperative, Laguan Multi-purpose Cooperative and Sandigan ng Mamayan Multipurpose Cooperative. Therefore, the contribution of members is deemed important to make the cooperative more profitable and viable.

Towards this end, the following measures are recommended to address the financial and administrative problem areas that require corrective actions for better management. This is to help the hog raisers' cooperative functioning as conduits of agricultural loans to achieve financial sustainability and higher capability to man their business operations.

To tap the Agricultural Credit Policies Council Programs (ACPC), the Agricultural Training Institute (ATI), the Institute of Cooperatives and Bio-Enterprise Development (ICOPED) of the College of Economics and Management (CEM), UP Los Baños (UPLB), and the other state colleges and universities to conduct capability building activities for cooperatives that will professionalize their management skills and enhance their knowledge on farm technology, farm management, entrepreneurship, preparation of business plans, simple recording of income and expenses, financial literacy (basics on saving, borrowing, availing of insurance, etc.), and other trainings that would help build farmers' loan 'absorptive' capacity and bankability.

Enhance the capacity of small farmers' (hog raisers) cooperatives and organizations by intensifying the implementation of Institutional Capacity Building (ICB) Program to manage their credit funds. Coordination with legislators/ the authorities for the approval of an increase in the capitalization

of the aforementioned program for the improvement of the capabilities of the cooperative in delivering financial services and strong linkage between cooperative and partner financial institutions of ACPC should also be supported. It is through such program that federations of cooperatives, and NGOs may receive grant assistance provided by the ACPC to conduct ICB activities such as training and coaching or through outsourcing via training institutions, and state colleges and universities in targeted areas. This is to increase their competence in performing their duties and responsibilities.

As per the cooperatives, they should serve as an intermediary to acquire inputs and to sell their produce collectively. This will place them in a strong bargaining position which will help them collect a higher price for their produce and lower the price of their inputs necessary for hog raising business. Implement more stringent reviews of the audited financial statements submitted by the credit cooperatives for the CDA's supervising and examining purposes.

SUMMARY

In view of the importance of credit to agriculture and rural development, this chapter presents an assessment study of the capability of hog raisers' cooperatives as conduits of agricultural loans in Laguna. In the assessment, analytical methods namely, (1) Standard Performance Rating Approach, and (2) Pearson and Spearman Correlation were employed. The primary data were generated from nine hog raisers' cooperatives and their members. The cooperatives' annual performance report obtained from the Cooperative Development Authority (CDA) Region IV-A were used to assess both the financial and nonfinancial performance of the cooperatives.

The results of the analyses showed that one out nine cooperatives had a rating of very satisfactory, while three and four of them had attained satisfactory and fair performance rating, respectively. Only one cooperative had an adjectival rating of needs improvement. The evaluation established that the capability of the cooperative as conduit of credit is dependent on its member-borrowers. The results of the Correlation Analysis revealed that the cooperative's financial capability indicators namely, assets, profitability, operational strength, solvency, and net institutional capital were correlated with capability of its member-borrowers to make timely payments. Only net institutional capital had negative association with the member-borrowers' capability in making timely payments.

Thus, the cooperative are still viable conduits of credit as long as the capability of the member-borrowers is enhanced. This in effect led to higher profitability and financial sustainability among hog raisers' cooperative in Laguna. With this, the study recommended that government should devise and implement a sound credit and technical assistance program that will benefit the hog raisers' cooperatives. If possible, they should be given training and assistance to enhance their loan absorptive capacity as conduit of credit.

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CHAPTER 20

Credit Access of Rice Farmer-Borrowers and Financial Performance of Banca Banca Primary Multi-Purpose Cooperative under the Laguna Credit Surety Fund Program in Victoria and Pila, Laguna, Philippines

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Introduction

Credit has a vital role in agricultural development. It improves production and income of the small farmers by having access to production inputs, alternative crops and modern technologies. But farmers are constrained to access credit from formal institutions because of lack of collateral. In order to facilitate credit access among small farmers and other small scale borrowers, the government pursued specific financial policies and programs. The Bangko Sentral ng Pilipinas (BSP) played a great role in implementing special credit programs. Thus, it conceptualized the Credit Surety Fund Program (CSF) in line with its mandate to provide policy directions in the areas of money, banking, and credit.

The CSF Program is a credit enhancement scheme developed by BSP, which aims to increase the worthiness of micro, small and medium enterprises (MSMEs) and cooperatives that are experiencing difficulty in obtaining loans from banks due to lack of acceptable collaterals, credit knowledge, and credit track records. The Program serves as a security cover in lieu of acceptable collaterals of MSMEs.

With the aim to help the MSMEs and most especially the cooperatives, BSP together with the provincial government of Laguna launched the Laguna Credit Surety Fund Program (LCSF) on August 28, 2012. Through LCSF, banks will not require voluminous requirements to member-cooperatives such as collaterals. There will be no more lengthy and complicated procedures and will offer low interest rates. Through the program, cooperatives will have ease in acquiring credit from formal institutions. In line with the objective of CSF to improve the credit worthiness of MSMEs and cooperatives, LCSF aims to improve the credit accessibility of farmers through cooperatives.

The study was conducted to assess the program's effectiveness in using alternative collaterals to secure cooperatives when availing loans from formal

sources. Effectiveness of the cooperative in extending credit to its rice farmer-borrowers is necessary to determine if the cooperative is still the best conduit in extending credit to small farmers. Results of the study would be useful to BSP and the provincial government of Laguna in providing information on the performance of the program, the cooperative and its rice farmer-borrowers. Problems encountered could serve as a guide to help the implementers on how to improve the program. This study would also provide necessary details which will lead to developing other credit programs needed by cooperatives.

Objectives of the Study

The study was conducted to assess the credit accessibility and loan repayment of rice farmer-borrowers and financial performance of Banca Banca Primary Multi-Purpose Cooperative (BBPMPC) under the LCSF Program in Victoria and Pila, Laguna. The specific objectives were to: (1) describe the LCSF Program; (2) determine the credit accessibility of rice farmer-borrowers of BBPMPC before and after the program; (3) determine the loan utilization and loan repayment performance of the rice farmer-borrowers and cooperative; (4) determine the level of satisfaction of rice farmer-borrowers on BBPMPC's lending operation; (5) assess the effect of the program on the financial performance of the cooperative; and (6) identify problems encountered by LCSF, BBPMPC and its rice farmer-borrowers.

Methodology

Both primary and secondary data were utilized for the study. Financial statements of the cooperative were obtained from BBPMPC; while the guidelines of LCSF and Development Bank of the Philippines (DBP) lending policies were from the Provincial Cooperative Development Office. From a total of 39 rice farmer-borrowers only 35 were interviewed because one already died, two of them were incapable to answer, and the other one was out of the country at the time of study. All the respondents were member-borrowers of BBPMPC and are residents of Victoria or Pila, Laguna. The study covers two time periods, before (2010-2012) and after (2013-2014) the LCSF Program.

Descriptive statistical tools such as percentages and averages were used to summarize BBPMPC's total number of borrowers and rice farmer-borrowers' credit sources, amount of loan granted by BBPMPC, loan utilization, and repayment performance. Financial ratios such as current ratio, net capital ratio, debt to equity ratio and gross ratio were also utilized to determine the financial performance of the cooperative before and after the program. Using the Likert Scale, the level of satisfaction of the rice farmer-borrowers to BBPMPC's

amount of loan granted, timeliness of the release of loan and repayment scheme were measured with the following ratings: 1= Moderately Satisfied and 2= Very Satisfied.

Loan utilization and repayment performance were computed using the following formulas:

$$\text{Loan Utilization} = \left(\frac{\text{Amount of loan utilized for intended purpose}}{\text{Total amount of loan}} \right) \times 100$$

$$\text{Loan Repayment Rate} = \left(\frac{\text{Amount of Loan Paid}}{\text{Total Amount of Loan Due}} \right) \times 100$$

Financial ratio analysis was used to determine the liquidity, efficiency and the solvency of the cooperative. Liquidity is the ability of the cooperative to pay its short-term financial obligations and was measured using the current ratio.

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

Efficiency was used to determine how the business performs using the available resources. To measure efficiency, gross ratio was used; a low value indicates more efficiency of the cooperative.

$$\text{Gross Ratio} = \frac{\text{Total Expenses}}{\text{Gross Income}}$$

Solvency is the ability of the firm to satisfy its long term liabilities as they become due. Net capital ratio and debt to equity ratio were used to measure the solvency of the cooperative computed as follows:

$$\text{Net Capital Ratio} = \frac{\text{Total Assets}}{\text{Total Liabilities}}$$

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Owner's Equity}}$$

Results and Discussion

The Laguna Credit Surety Fund Program

LCSF is a trust fund designed to enhance the credit worthiness and mitigate the risk of banks extending credit to MSMEs. The program taps the economic

potential of cooperatives and non-government organization. Any well capitalized and well-managed cooperative, cooperative bank, NGO or foundation may participate as contributor to LCSF. The minimum amount of contribution to LCSF is PHP100,000. As of February 2015, LCSF has a total contribution of PHP12.3 million which came from member-cooperatives, the provincial government of Laguna and the donor banks namely DBP, LBP and the Industrial Guarantee and Loan Fund (Table 20.1).

Table 20.1. Sources and amount of contribution to LCSF Program, Laguna, 2015

Sources	Contribution (PHP)
Member-Cooperatives	
NIA Region IV Employees MPC (NEMCO)	100,000
Katipunan ng Kooperatibang Maggagatas Integrated Cooperative (KKMI)	300,000
Calamba Water District Employees MPC (CWDEMPC)	100,000
Laguna DepEd MPC (LDMPC)	200,000
Famy Community MPC	300,000
Now Moving for Better Philippines MPC (NMBPMPC)	100,000
Sentrong Ugnayanng Mamayang Pilipino (SUMAPI)	100,000
Banca Banca Primary MPC (BBPMPC)	100,000
Kawayanan Bayanihan MPC of Malinta (KBMPMPC)	100,000
Laguna Drivers Operators Transport Service Cooperative (LDOTSC)	100,000
Liliw Municipal Employee MPC (LMEMPC)	100,000
Municipal Cooperative Development Council- Liliw, Laguna (MCDL- Liliw, Laguna)	100,000
Kalalakihan-Kababaihan sa Pagunlad MPC	100,000
Local Government Unit	
Provincial Government of Laguna (PGL)	5,000,000
Donor Banks	
Development Bank of the Philippines (DBP)	1,000,000
Land Bank of the Philippines (LBP)	2,000,000
Industrial Guarantee and Loan Fund (IGLF)	2,500,000
Total LCSF Contributions	12,300,000

Source of basic data: Provincial Cooperative Development Office, Laguna

LCSF member-cooperatives apply for credit line with a minimum interest of eight percent with the DBP wherein the total credit line does not exceed ten times its contribution to LCSF. Cooperative's financial statements will still be reviewed for charging of interest. The credit line maturity period is six months. The loan was released three days upon submission of complete requirements. In terms of repayment of loan, it was based on the cooperative's projected cash flow.

The maximum obligation of LCSF is in relation to the payments received by DBP from the borrower. Initially, it shall cover 80 percent of the principal

loan and will increase to 90 percent and 100 percent once 30 percent and 60 percent of the principal loan, respectively, have been paid. LCSF is considered as an alternative security to the loan with a risk sharing ratio of 80:20 (Security vs. DBP).

Participating cooperatives and NGOs were charged two percent annual surety fee per transaction based on the amount of loan approved by the lending bank. Ten percent of the surety fee or PHP500, whichever is higher, is collected as processing fee. These charges act as income of the LCSF and help defray their operating and administrative expenses. At the end of the year, profit is shared based on the computed average contribution.

Profile of the Banca Banca Primary Multi-Purpose Cooperative

The cooperative began as a Samahang Nayon 25 years ago. It re-registered on October 15, 2009 as Banca Banca Primary Multi-Purpose Cooperative with the Cooperatives and Development Authority (CDA). The cooperative's vision is a progressive way in agricultural and livelihood program and itself while its mission is to uplift the way of living of its members and the community. The General Assembly, Board of Directors, officers, management staff, and six committees namely Audit and Inventory, Election, Training, Mediation and Conciliation, Ethics and Credit committees compose the organizational structure of the cooperative.

BBPMPC is engaged in input sales to non-members and lending operation such as palay production and commercial loan to its members. Loan requirements must be submitted one month before the start of planting and two cooperative members are required as signatories for co-maker, guaranteeing the borrower from obtaining credit. The maximum loanable amount for palay production is PHP25,000 per hectare while the number of hectares is also limited up to five; commercial loan has PHP10,000 maximum. Eighteen percent (18%) per annum interest is charged in palay production while there is an eleven percent (11%) for six months in commercial loans. Service charge and capital share are also deducted, about 1.5 and 2 percent of the total loan, respectively. In terms of maturity there is no specific length of time for the palay production loan, the rice farmer-borrowers are expected to pay after selling their harvest. Commercial loans have six months maturity period (Table 20.2).

BBPMPC borrowed funds from First United Farmers Rural Bank (FUFRRB) from 2010-2012 and DBP from 2013-2014. Even with same loan maturity of six (6) months, FUFRRB charged a higher interest as compared to DBP, 16 percent and 8.5 percent, respectively. These borrowed loans were used by BBPMPC to extend credit to its rice farmer-borrowers (Table 20.3).

Table 20.2. Lending policies of BBPMPC, Laguna, 2014

Item	Palay Production Loan	Commercial Loan
Loan limit (PHP/ha)	25,000	10,000
Interest rate (%)	18 for 12 months	11 for 6 months
Service charge (%)	1.5	1.5
Capital share (% of loan)	2	2
Maturity	After harvest	6 months
Loan security	Co-maker	Co-maker

Source of basic data: BBPMPC

Table 20.3. BBPMPC's source of credit, interest rate and maturity, Laguna, 2010-2014

Item	Before			After	
	2010	2011	2012	2013	2014
Source of credit	FUFRB	FUFRB	FUFRB	DBP	DBP
Interest rate (in percent)	16	16	16	6.5	8.5
Loan maturity (in days)	180	180	180	180	180

Source of basic data: BBPMPC

The BBPMPC's Rice Farmer-Borrowers

The age of rice farmer-borrowers of BBPMPC ranges from 42 to 86 years and most (37%) of them were aged between 41-50 years old. On the average, the respondents aged 57 years old. There were 19 females and 16 males which account for 54 and 46 percent of the respondents, respectively. All the respondents had formal schooling but more than half did not go to college. Seven rice farmer-borrowers or 20 percent of the total respondents graduated from college. The average household size of the rice farmer-borrowers is four persons and 46 percent of the respondents ranged from 5-6 persons per household. Most of the respondents are also considered small scale farmers, 68 percent do not have more than two hectares. Their average farm size was 1.8 hectares. In terms of annual average net farm income, 80 percent of the respondents have at most PHP100,000 having an income of at least PHP86,000. Aside from farming, most of the rice farmer-borrowers (74%) had other sources of income. Twenty nine percent of the respondents were operating businesses such as sari-sari store, computer shop, and dress shop while 22 percent were employed by either government or private institutions.

Credit Access of BBPMPC's Rice Farmer-Borrowers

All the respondents were borrowing from the cooperative from 2011-2014 (Table 20.4). Rice farmer-borrowers were also obtaining credit from other

sources such as family, friends, CARD bank and private lenders. After LCSF was availed, only nine percent of them borrowed from other sources, which is lower than before the availment of the program. This indicates that the credit from BBPMPC is more accessible after LCSF was availed.

Table 20.4 Sources of credit of rice farmer-borrowers, Laguna, 2011-2014

Sources of Credit	Before (2011-2012)		After (2013-2014)	
	Number ^a	Percent	Number ^a	Percent
BBPMPC	35	100	35	100
Family	5	14	1	3
Friends	1	3	0	0
CARD bank	0	0	2	6
Private lenders	3	9	0	0
All	44		38	

^a Some have multiple answers

Table 20.5 shows that LCSF improves the credit access of rice farmer-borrowers due to increased cooperative's funds available for re-lending and number of rice-farmer who borrowed. Before LCSF, the average amount of loan lent to farmers is PHP1,917,602 which is lower than the amount after availment of the program (PHP2,494,882).

Table 20.5. Amount of loan granted by BBPMPC and number of borrowers by kind of loan, Laguna, 2010-2014

Item	Before			After	
	2010	2011	2012	2013	2014
Amount of Loan(PHP)					
Cash and Inputs	1,143,000	1,763,000	2,032,000	2,034,000	2,257,000
Inputs Only	215,235	297,090	285,480	386,646	312,118
Total	1,358,235	2,077,090	2,317,480	2,420,646	2,569,118
Average		1,917,602		2,494,882	
Number of Borrowers					
Cash and Inputs	26	32	28	35	31
Inputs Only	11	10	10	11	8
Total	37	42	38	46	39
Average		39		43	

Source of basic data: BBPMPC

On the average, the respondents borrowed PHP23,267 during wet season which is higher than the PHP21,171 per hectare during dry season. The difference in the loan amount needed during wet season is brought about by natural disasters that affect their palay production. As for the number of rice farmer-borrowers, it was observed that not all rice farmers borrowed from 2010-2014 for the reason that they will not borrow if they still have funds to cover their farm operations. On the average, the number of rice farmer-borrowers increased from 39 to 43

after availment of LCSF. It was also noticed that more farmers were borrowing both cash and inputs than those who availed for inputs only from 2011 to 2014, which can be attributed to farmers needing more cash for farm operations.

The trend of total amount of loan obtained by rice farmer-borrowers from BBPMPC is shown in Figure 20.1. It can be noted that the total amount of loan increased and has a similar trend with the amount of acquired loan for both cash and inputs. In terms of the amount of loan of rice farmer-borrowers who obtained inputs only, it was highest in 2013 which was after availment of LCSF.

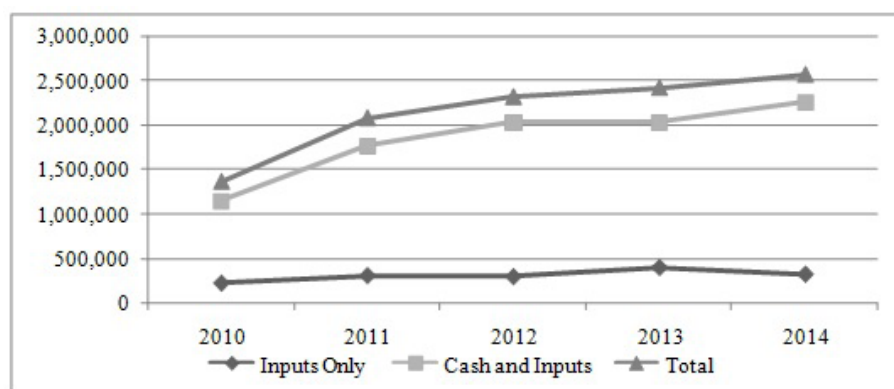


Figure 20.1. Total amount of loan granted by BBPMPC to 35 rice farmer-borrowers by kind of loan, Laguna, 2011-2014 (in PHP)

Figure 20.2 shows that BBPMPC's total number of rice farmer-borrowers was fluctuating from 2010 to 2014. Also, the number of rice farmer-borrowers has the same trend with the total number of rice farmer-borrowers due to minimal changes in the number of borrowers who obtained inputs only. It can be also observed that there is a wide gap between the number of rice farmer-borrowers who acquired both cash and inputs, and inputs only.

The average amount of loan received by rice farmer-borrowers is presented in Table 20.6. It can be noticed that the average amount of loan for both cash and inputs increased from PHP57,209 to PHP65,460 after availment of LCSF. The amount of loan after LCSF for those who obtained inputs only has a higher amount compared to before the program.

Figure 20.3 illustrates the proportion of average amount of loan received per rice farmer-borrower to the total amount of loan granted by BBPMPC before and after availment of LCSF. The graph shows that the total amount of loan and amount of loan granted to those who obtained inputs only increased from 2010-2014. In terms of the loan amount acquired for both cash and inputs, there was no increasing trend but it was highest in 2014, which is after LCSF was launched.

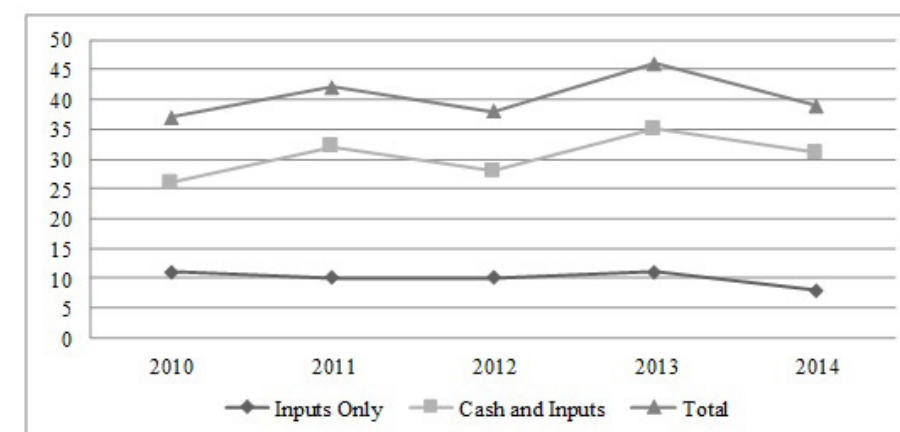


Figure 20.2. Number of BBPMPC's rice farmer-borrowers by kind of loan, Laguna, 2011-2014

Table 20.6. Average amount of loan per rice farmer-borrower, Laguna, 2010-2014

Amount of Loan (PHP)	Before				
	2010	2011	2012	2013	2014
Cash and Inputs	43,962	55,094	72,571	58,114	72,806
Average		57,209		65,460	
Inputs Only	19,567	29,709	28,548	35,150	39,015
Average		25,941		37,083	

Source of basic data: Survey data, 2015

Not all rice farmers were borrowing both in wet and dry seasons due to their differing credit needs. The average amount of loan obtained in wet season (PHP33,000) was greater than in dry season (PHP30,000) and more rice farmers were borrowing during the wet season (95%) than in dry season (78%). This is due to higher risk during wet season due to natural calamities. Most of the rice farmers borrowed amounts ranging from PHP25,000 to PHP50,000 per borrower for both wet and dry seasons mainly because their average farm size is less than two hectares. The rice farmers borrow PHP10,000 to PHP20,000 per hectare; 49 percent borrow during wet season and 34 percent in dry season. On the average, the respondents borrowed PHP23,267 during wet season which is higher than the PHP21,171 per hectare during dry season. The difference in the loan amount needed during wet season is brought about by natural disasters that affect their palay production.

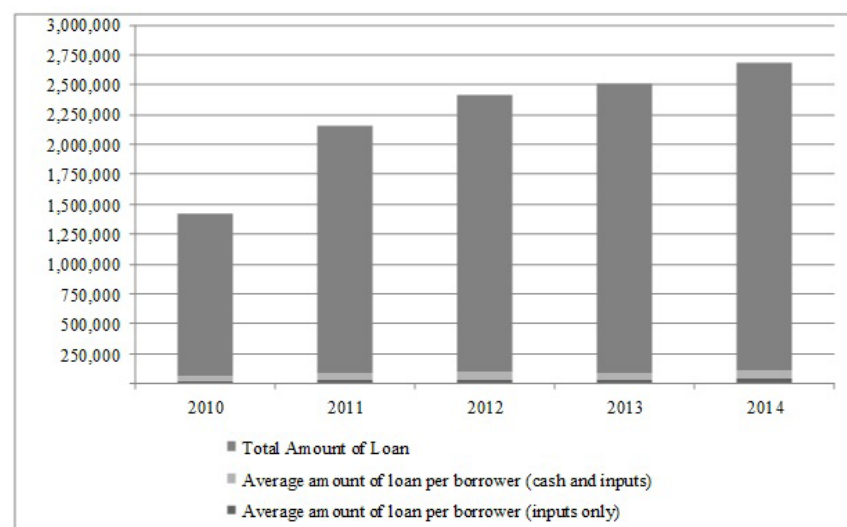


Figure 20.3. Total amount of loan granted by BBPMPC and average amount of loan received per rice farmer-borrower, Laguna, 2010-2014

Loan Utilization and Repayment Performance of the Rice Farmer-Borrowers

It was determined that 63 percent of the rice-farmer borrowers used the funds solely for farm operations (Table 20.7). Others who utilized it for non-farm activities (29%) used the funds from BBPMPC for their household consumption. As for the repayment performance of the respondents, on the average, they have an 88 percent rate which indicates that more rice farmer-borrowers were able to pay their debts.

Table 20.7. Percent loan utilized for farm operations of 35 rice farmer-borrowers of BBPMPC, Laguna, 2014

Loan Utilization (%)	Number	Percent
50-59	5	14
60-69	2	6
70-79	2	6
80-89	2	6
90-99	2	6
100	22	63
<i>Average</i>	<i>87</i>	
Total	35	100

Rice farmers also borrowed from other sources and said that they did not use the money for farming, but for household consumption, children's education and emergency purposes only, as shown in Table 20.8. Twenty percent of the

respondents used the loan for household consumption.

Table 20.8. BBPMPC's 35 rice farmer-borrowers utilization of funds from other sources, Laguna, 2011-2014

Utilization	Number ^a	Percent
Household consumption	7	20
Children's education	5	14
Emergency purposes	2	6
All	14	40

^a Some have multiple answers

As presented in Table 20.9, most (88%) of the rice farmer-borrowers paid their loans before or on due date. Nine percent made payments but have remaining balances and only three percent (3%) have not yet paid, that is due to low palay harvest. The average loan repayment rate of the respondents was 94 percent.

Table 20.9. Loan repayment of rice farmer-borrowers of BBPMPC, Laguna, 2014

Loan Repayment	Number	Percent
Fully paid	31	88
Partially paid	3	9
Not paid	1	3
Total	35	100

Level of Satisfaction of Rice Farmer-Borrowers on the Cooperative Lending Operation

Most of them were very satisfied with the amount of loan received (63%), timeliness of the release of loan (83%), and on the repayment scheme which is at 94 percent. Repayment scheme has the highest mean rating of 1.9 (Table 20.10).

Table 20.10. Level of satisfaction of 35 rice farmer-borrowers to BBPMPC's lending operation, Laguna, 2014

Item	Moderately Satisfied (1)		Very Satisfied (2)		Mean Rating
	Number	Percentage	Number	Percentage	
Amount of loan	13	37	22	63	1.6
Timeliness of release of loan	6	17	29	83	1.8
Repayment scheme	2	6	33	94	1.9

Financial Performance of BBPMPC

The income obtained by BBPMPC from its input sales and lending operations from 2010-2014 is presented in Table 20.11. It can be noted that bulk of the revenue came from the cooperative's lending operations. The average total income of the cooperative after re-lending loan secured by LCSF is greater than before, due to an increase in amount of loan released to rice farmer-borrowers and number of borrowers. It was also noticed that the BBPMPC incurred losses from input sales in 2010, which amounts to PHP15,030. The cooperative was not able to sell all their input stocks that year but was able to sell it the following year. In 2014, the cooperative experienced the highest amount of input sales, interest income and service fees from loan operations. Other income came from sales of old stocks of the cooperative and incentives from National Food Authority (NFA).

Table 20.11. Income of BBPMPC, Laguna, 2010-2014

Item (PHP)	Before			After	
	2010	2011	2012	2013	2014
Income from input sales					
Sales	696,645	1,419,990	1,211,825	1,046,299	1,190,356
Cost of goods sold	711,675	1,355,145	1,157,282	988,326	1,102,165
Gross (loss) income from sales	(15,030)	64,845	54,543	57,073	88,191
Revenue from loan operations					
Interest	104,189	157,287	214,144	171,125	200,342
Service fee	21,654	33,596	39,572	37,049	40,388
Filing fee	1,220	1,540	1,760	1,700	1,640
Membership fee	400	450	100	300	50
Total	127,462	192,873	255,575	210,174	242,420
Interest income from bank deposits	8,251	1,867	2,811	2,601	1,672
Others	5,981	10,246	8,780	3,706	589
Total Income	120,689	269,830	321,709	274,453	332,871
Average		237,407		303,664	

Liquidity and Solvency Condition of BBPMPC

As shown in Table 20.12, the average current ratio after the availment of LCSF was the same as the average current ratio before the program was availed, which is 1.35. BBPMPC has a low liquidity ratio from 2011-2014. The low ratio can be attributed to cooperative's high loans payable. It was in the year 2014 when the cooperative experienced the highest current ratio of 1.41 to 1. Current ratio increased in 2014 due to the decrease in loans payable from PHP700,000 to zero, which is bulk of BBPMPC's current liabilities. It indicates

that the cooperative was able to pay all the loans before the end of 2014, including loans payable in 2013.

Table 20.12. Total current assets, total current liabilities, current ratio, and average current ratio of BBPMPC, Laguna, 2010-2014

Item	Before			After	
	2010	2011	2012	2013	2014
Total current assets (PHP)	1,336,401	1,799,075	1,926,781	2,265,428	2,043,383
Total current liabilities (PHP)	952,063	1,348,178	1,472,018	1,778,671	1,451,804
Current ratio	1.40	1.33	1.31	1.27	1.41
Average current ratio		1.35		1.35	

Source of basic data: BBPMPC

A cooperative with a net capital ratio of greater than two is more solvent. In the case of BBPMPC, its net capital ratio was less than two but it can be noticed that after the availment of loan through LCSF, the average net capital ratio was higher than before (NCR=1.51). It is due to increased total assets such as cash on hand and in bank, property and equipment, and investment.

As for the debt equity ratio, the ideal ratio is less than one and BBPMPC has a greater than one ratio, as shown in Table 20.13. It indicates that more than 100 percent of the cooperative's capital came from borrowed funds. Also on the average, the debt to equity ratio increased after availment of loan through LCSF but it can be noticed that the lowest ratio was in 2014 that can be attributed to an increased subscribed and paid-up share capital, which amounts from PHP384,069 in 2010 to PHP627,808 in 2014. In general, BBMPC became more solvent after LCSF.

Efficiency of BBPMPC's Business Operation

The gross ratios from 2011-2014 were all less than one as presented in Table 20.14. The average gross ratio (GR=0.43) during the period 2010-2012, or before BBPMPC availed LCSF was lower than the gross ratio (GR = 0.64) after the cooperative's availment of the financial assistance. This indicates that BBPMPC was more efficient prior to the program, which can be attributed to the increase in their operating expense in 2013 and 2014 since the cooperative had to finance trainings and seminars for their officers and staff, and repairs in their store and office building. After re-lending of loan obtained through LCSF, the cooperative's total income increased due to higher amount of loan available to rice farmer-borrowers and number of borrowers.

Table 20.13. Average net capital ratio and average debt to equity ratio of BBPMPC, Laguna, 2010-2014

Item	Before			After	
	2010	2011	2012	2013	2014
Total assets (PHP)	1,464,725	1,961,986	2,189,645	2,578,574	2,360,478
Total liabilities (PHP)	952,063	1,348,178	1,472,018	1,778,671	1,451,804
Owner's equity (PHP)	451,669	507,445	558,888	609,387	695,408
Net capital ratio	1.58	1.46	1.49	1.45	1.63
Debt to equity ratio	2.10	2.66	2.63	2.92	2.09
<i>Average net capital ratio</i>		<i>1.51</i>		<i>1.54</i>	
<i>Average debt to equity ratio</i>		<i>2.46</i>		<i>2.51</i>	

Source of basic data: BBPMPC

Also, BBPMPC's liquidity and solvency improved that can be attributed to an increased total assets and owner's equity.

Table 20.14. Average gross ratio of BBPMPC, Laguna, 2010-2014

Item	Before			After	
	2010	2011	2012	2013	2014
Total expenses (PHP)	74,767	88,345	112,208	147,347	241,867
Gross income (PHP)	120,683	269,830	321,709	274,453	332,871
Gross ratio	0.62	0.33	0.35	0.54	0.73
<i>Average gross ratio</i>		<i>0.34</i>		<i>0.64</i>	

Source of basic data: BBPMPC

Loan Repayment Performance of Banca Banca Primary Multi-Purpose Cooperative

The cooperative borrowed PHP700,000 for both 2013 and 2014. The interest paid in 2014 (PHP26,250) was higher than in 2013 (PHP22,980) which is due to an increase in interest rate (from 6.5% to 8.5%). Even though not all rice farmer-borrowers were able to fully pay their loans, the cooperative still managed to pay their loans on time. BBPMPC has a 100 percent repayment rate to DBP for two consecutive years (Table 20.15).

Problems Encountered

Several problems were reported by the rice farmer-borrowers, officers of BBPMPC and LSCF during the conduct of the study. Six percent of the respondents mentioned that the cooperative did not release the inputs on time since stocks were not available, but it only happened once. The chairman and

Table 20.15. Loan repayment of BBPMPC, Laguna, 2013-2014

ITEM	2013	2014
Amount borrowed (PHP)	700,000	700,000
Principal loan paid at due time (PHP)	700,000	700,000
Interest paid at due time (PHP)	22,980	26,250
Remaining balance (PHP)	0	0
Repayment rate (%)	100	100

the treasurer of the cooperative complained of the delayed repayment of some rice farmer-borrowers. It was also reported that the loan processing for the first application through LCSF was lengthy that resorts to borrowing from the input suppliers. LCSF also encountered membership problems. Only three joined after two years of existence and only two agricultural cooperatives joined the program.

Conclusions and Recommendations

LCSF was seen to be beneficial to BBPMPC because it helps rice farmer-borrowers have easier access to credit. The rice farmer-borrowers were very satisfied with BBPMPC's granted loan amount, time of release and the repayment scheme, indicating that the cooperative is still the best conduit in extending credit to rice farmer-borrowers. The program also helped improve the financial standing of the cooperative. It was in 2014 that almost all ratios except for gross ratio reached the ideal values. Even though the loan repayment of the rice farmer-borrowers was less than 100 percent, the cooperative was still able to pay all its debt. BBPMPC's officers are therefore effective in terms of its ability in its mechanism of paying debts.

To address the reported problems, the cooperative should release inputs on time. BBPMPC should see to it that the necessary farm inputs are always available at the cooperative's warehouse whenever the farmer-borrowers need it. LCSF should also coordinate with DBP to shorten the loan release processing time for a new cooperative applying; this is to avoid resorting to informal lenders. LCSF should improve its information dissemination regarding the program to notify other agricultural cooperatives that such program exists and encourage to become members in order to extend more credit to farmers.

SUMMARY

The province of Laguna and BSP launched the LCSF to help MSMEs and most especially the cooperatives in increasing their worthiness to formal institutions. LCSF is a trust fund designed to enhance the credit worthiness and mitigate the risk of banks in extending credit to MSMEs. This program was pursued by the local government to facilitate credit access among small farmers and other small scale borrowers. BBPMPC was one of the 15 member-cooperatives of LCSF which contributed PHP100,000 to the program. The cooperative also availed loan through DBP's credit line that was secured by LCSF, which was used to provide cash and inputs to its rice farmer-borrowers on credit.

This study analyzed credit access of rice farmer-borrowers and the financial performance of BBPMPC under the LCSF Program in Laguna covering the period 2010 to 2014. During the conduct of the study 35 rice farmer-borrowers of BBPMPC in the municipalities of Victoria and Pila in Laguna were interviewed.

The result of the study showed that the rice farmer-borrowers reduced their borrowing from other sources after the cooperative availed LCSF. It was due to increased amount of loan granted to the rice farmer-borrowers. As for the loan utilization and repayment performance of the rice farmer-borrowers, most of them utilized funds only for farm operations and had fully paid their loans from the cooperative. The rice farmer-borrowers were also very satisfied with the lending operation of the cooperative. In general, it was found out that LCSF was seen to be beneficial to BBPMPC because it provided the rice farmer-borrowers easier access to credit. The LCSF also helped improve the financial standing of BBPMPC. To maximize the benefit from LCSF, it is recommended that information dissemination about the program be improved to encourage more cooperatives into their program. This would further extend credit to farmers and provide technical assistance to its members.

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CHAPTER 21

Agricultural Credit Cooperatives in Turkey

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Introduction

Cooperative means individuals' joining their economic powers together through solidarity in order to perform jobs, which they cannot do on their own or which would be beneficial to perform collectively, in the best way possible at their cost (Mülayim 2013). The purpose of cooperatives is to improve the economic status of individuals. Thanks to individual's being able to meet his/her needs conveniently at the most appropriate price, to increase his/her earnings and improve his/her economic status.

In Turkey it is very difficult if not impossible for farmers to receive credit from banks since they are incapable of providing collateral. The farmers who cannot satisfy their financing needs through banks tend to provide financing from individuals and are negatively influenced from high interest rates and many other economic and social problems. However, it is a fact that farmers need financing to continue their production activities. In this case, Agricultural Credit Cooperatives (ACC) stands out as the single organization that can satisfy the credit needs of farmers.

Cooperative Concept and Purposes of Agricultural Credit Cooperatives

According to the definition by International Co-operative Alliance (ICA), “cooperatives an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” Cooperatives are based on unique model that improves social development and constitutes a foundation for commercial establishments. These establishments have the following features (<http://koop.gtb.gov.tr>):

1. Ownership of the partners, serving to the partners and being managed by the partners; and
2. Self-sufficiency, self-responsibility, democracy, equality, justice and solidarity, unity and entrepreneurship based on principles.

The cooperative business principles which were adopted by ICA to guide cooperatives include:

1. voluntary and open membership;
2. democratic control realized by members;
3. economic participation of members;
4. autonomy and independence;
5. education, teaching and information;
6. cooperation among cooperatives; and
7. concern for community.

According to Mulayim (2013), the purpose of agricultural credit cooperatives are: (1) collecting deposits; (2) extending credits, (3) lowering interest rates; (4) providing recommendations to partners about credit; (5) contributing to the improvement of agricultural production to ensure that the credits received are used for production purposes; and (6) providing agricultural inputs and other needs in a quality, affordable and timely manner.

Historical Development of Agricultural Credit Cooperatives in Turkey and in the World

The first cooperative movement in the modern sense in the world started in Europe with the establishment of the Rochdale Consumption Cooperative in England in 1844. Following the establishment of this cooperative, cooperative business has developed and expanded into other countries.

The emergence and development of cooperative business movement is in parallel with industrialization. Accordingly, the consumption cooperatives that emerged in England were established in order to satisfy the consumption needs of factory workers. Robert Owen and Dr. William King have contributed significantly to emergence of cooperatives both with their theories and by pioneering the establishment of cooperatives. In addition, the concept of production partnership developed by Charles Fourier, Lois Blanc and Philippe Bucherin France in 1770-1850 the idea of production cooperatives developed by Ferdinand Lassalle in Germany in 1825-1864 are considered to be important inceptions for cooperative business. In the meantime in 1864, Friedrich Wilhelm Raiffeisen and Wilhelm Haas established a rural cooperative system covering credit, buying and marketing areas in Germany where the agricultural cooperative business movement actually started (Yüksel 2006).

In Turkey, although the first steps towards cooperative business were taken through “Memleket Sandıkları” (Land Funds) established in 1863 and the following benevolent societies established under the name of “Menafi Sandıkları” (Beneficial Funds) during the Ottoman Empire, the basic similar

ideas and movements have appeared in Turkish economic, cultural and social life long before.

Before 1863, there were examples of collective work and organization in Turkish society that had mutual voluntary assistance and solidarity and included similar duties and functions although such examples were not considered to be cooperative business in the modern sense. Among them, “imece” method which is based on mutual cooperation and solidarity that still exist today in rural areas in particular, has a special place and importance. Turkish peasants made an effort to complete the works, that are difficult to do individually, by forming a capital and labor unity.

“Ahi” organizations which are more institutionalized, principle based versions of “İmece” which bear a resemblance to cooperative business, have moral and economic aspects and are similar to guilds in the west and which have economic, social and political dimensions are known have been influential in Turkish society for centuries (Ortaoğlu 2012).

In the course of history, due to significantly positive influences and marks imposed by such institutions on Turkish society, it was observed that cooperative movement was quickly adopted and became widespread in no time after the foundation of modern Turkish State and declaration of the Republic in 1923. In particular, development, diversification and settling down of the modern cooperative business movement starting from the rural area constitutes a remarkable socio-economic fact (Hazar 1970).

Proliferation of modern cooperative perception and its acquiring the basic legal norms came true during the first years of the Republic with “Cooperative Unions Law” issued in 1924, “Agricultural Credit Cooperatives Law” numbered 1470 issued in 1929 and “Agricultural Credit Cooperatives and Unions Law” issued in 1935 (Bilgin and Tanıyıcı 2008).

The Agricultural Credit Cooperative Law numbered 2836, which opened a new stage in Agricultural Credit Cooperatives (ACC), gave cooperatives duties such as preventing the partners from seeking expensive credit opportunities and improving domestic and international competitive power by means of providing affordable production credit and agricultural input and equipment and machinery in order to regulate, increase and value production realized by the partners. The position of German Raiffeisen cooperatives was also taken into consideration when this law was drafted. However, with this law which was prepared in accordance with the needs and conditions present at the time, all activities of ACC became subject to supervision and inspection of R.T. Ziraat Bank and these institutions were considered as agencies only extending short term loans to its partners (Çetin 2002).

As of the end of 1971, the number of ACCs reached 2,023 and number of farmer partners to 1,100,000. The law numbered 2836, which had been in

effect for a long time but became insufficient in time, was replaced by a new Agricultural Credit Cooperatives law numbered 1581 issued in 1972 in line with the changing needs opened a new page for ACCs (Anonim 1972). This law still exists today as the main law on which the current ACCs are based. With the said legal regulations, the legal base for many reforms in ACCs was formed and the suitable environment for independent development of cooperatives was created by eliminating the situation allowing interventions against autonomy adopted by previous implementations and the extreme dependence on a state bank. With this change; ACCs became the affiliated institutions of The Ministry of Agriculture and Rural Affairs and this ministry was authorized for inspection of ACCs.

With Decree in The Force of Law numbered 553 issued in 1995, on the other hand, significant changes were made in the administrative structure and the democratic structure anticipated in the law numbered 1581 was readopted. In addition to forming of board of directors in Central Union, regional unions and cooperatives completely by election, selection of chair from among the members of the board of directors, appointment of the inspectors in regional unions and cooperatives were also chosen by election. It was ensured that two inspector, each of whom was appointed by The Ministry of Agriculture and Rural Affairs and R.T. Ziraat Bank as well as two inspectors (These are assigned from the government for the board member) appointed by take office election in the central union (Anonim 1995).

With the Agricultural Credit Cooperatives law numbered 5330 which came into force after being issued in the Official Gazette dated 12 April 2005 concerning changes to be made in “Agricultural Credit Cooperatives and Unions Law” numbered 1581; board of directors of central union, regional unions and cooperatives were tired to be equipped with a more democratic structure, principle of solidarity among cooperatives acquired a legal base for the first time in Turkey, it was made possible for Agricultural Cooperatives to participate in Agricultural Credit Cooperatives and for Agricultural Credit Cooperatives to participate in Agricultural Cooperatives, and legal persons having agricultural activities were allowed to participate in Agricultural Credit Cooperatives (Anonim 2011).

Management Module for Turkish Agricultural Credit Cooperatives

In Turkey, ACC system operates based on a triple organization model with a hierarchical structure. This triple organization is composed of cooperatives, regional unions and central union, each with separate legal personality from one another and have their own general assemblies, board of directors, inspectors and management staff.

The number of cooperatives, affiliated villages and partners dependent on

ACC by year is shown in Table 21.1. As of the end of 2014, ACC is organized as 1,625 cooperatives, 16 regional unions located in Tekirdağ, Balıkesir, Sakarya, İzmir, Kütahya, Antalya, Konya, Ankara, Kayseri, Sivas, Samsun, Trabzon, Erzurum, Malatya, Gaziantep and Mersin provinces and the Central Union in Ankara. According to 2014 year end data, total number of personnel is 4,829, of whom 79 percent (3815) are employed in cooperatives, 705 in the regional unions and 309 in the Central Union (Anonim 2015).

Agricultural Credit Cooperative Union (ACCU) is comprised of the general assembly, board of directors, and inspectors. ACCU's administrative structure is a ternary pyramid composed of Cooperative Directorate, Regional Union Directorate and Central Union General Directorate.

Table 21.1. Number of cooperatives, affiliated villages and partners, 2011-2014

Year	Province	Number of Cooperatives			Number of Dependent Settlement units	Number of Partnership
		Adm. District	Town village	Total		
2011	61	655	974	1690	35,366	1,080,314
2012	61	649	949	1659	35,362	1,074,146
2013	61	643	937	1641	35,375	1,056,097
2014	53	844	728	1625	35,333	1,053,751

Source: Anonim (2015)

Purposes and Fields of Activity of Agricultural Credit Cooperatives and Unions in Turkey

ACC's purpose is to contribute the production by farmers by satisfying all of their needs concerning agricultural activities, to ensure solidarity within the framework of cooperative business and to serve Turkish agriculture and economy. (<http://www.tarimkredi.org.tr/index.php/tr/2011-08-04-18-06-26.html>);

Purposes and fields of activity of Cooperatives, Regional Unions and the Central Union is listed in article 3 of Agricultural Credit Cooperatives Union law numbered 1581 which has been amended by the law numbered 3223 as follows (Anonim 2007):

For Cooperatives

For partners, the requirements include:

- Satisfying their short and medium term credit demands;
- Appraising their products; and

- Obtaining all kinds of machinery, equipment and facilities that may be commonly benefited by the partners.

For partners and other producers when necessary, it is needed that they will perform the following:

- Wholesale provision of production and mandatory consumable items and production instruments;
- Improving handicrafts and appraising related products;
- Improving their occupational and technical knowledge, conducting activities regarding their social and cultural aspects, organizing course and seminars; and
- Collecting deposit, providing banking services and insurance agency services.

For Regional Unions

This group has more activities such as:

- Regulating the financing works of cooperatives;
- Conducting activities concerning appraisal of common products;
- Wholesale provision or manufacturing of production and mandatory consumable items and production instruments needed by cooperatives when necessary;
- Taking necessary measures to ensure that cooperative activities are conducted in accordance with the principles of cooperative business and legal provisions, providing technical and administrative assistance and arranging general and occupational training activities for partners;
- Inspecting cooperatives; and
- Collecting deposit, providing banking services and insurance agency services.

For Central Union

This is a higher body that is tasked to perform the following:

- Ensuring that cooperatives and regional unions develop in accordance with the law and principles of cooperative business and conducting cooperative business and occupational training activities;
- Providing cooperatives and regional unions with financing sources and taking all measures to improve such sources, ensuring that credit

procedures work in order;

- Wholesale provision or manufacturing of production and mandatory consumable items of cooperatives and regional unions, ensuring that activities regarding appraisal of common products are conducted in a rational manner and take all initiatives and form partnerships on these matters and establishing the necessary facilities, and performing export and import in the area of activities;
- Determining the general application principles in order to ensure that duties and activities of cooperatives and regional unions are performed in order;
- Inspecting cooperatives and regional unions;
- Make decisions on the establishment of cooperatives and regional unions, determining the center of institution and field of activity;
- Issuing bonds in order to satisfy the financing needs of cooperatives and regional unions;
- Conducting activities concerning government purchases when delegated by the government;
- Preparing a by-law regulating the way in which the deposit to be collected by cooperatives and regional unions will be used and conditions of use and indicating the connections with the superior institutions on this matter and submit this by-law to the Ministry of Food, Agriculture and Animal Husbandry;
- Preparing a by-law indicating the use of credits, tools and equipment provided by cooperatives and the conditions for use thereof and also indicating that it is checked whether they are used for the intended purpose;
- Central unions, regional unions and cooperatives are allowed to establish banks and insurance companies or participate in such institutions in order to satisfy their credit needs.

It is understood that purposes and fields of activity of Agricultural Credit Cooperatives and Unions (ACCU) have been determined to be significantly widen ACCUs' assumed functions covering the fields of production, consumption, marketing, and credit. This multi dimensional service approach of ACCU in a way prevents it from specializing in certain areas and from growing in such areas.

Types of Credit Provided by Agricultural Credit Cooperatives in Turkey

Pursuant to article 3/1 -A-a of the law numbered 1581 and article 5/A-a of the main agreement, ACC satisfies the short and medium term credit needs of the

partners. The types of credit provided are listed below (Anonim 2015):

Short Term Operating Loans

These are the credits extended for a maximum maturity of one (1) year but for aquaculture production these could extend up to 1 and ½ years. These credits are provided to ensure the provision of the inputs (including cash) required for the partner to conduct his agricultural activity. Average loan for per borrower is USD 20,000.

These credits can be listed as general consumer loan, seed loan, chemical fertilizer loan, agricultural combat loan, animal husbandry loan, petroleum products loan, aquaculture products loan, insurance premium loan, interest free loan, seedling loan, soil analysis loan, bambus bee loan, agricultural equipment loan, consumption loan, and other operating loans.

Medium Term Loans

These include credits for equipment which are extended for the provision of all agricultural tools and equipment and income generating animals which constitute the inorganic and organic stock of agricultural establishments and for satisfying the sapling/seedlings needed for botanic production. This kind of credits may have a maximum maturity of five (5) years. Average loan for per borrower is USD 20,000 to USD 80,000. After paying of debt, apply new credit. The main credits of this type include agricultural equipment and machinery loan, agricultural mechanization loan, animal acquiring loan, greenhouse loan, sapling loan, infrastructure improvement loan, agricultural irrigation loan and other investment loans.

Loans Allocated To Partners

According to Article 14 of the Cooperative Articles of Incorporation, partners should commit 5 percent of the loan to be allocated to them as equity stake. Amounts of capital committed and paid up by cooperative partners and amounts of loans allocated to partners by years are seen in Table 21.2. It can be noted that the rate of increase for loans allocated to partners decreased over previous years were 17 percent in 2012, 15 percent in 2013 and 14 percent in 2014.

Table 21.2. Amounts of capital committed and paid up by cooperative partners and amounts of loans allocated to partners, 2011-2014

Year	Committed capital (TL)	Paid up capital (TL)	Allocated loan (TL)
2011	381,853,462	268,050,799	6,690,034,672
2012	436,177,166	303,536,354	7,840,561,584
2013	495,487,046	343,017,137	9,000,672,562
2014	564,671,179	390,912,476	10,257,420,394

Note: Exchange Rates: 2011 USD 1 = 1.75 TL; 2012 USD 1 = 1.80 TL; 2013 USD 1 = 2.02 TL; 2014 USD 1 = 2.25 TL

Source: Anonim (2015)

As shown in Table 21.3, balances of the loans extended to partners through the years increased by 31 percent in 2012, 6 percent in 2013 and 24 percent in 2014 over previous year.

Table 21.3. Loan balance extended to partners, 2011-2014

Year	Operating loans(TL)	Investment loans (TL)	Deferred installment loan (TL)	Loans in arrear (TL)	Total loan balance (TL)
2011	2,535,442,859	845,083,398	52,689,936	293,199,943	3,726,416,137
2012	3,380,566,318	801,556,229	371,340,758	327,236,910	4,880,700,214
2013	3,903,919,707	795,556,023	177,904,229	315,615,460	5,192,995,419
2014	4,608,871,787	982,780,346	513,526,956	349,317,159	6,454,496,249

Note: Exchange Rates: 2011 USD 1 = 1.75 TL; 2012 USD 1 = 1.80 TL; 2013 USD 1 = 2.02 TL; 2014 USD 1 = 2.25 TL

Source: Anonim (2015)

Although the number of partners receiving loans decrease through the years, amounts of loans extended increased. Such a result can be interpreted as an indication that there is a transition from small size farming to larger size farming. In particular, the number of loans extended in 2014 decreased by 43,273, the amount of loans extended increased by TRL 726,733,618 (Table 21.4).

ACC extends renewal loan and investment and equipment loan as well as loans which do not require guarantors. Although the maximum maturity for investment/equipment loans is three (3) years, the maturity for such loans was increased to five (5) years with the regulations performed in 2010.

Table 21.4. Newly extended loans, 2011-2014

Year	Number of partners receiving loans	Total amount of extended loan(TL)
2011	1,400,868	3,873,119,280
2012	293,431	4,325,039,044
2013	163,386	5,220,853,823
2014	206,659	5,947,587,441

Note: Exchange Rates: 2011 USD 1 = 1.75 TL; 2012 USD 1 = 1.80 TL; 2013 USD 1 = 2.02 TL; 2014 USD 1 = 2.25 TL

Source: Anonim (2015)

Interest Rates

Interest rates of the loans extended to cooperative partners by terms are shown in Table 21.5. Next to current interest rates, are the interest intervals applied to loans extended with a discount. Interest rates of the loans extended by ACCU to cooperative partners are well below the interest rates available in the market, average interest rate is 10 percent. The interest rates increases as loan maturity gets longer. However, as part of the Cabinet Decision numbered 2014/7201, our partners are provided with agricultural loans with interest rates ranging from 0% to 7.5%.

Table 21.5. Interest rates applied to loans

Maturity	Current Interest Rate (%)
Up to 1 year	8
1-4 Years	10
4 Years and above	11

Source: Anonim (2015)

Loan Allocation Procedures for Partner Borrowers

Allocation of loans was based on the value of assets of the partner borrower that could serve as collateral. Assets include agricultural land, tractors, animals, and income of the borrower. When agricultural land, tractors, and animals are used, 50 percent of the values of these assets are taken as collateral. On the other hand, when income is used, this includes not only income earned from owned or rented land within one year but also income from secondary products on agricultural areas. The opportunities for establishing a credit limit for partners have been expanded significantly thanks to the regulation issued.

When allocating loans to partners, when determining agricultural assets

based on the agricultural land or animals belonging to a partner, 50 percent of the fair value of the movable and immovable properties taken as collateral and 50 percent of the price of animals subject to loan and of tractors subject to loan are considered as agricultural assets thanks to the regulation issued. In addition, while agricultural income was considered to be composed of the income obtained from the lands owned or rented by the partner within 1 year and of animals owned by the partner, income obtained from the animals subject to loan and income obtained from the secondary product on agricultural areas were included in the agricultural income thanks to the regulation issued and it was started to provide the partners who are to take investment loans with loans based on the income which is to be obtained by the partner from his agricultural activity for 3 years. The opportunities for establishing a credit limit for partners have been expanded significantly thanks to the regulation issued.

Loans Maturity and Repayments

Timely collection of loans payment is very important for the sustainability of any business. It is very important to timely collect the payments from partners for due loans which have been extended with various maturities based on loan types in cooperatives.

Failure to collect the receivables from partners for long periods results in deterioration of the receivable payment capacity, in freezing of the sources that are used by cooperatives for lending and this situation causes inability to satisfy the needs of the partner farmers in a timely and sufficient manner. Amounts of collection, status of the receivables due and collection rates by years are given in Table 21.6.

Table 21.6. Amounts of collection, status of the receivables due and collection rates, 2011-2014

Year	Past due receivables (TL)	Amounts of collection (TL)	Collection rate %
2011	301,181,684	3,314,360,190	91.23
2012	317,879,812	3,773,691,483	92.23
2013	314,881,414	5,019,552,105	94.10
2014	339,955,952	5,341,619,963	94.02

Note: Exchange Rates: 2011 USD 1 = 1.75 TL; 2012 USD 1 = 1.80 TL; 2013 USD 1 = 2.02 TL; 2014 USD 1 = 2.25 TL

Source: Anonim (2015)

Working Program for 2014

The following credit goals and policies included in ACCU's 2015 working program are listed in the Annual Report, Financial Statements and Working Program Booklet prepared following the 10th Ordinary General Assembly of Turkish Agricultural Credit Cooperatives Central Union.

Cooperatives aim at extending TRL 7,000,000,000 new loan to partners in 2016 and in parallel with the improving agricultural production, it is stated that loan diversification will be continued in line with the common financing needs and that the income losses originating from the subsidized loans extended to cooperative partners will be collected from the Treasury and loans will be continued to be extended to cooperatives. It is stated in the loan follow up working program that emphasis will be placed on the collection of the loans extended and thus loan liquidity will be ensured and losses of income originating from deferred receivables from partners pursuant to various decrees will be collected from the Treasury and loans will be continued to be extended to cooperatives.

Conclusion

Cooperatives are legal entities established to satisfy the needs of individuals through mutual assistance and solidarity with minimum cost. In Turkey, cooperative business started with "Memleket Sandıkları" (Land Funds) established in 1863 by Mithat Pasha which were later converted into "Menafi Sandıkları" (Beneficial Funds). Although they are not called cooperatives, there were traditions and institutions for mutual assistance and solidarity in Turkish economic, social and cultural life. Among them, "imece" method, which is based on mutual non-institutionalized cooperation and solidarity, still exists today. "Ahi" organizations which bear a resemblance to guilds in the west have economic, social, cultural, and political dimensions are known have been influential in Turkish society. These organizations are trade bodies aiming at mutual solidarity and acting in partnership just like cooperatives.

Together with the declaration of The Republic of Turkey, new steps were taken for cooperative business and basic and legal norms were formed in the modern sense and Turkish Agricultural Credit Cooperatives and Unions gained their current form thanks to laws and decrees in the force of law issued in 1924, 1929, 1935, 1971, 1985, 1995, and 2005. ACCU became widespread across Turkey according to a triple organization from in a hierarchical structure. These are cooperatives, regional unions, and the central union and each of them has a separate legal entity. ACCU is now a big organization having a total of 1,053,751 partners in 60 cities.

The main purpose of ACCUs is to satisfy the short, medium and long term

loan needs of their partners, to protect their partners from fluctuations occurring in product prices and to assist their partners in acquiring agricultural machinery, equipment and facilities.

Short and medium term loans extended by ACC are diversified according to the financing needs of partners. Partners' credit needs are tried to be satisfied under various names and formulas ranging from consumer loans to improvement loans. The amount of loans extended to partners increased by 73 percent between 2011 and 2014. In addition, significant increases have been achieved in operating loans and investment loans extended to partners between 2011 and 2014 and also deferred loan installments and loans in arrear have decreased.

Due to poor management performed in Turkey in the past, which ACCUs inherited, the problems are still not completely eliminated. Partial improvements achieved in loan collections in particular could not reach the desired level. New methods are tried to be developed in order to eliminate such problems in the future. In particular, partners are requested to pay their old debts by taking new loans and debt waiver is no longer applied.

Consequently, Agricultural Credit Cooperatives, which constitute the biggest agricultural union in Turkey, have been conducting cooperative business in the modern sense, serving Turkish agriculture for years, working actively to provide a solution for existing problems and particularly conducting activities aiming at satisfying financing needs of partners.

SUMMARY

Since ancient times, mankind has cooperated in many areas including agriculture in jobs that they cannot perform individually in order to lead a better life. In accordance with the needs changing in time, cooperation between people and solidarity difference has evolved into a different dimension and been directly influenced by social changes. Development of cooperative societies in the modern sense was born and developed further from within this solidarity. Cooperatives are institutions that play important roles in social development based on mutual assistance and solidarity aiming at improving living conditions of individuals constituting the society. Agricultural cooperatives on the other hand, were established in order to meet financing needs of farmers and to support regional development under the umbrella of mutual assistance and solidarity. This chapter presents a study that aims to examine the development stages of agricultural credit cooperatives in Turkey. The study seeks to analyze the organization of such cooperatives throughout Turkey and provide solution suggestions by determining the problems faced by these institutions.

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CHAPTER 22

Credit Cooperative as Effective Access Point to Financial Services: The Case of Perpetual Help Community Cooperative in Dumaguete, Philippines

KAREN P. QUILLOY

Introduction

According to the Bangko Sentral ng Pilipinas (BSP) (2010), 44% of the Filipino households spend more than their income. About 80% of them do not have any bank account and of those with savings bank accounts, 60% maintain a balance of only PHP5,000 and below. Given this scenario, venturing into lending business is considered one of the riskiest businesses in the Philippines, especially in areas where the marginalized sectors reside. Despite the associated risks such as market risks and default risks, a wide array of financial service providers (FSPs) ranging from formal to informal sources continue to provide credit and other financial services across the country. However, the spatial distribution of these institutions are generally skewed to the urban areas where there are more lucrative opportunities for the sellers. It is ironic that where there are more financial needs, these are where inadequate number of banking facilities is often observed. This makes the access of demanders to financial products and services limited.

The country is privileged, however, to have a huge number of alternatives to universal and commercial banks, which help narrow the gap between the served and the underserved or unserved cities and municipalities. Among the alternative formal sources are the thrift banks, rural banks and cooperative banks while non-bank FSPs include credit cooperatives, microfinance institutions, non-stock savings and loans associations, pawnshops, remittance agents and money changers, and e-money agents. With the presence of the non-bank FSPs, additional 50,000 access points or outlets were created in 2013, resulting to the reduction of the proportion of unserved municipalities in the country from 36% to only 12% (BSP 2013).

Among the non-bank FSPs, credit cooperatives are one of the most dominant financial sources in the Philippines. As of 2013, 2,822 credit cooperatives cater to 815 or 49 percent of all the cities and municipalities in the country (BSP 2013).

and the number of these cooperatives has been continuously increasing over the years as depicted in the statistical records of the Cooperative Development Authority (CDA). The increasing and sustainable presence of cooperatives as well as other non-bank FSPs reflects a match between the existing supply and demand of financial products and services, which results into an effective reach of the members or clients.

In the study of Hans Groeneveld of Rabobank (2012), it has been emphasized that financial institutions that have close link with their capital suppliers and client base are more encouraged to reach people in the rural areas and to provide them with financial services than FSPs where the key players are completely separate. Further, Anne Gaboury, the president and chief executive officer of the Développement International Desjardins – the largest financial cooperative group in Canada and a leading contributor to microfinance in the world, also articulated in an interview that the reach and impact of financial cooperatives is more meaningful because they are owned by the people who organized and financed them using their pooled resources (Microfinance Gateway 2012).

The motivation of this study has been stirred by the above statements. How can a cooperative reach people and give them access to financial services despite the strong presence and competitiveness of other forms of financial service providers like formal banks? What is it in a cooperative that makes them responsive and adaptable to the community? How does it create an impact on the standards of living of its members and their communities? These are just some of the stimulating questions that this study attempts to answer through a case research on a local credit-based cooperative, namely the Perpetual Help Community Cooperative (PHCCI) in Dumaguete, Philippines.

This study aimed to examine the features and practices of PHCCI as a financial service provider. Particularly, it sought to:

1. Describe the history and profile of PHCCI;
2. Explain the key business activities of the cooperative;
3. Examine the practices of the cooperative in financial provision; and
4. Determine the challenges faced by the cooperative.

Methodology

The research used a case study approach method to demonstrate how a local credit cooperative serves as an access point to financial services for the people. The case study method is “a systematic inquiry into an event or a set of related events to describe or explain the phenomenon of interest” (Bromley 1990). It involves the use of focused stories rooted in real-life situations or actual experiences that can illustrate a particular set of learning objectives. The selection of the case

cooperative was done purposively wherein the criteria include having financial products and services as its key business activities, a good track record and satisfactory overall performance, and possessing characteristics that can provide strong evidences of cooperative success in financial provision.

Through exploration, PHCCI was identified as one of the most successful cooperatives with financial service in the Visayas. It was an intention to find a case in the Visayas region, as this is where the most number of adults with savings account in a cooperative exists based on the National Baseline Survey of Financial Inclusion of BSP (2015). This study is part of a bigger project on enhancing cooperative education of the Institute of Cooperatives and Bio-Enterprise Development, College of Economics and Management, University of the Philippines Los Baños, which involved development of case studies on different types of local cooperatives in the Philippines. The case of PHCCI is one of the project’s five case studies done in Luzon, Visayas and Mindanao.

Results and Discussion

Historical Background

On April 14, 1971, a small credit union namely, the Perpetual Help Credit Cooperative Incorporated was established in Dumaguete City, Central Visayas through the efforts of the Redemptorist Community led by parish priest, Fr. Patrick O’Connell, C.Ss.R. With only 33 pioneer members and an initial capital of PHP586.00, PHCCI was formed to help the parishioners of Perpetual Help in uplifting their socio-economic lives. Later, these efforts were extended to the residents of Dumaguete City and nearby towns and cities.

In the early years, the leaders and members struggled as the concept of cooperativism was new and often, subject to skepticism and opposition from inexperienced and misinformed individuals, and some capitalists who stood to lose their high interest rates when the Cooperative started providing loans at lower interest rates. However, the collective efforts of the members, thru PHCCI, were able to make a positive impact on the community as a vehicle for sustaining people’s growth and development.

With the cooperative’s expansion of its services, PHCCI registered with the CDA as a full-fledged multi-purpose cooperative and was renamed as the Perpetual Help Community Cooperative to emphasize its commitment to helping build communities. Through the years, it has assisted its members and their communities in addressing the lack of sustainable source of income and other resources to secure their livelihoods and raise their living standards.

PHCCI after Five Decades

PHCCI is operated by Visayan people who have a common bond of interest and are all aspiring to meet their common economic, social, and cultural needs. It was initially organized as a credit union to provide access to affordable financial services such as providential and productive loans and deposit generations. But later, it expanded its product and service offerings to include socialized housing, hostel and restaurant, and money transfer activities. It also provides several community services such as mortuary aid program, calamity aid, medical and dental services, livelihood and skills training program, and environment projects. Despite diversification in its products and services, the savings and lending service remains the key business of the cooperative.

Through the years, PHCCI has grown with already 37,509 members in more than 30 towns and cities all over the Visayas, as of December 2012 (Table 22.1). Majority of these members are women (68.23%) and come from Dumaguete City (28.20%), where the main office is located. It officially expanded its area of operations in 2007 to cover the whole Visayas Region in order to reach and serve more people. Consequently, PHCCI has branched out and opened satellite offices within the region in order to bring its products and services closer to its members (Table 22.2). Its membership base is diversely composed of people coming from all walks of life which includes housewives, farmers, government and non-government employees, market vendors, small entrepreneurs, professionals, and the youth, among others.

Goals and Commitments

PHCCI (2012) envisions to become “a world class community-based cooperative that strongly upholds human ideals and committed to become an instrument to uplift the socio-economic life of its members and the community with an enduring devotion for unity, youth development, environmental well-being, and gender equality.”

In support of this vision, its mission revolves around honing a productive and quality life for its members, their families, and the community. Particularly its mission includes:

1. being a partner in uplifting the lives of members and the community by providing quality products, services, benefits, and projects;
2. developing the management, staff and officers into highly motivated, transparent, impartial, responsible, and proficient individuals;
3. becoming a “strong voice” in the cooperative movement;
4. providing social services such as, but not limited to skills training, livelihood, and outreach program;

Table 22.1. Distribution of PHCCI members by area, 2012

Area	Count	Percentage
Dumaguete City	10,578	28.20
Sibulan	3,966	10.57
Tanjay	2,804	7.48
Valencia	2,687	7.16
Siquijor Province	2,347	6.26
Amlan	1,724	4.60
Dauin	1,237	3.30
Bacong	1,200	3.20
San Jose	1,029	2.74
Bais City	1,021	2.72
Bayawan	1,015	2.71
Sta. Catalina	754	2.01
Bohol Province	744	1.98
Zamboanguita	733	1.95
Siaton	665	1.77
Manjuyod	645	1.72
Pamplona	621	1.66
Mabinay	583	1.55
La Libertad	558	1.49
Jimalalud	497	1.33
Ayungon	466	1.24
Bindoy	465	1.24
Tayasan	437	1.17
Southern Cebu	300	0.80
Guihulngan	150	0.40
Basay	108	0.29
Canlaon	41	0.11
Vallehermoso	19	0.05
Hinoba-an	16	0.04
Others	99	0.26
Total	37,509	100.00

5. strengthening linkages with government organizations, non-government organizations (NGOs), people’s organizations (POs), and other cooperatives;
6. developing concern for the environment, youth development, gender equality and other advocacies;
7. instilling the culture of voluntarism; and
8. becoming an active partner in nation-building.

Table 22.2. Branches and satellite offices of PHCCI, 2012

Branches	Satellite Offices
Tanjay, Negros Oriental	Sibulan, Negros Oriental
Bayawan, Negros Oriental	Valencia, Negros Oriental
Siquijor, Siquijor	Bais, Negros Oriental
Tagbilaran, Bohol	
Carcar, Cebu	

PHCCI has also identified six core values that they consider most important in pursuing its mission. These values include “Godliness, Honesty, Excellence, Accountability, Responsibility, and Self-reliance.” It also believes that these core values are the key to inviting more people to join the cooperative and keep cooperative sustainability.

Lending Program: The Key Service of PHCCI

One of the key purposes of PHCCI is to serve as a partner in uplifting the lives of members and the community. Being a partner rather than a provider is emphasized here to stress the role of PHCCI as a catalyst in the transformation of self-sustaining cooperators, with the members playing their key roles and responsibilities in achieving this goal. As a partner, PHCCI assists in enabling its members and developing their economic potentials through its lending program.

By allowing the members to borrow money from the cooperative, they are given opportunities to start and enhance a business or entrepreneurial venture, to invest in income-generating equipment and facilities, to give them financial means in job-seeking, to enhance their disposable income to give them access to food, clothing, and healthcare, and to allow them to have decent shelter and formal education for their children. PHCCI offer a wide range of loan products for different providential and productive purposes, as listed below.

- Regular Loan
- Special Loan
- Salary Loan
- Financing Loan
- Appliance Loan
- Motorcycle Loan
- Educational Loan
- Business Enhancement Loan
- Emergency Loan
- Instant Loan
- Grocery Loan

One of the members, Ms. Jonalina Catapusan (2013) testifies on how PHCCI has helped her start her own business (Box 22.1).

Box 22.1. Interview with PHCCI member, Dumaguete, 2013

Interviewer: Why did you join PHCCI?

Jonalina: Initially, I wanted to join PHCCI because I want to avail credit from PHCCI because I learned that the loan interest rate there is cheaper compared to other private banks. I wanted to start a business, so I applied for loan amounting to Php40,000 to have a start-up capital. I used the loan proceed as downpayment for one photocopying machine worth Php90,000.

Interviewer: How is the performance of your photocopying business?

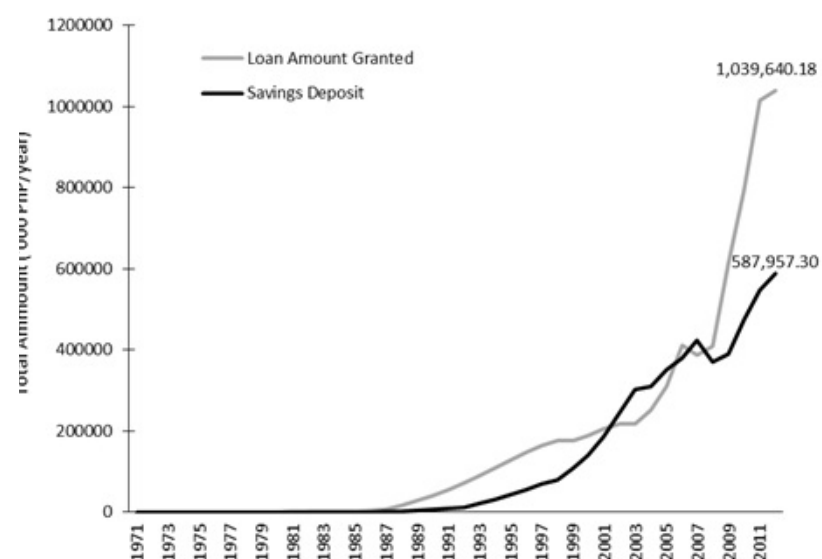
Jonalina: My business is doing well so I am able to apply again for loan to purchase additional photocopying machines. Now, I already have around ten photocopying machines. Because of the financial services provided by PHCCI, I was able to run this business and send my children to school. My children already finished their schooling. They are now a registered nurse and a teacher. PHCCI really gave my family a decent life. I do not have any other bank accounts except that of PHCCI. And because of PHCCI, I was also able to buy a lot from PHCCI Home Subdivision and build a new house for my family through PHCCI Financing Loan. I already fully paid that. So just recently, I got again two more lots, this time for my children.

Source: Catapusan, J. (2013, December 19). Personal Interview.

Over the years, PHCCI has granted an increasing amount of loans from only PHP400 in 1971 to already PHP1.0 billion in 2012 (Figure 22.1). About 70 percent of the members were granted different loans in 2012, of which salary loans, regular loans, and special loans were the most common. These types of loan are collectively referred to as productive loans, which are often used for business and agricultural purposes and for basic needs (Table 22.3).

Depending on the type of loan window, there are specific terms and conditions and requirements needed for application. Some loans do not require collateral and co-maker. However, credit investigation is still a must prior to loan approval to determine the credit standing of the borrower and his financial capacity. In particular, loans are released based on the 5C's of credit: character, capacity, capital, collateral, and conditions. Loanable amount may vary depending on the available net take home pay and share capital of the members and their standing. Ms. Annelina Garsulla, a loyal PHCCI member, shares her experience in her loan application (Box 22.2).

PHCCI makes sure that the processing of loan application is friendly and not cumbersome, unlike other formal financing institutions such as commercial banks, especially if you are not a first-time borrower and has a good standing.



Note: BSP Exchange rate: USD 1.00 = PHP41.05 as of December 2012

Source of basic data: PHCCI Annual Report 2012

Figure 22.1. PHCCI loan releases and savings deposits, 1971-2012 (in PHP)

Table 22.3. PHCCI loan releases by type, 2012

Loan Type	Total Amount
Regular	204,891,500
Special	128,006,750
Salary	510,827,500
Emergency	114,903,810
Educational	2,685,900
Instant	2,503,100
Housing	594,720
CA-Salary	9,144,370
Bonus/Incentive	30,462,930
Supplemental	10,507,500
Motorcycle	3,416,200
Appliance	773,100
Pensioners	698,000
Capacity	19,795,800
Financing	319,000
Business Enhancement	110,000
Total	1,039,640,180

Note: BSP Exchange rate: USD 1.00 = PHP41.05 as of December 2012

Source of basic data: PHCCI Annual Report 2012

Box 22.2. Member's interview about loan application, Dumaguete, 2013

Interviewer: Is the processing of loan applications fast?

Annelina: Yes, as long as your loan requirements are complete. In just one or three days, your loan proceeds can be already released. The releasing time actually depends on the type and amount of loan you avail.

Interviewer: Are there many documentary requirements needed in the loan application?

Annelina: The requirements are basic and not very stringent – completed application form, your capability to pay, which is assessed through their credit investigation, collateral only if the amount of loan is large, for instance, PHP50,000. There is no co-maker needed in the application.

Interviewer: How do you find the loan interest rate set by PHCCI?

Annelina: It is relatively low compared to other banks. I applied for a salary loan before and the interest rate was only 1% per month. This is lower compared to the interest rate in one rural bank here, where I availed loan before. The applicable monthly interest rate there was 2.5%.

Source: Garsulla A. (2013, December 19). Personal Interview

One of the members, Ms. Jonalina Catapusan (2013) testifies on friendly loan policies of PHCCI.

"If you compare PHCCI with other microfinance institutions (MFIs) here in Dumaguete, I can say that it is relatively easier to apply for loan at PHCCI because it does not impose strict requirements on co-makers. My husband experienced applying loan from another cooperative here and it was very difficult for him to get a co-maker because the Cooperative only accepts co-maker who is also member of the Cooperative, has a good credit standing, and is not yet a co-maker of any other member-borrower. Also, the maturity of fixed deposits in other MFIs takes at least three months before you can apply for loan. This is not the case of PHCCI."

It also adopts technology-enabled transactions through the use of internet for online loan applications. But more importantly, PHCCI has kept its loan interest rate at an acceptable level for its members and for the banking business community.

Cooperative Practices in Financial Provision

The lending program of PHCCI opens up a range of economic opportunities for its members. However, these cannot be tapped unless members become responsible borrowers and are able to use and grow their loan proceeds wisely and optimally. The most critical dilemma that can prevent the members from enhancing their income and improving their lives, or worse, exacerbate their

economic status is the indebtedness trap. Every person that falls prey to indebtedness due to non-repayment, if not delayed, of loans and unproductive use of credit, is not just a failure of the member-borrower himself but also of the whole cooperative. The question is how does PHCCI prevent and deal with indebtedness trap and guarantee that their efforts to assist their members financially are not wasted?

Living the Cooperative Identity

First of all, the success of PHCCI's lending business can be partly attributed to the very nature of it as a cooperative. In general, cooperatives are built on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Republic Act (RA) 9520 – the “Philippine Cooperative Code of 2008” states that, “the primary objective of every cooperative is to help improve the quality of life of its members. Towards this end, the cooperative shall aim to:

1. Provide goods and services to its members to enable them to attain increased income, savings, investments, productivity, and purchasing power, and promote among themselves equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk-sharing;
2. Provide optimum social and economic benefits to its members;
3. Teach them efficient ways of doing things in a cooperative manner;
4. Propagate cooperative practices and new ideas in business and management;
5. Allow the lower income and less privileged groups to increase their ownership in the wealth of the nation; and
6. Cooperate with the government, other cooperatives and people-oriented organizations to further the attainment of any of the foregoing objectives.

Moreover, it was stated in the Code that the first two purposes of which a cooperative may be organized and registered are:

1. to encourage thrift and savings mobilization among the members; and
2. to generate funds and extending credit to the members for productive and provident purposes.

The above purposes are usually done by a credit cooperative, which is defined in the Code as “one that promotes and undertakes savings and lending services among its members. It generates a common pool of funds in order to provide financial assistance to its members for productive and provident purposes.”

These concepts and definitions guide PHCCI on its operations and strategic directions toward achieving its goal. As much as thrift and savings mobilization

have been emphasized in the Code, the Cooperative has also underscored the importance of inculcating the value of thrift and saving among its members and directing them towards the goal of self-reliance. What the PHCCI wants to instill in its members is not the habit of availing loan or borrowing money, but rather the habit of saving money – that is, the principle of self-support and being financially independent.

Implementing the Savings Mobilization Program

In general, lending programs that link its savings mobilization with its credit supply are usually the successful ones. In PHCCI, the members are encouraged to become savers and responsible borrowers. It has its own savings mobilization which is as an integral part of its financing program. With the savings program, PHCCI aims to hone its members to become financially less dependent on outside sources, enhance capital accumulation, and most importantly, attain self-sustainability. The cooperative offers different savings products that are tailored to their particular clientele such as for personal savings, business, and for the youth (Table 22.3). All these savings accounts provide opportunity for its members to save money in a formal manner.

As PHCCI wants to encourage more savings rather than credit, it provides a formal banking environment that is not hostile and does not involve stringent and discriminatory procedures to its members. Compared to commercial banks and other microfinance institutions, PHCCI has relatively lower maintaining balance ranging from PHP100.00 to PHP500.00 only and has competitive interest rates without withholding tax, which encourage the members to open and maintain savings accounts in the cooperative. With the savings program, the habit of saving is instilled in the members, making them more financially secured and self-reliant in the future.

Rewarding the Members with Good Standing

In behavioral psychology, reinforcement is a way of conditioning the behavior of a person by giving them a stimulus that will increase or maintain frequency of a certain behavior in the future. This reward system is applied among PHCCI members to motivate them to pay their loan obligations on time and increase their share capital and savings deposits in the cooperative. In 2012, PHCCI implemented the Membership Classification Policy or MIGS (Members in Good Standing), a program wherein the members in good credit standing are recognized and rewarded with incentives because of their significant contribution to the growth and economic stability of the cooperative. One could become a MIGS member if he or she satisfies the following characteristics (PHCCI 2012).

1. Has paid the membership fee and the value of at least PHP1,800 (6 shares) required for membership;
2. Not delinquent in the payment of share capital subscription and other accounts obligations;
3. Not violated any provision of the PHCCI-MPC by-laws; the terms and conditions of the subscription agreement; and the decisions, guidelines, rules and regulations promulgated by the Board of Directors and the General Assembly;
4. Completed the continuing education program prescribed by the Board of Directors; and
5. Attends and participates in the General Assembly, Area Conventions and patronizes its businesses.

MIGS members could be further classified as 5-star (the highest rating), 4-star, 3-star, 2-star, and 1-star MIGS depending on the length of their membership, share capital deposit, savings deposit, and loan ratings (Table 22.4). The higher the MIGS classification, the more loan incentives the members get, such as lower loan monthly interest rate and lower share capital requirement for availing loans. Through the MIGS program, PHCCI hopes to inspire its members in good standing to continue performing well in the Cooperative and its other members to aspire to become one too. In addition, due appreciation is given to the members who are performing well in and for the cooperative. Every year, PHCCI gives the “Outstanding Loan Borrowers” and the “Share Capital Build-up” awards to members who regularly pay their loan obligations on time and continuously build up their share capital contribution to the cooperative.

Table 22.4. PHCCI MIGS membership classification policy

Classification	Years of Membership	Share Capital (PHP)	Savings (ADB)*	Loan Rating (at least 3 loans)	Loan Interest Rate (%)	Share Capital Requirement (%)
5-star MIGS	5	20,000	4,000	A	1.10	20
4-star MIGS	4	15,000	3,000	A or A-	1.15	25
3-star MIGS	3	10,000	2,000	A or A-	1.20	30
2-star MIGS	2	5,000	1,000	A or A-	1.25	35
1-star MIGS	1	2,400	500	A or A-	1.30	40

Note: BSP Exchange rate: USD 1.00 = PHP41.05 as of December 2012

*ADB - Average Daily Balance in PHP

Source: PHCCI Annual Report 2012

Introducing the Value of Thrift and Saving among the Youth

PHCCI believes that at an early age, children should already learn the habit of saving and the value of being thrifty. When they grow up, they would have developed the wisdom to avoid the temptation of extravagant spending and living beyond their means.

In the past, a common practice of fostering the value of saving is by giving the child a piggy bank where they can put in and save coins. Today, the practice is to open a savings account in a bank or other financial institutions like a cooperative. In the Philippines, the Department of Education (DepEd) in cooperation with BSP have implemented programs that encourage teachers to integrate financial literacy and the value of thrift and saving in their curricula and introduce to their students saving in the bank. PHCCI shares the same idea with DepEd and BSP on instilling the value of thrift and saving among children for them to create a lifelong habit of good money management and secure a good financial future. One of its major initiatives on this is its Junior Savings Account. This deposit account is intended for the members' children aged 17 years old and below, who want to start to save at an early age.

Another initiative is the cooperative's participation in the Aflatoun Program, a youth program brought to the Philippines by the National Confederation of Cooperatives (NATCCO) in partnership with the Aflatoun Child Social and Financial Education Organization, DepEd, CDA, and local cooperatives. The Aflatoun program aims to develop young minds to be socially-aware and financially literate by teaching them the concepts and skills of social and financial education. It also seeks to maintain and increase youth participation in influencing public policy issues that are relevant to them and to the cooperative sector. As a partner cooperative in the Aflatoun Program, PHCCI has already implemented the program in three selected public elementary schools, namely Dumaguete City West Elementary School, Bayawan City East Elementary School, and Valencia Central Elementary School. Under the program, the cooperative serves as the depository, through its Aflatoun Savings Account, of the savings of the participating school children.

Lastly, PHCCI has created its own special organization for the youth namely, the PHCCI Youth Organization or simply called the “Youth”, to serve as an avenue for training them to be economically responsible through the guidance of cooperative values and principles. The Youth was piloted in Dumaguete City, with a membership composed of individuals who are either students at secondary and tertiary levels, already working, or out-of-school youth. It aims to work and build a strong, dynamic, viable, value-driven, and competitive youth movement that is responsive to the current needs of its members and their community. The Youth President, Mr. Patrick Pausal, also explained that their

organization teaches the youth how to manage, adjust, and be flexible in coping with the economic environment that they are in.

Apart from promoting the value of thrift and saving, the Youth undertakes several school-based and community projects and activities, which include relief goods operations for typhoon-affected communities, Christmas outreach and gift sharing, tree planting activities, youth leadership seminar, and workshop on teambuilding and cooperation. Its members also constantly work with PHCCI to assist in PHCCI's General Assembly, Pre-membership Education Seminar (PMES), monitoring of the Scholarship Program, promotion of Aflatoun Program and PHCCI Junior Depositor Services, and community activities. However, more than the tangible outputs of the Youth, the organization is able to teach and mold its young members to live their lives with the cooperative values, ethics, and principles such as self-help, self-responsibility, solidarity, equality, transparency, thrift and savings, social responsibility, and concern for community and the environment. At present, the Youth continues to craft appropriate and needed programs and activities that could contribute to the success of the organization.

Providing Financial Education Seminars and Orientations

Continuing financial education is vital in framing the outlook of cooperative members toward savings and credit. PHCCI considers this as one of the key factors to financial success of its members. Hence, it has given particular attention on providing adequate member education through orientations, seminars, trainings, and personal counseling sessions. Even before a person becomes a member of PHCCI, PMES already tackles the importance of the values of thrift and saving and self-help and self-responsibility. In the seminar, trainers discuss matters on why do they need to avail loan, for what purpose should they use their loan, and is there really a need to avail loan. Before applying for a loan, members are also given personal advice on financial management and borrower responsibilities. Re-orientation programs and personal counseling are conducted for members who are not in good standing to give them money advice and inspiration to work hard on improving their financial status.

Complementing Saving and Credit Services with Adequate Facilities

As a savings and credit service provider, PHCCI takes the responsibility of providing adequate facilities to enable the members to access and use its services optimally. It constantly improves its procedures for loan and deposit transactions to ensure that members are given a convenient environment to repay their loan obligations, deposit money in their savings accounts, process

their loan and savings applications, and seek financial advice or counseling. Specifically, PHCCI has done this by:

1. Opening new branches and satellite offices in other areas in the Visayas Region;
2. Hiring additional employees and staff in the accounting, loans, cash services and collections sections;
3. Partnering with banks such as Metropolitan Bank and Trust Company (Metrobank), Rural Bank of Pamplona (in Negros Oriental), and Robinsons Bank, to accept deposits and loan payments;
4. Using of SMS centers and phone calls to follow up on members with delayed payments and advise them with their near term obligations; and
5. Enabling online application for loans and savings accounts.

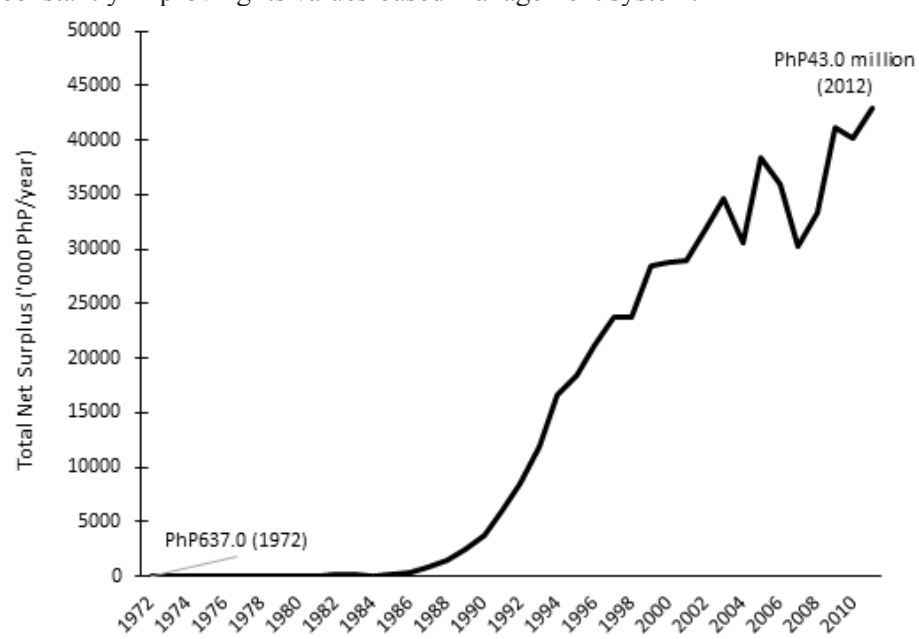
The Challenges Ahead

With its management system that is largely anchored on the value of thrift and saving, PHCCI has reaped gains from its savings and lending program both for the cooperative itself and more importantly, for its individual members. The increasing net surplus of PHCCI since 1972 reflects the significant improvement in members' patronization of its key services and their dutiful saving of capital for contribution to the cooperative (Figure 22.2). This growth has in fact enabled the cooperative to offer more services, which include the operation of its own socialized housing subdivision since 2001 and a hostel and restaurant based in PHCCI Main Office since 2006.

Likewise, the total savings deposits of the members have exhibited an increasing trend since 1990s, which could also indicate that through the years of being clients of PHCCI, members have learned to give greater importance on the essence of saving (although part of the increase of the total savings could definitely be attributed to the increase in number of the cooperative members). PHCCI has served as a key enabler of the full economic potential of many of its members by developing them into wise entrepreneurs, working people, and investors through provision of financial services that imbibes the value of thrift and saving. However, with over 30,000 members, PHCCI still has a long way to go in pursuing its goal of uplifting the life of every member of the cooperative.

Despite its impressive performance in terms of providing credit services, PHCCI has always faced the risk of delinquency, currently within the industry's average of 25% to 35%. The risk of members defaulting on their obligation remains to be the greatest risk to the cooperative, or any lending institution for that matter. In the face of this uncertainty, PHCCI remains steadfast in its mission to uplift the lives of its members and finds solace in the testimonies of the members' success. The cooperative continues to deal with this challenge by

constantly improving its values-based management system.



Note: BSP Exchange rate: USD 1.00 = PHP41.05 as of December 2012

Source of basic data: PHCCI Annual Report 2012

Figure 22.2. PHCCI total net surplus, Dumaguete, 1972-2012

Conclusion

Cooperatives are inherently linked with its member-owners as their needs and aspirations are the key basis for its organization. Because of its member- and community-based approach in delivery of financial services, a cooperative is seen as a viable model for enhancing financial access and improving financial inclusion in areas that are difficult to reach and are often neglected by banks and other financial institutions.

One of the remarkable cooperatives with credit operations in the Philippines is PHCCI in Dumaguete City, Central Visayas. Its determination to contribute significantly to the economic growth of its members by developing their financial capabilities is what inspires the cooperative to implement an excellent savings and lending program for its members. One of the keys to the successful program of PHCCI lies on the combination of effective strategies it implements and the value of thrift and saving that it instills in its members.

PHCCI does not promote financial dependency that traps its members into perpetual indebtedness but encourages each member to gain confidence through financial independence. It jumpstarted this process by converting unreasonably

high interest rates debts into humane interest rates under the cooperative's various loan windows. It equips their cooperative members with adequate financial literacy to ensure that their members become financially independent rather than highly dependent on credit facilities.

By maintaining such ideals, PHCCI has shown success in serving its purpose to improve the lives of its members by providing lending services and at the same time, encouraging thrift and savings mobilization among them. At present, PHCCI is considered as one of the largest and most outstanding cooperatives with savings and credit operations not only in the Visayas region, but also in the entire country.

SUMMARY

This chapter features a case of a credit cooperative, namely the Perpetual Help Community Cooperative (PHCCI) in Dumaguete City, Philippines to demonstrate how credit cooperatives in the country contribute to improving access of Filipinos to financial services and the financial inclusion, in general. The case study focuses on the lending program or credit service of PHCCI and presents its cooperative practices in financial provision.

In particular, it explained how the very nature of the cooperative as a member-owned community-based organization establishes itself as an effective access point to financial services, especially in unbanked areas like the rural and far-flung areas. It also emphasized the importance of complementing the credit program with savings mobilization program to promote financial independence and sustainability. The cooperative's role in improving financial literacy of both the adults and the youth through its well-placed financial programs, services and activities was also tackled, highlighting the contributions of PHCCI in educating people and promoting the values of thrift and saving among them.

PHCCI is recognized as one of the successful credit cooperatives in the Philippines. Despite its success, the cooperative is not without a problem. Like any other financial business, it also encounters delinquency problems and competition with other financial service providers. However, the cooperative continues to create solutions and adopt strategies to manage the risks and minimize the negative impacts of the problems and challenges that it faces.

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Part VI

Related Issues on Cooperatives

CHAPTER 23

The Role of Cooperatives in Achieving Household Food Security in the Philippines

JAN DANICA S. ASMA

Introduction

Food security exists when “all people at all times have physical and economic access to sufficient, safe and nutritious food” (World Food Summit 1996). It is a multi-dimensional issue and it became complex and challenging due to the effect of economic growth, changing demographics, consumption patterns, international trade and environmental change (ADB 2013). It became a central topic in developing policies, programs, and projects of different government agencies, international organization, non-governmental organizations and private institutions of nations around the world.

Food security is particularly important for households or individuals. FAO (2010) defines household food security as “... the ability of the household to secure, either from its own production or through purchases, adequate food for meeting the dietary needs of all members of the household.” It is important for a household to have an adequate income or resources to provide for the needs of its members. However, for poor people who have very limited income, it is a challenge to meet their household food security. The increasing population adds pressure in meeting food security. According to FAO (2009), by 2050 the world’s population is expected to exceed 9.0 billion which will lead to almost double demand for food. With the limited land, water and natural resources and the threat of climate change, it is challenging to produce more food for the growing population.

In 2015, the United Nations has identified the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development that was adopted by world leaders to end poverty, protect the planet, and ensure prosperity for all. The SDGs call for action by all countries to promote prosperity while protecting the environment. Ending poverty should go hand-in-hand in promoting economic growth and addressing the social needs while considering climate change and environmental protection. Governments are expected to craft national frameworks to achieve the 17 goals (UN 2016). One of the SDGs is to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

Cooperatives are well-placed to contribute to sustainable development's triple bottom line of economic-social and environmental objectives. Particularly, the International Cooperative Authority (ICA) and International Labour Organization (ILO) emphasized that cooperatives are highly relevant and important in achieving food security. A cooperative is an alternative form of enterprise built based on common social, economic and/or cultural needs of its members. Cooperative members are also driven by their unique values in achieving developmental goals for their community which may include food security and environmental protection.

One of the goals of ICA's 2020 Vision is for cooperatives to become the acknowledged leader in economic, social and environmental sustainability. Although effort were done by international organizations such as UN, ICA, and ILO to recognize the contribution of cooperative to sustainable goals, much is still needed to be done to promote and expand the cooperatives.

This paper attempts to discuss the role of cooperatives in the Philippines to SDGs particularly in food security and its four dimensions.

Food Security Status in the Philippines

There are four dimensions in food security which are availability, accessibility, utilization, and stability. Several indicators were identified based from the four dimensions of food security. The presented food security indicators were gathered through the Philippine Food Security Information System of the Philippine Statistics Authority.

Food availability refers to the food available of sufficient quantity and quality which is supplied either through domestic production of input. The basic indicators for food availability are food available per capita and food production index.

The food available per capita of different commodities from 1990 to 2013 is presented in Table 23.1. From 1990 to 2013, the quantity of rice, corn, pork and chicken available for food consumption was increasing at an average growth rate of 1.01 percent, 1.43 percent, 1.32 percent and 4.4 percent per year, respectively. The food production index tells us the changes in production of food commodity in a given year relative to a base year (2000).

For rice, from 2001 the production indices continued to increase except for 2009 and 2010. In 2009 and 2010, rice production was affected by typhoons and prolonged dry spell. The same trend can be observed for corn wherein the production was also affected by dry spell in 2010. It was in 2010 that the highest index was observed for corn at 164.2 percent and it slightly went down to 163.53 percent in 2013. The chicken and pork production index has an increasing trend and reached 138.65 percent and 196.38 percent in 2013.

Table 23.1. Food available (FA) per capita (in kilograms per year) and food production index (FPI) (in percent), Philippines, 1990-2013

Year	Rice		Corn		Chicken		Pork	
	FA	FPI	FA	FPI	FA	FPI	FA	FPI
1990	92.53	75.22	13.94	107.60	4.35	50.18	11.01	68.00
1991	83.71	78.07	16.84	103.19	4.56	53.81	11.03	69.71
1992	87.13	73.68	18.01	102.39	5.55	66.85	10.79	69.71
1993	88.52	76.14	15.44	106.36	5.57	68.37	11.04	72.65
1994	86.49	85.05	13.22	100.18	5.49	70.64	11.02	76.02
1995	92.55	85.08	15.73	91.53	5.85	74.95	11.65	79.99
1996	98.73	91.07	16.85	92.02	6.51	85.37	12.21	85.48
1997	97.05	90.95	15.77	96.03	6.96	93.17	12.54	89.53
1998	91.91	69.05	14.97	84.75	6.75	92.14	12.69	92.68
1999	99.68	95.13	17.69	101.64	7.03	93.12	13.10	96.64
2000	103.16	100.00	18.57	100.00	7.19	100.00	13.20	100.00
2001	103.77	104.55	14.31	100.31	7.68	110.12	13.45	104.40
2002	108.03	107.23	13.97	95.74	8.04	117.63	13.85	109.88
2003	107.02	108.96	13.23	102.33	8.00	119.14	14.12	114.19
2004	116.09	117.01	14.09	120.00	8.28	124.71	13.67	112.62
2005	118.80	117.86	13.46	116.45	7.58	116.95	13.69	116.70
2006	118.70	123.71	18.41	134.83	7.95	123.43	14.80	129.06
2007	126.24	131.07	17.63	149.35	8.81	139.82	15.07	133.33
2008	128.10	135.72	15.96	153.58	9.43	152.37	14.88	132.43
2009	119.92	131.22	18.61	155.93	9.58	155.06	14.87	134.33
2010	114.81	127.30	16.46	141.37	10.41	162.93	15.19	134.90
2011	117.39	134.65	16.05	154.53	10.85	172.58	14.88	135.38
2012	119.45	145.54	17.68	164.20	11.34	184.76	14.73	136.32
2013	116.48	148.82	19.32	163.53	11.72	196.38	14.88	138.65

Source: Philippine Statistics Authority (PSA)

Food accessibility refers to the access of individuals to adequate resources in order to acquire appropriate food for a nutritious diet. Farmer's share in consumer peso and consumer price index (CPI) are used as indicators under this dimension.

The highest percentage of rice farmer's share to the consumer peso was in 1990 at 32.64 percent. Although the 1990 mark was not surpassed, it can be observed that there was an increase in farmer's share to consumer peso from 2009 to 2013 with an average of 1.26 yearly. For corn, the highest share can be observed in 2011 at 76 percent. From 2009 to 2013, the farmer's shares fluctuated, but still, there was an average growth of 3.08 percent per year. For chicken and pork, the share slightly increased from 2009 to 2013 with an average of 0.73 percent and 8.83 percent, respectively (Table 23.2).

Table 23.2. Farmer's share in consumer peso by commodity (in percent), Philippines, 1990-2013

Year	Rice	Corn	Chicken	Pork
1990	32.64	65.13	44.37	37.22
1991	31.10	59.13	50.50	37.40
1992	30.13	62.13	53.75	36.01
1993	29.62	62.91	52.89	35.31
1994	28.86	65.22	54.81	36.66
1995	28.84	69.72	45.76	37.92
1996	27.81	59.84	47.99	38.15
1997	27.75	56.81	47.96	37.53
1998	28.35	47.71	49.07	35.85
1999	26.70	55.10	44.45	35.75
2000	28.14	57.50	50.94	35.57
2001	27.33	52.90	50.52	33.76
2002	28.69	51.77	48.31	32.92
2003	28.45	53.00	49.02	32.97
2004	29.19	60.30	49.81	35.88
2005	29.63	55.15	51.76	36.02
2006	28.86	57.44	51.49	35.04
2007	29.50	62.83	50.15	35.81
2008	28.08	67.36	45.68	36.81
2009	27.87	55.07	48.99	36.69
2010	28.15	56.27	51.16	36.45
2011	28.39	75.51	52.08	35.87
2012	29.87	67.70	52.15	35.73
2013	29.86	72.85	46.97	37.33

Source: PSA

Consumer price index measures the change in average price of a fixed basket of goods and services that are usually purchased by household relative to a base year. All commodities in Table 23.3 showed that there were increasing trend of consumer price index during the reference years.

The utilization dimension of food security is the ability of human body to ingest and metabolize food with adequate diet, clean water, good sanitation and health care to meet the state of nutritional well-being and physiological needs. Utilization can be determined by assessing the percentage of children under five years old who are stunted, underweight and wasted.

From 1990 to 2013, it can be observed that there were decreasing proportion of stunted and underweight children aged 0 to 5 years old (Table 23.4). In terms of wasted children, the highest percentage is recorded in 2013 at 7.9 percent.

Table 23.3. Consumer Price Index (in percent), Philippines, 1994-2013

Year	Rice	Corn	Meat	Fish	Egg	Fruit	Vegetables
1994	58.10	52.50	60.50	49.80	53.10	54.20	48.80
1995	66.00	60.70	63.10	53.40	54.70	57.80	51.50
1996	78.00	70.90	66.40	58.40	56.90	63.80	59.60
1997	77.70	71.40	69.00	62.40	58.60	67.30	62.10
1998	80.50	73.40	73.40	67.90	65.20	73.20	75.60
1999	82.40	73.20	76.00	73.20	68.40	83.20	80.90
2000	83.80	79.30	76.50	80.10	69.30	86.70	83.50
2001	84.90	80.20	80.40	82.80	74.90	88.00	86.50
2002	86.90	81.30	81.40	84.60	78.60	88.80	84.30
2003	88.00	82.20	81.80	84.90	80.90	87.30	83.90
2004	90.10	90.40	91.80	90.30	87.00	92.80	86.80
2005	96.20	95.20	97.30	95.50	94.50	95.70	91.50
2006	100.00	100.00	100.00	100.00	100.00	100.00	100.00
2007	103.30	106.00	103.10	104.10	105.50	106.10	102.20
2008	126.20	132.00	111.30	114.50	115.40	117.40	114.90
2009	136.10	139.70	118.10	121.80	121.10	122.50	122.90
2010	140.60	138.30	123.00	126.50	124.00	126.20	126.10
2011	146.40	148.90	125.70	135.60	127.30	134.60	142.20
2012	147.30	157.90	127.50	144.50	131.50	142.80	142.70
2013	153.80	165.00	130.10	149.00	134.20	149.30	146.00

Note: 2006 = 100

Source: PSA

Table 23.4. Prevalence of stunting, underweight and wasting among children aged 0 to 5 years old (in percent), Philippines, 1990-2013

Year	Stunting	Underweight	Wasting
1990	44.7	27.4	6.2
1992	40.6	26.6	7.5
1993	38.9	23.8	7.7
1996	39.9	23.6	6.2
1998	38.9	25.5	6.8
2001	35.9	23.0	6.8
2003	33.9	20.7	6.0
2005	33.1	20.2	5.8
2008	32.3	20.7	6.9
2011	33.6	20.2	7.3
2013	30.3	19.9	7.9

Source: Food and Research Institute (FNRI)

It was good to note that infant and under five mortality rates from 1991 to 2012 were generally declining (Table 23.5).

In terms of shares of food in total family expenditure, it can be noted from Table 23.6 that it had declined from 48.5 percent in 1991 to 41.50 percent in 2006. From 2006, it can be noted that the shares of food expenditures has an increasing trend and reached 42.8 percent in 2012.

Table 23.5. Infant and under five mortality rates (deaths per 1,000 live births), Philippines, 1990-2012

Year	Infant Mortality Rate	Under Five Mortality Rate
1991	39.10	55.20
1992	37.50	52.30
1993	36.10	49.90
1994	34.90	47.80
1995	33.80	46.10
1996	32.90	44.60
1997	32.10	43.20
1998	31.50	42.10
1999	30.90	41.20
2000	30.40	40.40
2001	29.90	39.50
2002	29.40	38.70
2003	28.80	37.90
2004	28.30	37.00
2005	27.80	36.20
2006	27.20	35.40
2007	26.60	34.40
2008	26.00	33.50
2009	25.40	32.60
2010	24.70	31.60
2011	24.10	30.70
2012	23.50	29.80

Source: World Development Indicators

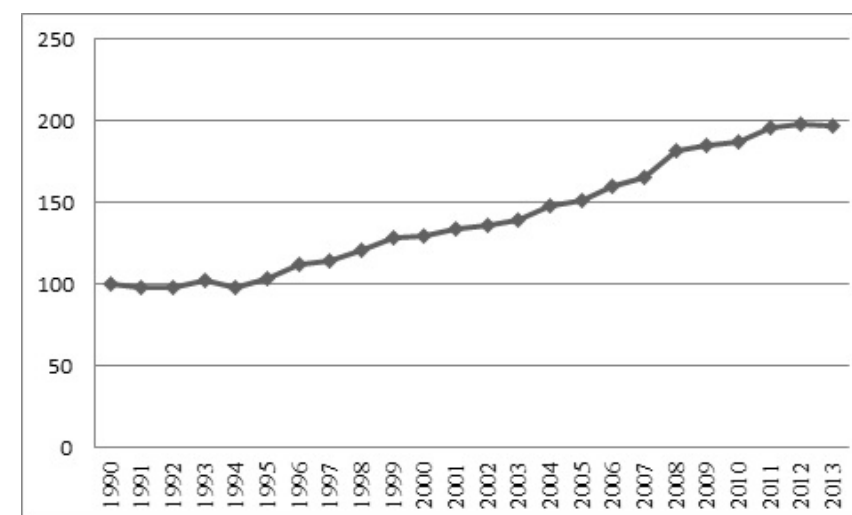
Table 23.6. Shares of food in total family expenditures (in percent), Philippines, 1991-2012

Year	Share
1991	48.50
1994	47.80
1997	44.20
2000	43.60
2003	43.10
2006	41.40
2009	42.60
2012	42.80

Source: PSA

The food security index (FSI) measures the stability of the dimensions of food security such as availability, accessibility, and utilization. As shown in

Figure 23.1 there is an upward trend of the food security situation from 1995 onwards. The factors that contributed to the positive trend are availability of major food items from 1995 to 2010 and the shares of poverty alleviation and agriculture budget to total budget and food utilization in terms of dietary energy supply (PhilFSIS 2014).



Sources of basic data: PhilFSIS, PSA

Figure 23.1. Food security index, Philippines, 1990-2013

Policies Related to Food Security

In the Philippines, several policies and law have been crafted in support to achieving for food security. Majority of these efforts are focused on the agricultural sector. The Agricultural and Fisheries Modernization Act (RA 8435) was enacted to transform the agricultural and fisheries sector from resource-based into technology-based industries and to enhance profits in these sectors especially for small farmers and fishermen. It also aims to guarantee food security and encourage farmer and fisher folk groups to bond together for more bargaining power, strengthen people's organization, cooperatives and non-government organizations by enhancing their participation in decision making.

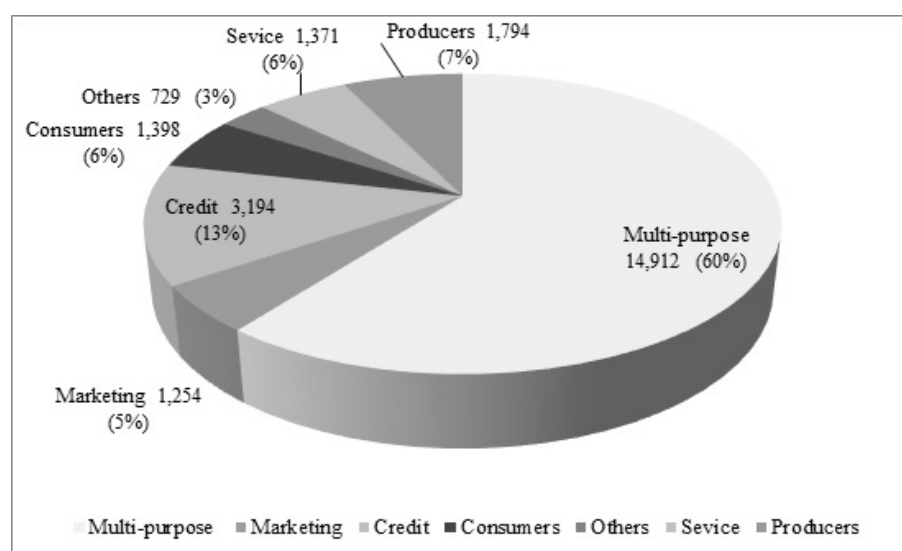
The National Food Authority (NFA) subsidized the price of rice with its NFA rice which is cheaper from commercial rice. The Department of Agriculture (DA) also implements the Food Staples Sufficiency Program (FSSP) to improve the farm productivity and make the Filipino Farmer Globally Competitive. The over-all goal is for the Philippines to become self-sufficient in rice. Other crops that are covered in FSSP are white corn, banana (saba), cassava and sweet potato. Cooperatives were identified program beneficiaries for farm machineries and

postharvest facilities. Through the cooperatives, farmers learned new practices and adopt new technologies.

Role of Cooperative in Achieving Food Security

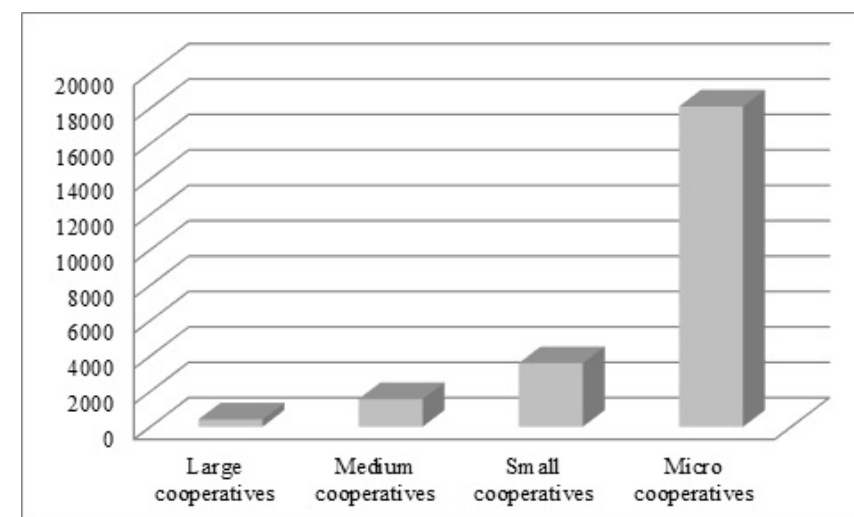
Overview of the Philippine Cooperative Sector

The cooperatives in the Philippines have a significant economic presence and already become one of its most important sectors. As of December 2014, the total number of cooperatives has reached 24,652 (CDA 2014), majority (73%) of which is multipurpose and credit cooperatives (Figure 23.2). In terms of asset size, at least 50 percent of the cooperatives are micro cooperatives that have less than PHP3 million worth of total assets (Figure 23.3). There are about 7.7 million individual cooperative members which is about 14.14 percent of the 2010 Philippine population ages 20 years old and above. In terms to the share of cooperatives in the total gross domestic product in the country, it is estimated at 4.87 percent in 2012.



Source of basic data: CDA(2014)

Figure 23.2. Distribution of cooperatives by type, 2014



Source of basic data: CDA(2014)

Figure 23.3. Total number of cooperatives by category in terms of asset size, 2014

Legal and Historical Development of Cooperatives on the Path to Food Security

Long before the food security was defined in 1996, the cooperative movement is helping farmers improve their productivity and competitiveness through the collective effort of providing input, production support, financial access and market linkage. Several legislations were passed to have an enabling environment in the development of cooperatives.

The Rural Credit Act was enacted in 1914 to support the creation of rural credit associations to finance the productive efforts of farmers. This was followed by the Cooperative Marketing Law (Act 2425) on 1927 that gave the Bureau of Commerce and Industry the responsibility of organizing farmers into cooperative marketing associations to promote the farmers' products. Although there was a success in the establishment of farmers' association/cooperative for both credit and marketing, there was a failure in the sustainability of operation. Some of the causes of failure of early cooperatives were lack of proper understanding of principles, practices and purposes of cooperatives, incompetent management, improper use of credits by the borrowers, dominance of individualistic attitude instead of spirit of cooperation, ineffectiveness of the government, and promotion of cooperative organizations (CDA).

In 1952, the Republic Act 821 was enacted to establish a system of liberal credit to meet the needs of farmers through the creation of Agricultural Credit and Cooperative Financing Administration (ACCFA) which implemented

the ACCFA Financing Program. The program aimed to assist small farmers in securing liberal credit, promoting effective groupings of farmers into cooperative associations, establishing orderly and systematic machinery for and controlled by the small farmers, and placing agriculture on a basis of economic equality with other industries (CDA). Through ACCFA, Farmer's Cooperative Marketing Associations (FACOMA) were organized and given collateral free loans from the US Agency for International Development (USAID). However, FACOMA failed to achieve its objectives due to corruption and incompetent management (Araullo 2006). When the Agrarian Reform Code was passed in 1969, the cooperatives were mandated to be the primary conduits for credit, supply and marketing services of the agrarian reform beneficiaries.

In 1974, the Samahang Nasyon Development Program was implemented which obliged the agrarian reform beneficiaries to join the pre-cooperative organization called Samahang Nasyon. The concept of Samahang Nasyon enabled farmers to collectively solve their social and economic problems through education, generation of savings, and instilling discipline among members.

In 1990, the Cooperative Code of the Philippines was enacted and at the same time the Cooperative Development Authority (CDA) was created to regulate the cooperatives up until the present. Several cooperative federations and unions were created in the 1990s such as National Cooperative Movement (NCM), Philippine Cooperative Center (PCC) and National Confederation of Cooperatives (NATCCO). In 2008, the Philippine Cooperative Code (RA 9520) was enacted which is the basis of the creation and regulation of the cooperatives today.

During the course of history, it can be noted that several efforts were done in order to help farmers improve their productivity, source of financing, market access, and ultimately their quality of life through mutual aid or by joining an association or cooperative. At present, cooperatives are the main target of several government programs and projects in order to provide a more comprehensive assistance for rural development given that cooperatives are one of the channels between the government and the people.

Cooperatives in the Dimensions of Food Security

Availability

The “supply side” of food security is addressed by ensuring food availability and is determined by the level of production, stock levels and net trade (FAO 2008). Farmers are the important actors in ensuring food availability. To ensure efficiency in production, there should be adequate supply of production inputs, appropriate technologies and sustainable production practices. In the case of

crop production, there should be adequate supply of seeds, fertilizer, irrigation, and other farm inputs to ensure increased productivity. ADB (2013) recognized the role of cooperatives in enhancing small farm production and productivity, particularly by providing access to inputs and improving efficiency of supply chain.

The services and products provided by the cooperatives to its members are key elements for the success and sustainability of their livelihood. With the right services of the cooperative to its farmer members, productivity and income will improve not only for each household but also for the community as a whole.

Due to the collective efforts of the top three cooperatives in Region IV, they were able to establish a feed milling facility to support their member's poultry and piggery production. In a case study conducted by Castillo et al. (2003) LIMCOMA Multi-purpose Cooperative in Lipa City (LIMCOMA); Cavite Farmers Feed-Milling and Marketing Cooperative in Silang, Cavite (CAFFMACO) and Soro-soro Ibaba Development Cooperative in Batangas City (SIDC) have established a feed mill to ensure supply of feeds for its member. Aside from feeds, the cooperatives also provided veterinary supplies and services, and capital through credit.

Sam (2013) studied that even in conflict areas like in Maguindanao in Mindanao, some cooperatives were able to operate viably and sustain its operation. A case study was conducted to Woodland Integrated Farm Resort Multipurpose Cooperative (WIFRMPC) and Brar Communal Irrigators Multipurpose Cooperative (BCIMPC). Through these cooperatives, farmer members were trained with technical know-how in farming techniques. The cooperatives serve as a venue for the government, non-government organizations, and private institution to extend their technical training and marketing strategies. Cooperative officers lead the adoption of new technologies that resulted to positive earnings for the cooperative and its members. The cooperative also learned to diversify in other income generating activities to ensure the cooperative's productivity and sustainability.

Accessibility

To ensure household food security, food access and purchasing power must be addressed. A person must have adequate resources in order to gain access to food. The cooperative can help increase its members' share to the consumer ratio. One of the services that the cooperative can provide is the marketing of the member's products. The cooperative consolidates the produce of its members and either process them or sell it to big or bulk buyers. In this efficient system, the transaction cost, transportation cost and marketing cost were distributed among its members. It would have been more costly if each individual will

transact to a buyer and quantity demanded can not be met by one person alone.

This system can be shown in the assessment of Quilloy (2015) to a micro cooperative of small cacao farmers, Subasta Integrated Farmers Multi-purpose Cooperative (SIFMPC) of its role and contribution, to its members. SIFMPC has successfully created opportunities and benefits to its farmer members to improve their quality of life. The small farmer members were able to participate in the supply and value chain that expanded their market reach. The cooperative was able to improve the farmer's access to human and physical resources and business development services that lead to improvement in their farm productivity and economic opportunities.

Utilization

Water service cooperatives ensure access to clean water at good sanitation to the community where it operates. Capistrano and Gutierrez (2003) assessed three different types of water provider, the New Bulatukan Water Association, Darangan Water Service Development Cooperative (DWSDC), and the Bayon Water Services Inc. (BWSI) in Magdalena. Both New Bulatukan and Darangan have community participation and pro-poor schemes for the poor to have access to water supply and they have taken advantage of the assistance from the government. Both organizations were created due to the collective action of the community and they have the desire to ensure that the service will continue. For the Darangan, they were able to develop mechanism for efficient and economic management of the water system which is lacking from the New Bulatukan.

Capistrano and Gutierrez (2003) concluded that cooperative enterprises are viable of government and private enterprise to provide water service since it governed and organized by the collective action of water users themselves. The desire of resource users and government investment were important factors to start the cooperative. Water service cooperatives are sustainable since they ensure economic efficiency and cost recovery although they are facing difficulty in balancing their social responsibility to community members that are unable to pay access services. Not for-profit or social privatization is an alternative to private and public sector delivery of water and sanitation services. The challenge now is up scaling these enterprises from village or small town levels into big city-scale.

The organic agricultural cooperatives also contribute to improve the utilization of food by providing organic and chemical free farm produce. Organic farming promotes sustainable agriculture. This will ensure that the natural resources will not depreciate with the use of chemical fertilizers.

The study of Piadozo et al. (2013), examined the role of cooperatives and farmer's association in fostering organic agriculture in the Philippines. The two

organizations are Full of Grace Organic Agriculture Producers (FGOAP) and Kooperatibang Likas ng Nueva Ecija (KOOL-NE). Based on the study, the two cooperatives were able to venture into agricultural production and still earn an income even without using any chemical fertilizers, preservatives, and pesticides to protect the environment.

Through the collective action of members of cooperatives, they can integrate sustainable farm to table practices. The FGOAP produce organic rice, vegetables, salad greens and fruit crops, organically grown and processed products such as salted eggs, vinegar, juice concentrates, fruit puree, natural sugar and bio-organic fertilizers. On the other hand, KOOL-NE is a social enterprise that supports and promotes sustainable production and marketing of rice to its members. KOOL-NE provides training in organic production, use of organic fertilizer and bio-organic pesticides and good agricultural practices in organic rice production. Other than training, they also provide financing through input loan. They also buy the organic rice of its farmer cooperators and provide marketing service such as drying, milling, and packaging.

Stability

There is an increasing participation of cooperatives in organic production that uses sustainable agricultural practices. This will ensure the stability of supply of healthy foods through time since environmental factors are considered during production.

In a paper presented by Valientes et al. (2013), they have identified "environmental cooperatives" in Region III and IV. There are 33 in Region III and 24 in Region IV. The environmental cooperatives are identified as essential players in achieving the multi-tiered objectives of the Organic act of 2010 of the Philippines. The environmental and organic cooperatives in Regions II and IV have contribution to environmental health and social progress while still promoting their own vitality and viability. It was suggested that National Organic Agriculture Board can tap environmental cooperatives become a genuine stakeholder-partner in fully launching organic agriculture in the country.

In a paper presented by Villegas et al., the KASAMA KA Organik Kooperatib (KKOK) has formulated a strategy called Nucleus and Satellite Organic Farm Cluster (NUSOFAC) strategy. With this strategy, the small farm holders and MSMEs were able to address the lack of economies of scale since the pre-production, production, processing and marketing operations were clustered. This resulted to minimum cost per unit of product or commodity being traded. The strategy facilitated the access to organic materials and inputs, production, processing and postharvest technologies, economies of scale, increase in production and diversity of products, and market access.

Conclusion

During the International Year of Cooperatives in 2012, it has been emphasized that cooperatives play an important role in reducing poverty, improving food security and in generating employment opportunities. In terms of improving food security, cooperatives particularly the agricultural cooperatives play a crucial role. Through the agricultural cooperatives, the small farmers have access to natural resources, information, knowledge and extension services, markets, food and productive assets and in policy and decision making (IYC 2012).

Based on the cases or studies presented, cooperatives in their own ways contribute to the achievement of the food security dimensions or availability, accessibility, utilization, and stability. Cooperatives were able to contribute to food availability through provision adequate supply of seeds, fertilizer, irrigation and other farm inputs to ensure productivity. The farmer-members were able to produce with the credit provided by the cooperative. The assistance of the cooperative in marketing the products of its members enhanced the food accessibility. The farmers were able to participate in the supply and value chain which increased the farmer's share to the consumer's peso. In terms of utilization, several cooperatives are already engaged in organic farming that will ensure the supply of nutritious products which were produced in a sustainable way. The sustainable production practices of the cooperatives contributed to the stability of food supply through time.

Cooperatives can empower its members socially and economically because of its wide range of services which includes access to markets, natural resources, information, technologies, knowledge, credit, and infrastructure. Members were given a voice to participate in decision making and influence policy makers. With the support of the cooperatives to small farmers, they have a higher chance to improve their productivity, earn income and reduce risk which in turn can contribute to poverty alleviation, suppression of hunger, and food security. The access to credit through cooperatives, allow its members to acquire assets to invest in business that can increase their income-generating capacity. Cooperatives are prime mover in promoting and practicing organic farming and sustainable agricultural practices. They are also used as channels to implement government and private institutions' programs and project for food security. It is important to recognize the role and further supplement contribution of cooperatives in achieving food security. Increasing the awareness of the economic, social, and environmental role of cooperatives can attract other small farmers to join and they can also contribute to the achievement of food security.

SUMMARY

This chapter provides an analysis of the role of cooperatives in achieving household food security in the Philippines. One of the identified sustainable development goals is to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture. Food security is a concern of every nation to ensure that there is food for the current and future generations. Cooperatives have been identified as one of the prime organization that can help in achieving food security. Based on the experiences and practices of cooperatives, they contribute to the achievement of the four food security dimensions namely availability, accessibility, utilization, and stability. The production support of the cooperatives contributed to food availability since the farmers were able to increase their productivity. The market access support on the other hand supported the food accessibility. The organic products of cooperatives increased the utilization of healthy and nutritious food. The sustainable agricultural practices of the cooperatives will ensure the stability of food supply through time. Cooperatives can empower its members socially and economically anchored on its wide range of possible services which includes access to markets, natural resources, information, technologies, knowledge, credit and infrastructures. With the support of the cooperatives to small farmers, there could be a higher chance to improve their productivity, earn income, and reduce risk which in turn can contribute to poverty alleviation, suppression of hunger, and food security.

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CHAPTER 24

The Effects of Climate Variability on a Philippine Cooperative's Hog Value Chain: An Exploratory Study

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NORMITO R. ZAPATA, JR., AND NANETTE A. AQUINO

Introduction

Climate change is one of the most pressing challenges facing the agribusiness sector. According to a CSR Asia report (2011), agriculture, forestry, agro-forestry, fishing, aquaculture, and tourism sectors in South and Southeast Asia are among those most vulnerable to risks due to increased climate variability.

Further, the CSR Asia report (2011) describes that among the risks to agribusiness enterprises are: (1) risks to core business operations which can influence the effectiveness or efficiency of production processes, the cost of operations and maintenance activities, or the quality of a product; and (2) risks to the value chain (including the supply and demand network) which include risks related to the availability of production inputs, changing consumer demands, and consumer access to products and the effects of climate change on the availability and quality of natural resources, particularly water, utility services, logistics networks, and the health and safety of workers.

The Sorosoro Ibaba Development Cooperative (SIDC) is the largest agri-based cooperative in the country, operating diverse businesses. Its first main business is the feedmill which gave birth to other businesses. At present, SIDC has a fully-integrated hog business operation and therefore has greater control over its own hog value chain. It assists local farmers who produce yellow corn which is used as main input for the feeds. The cooperative has its own feedmilling factory. It also has a communal swine farm and farrow to finisher farm and it employs the *paiwi* system of growing pigs for their members. Likewise, it maintains a Hog Selling Pen where buyers and wholesalers may pickup live marketable pigs, and an Artificial Insemination Center which gives out quality semen for better breeds. It also had a slaughterhouse and a meat processing center before. However, SIDC temporarily suspended operations of these two businesses due to their lack of viability. Nevertheless, all hogs raised from its farm and from the *paiwi* always have a sure market and reaches the plate of

consumers which is the end goal of the hog value chain.

Climate variability plays a major role in this normally long chain, bringing varying effects to both producers and consumers. To cite, when yellow corn production gets scarce due to climate variability, there will be higher cost incurred for raw materials for feed production.

In identifying business risks and climate variability adaptation strategies, it is important to adopt the value chain approach. According to a WorldFish report (Timmers 2012), the value chain approach is a more comprehensive way of addressing the far-reaching effects of climate change. According to Amado and Adams (n.d.), taking the value chain approach to climate resilience is beneficial since local communities and the natural environment are given special focus because of their essential roles on the business value chain.

The strengths of the value chain approach are that it enables companies to perform the following: (1) analyze vulnerability to climate for each link and identify hotspots for risk across the whole value chain; (2) assess risk for each link individually, taking into account how different impacts can have a compounded effect; (3) identify opportunities for new markets to help communities adapt; (4) identify opportunities to build climate resilience across the whole value chain and appraise the full life cycle economic benefit-cost ratio; and (5) implement climate resilience actions in partnership with those who can mutually benefit from them (Amado and Adams undated). This research aims to determine the effects of climate variability to SIDC's hog value chain and to identify adaptation strategies that may help minimize its adverse effects. Hopefully areas for improvement of SIDC's adaptation strategies may be identified which could help it cope up better with climate variability and enable it to attain a higher percentage of success in hog industry.

The paper specifically: (1) described the manifestations of climate variability in Batangas City from 1994 to 2014; (2) presented a profile of the Sorosoro SIDC's hog business and map out the value chain process and actors of SIDC's hog business; (3) discussed the effects of climate variability at each point along SIDC's hog value chain; (4) described the current adaptation strategies being utilized by SIDC to address the effects of climate variability; and (5) suggested alternative climate variability adaptation strategies for SIDC's hog business.

Material and Methods

This study can be considered an exploratory one as there have been very few studies delving into the effects of climate variability on a value chain, specifically in the context of the Philippines. It identifies the effects as well as the climate variability adaptation strategies at all points of the SIDC hog value chain using the value chain approach. Under this approach, the interconnections in the system using a framework of relationships, roles, rules, resources, and results

are identified. The analysis attempts to address the following questions, among others: (1) Who, in what function, is connected to whom?; and (2) Where are the risks (i.e., financial and environmental) in the system? (ACDIVOCA 2013).

Primary data were gathered through semi-structured key informant interviews among veterinarians, technicians and production operators of SIDC. Interviews were also conducted with the cooperative's Chief Executive Officer (CEO), the Feedmill SBU Head, livestock marketing and sales manager and livestock department manager, as well as with the Batangas Office of the City Veterinary and Agricultural Services (BOCVAS) Chief Veterinarian and a Philippine Atmospheric Geophysical and Astronomical Services Administration (PAGASA) Climate Data Section personnel. A survey was also conducted among 29 contract growers of SIDC through convenience sampling from the following *barangays* or villages: Sorosoro Ilaya, Sorosoro Ibaa and Bucal in Batangas City and Barangay. Balanga, Ibaan. There were 60 questionnaires distributed but only 29 were answered and returned. There were also five hog haulers who regularly bought live hogs from the SIDC hog selling pen who were also interviewed. These areas were those with recorded above-average number of mortality cases for the past year.

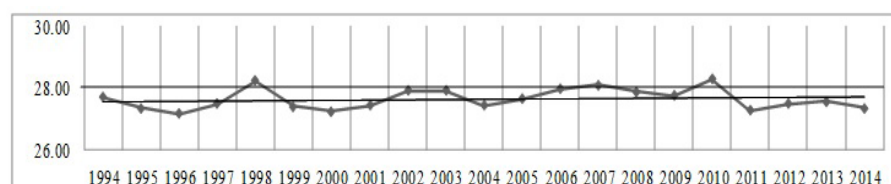
Secondary data were sourced from the cooperative's records and files such as annual reports for the last five years. On the other hand, data related to annual mean temperature and annual rainfall amount in Batangas were gathered from PAGASA.

Results and Discussion

Manifestations of Climate Variability in Batangas Province

Results showed that Batangas is affected by climate variability as manifested by sharp fluctuations in mean temperature and varying rainfall amounts in the last 20 years.

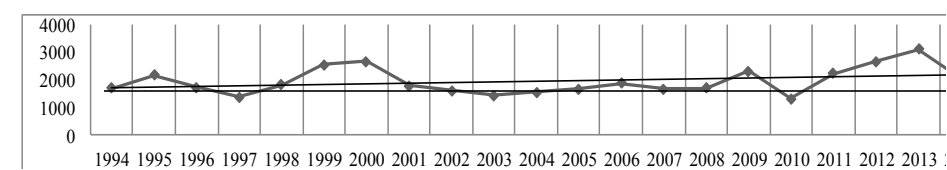
As shown in Figure 24.1, mean temperatures exhibited sharp fluctuations over the past 20 years. This trend is more apparent when the points are plotted along the long-term mean temperature normal value of 27.77°C (represented by the straight solid line). Mean temperature was computed by adding maximum and minimum temperature and dividing it by two. The lowest mean temperature was recorded in 1996 with an annual average of 27.16°C while the highest with an annual average of 28.27°C was recorded in 2010. Further, there was a sudden drop in temperature in 2011 and a lower temperature compared to the average annual normal value. Moreover, the broken line (representing the mean temperature) exhibits an increasing trend and implies that the mean temperature in Batangas was increasing.



Source: PAGASA

Figure 24.1. Average annual mean temperature (°C) in Batangas, 1994-2014

Rainfall amount is the amount of precipitation measured by the depth of the layer of the water. Compared to the long-term normal value of rainfall amount of 1767.1 millimeters (mm) (represented by the straight solid line), there was also a manifested an annual fluctuation of rainfall over the last 20 years (from 1994 to 2014). In recent years, the lowest annual average rainfall amount of 1,314.52 mm was recorded in 2010 while the highest rainfall amount was recorded in 2013 with an annual average of 3,119.24 mm. Within the 20-year period, rainfall amounts higher than the mean average were also noted in 1995, 1999 to 2000, 2009, and 2011 to 2012 ranging from 2,168.62 mm to 2,681.62 mm. On the other hand, another year when there was a low rainfall amount was in 1997 (1,374.86 mm). The broken line (representing the mean rainfall amount) exhibits an increasing trend which suggests that the mean rainfall amount has been increasing in Batangas (Figure 24.2).



Source: PAGASA

Figure 24.2. Average annual rainfall amount (in mm) in Batangas, 1994-2014

Background and Profile of SIDC

SIDC is now one of the most successful agri-based cooperatives in the Philippines. Sorosoro Ibaba, located in the eastern part of Batangas City, is one of the four barangays that make up the Sorosoro community with the others including Sorosoro Ilaya, Sorosoro Karsada, and Tingga Itaas. The locality experienced serious economic difficulty in the 1960s. The area was inaccessible by land transportation and isolated from the rest of Batangas City so the residents had a hard time in marketing their farm products. Farming was the only source of living of the residents during those times. However, their produce was not enough to feed their families, much less to provide for other basic needs. In order

to survive, farmers thought of venturing into other sources of living: poultry and swine raising. To achieve their goal, the farmers, led by Mr. Victoriano Barte, decided to form an organization – the Sorosoro Ibaba Farmers Association, now known as Sorosoro Ibaba Development Cooperative (SIDC), on March 19, 1969 (Castillo and Medina 2007).

SIDC has ventured into diversification, establishing many different businesses considered as one of its edge among other cooperatives. These businesses include the SIDC Feeds, SIDC Savings and Loans, SIDC Agri-Trading and Financing, SIDC Oriental Mindoro Operations where a rice mill is being operated, SIDC Aquacare (water refilling station), SIDC Coopmarts and Coop Supermart, SIDC Gas Station and Auto Supply (Petron), SIDC Koop Likas (Organic Fertilizer), SIDC Layer Farm, SIDC Livestock (*paiwi* system), SIDC SMATV and Internet bundle, SIDC Printing and recently, the Sorosoro Springs Resort and Adventure Park. Since 1989, the cooperative has continuously received national awards from different institutions (Rola 1998).

Among SIDC's business activities, the hog business contributed the most to the cooperative's income in 2014. Based on the report of SIDC's Audit and Inventory Committee, the hog business contributed the largest amount of PHP33,624,109 or 66.21 percent of the cooperative's total surplus (i.e., income). Among the hog production-related businesses, the feedmill earned PHP27,100,410. This was followed by the hogs business and the pig farm business which earned PHP3,343,868 and PHP1,231,246, respectively during the same year.

The Hog Value Chain of SIDC

SIDC's hog value chain consists of four major links – input, production, transport and distribution, and marketing (Figure 24.3). The Input Link is composed of the SIDC Feedmill business, internal (i.e., SIDC pig farm) and external (i.e., breeder-farms) weanling suppliers, SIDC's veterinary services (provided by the Livestock Division) and the contract growers who provide the housing. The Production Link, on the other hand, is composed of the SIDC Pig Farm, the cooperative's communal farm and the contract growers. For the Transport and Distribution Link, the major players are the haulers who SIDC transacted with at the hog selling pen as well as the CoopMart branches and outside slaughterhouses. Lastly, the Marketing Link in the value chain consists of the wholesalers and retailers who sold to end consumers in CALABARZON and NCR.

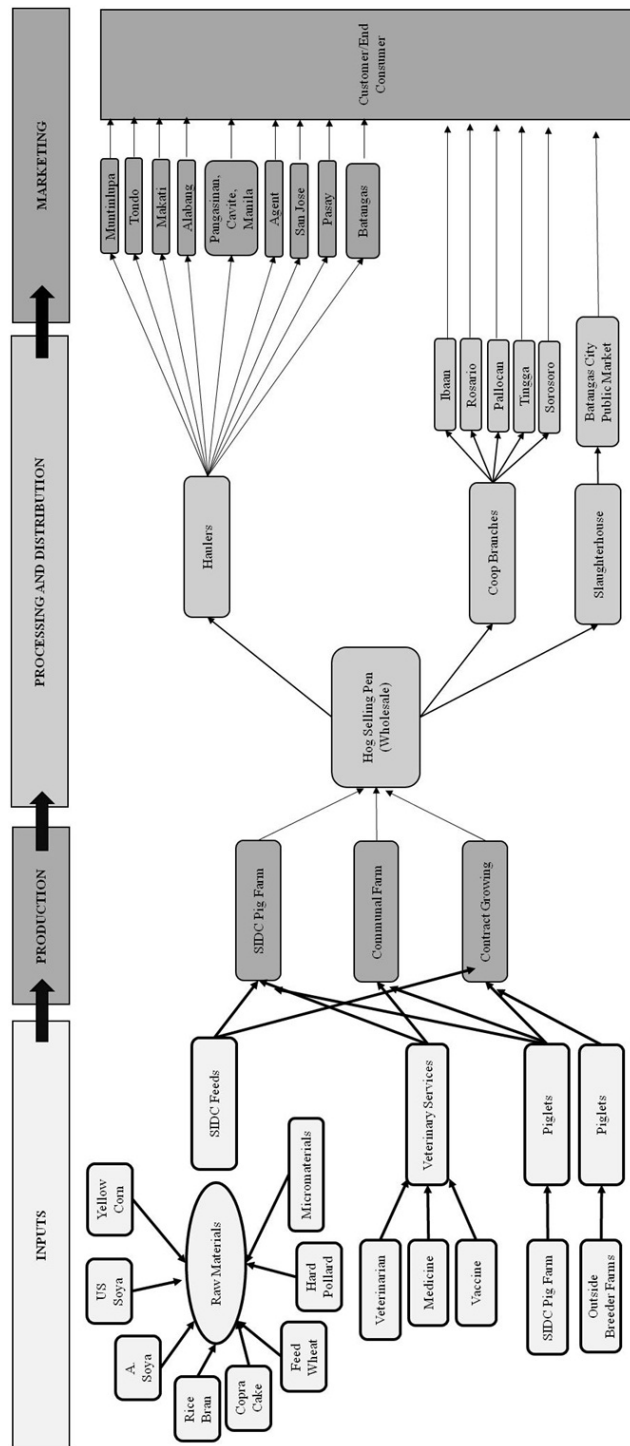


Figure 24.3. The SIDC hog value chain

Effects of Climate Variability along the Value Chain of SIDC's Hog Business

Inputs

The important inputs to feedmilling and hog production affected by climate change are raw material ingredients, veterinary products, and weanlings. With climate variability, the quality of the raw materials for feeds is affected. Very low temperature causes some ingredients to solidify such as molasses and coco oil. Based on the sample feed formulation provided, molasses and coco oil make up 4 percent and 0.50 percent, respectively, of feeds per batch. To recover liquid state of these ingredients, heat must be applied. For molasses, a water heater is used (inside bin jacketed with water) while for coco oil, which is stored in pipelines, heat is applied to these pipelines to liquefy the coco oil inside (Sastado 2015).

In Batangas, veterinary services have been more frequent in recent years due to increasing number of hogs affected by different diseases. According to Dr. Macario B. Hornilla, the Chief of Veterinary Services Division of the OCVAS in Batangas City, out of 100 hogs, 75 percent would have chances of getting respiratory diseases during hot or cold season.

As claimed by the contract growers, the common diseases observed with climate variability manifestations include fever, colds, coughs, pneumonia and diarrhea. The medicine available which can treat these diseases are Amoxicillin, Gentamicin, Enrofloxacin, Tilmicosin, Doxycycline, Chlorphenol, Colistin, Tiamulin and Spiramycin, among others.

The respondents also mentioned a disease outbreak caused by *Actinobacillus pleuropneumonia* (APP) and *Pseudorabies virus* (PRV). According to Gemus (n.d.), PRV is capable of airborne transmission up to several kilometers in distance. Airborne spread is facilitated by prevailing wind velocity and direction, cloud cover and humidity. On the other hand, pneumonia outbreaks due to APP could cause a 2% to 10% death loss within two to three weeks of acquiring the disease. Usually, a respiratory outbreak is preceded by coughing and animals off-feed along with sudden death (Freese 1999).

Production

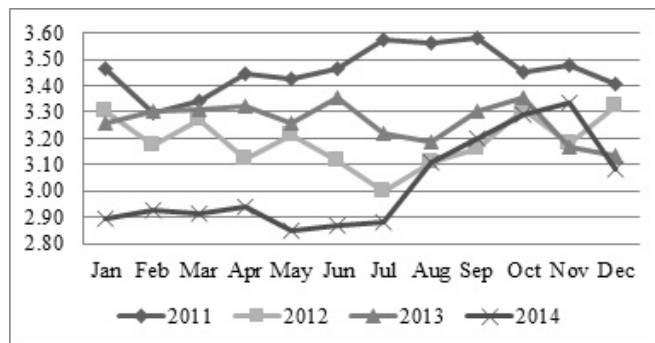
Climate variability significantly affects this point in the value chain as along the whole chain. This has the longest time before completion. Based on the records of SIDC Livestock Department, it takes 120-150 days for a hog to be classified as marketable after weaning.

The researchers were only able to obtain production information on the contract growing system of SIDC. Hogs coming from contract growing make up 75 percent of the total hogs produced. Farms under this system operate a

weanling to fatter type. Marketable hogs produced by raisers in the contract growing system provide the bulk of hog sales for SIDC.

Based on SIDC's general rules and guidelines in contract growing, Section IV – Raiser's performance evaluation and incentive, a feed conversion ratio (FCR) of 2.6 kg and below is very satisfactory, 2.7-3.0 kg is satisfactory, 3.1-3.4 kg is fair, 3.5-3.75 kg is poor and 3.76 kg and above is evaluated as very poor.

As shown in Figure 24.4, poor FCRs were observed in 2011. The average FCR was 3.5 and considered as poor. During the years 2012 (3.19) and 2013 (3.26), the FCRs exhibited were fair while during the year 2014, the hogs exhibited the lowest (and therefore satisfactory) FCRs with an average of 3.02.

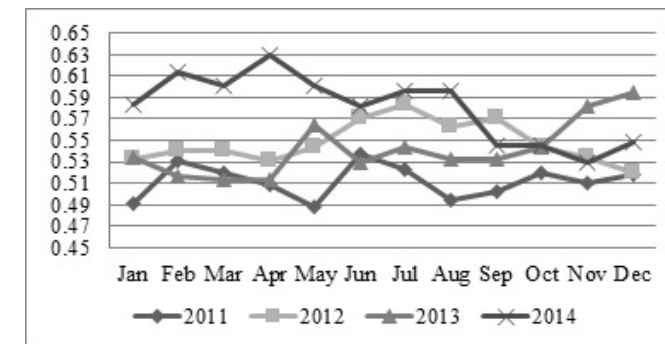


Source: Sastado (2015)

Figure 24.4. Feed conversion ratio of fattening hogs per month, 2011-2014

As a consequence of the FCR, the average daily gain (ADG) was lowest in 2011 (0.51 kg.) while the highest ADGs (i.e., satisfactory) were achieved in 2014 (0.58 kg.) (Figure 24.5). On the other hand, during the years, 2012 and 2013 the ADGs exhibited were 0.55 and 0.54, respectively.

The lower ADGs in 2011, 2012, and 2013 observed compared to the ADGs in 2014 could be directly related to the temperature recorded during those years. It can be seen in Figure 24.1 that in recent years, the mean temperature was lowest in 2011 (7.25°C) while in 2012 and 2013, mean temperature increased to 7.475°C and 7.558°C, respectively. Meanwhile, the mean temperature in 2014 was 7.325°C. This finding could be explained by what Reese et al. (1985) found that for growing-finishing swine fed ad libitum (full-fed), temperature should be optimal to neither cold nor hot. Pigs housed in a cold environment utilized feed less efficiently than those housed in a warm environment because in the cold environment, less feed was utilized for tissue synthesis and more was used for body heat production. On the other hand, pigs in a hot environment also



Source: Sastado (2015)

Figure 24.5. Average daily gain of fattening hogs per month, 2011-2014

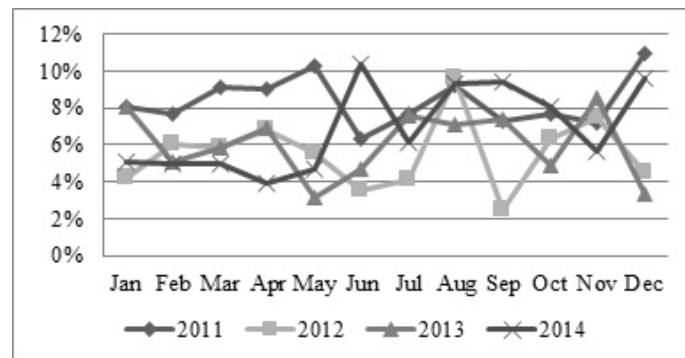
gained considerably less and were slightly less efficient than pigs in the warm environment. Pigs in the hot environment performed more poorly because of reduced feed intake.

It should be noted however that in 2014, ADG declined, which may be attributed to the increasing frequency and intensity of typhoon by the end of the year.

The mortality rate of hogs is also included in the performance evaluation of SIDC contract growers with zero percent classified as very satisfactory, one to four percent satisfactory, five to eight percent fair, 9 to 12 percent poor and 13 percent and above as very poor. According to a SIDC veterinarian, only five percent mortality rate is allowed per raiser at the most.

Figure 24.6 shows that mortality rates from 2011 to 2014 could be classified as fair. A mortality rate of 8.38 percent was experienced by SIDC in 2011, 6.84 percent in 2014, 6.03 percent in 2013 and 5.52 percent in 2012. This trend could be attributed to different factors like diseases, biological causes and environmental forces, which triggered cases of death among the hogs. The same SIDC veterinarian revealed that the incidence of diseases was triggered by intense weather situation which favored the faster multiplication of bacteria.

Twenty-six (26) out of the 29 contract growers surveyed claimed that diseases and mortality among their hogs were due to sudden shifts in the weather and changing temperature. One respondent who initially had 470 weanlings in 2014 reported to have experienced an APP and PRV outbreak which lead to a recorded mortality of 50 heads or 10.6 percent which manifested poor performance. A high rate of mortality in November 2013 could be attributed to typhoon Yolanda which hit Batangas (signal number 2).



Source: Sastado (2015)

Figure 24.6. Mortality rate of hogs, 2011 to 2014

In 2014, the months when typhoon Mario (i.e., September) and typhoon Ruby (i.e., December) hit Batangas were when high mortality rates were recorded. Most raisers interviewed claimed that due to the strong typhoons that hit Batangas City like Ondoy, Glenda, and Yolanda, there were damages to property such as their pig pen's roofs being destroyed. The value of the damages ranged from PHP10,000 to PHP100,000.

Transport and Distribution

Around 70 percent of the total hogs are supplied to Manila and other areas while 30 percent of the supply goes to Batangas. SIDC is the leading distributor of hogs in Batangas City and the province, as a whole. It is the reason why other hog distributors refer to SIDC as the standard in terms of pricing. For example, when SIDC hogs are sold at PHP115 per kilo, the competitors cut down the price by a peso (Sastado 2015).

The Hog Selling Pen sells an average of 200 heads daily. The year 2012 was not a good year for hog production because of high importation and smuggling in the country. Prices of hogs were determined during twice-a-week meetings attended by the Marketing Head and the Unified Batangas Hog Farmers, Inc. twice a week. Member contract growers brought their hogs to SIDC's hog selling pen for sale to the cooperative at a competitive buying price (Quillooy 2015). Haulers were reached through telephone and the Marketing department contacted meat processors to help the members as well.

Five haulers were interviewed. Among them, two haulers buy Class A hogs while the three buy Class B and C hogs. The classification depends on quality (good quality ham part, less backfat, and good carcass quality). They buy 20 to 50 heads from the selling pen two to four times a week. It usually took them 2 to 3 hours travel time before reaching their destination from the SIDC Hog Selling Pen.

The haulers claimed that climate variability had an effect on their operation because during hot times, hogs usually experience high blood pressure, difficulty in breathing and heat stress. One hauler admitted that there were incidents of death among his hogs during travel.

Due to sudden shifts in weather (i.e., intense rain or heat) while being transported, the pigs got very weak and were slaughtered before reaching their destination. Technically, this measure will affect the quality of meat (i.e., meat will have a pale color).

The hogs were brought and distributed by haulers in Muntinlupa, Tondo, Makati, Alabang, Pangasinan, Cavite, Manila, San Jose, Pasay, and Batangas. Some of the haulers had their own slaughterhouse, the others bring the hogs to city slaughterhouses.

Marketing

Finally, hogs in the form of meat reach the end consumer which is the final point in the hog value chain. The information at this link is limited to that of within Batangas which is the one SIDC has control of. As cited earlier, 30 percent of the meat goes to Batangas. From the meat processing plant, the fresh meat and processed meat are distributed to different SIDC store outlets—which include SIDC's Coop Mart and Coop Supermart, gasoline stations, and members' retail stores – for sale to institutional and retail buyers and consumers (Quillooy 2015). As of 2014, SIDC had six branches of Coop Marts (1 in Laguna, 1 in Batangas Province and 4 in Batangas City).

The risk involved at this point in the chain is the water loss which leads to reduced weight of meat being retailed. Further, according to the National Meat Inspection Service (NMIS) standards, fresh meat must only be sold within eight hours from the time of slaughter to market.

Current adaptation strategies utilized by SIDC to address the effects of climate variability

There was an observed increased exposure of raw materials to extreme climatic conditions at the input point of the SIDC hog value chain. In relation to addressing the effects of climate variability on the inputs like the poor quality of yellow corn which got wet during prolonged rain, preservatives during feedmilling were added to maintain the quality of the output which led to an increase in cost of production. There was also a continuous monitoring of proper room temperature with the use of a temperature gauge where raw materials are stored. The feedmill division is responsible for forecasting and inventory control to facilitate the supply of raw materials.

In relation to the production link and the problem of increased incidence of diseases among the hogs of contract growers, the common strategies of the contract growers include: (1) the use of Creolina to disinfect pig pens; (2) the contract growers' request for a modification in the feed formulation to match adaptation needs of hogs; and (3) the protection of the hogs from extreme weather conditions by using *trapal* (i.e., water-proof sheeting) or other material to act as shield.

One of the haulers' strategies to reduce heat stress of the hogs transport them by cooling with water sprayer before, during, and after transport. To further reduce heat stress, ice was put on the truck. These helped the hogs maintain their normal body temperature and to avoid heat stress. One hauler resorted to using delivery vehicles with a roof. Further, the schedule in collecting marketable hogs was adjusted. They avoided transporting hogs in the afternoon since this led to stress among the hogs due to intense heat.

Lastly, at the marketing point, meat vendors have a cooler ready for storage in the meat stall. Meat that was not sold within eight hours was placed in a chiller or freezer to avoid contaminants and prolong shelf-life. Some of the meat were processed with the use of preservatives and additives. Further, in the SIDC Coop Marts, air conditioning units have been installed to maintain the freshness of meat for retail.

Conclusion and Recommendations

The hog value chain, such as that of SIDC hog business, is highly vulnerable to the effects of climate variability. Each point on the value chain was assessed to be affected by climate variability.

Feed ingredients such as yellow corn got wet during prolonged rain. There was an increase in disease incidence among the weanlings grown both by external and internal sources. SIDC's contract growers, on the other hand, observed that their hogs manifested poor feed conversion ratio, lower average daily gain rates as well as diseases which led to mortality. Hog haulers claimed cases of mortality among the hogs being transported due to extreme heat during travel. Lastly, exposure to extreme heat of pork for retail resulted to meat weight loss.

SIDC and the other players in its value chain has put in place adaptation mechanisms. At the Inputs Link, specifically the feedmill, a temperature monitoring gauge for their storage of raw materials has been installed. At the Production Link, specifically the contract growing operations, raisers are required to disinfect their pens to prevent the spread of climate variability-related diseases and to use additional covering like *trapal* (i.e., water-proof sheeting) along the sides of their pig pens. Modifications in feed formulations

(i.e., addition of vitamins) during summer as well as addition of electrolytes to water to relieve stress among the hogs as conducted by the contract growers are also allowed by management. At the Transport and Distribution Link, water is sprayed to the hogs by the haulers prior to and during travels. Lastly, at the Marketing Link, some market outlets where pork is bought have acquired their own cold storage facilities (i.e., cooler) in the interest of preserving the quality of meat and to prevent further weight loss.

It would however do well if SIDC, as well as other multipurpose cooperatives, adopt a value chain approach in addressing climate variability risks. There has to be a simultaneous addressing of the risks at all points of the supply chain, including Research and Development (R&D) and administration. For example, in relation to R&D (i.e., breeding), there should be focus on the breeding of more climate-resilient breeds like Landrace and Large White, as identified by Dr. Hornilla of OCVAS. In relation to administration, SIDC could avail of a weather insurance scheme to help protect their contract growers' operations (including housing), especially those caused by disasters. For the input point on the value chain, specifically the feedmill, it is recommended that SIDC increase the storage facilities of raw materials for feeds to accommodate more stocks especially prior to predicted extreme weather events. On the other hand, in relation to veterinary and technical services, it is recommended that more trainings and seminars related to climate variability adaptation be provided by SIDC to increase awareness related to climate variability adaptation strategies.

For the production, or the growing of weanlings to fatter, SIDC needs to purchase an Automatic Weather Station (AWS) which has a built-in sensor for wind gauge, wind speed, solar radiation, relative humidity and temperature. A trained personnel may be assigned to monitor the device and to provide helpful forecasts and recommendations for day-to-day operations in the farm which must be disseminated among all contract growers and stakeholders who would need it. Weather information through SMS may be made available to raisers every day.

To address the effects of climate variability, SIDC must make sure housing of hogs or pigpens are especially designed to minimize the impact of sudden heat to the hogs. The housing for hogs, especially in the context of climate variability, must protect the animals from direct sunlight; thus, the long axis of the building must be laid in an east-west direction. There must also be mechanisms to ensure air temperature, air velocity, floor insulation, infrared radiation, and relative humidity as they determine the thermal environment around the animal (The Pork Production Committee 2004). The provision of temperature monitoring apparatus (e.g., thermometer) in pig pens and feed storage area is also recommended. Proper maintenance and necessary repair must also be done especially when there are expected typhoons to prevent further damages (e.g., destruction of roofs).

For transport and distribution, haulers should be encouraged to have their trucks redesigned to allow for enough ventilation and protection from too much heat. Water sprinklers can also be installed. It is also recommended that SIDC revive their slaughterhouse operations and invest on setting up its own private slaughterhouse with standard classification AAA for more effective value chain integration as a long-term strategy.

Lastly, in relation to marketing, SIDC must extend assistance to its marketing outlets such as the provision of chillers.

SUMMARY

SIDC is one of the country's most successful agri-based cooperatives which operates diverse enterprises including a hog business. Like that of any other agricultural-based business, the hog value chain of SIDC is vulnerable to climate variability. This chapter presents an analysis of the vulnerability to climate variability of each link and identifies the business risks across the whole hog value chain of SIDC. The study used the value chain approach to identify the effects as well as the climate change adaptation strategies at all points along the SIDC hog value chain. Primary data were gathered through key informant interviews with SIDC's Chief Executive Officer and other key personnel as well as the hog haulers SIDC deals with. A survey also was conducted among selected contract growers of SIDC.

The SIDC hog value chain consists of four major links – input, production, transport and distribution and marketing. Each point on the value chain was assessed to be affected by climate variability. Feed ingredients such as yellow corn got wet during prolonged rain. There was an increase in disease incidence among the weanlings grown both by external and internal sources. SIDC's contract growers, on the other hand, observed that their hogs manifested poor feed conversion ratio, lower average daily gain rates as well as increased disease incidence, which led to mortality. Hog haulers claimed cases of mortality among the hogs being transported due to extreme heat during travel. Lastly, exposure to extreme heat of pork for retail resulted to weight loss of meat for sale.

It was recommended, among others, that the cooperative provide a bigger storage area for raw materials at its feedmill, conduct more trainings and seminars related to climate variability adaptation, and purchase an Automatic Weather Station (AWS).

Acknowledgement

The researchers would like to extend their utmost gratitude to the management of Sorosoro Ibaba Development Cooperative, especially to Hon. Rico B.Geron, SIDC Chief Executive Officer, for giving Ms. Hazel May A. Sastado permission to conduct her special problem at SIDC which served as the foundation of this paper.

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CHAPTER 25

Women in Cooperatives: The Case of Alay Kapwa Rural Women Multi-Purpose Cooperative in Sariaya, Quezon, Philippines

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FAUSTINO Q. ARRIENDA II, AND MARIO V. PERILLA[†]

Introduction

Cooperatives play a fundamental role in people empowerment and income mobility. Together with other labor enterprises, they serve as the major pillars of the people empowerment movement (Sibal 1991). They are perceived to be an important instrument in the achievement of a community's developmental objectives by being an effective tool in eradicating poverty and underdevelopment through generation of jobs most especially in rural areas. Cooperatives not only empower people but they also enhance human dignity (United Nations Social Development Network 2012). Moreover, they give members the opportunity to discover and develop their knowledge and capabilities that can help them to be more productive and successful in the long run. Through cooperatives, members are taught how to work and how to be a beneficial member of the society. Self-reliance, self-discipline, and cooperation are just some of the values cooperatives preach (Belarmino 2005).

Alay Kapwa Rural Women Multi-Purpose Cooperative is an organization of the residents of Brgy. Sto. Cristo, Canda, and Sampaloc II in Sariaya, Quezon. It was established in 1996 and supported by the Good Shepherd Sisters, an international congregation of religious women in the Roman Catholic Church. Alay Kapwa, formally became a cooperative on August 2, 2000. As of 2013, they have recruited 131 members, majority of which are residents of Brgy. Sampaloc II. The cooperative aims to address the socio-economic needs of the people through promotion of people power. They aim to address issues related to poverty, inequality, and education as they strengthen the advocacy of Sariayahins to local products. Alay Kapwa is engaged in the production of coconut coir, malunggay tea, and coco jam. They also offer "tulong-paaral" or scholarship to its members. Aside from the livelihood programs and scholarship program, Alay Kapwa is also conducting organic farming seminars, bible readings and sharing, and medical missions. As of now, the cooperative's focus is on the production

of coconut coir due to the abundance of coconut in the municipality and the promotion of the coconut coir industry in Quezon Province. They began their production of coconut coir in 2005 and in 2006, they became one of the suppliers of Pilipinas Eco Fiber, a company in Laguna that produces products made out of coconut coir such as geotextile.

Coconut coir is one of the by-products of copra. It is obtained from the husks of coconut (*Cocos nucifera*), a perennial plant found mostly in tropical countries such as the Philippines. There is a big opportunity for the coconut coir industry to prosper due to its durability, biodegradability, and ability to hold water. Aside from being the only natural fiber resistant to salt water, it is also highly resistant to abrasion and is strong and nearly impervious to weather. The demand for coconut coir seems to have an upward trend especially in countries such as China and Japan where coconut coir is largely utilized as a raw material for making nets and bio-logs for soil erosion control. It can also be used in manufacturing various products. The major uses of coir are shown in Table 25.1. The Fiber Industry Development Authority (2012) reported that there are still untapped markets for coconut coir. Despite the encouraging prospects for growth and expansion, Alay Kapwa cannot handle large volumes yet due to their poor financial performance resulting to inability to acquire additional equipment and machineries.

Table 25.1. Major uses of coconut coir

Product	Description/Uses ^a
Mattress Fiber	Coir is used in the manufacture of mattresses, rugs, etc.
Machine Twisted Fiber	Coir is mixed with animal hairs in producing automotive seats
Bristle Fiber	Coir is used to manufacture upholstery cushions, etc.
Plant pots	Coconut coir can also be used in the cultivation of plants.
Handicrafts	Coir is mixed with other fibers to produce handicrafts
Geotextiles	Coconut coir is used to produce geotextiles that are used to arrest soil erosion and promote vegetation.
Fascines	Coir is used to produce fascines that help protect and rehabilitate shorelines, riverbanks, and mangrove areas
Silt/Snow fence	Silt fence is produced by hand weaving coir to produce nets that can help control surface erosion.

^aDescription/uses pertains to how coconut coir is utilized in manufacturing other products
Source: Mercado (2006)

With all the factors hindering the growth of the cooperative, this study opted to formulate solutions that the cooperative can use to improve their performance and help them achieve their developmental goals. It covered all the activities of the cooperative but focused mainly on its coconut coir production due to its increasing potential. Moreover, this study assessed the business environment and overall performance of the cooperative.

Methodology

This study was conducted at Alay Kapwa Rural Women Multi-Purpose Cooperative in Sariaya, Quezon in 2013. Primary data were collected through personal interviews with key informants using structured questionnaires. The respondents of this study included the general manager (1), two (2) officers, three (3) Board of Directors, and 48 members of the cooperative. Out of 131 members, only 54 members were interviewed due to inactivity of some and hesitation to be interviewed by others. Other supplemental information that can help in the assessment of the cooperative were also gathered through personal observations and evaluations. Secondary data, on the other hand, were obtained from websites of FIDA, Bureau of Agricultural Statistics (BAS), Food and Agricultural Organization of the United Nations (FAO), National Statistics Office (NSO), Philippine National Statistical Coordination Board (NSCB), and Cooperative Development Authority (CDA).

Descriptive type of research design was used in presenting and evaluating the overall condition of the cooperative. This research design has its focus on the evaluation of the present condition of the cooperative and the other areas and other points that can be further improved or developed. Analysis of the data gathered was guided by an analytical framework shown in Figure 25.1.

The production aspect of the cooperative was evaluated by stringent analysis of the physical layout and operations of the cooperative. Marketing aspect, on the other hand, was evaluated through the identification and analysis of the 4Ps namely product, place, price, and promotion. For the personnel aspect, the profile of the members and the cooperative officers’ respective job descriptions and employee-management relationships were discussed.

The financial performance of the cooperative was analyzed using the financial statements provided by the cooperative. Financial ratios were also computed and analyzed. The financial indicators that were used included liquidity, activity ratio, debt management, and profitability ratios.

Liquidity Ratio

Current Ratio – this ratio indicates if the cooperative is able to cover its current liabilities by only using its current assets.

current ratio = current assets / current liabilities

Quick Ratio - this ratio measures if the cooperative is able to cover its short-term financial obligations using its most liquid or quick assets

quick ratio = (current assets - stocks) / current liabilities

Activity Ratios

Fixed Asset Turnover – this ratio indicates the capacity of the cooperative to generate revenue by only using its fixed assets.

$$\text{fixed asset turnover} = \text{sales} / \text{fixed assets}$$

Total Asset Turnover – this ratio determines the ability of the organization to generate money through the use of their assets.

$$\text{total asset turnover} = \text{sales} / \text{total assets}$$

Debt Management

Debt Ratio – this ratio measures how much the creditors are able to finance the debts of the organization. The higher the value of the ratio, the higher the amount the creditors in the organization are financing.

$$\text{debt ratio} = \text{total liabilities} / \text{total assets}$$

Profitability Analysis

$$\text{net profit margin} = \text{net income} / \text{net sales}$$

$$\text{return on investment} = \text{net income} / \text{total assets}$$

$$\text{return on equity} = \text{net income} / \text{net worth}$$

The strengths, weaknesses, opportunities and threats of the cooperative were thoroughly examined to determine the best action that can help resolve the cooperative's problems and at the same time, help improve their performance. The case issues identified were illustrated in a problem flowchart to clearly present the link between the problems of the cooperative and its potential causes. The best alternative recommended was evaluated in relation to its impact on the production, marketing, personnel, and finance aspects of the cooperative.

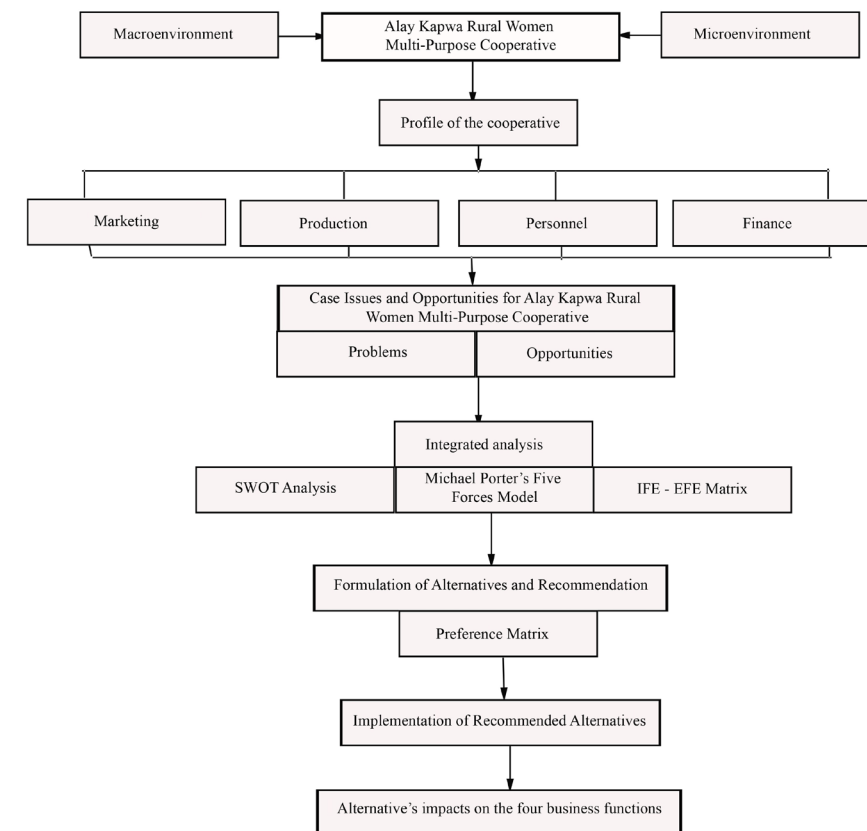


Figure 25.1. Analytical framework of the study

Results and Discussion

Analysis of Alay Kapwa's Business Functions

Personnel Management

Figure 25.2 shows the organizational chart of Alay Kapwa which was based on the structure given by CDA. General Assembly (GA) is the supreme authority followed by the Board of Directors (BOD), Audit and Inventory Committee, and Election Committee. Under the Board of Directors are the General Manager, the Treasurer, and the Secretary. There are three departments under the General Manager namely: Treasury Department, Operation Department, and Accounting Department. There are five committees stated in the cooperative's by-laws namely: Audit Committee, Election Committee, Education and Training Committee, Mediation and Conciliation Committee, and Ethics Committee.

Officers of the cooperative reported that they sometimes failed to do their duties and responsibilities as officers due to the various responsibilities they have at their own homes. Since most members were mothers, a large portion of the members of the cooperative found it hard to attend and participate in the activities of the cooperative.

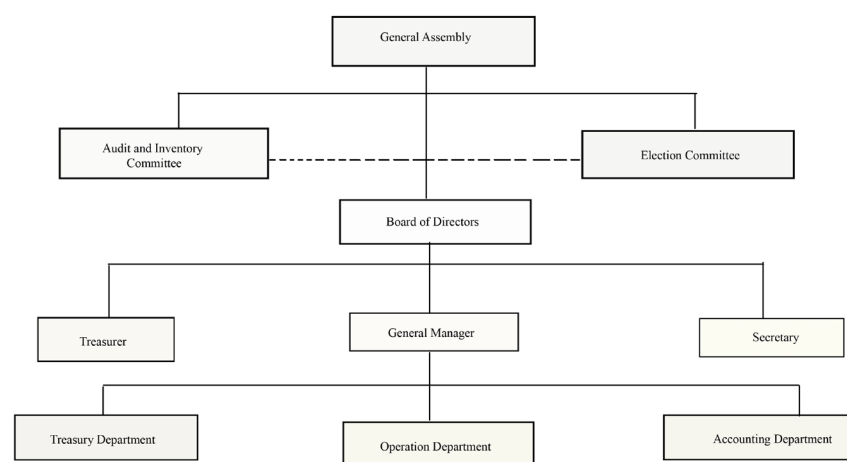


Figure 25.2. Organizational chart of Alay Kapwa Rural Women MPC

Since the cooperative started, it has attracted 131 members coming from the barangays of Sampaloc II, Sto. Cristo, and Canda (see Table 25.2). Majority of the members were from Sampaloc II due to the barangay's proximity to the cooperative. The average age of members working in Alay Kapwa ranged from 41 to 60 years old. Most members were married and were elementary graduates.

Table 25.2. Residency of the members of the cooperative, 2013

Item	n	%
Sampaloc II	75	57.25
Canda	31	23.66
Sto. Cristo	24	18.32
Tumbaga II	1	0.76
Total	131	100.00

There were some members below 18 years old who were children of members and were just helping out in return for the scholarship grant that they received from the cooperative. The respondents' profile is presented in Table 25.3.

Table 25.3. Profile of the respondents, 2013

Item	n	%
Age group		
41-60	27	50.00
<18 years old	8	14.81
30-40	8	14.81
>60 years old	8	14.81
18-30	3	5.56
Total	54	100.00
Civil status		
Married	42	77.77
Single	12	22.22
Total	54	100.00
Educational attainment		
Elementary	30	55.56
High school	18	33.33
College	6	11.11
Total	54	100.00

Almost 90 percent of members interviewed stated that they were encouraged to join the organization for the scholarship offered by the cooperative. They stated that even inactive members were entitled to the scholarship program as long as they were able to give their required shared capital amounting to PHP800.

Marketing Management

Members of Alay Kapwa used to venture in livestock raising and coco jam production even before the cooperative was formalized. In 2000, Alay Kapwa decided to focus on its coco jam production and stopped engaging in livestock production due to lack of committed members. As of now, it offers three products: coconut coir, coco jam, and malunggay tea. The cooperative's coconut coir produce solely goes to Pilipinas Eco Fiber, a company producing geotextiles. Alay Kapwa is not producing malunggay tea and coco jam on a daily basis. Since the cooperative did not have enough equipment and facilities, it implemented made-to-order strategy. They only produced malunggay tea and coco jam whenever a client called. For placement of orders, the buyers usually contacted the members of the cooperative since they did not have an outlet in Sariaya. When they started their malunggay tea production, their target market was pharmaceuticals. Upon realizing that they lack the needed accreditations, they searched for other probable customers. Through the help of Japan International Cooperation Agency (JICA), Alay Kapwa was able to gain clients;

however, there is still no consistent demand for their malunggay tea and coco jam. Table 25.4 shows the profile of Alay Kapwa clients.

Table 25.4. Profile of Alay Kapwa's clients, 2013

Name	Description ^a	Location	Products supported
1. Pilipinas Eco Fiber	Manufacturer of coco and abaca fiber	San Pablo	coconut coir, coco dust
2. UNIQUEASE	Restaurant and Fair Trade Shop	Makati	coco jam, <i>malunggay</i> tea
3. Gift and Graces	Fair Trade Foundation	Makati	<i>malunggay</i> tea
4. Yamazaki	Restaurant and Grocery	Makati	<i>malunggay</i> tea, coco jam
5. Cocowell	Coconut products dealer	Japan	coco jam
6. Ms. Osel	JICA member	Makati	<i>malunggay</i> tea
7. Ms. Jikihara	JICA member	Makati	<i>malunggay</i> powder
8. Ms. Gondaira	Individual customer	Subic	<i>malunggay</i> tea
9. Japan Malunggay Farm	Malunggay Products Supplier	Laguna	<i>malunggay</i> dried
10. Lubi Resort	Resort	Cebu	<i>malunggay</i> tea

^arefers to the description of the client described in Column 1

Source: Alay Kapwa Rural Women MPC (2013)

Alay Kapwa delivered their produce to Pilipinas Eco Fiber on a weekly basis. Usually, Pilipinas Eco Fiber would order 3,000 kilos of coconut coir a week but the cooperative was only able to produce 2,000 kilos a week. Seemingly, there is a demand-supply gap of 1,000 kilos every week. The products of the cooperative were sold to members and non-members at the same price (Table 25.5).

Table 25.5. Information on Alay Kapwa's products, 2013

Products	Size	Price (PHP)
Coco jam	100g	45
	300g	70
	600g	120
<i>Malunggay</i> products	<i>Malunggay</i> tea in plastic packaging (10 sachets)	60
	<i>Malunggay</i> tea in foil packaging (10 sachets)	75
	<i>Malunggay</i> powder in plastic (100g, 250g, 500g, 1kg)	0.6/gram
	<i>Malunggay</i> powder in foil (100g, 250g, 500g, 1kg)	0.65/gram
	Geotextile	10.5/kilo

Source: Alay Kapwa Rural Women MPC (2013)

In pricing their products, the cooperative used the formula shown below:

$$\text{selling price} = \text{materials} + \text{labor (materials+30\%)} + \text{overhead (materials +10\%)} + \text{total cost} + \text{mark-up (10\%)}$$

The cooperative did not have extensive promotional activities. Promotion of its products was usually done through word of mouth and positive feedbacks. The cooperative has a Facebook account but it was not updated regularly.

Alay Kapwa lacked outlets for coco jam and malunggay tea in Sariaya but they had certain linkages in Metro Manila, particularly, Makati and Ortigas, which serve as their marketing outlets. There were no monthly consignments and there was still no consistent demand even though the said outlets' locations were strategic. In a year, the outlets in Makati and Ortigas ordered at least three times. The demand varied from 36 to 50 bottles of coco jam and 7 to 10 packs of malunggay tea per order.

Despite the fact that there were many coir producers in their area, Alay Kapwa was confident that their produce would all be bought since they served as one of the suppliers of Pilipinas Eco Fiber. The cooperative's coconut coir production plant was not strategically located although they did not have a problem in transporting their coconut coir produce since Pilipinas Eco Fiber had a branch in Sariaya. There were other coir-related businesses in Quezon province although most of them were involved in exporting coir products or manufacturing of coir products such as rags and doormats. The demand is greater in other countries compared to that in the Philippines. Therefore, intensity of competition among exporting companies is greater than that among small-scale local producers such as Alay Kapwa.

Operation Management

Alay Kapwa is not very accessible and probable customers might find it hard to locate the cooperative. The roads are not well-cemented and it takes about 7 to 10 minutes on foot from Maharlika Highway to reach the cooperative.

The plant allocated for the malunggay tea production, coco jam, and coconut coir were mostly open spaces. There was no process flow involved in the layout of the plants. For the cooperative's coconut coir production, they only allotted a space for drying, storage, etc. The process flow of coconut coir is shown in Figure 25.3.



Figure 25.3. Process flow of coconut coir

All of the raw materials used by the cooperative were outsourced. The cooperative had certain point persons where they often acquired their raw materials for production. The cooperative only acquired its inputs from local

farmers who do not use chemicals to ensure that their products are 100 percent organic and chemical-free.

Aside from livelihood programs, Alay Kapwa had what they call the “tulong-aral” which was established by the Good Shepherd Sisters to help children in the community have access to education. Ever since this program started, Alay Kapwa has sponsored many children of the members until graduation. The management of Alay Kapwa believed that education is important; thus, in terms of resource allocation, most of the cooperative’s profit was dedicated to scholarships and sponsorships. As of 2012, they have sponsored 19 elementary students, 21 high school students, and seven college students. Aside from the cooperative’s livelihood activities and scholarship program, they also conducted organic farming seminars, Bible readings and sharing, and medical missions.

Finance Management

Alay Kapwa Rural Women MPC sourced its funds from share capital of the members, reserve funds, and donations from beneficiaries such as Fr. Paul Koenig. The sales performance and trend of Alay Kapwa showed some fluctuations. From 2008-2009, there was a huge increase in sales. From PHP215,444.95 in 2008, sales went up by 248 percent resulting to a sales equivalent to PHP534,142.05. The acquisition of new equipment helped a lot in improving the productivity and income of the cooperative. In 2010, the sales slightly decreased but the cooperative was able to regain its sales in 2011. To better assess the performance of the cooperative, a comparative analysis was conducted.

Vertical analysis showed that the cooperative was not able to generate enough profit despite the increase in cooperative’s sales. After subtracting the sales from the cooperative’s cost of sales, it was noted that the cooperative is barely getting profit. Alay Kapwa’s sales increased by 248 percent from 2008 to 2009 but the cooperative’s expenses also increased from PHP206,465.25 in 2008 to PHP359,325.50 in 2009 which is 174 percent higher. Thus, even though Alay Kapwa experienced increase in sales, they were still incurring losses.

Financial ratios were computed to determine the financial performance of the cooperative. Some of the ratios computed included current ratios and profitability analysis. The summary of Alay Kapwa’s financial ratios is shown in Table 25.6. The cooperative’s current ratio showed that Alay Kapwa was still able to pay for their liabilities using current assets; however, it is noticeable that there was a downward trend for the current ratios of the cooperative from 2008 to 2011. For every PHP1.00 liability of the cooperative, they had PHP3.68, PHP1.55, and PHP0.25 for the years of 2009, 2010, and 2011 respectively. In 2011, it was noted that the cooperative can hardly pay for its liabilities, as denoted by the ratio of less than 1. There is a salient need to increase the cooperative’s current assets to improve their current ratio.

Table 25.6. Financial ratios of Alay Kapwa Rural Women MPC, 2008-2011

Financial ratio	2008	2009	2010	2011
Current ratio	-	3.68	1.55	0.25
Quick ratio	-	3.18	1.55	0.25
Fixed asset turnover	1.25	0.79	0.19	0.21
Total asset turnover	0.84	0.69	0.18	0.20
Debt ratio	-	0.03	0.11	0.18
Net profit margin	(2.67)	(0.25)	(1.06)	(1.20)
Return on investment	(2.24)	(0.17)	(0.19)	(0.25)
Return on equity	(2.24)	(0.18)	(0.19)	(0.25)

For Alay Kapwa’s quick ratio, it can be seen that there is also a downward trend. There seems to be a mismanagement of cash and receivables. Activity ratios were also computed. It can be seen that for every PHP1.00 investment in fixed assets for the years of 2008-2011, the organization was able to generate PHP1.25, PHP0.79, PHP0.19, and PHP0.21. There was also a decrease in Alay Kapwa’s activity ratios. This can be attributed to the cooperative’s decreasing sales. Alay Kapwa had a low total asset turnover. This means that the cooperative was having a hard time in optimizing their resources and generating income through the use of their assets. For cooperatives, the acceptable value for debt management is 1:1:1 or 1:1. The ratios that Alay Kapwa had were unacceptable for cooperatives. From 2008 to 2011, the net profit margins of the cooperative were -2.67, -0.25, -1.06, and -1.20, respectively. Computation of Alay Kapwa’s profitability ratios showed that they were incurring losses.

There were many factors as to why Alay Kapwa was incurring losses. They were not very accessible and customers might find it hard to place their orders. With lack of promotional activities comes lack of people’s awareness of the cooperative and their products.

Key Success Factors

Availability of Raw Materials in the Area

Coconut is abundant in Sariaya. Thus, Alay Kapwa would not have a hard time outsourcing its raw materials. Transportation cost can also be lessened due to Alay Kapwa’s proximity to coconut farmers and growers.

Sure Market for their Produce

Alay Kapwa has been selling their produce to Pilipinas Eco Fiber, a company producing geotextiles since 2006. Thus, Alay Kapwa does not have a hard time

selling their coir produce.

Awareness to New Practices

Cooperatives in Sariaya including Alay Kapwa belong to an organization called Municipal Cooperative Development Council (MCDC) that regularly holds trainings and seminars for cooperatives in the locality. Capability building, financial management, product development (packaging and labeling), pricing, structural designs, doing business in free trade area and gender, and responsive value chain workshop on “bayong” are just some of the topics that MCDC is teaching the members of the cooperative movement in Sariaya.

Exporting Capability

There are many opportunities for coconut coir. There are many countries that support the coir industry, such as China and India.

Continuous Support from the Government

There are various government and non-government institutions that are mandated to support and give assistance to cooperatives. Alay Kapwa is helped by various organizations and other government institutions such as the Department of Trade and Industry (DTI).

Management Issues

Several issues and concerns were realized in the analysis of this case study. These issues were concentrated in the four business functions of the cooperative that affect its operation particularly on the cooperative’s production of coconut coir.

Marketing Management

Alay Kapwa is not having a hard time selling their coir produce since they serve as one of the suppliers of Pilipinas Eco Fiber but the general manager reported that they were having problems in marketing their other products like their coco jam and malunggay tea. The cooperative’s products lacked value-addition and proper advertisement. Aside from the fact that the location of the cooperative was not very accessible, they did not have outlets in Sariaya. Although they had linkages in Ortigas and Makati where they sell their products, there was still no consistent demand and distinct market for their products.

Operations Management

The cooperative was having problems with their raw materials. Their productions were being limited by the production facilities that they have. It was noted that a walk-in customer could not immediately purchase the products of the cooperative since they were only producing these products on a per order basis. The general manager also stated that they lacked support from the government in terms of capital and subsidies. Thus, despite opportunities to expand, the cooperative cannot expand yet due to inadequacy of capital along with declining productivity of members.

Organization/Personnel

Of the 131 members of the cooperative, only a few are actively participating. One of the Board of Directors reported that despite the fact that they had many members, they were still having a hard time in conducting their activities due to lack of committed members. Most members only joined the cooperative to avail of the “tulong-paalar” offered by the cooperative. Another problem faced by the cooperative was the lack of skills of those in the top management. It was noted that many were seated in the position just because no other members were willing to accept responsibilities. Results of this study showed that some members of the cooperative were not happy with the way the cooperative was being managed. According to them, there was a lack of congruence between the members and the management. Sometimes, ideas and opinions were not communicated well between both parties. Say for instance, for their working days, members were asked to work for six days despite the fact that most of the members also had other responsibilities.

Finance

As seen in the financial ratios, Alay Kapwa is having difficulty in generating profits for the organization. Their income statement showed that they were not able to generate enough income to enable them to improve and expand their operations. Therefore, despite the opportunities for coconut coir, they cannot cope with the losses due to inadequate working capital and government support. Most of the cooperative’s fund came from donations and grants which played an important role in the operations of the cooperative. One problem realized is that the cooperative was somehow relying on donations and grants to sustain their operations. There seemed to be a fluctuation in sales and increase in operating expenses. Thus, even though the cooperative experienced some increase in their sales, they were still not earning due to increase in their operating expenses. The identified problems of the cooperative are illustrated in Figure 25.4.

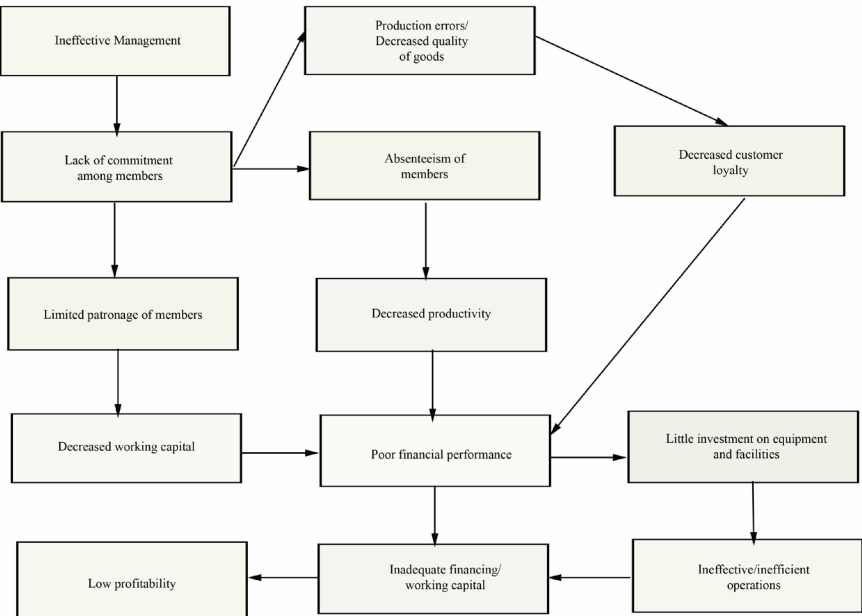


Figure 25.4. Problem flowchart of Alay Kapwa Rural Women MPC

A problem statement was formulated in order to put a focus on the issues that affect the operations of the cooperative. The problem statement is, “What are the appropriate strategies that the cooperative must implement to address its poor financial performance considering the limited scope of their business, its inadequacy of working capital, and lack of committed members?” The alternatives formulated were: 1.) Strategic alliance with farmers in the area, 2.) Mass recruitment, and 3.) Strengthening of relationship between members and top management. A preference matrix was made and it is recommended that the cooperative create a strategic alliance between the cooperative and the coconut farmers in their area (Table 25.7).

Table 25.7. Summary of evaluation of alternatives

Criteria	Alt 1	Score	Alt 2	Score	Alt 3	Score
Effectiveness of decision	3	0.90	1	0.30	2	0.60
Ease of implementation	2	0.40	3	0.60	1	0.20
Cost of implementation	3	0.60	1	0.20	2	0.40
Beneficial to members	3	0.45	1	0.15	2	0.30
Degree of risk	3	0.45	1	0.15	2	0.30
Total Average Score		2.8		1.4		1.8

Conclusions and Recommendations

It is suggested that Alay Kapwa establish a strategic alliance with farmers in the area. With this, the cooperative will be able to address their poor financial performance and limited scope of operations. Through increased productivity brought about by a well-functioning supply chain, the operations of the cooperative will be more effective and efficient. It will also be easier for the cooperative to produce bigger volumes of products. Farmers in the area will be assured that their produce will be bought. It is advised to establish a pick-up point to ensure a more organized and efficient operation. To further motivate farmers, incentives must be given for a job well-done.

For the production of coconut coir, it is recommended to classify them according to grades to help them sell it easier. For the cooperative’s payment scheme, 30-45 days to pay is suggested to avoid having too much receivables. This will also enable the cooperative to have more cash-on-hand that they can utilize in their operating expenses.

To improve the effectiveness and efficiency of members, it is recommended that the cooperative hold pre-membership to orient potential members well about the cooperative and the corresponding responsibilities as a member. Every now and then, the cooperative must also hold trainings and seminars to improve the knowledge and skills of members. For the scholarship program of the cooperative, the cooperative must set rules and prerequisites to ensure that the money they are using are put to good use. For those who already received the scholarship of the cooperative, it is advised that they return what they have received from the cooperative through service and sharing of knowledge and skills gained.

SUMMARY

Cooperatives are perceived to be a major instrument in the achievement of a community's developmental objectives by being an effective tool in eliminating poverty and underdevelopment through generation of jobs most especially in rural areas. Alay Kapwa Rural Women Multi-Purpose Cooperative is a cooperative engaged in the production of agricultural products such as malunggay tea, coco jam, and coconut coir. Most of the cooperative's profit is dedicated to scholarships and sponsorships. Aside from the livelihood programs and scholarship program, Alay Kapwa is also conducting organic farming seminars, bible readings and sharing, and medical missions. The cooperative aims to address issues related to poverty, inequality, and education as they strengthen the advocacy of Sariayahins to local products. This chapter presents and assesses the overall performance of Alay Kapwa Rural Women Multi-Purpose Cooperative.

Descriptive research design was used in the study. Data were gathered from secondary sources and through personal interviews with key informants such as the cooperative members and officers. The elements of the business environment that greatly influenced the cooperative as well as its performance in the four major business functions were evaluated. Results revealed that the major problem of the cooperative was the low productivity of its members. This in turn, resulted to financial problems of the cooperative. This study recommends a strategic alliance between the cooperative and the farmers in the area as well as strengthening of relationship between members and other stakeholders to enhance the productivity and profitability of the cooperative.

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