

Performance of the *Sorosoro Ibaba Development Cooperative* and *Subasta Integrated Farmers Multipurpose Cooperative*, Philippines

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Abstract

One of the basic conditions for sustainable enterprise development is economic efficiency. This study assesses the performance of two agricultural cooperatives in the Philippines – the *Sorosoro Ibaba Development Cooperative* (SIDC) and the *Subasta Integrated Farmers Multipurpose Cooperative* (SIFMPC) to shed light on the viability and efficiency of cooperatives as economic enterprises. Descriptive analysis based on the economic efficiency concept under the sustainable enterprise development framework of the International Labour Organization and quantitative analysis using financial indicators are used to assess the performance of the cooperatives under study. Key findings show that cooperatives can perform efficiently if they adopt market-complementing activities such as vertical integration, quality upgrading and productivity and low cost of information. SIDC and SIFMPC have both maintained a good market position and massive participation in the supply chain of hogs and cacao beans, respectively, enabling them to reap greater economic gains. Based on their financial ratios, the two case cooperatives indicated a desirable profitability, liquidity and solvency. The study concludes that cooperatives can indeed be a viable enterprise model providing enabling conditions for attaining economic efficiency. However, adequate resources and investment capacities to support their market-complementing activities must be ensured in order to perform productively, competitively and sustainably. The success of SIDC and SIFMPC is not replicated by many micro and small cooperatives which are often saddled with limited resources and are unable to undertake efficient business operations.

Keywords: *cooperatives, agricultural cooperatives, sustainable enterprises, financial performance*

Introduction

The role of cooperatives in sustainable development has been widely recognized across all sectors of the economy. Their contributions to the triple bottom line of sustainable development – economic development, environmental protection and social justice – have been brought into focus by international organizations such as the United Nations (UN), the International Labour Organization (ILO) and the International Co-operative Alliance (ICA). These organizations promote cooperatives as a key driver for economic growth and inclusive development. In 2012, ICA developed its blueprint strategy for cooperatives, the “2020 Vision”, which envisions cooperatives as builders of sustainability in the year 2020 and to be the acknowledged leader in economic, social and environmental sustainability, the model preferred by people as well as the fastest growing form of enterprise.

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In the Philippines, cooperatives comprise a significant proportion of micro, small and medium enterprises. In 2014, there were 24,652 cooperatives registered with the Cooperative Development Authority (CDA) of the Philippines, with a total membership comprising about 24% of the country's total population aged 20 years old and above. The cooperative sector generates at least 290,662 direct and indirect jobs for Filipinos (CDA 2014). In a study done by Quillooy and Pabuayon (forthcoming), the contribution of Philippine cooperatives in advancing sustainable development has been validated, where it was found that the cooperatives carry out initiatives promoting sustainability for its members and their communities.

In the context of sustainability the potentials and contributions of cooperatives as enterprises in sustainable development can be further understood. In this case, sustainable enterprises are defined as economic entities that pursue both economic and social responsibilities to create a sustainable society through business activities that holistically reflect economic, social and environmental aspects of sustainability (Japan Business Federation 2006 as cited in ILO 2007). In sustainable enterprise development, three basic conditions have been identified as necessary for an enterprise to achieve sustainability. These conditions include "democratic governance," "economic efficiency" and "social equity." While the conditions of democratic governance and social equity can be directly explained and supported by the cooperative values and principles, especially, the values of "democracy" and "equality and equity" and the principles of "voluntary and open membership," "democratic member control," "member economic participation" and "concern for community," examining the condition of economic efficiency for cooperatives needs a closer investigation of the cooperative practices and performance.

This paper looked into the condition of economic efficiency of cooperatives in the Philippines by analyzing the performance of two selected agricultural cooperatives in the country. Specifically, the paper identified the cooperative marketing practices that contribute to efficiency of the performance of cooperatives under study and assessed their financial and economic profitability using a set of indicators. The findings hope to throw light on the viability of cooperatives, not just as a democratic and socially responsible enterprise, but also as an efficient form of enterprise.

Economic Efficiency for Sustainable Enterprises²

ILO, the international development agency with a mandate of promoting sustainable enterprises for the creation of productive and decent work, has identified institutions and organizations as a fundamental component of sustainable enterprises. The development potentials of organizations can be realized if the three basic conditions for the emergence and growth of sustainable enterprises are attained – democratic governance, social equity and economic efficiency. The first two conditions are generally inherent to the cooperatives, given the organizational structure, values and principles that the cooperatives adhere to as defined in the Statement on Cooperative Identity set by ICA (1995). On the other hand, economic efficiency is not easily observable in a cooperative as it often involves non-monetary and social benefits to its members.

² For the rest of this paper, the term "economic efficiency" is used to refer to the basic condition of "economic efficiency" for sustainable enterprises as defined by ILO under its sustainable enterprise development framework. Careful interpretation of the concept must therefore be made in the context of this study as the term does not refer to the strict economic concept of "efficiency." When economists use the term "efficiency," they mean producing the maximum number of goods and services from given quantities of resources (productive efficiency) or the economy is producing the combination of goods and services that people value most highly (allocative efficiency).

It should be understood that economic efficiency is not merely reflected in the financial performance of a firm but is also assessed based on the marketing activities employed.

Within the framework of sustainable enterprise development, economic efficiency is associated with an economic performance that promotes productivity and competitiveness and provides better business environment for enterprises (ILO 2007). Business organizations can enhance economic efficiency through market-complementing activities, which are defined as marketing activities that involve “direct coordination among firms to reconcile interdependent production and investment decisions” (Doner and Scheider 2000). Examples of market-complementing activities are the horizontal coordination and vertical integration, macroeconomic stabilization and reform, lowering cost of information, setting standards and quality upgrading and productivity (ILO 2007)³.

Measures of financial performance differ across firms depending on their organizational structure and goals. For instance, the optimal organizational choice of an investor-owned firm (IOF) is to maximize profit. Non-profit organizations are governed by a non-distribution constraint and pursue purely non-monetary objectives. For cooperatives, the goal is to maximize both economic and social benefits to its members. Because of the user-owner, user-benefit and user-control business principles of cooperatives, the relative financial performance of a cooperative may appear less efficient compared to an IOF. However, a cooperative may still be desirable to a member as long as the cooperative’s discounted stream of returns to the members are greater than those from marketing the commodity through an IOF (Hardesty and Salgia 2004). Cooperative members often receive part of their returns in the form of service benefits such as improved access to markets and lower prices of inputs. Lastly, cooperatives may have the potential to achieve cost savings by internalizing transactions through vertical integration and having lower cost of information compared to their IOF counterparts (Sexton and Iskow 1993).

The theory of the firm is often used as the basis of the assessment of the performance of a cooperative. It usually involves financial measures such as net revenues, asset utilization, profitability ratios, liquidity ratios and solvency ratios. However, the differences in the organizational structure, goals and strategy between cooperatives and other forms of enterprise like IOF may have implications on the financial performance of cooperatives. Hence, the use of the common financial indicators might not be sufficient as it might only be evaluating a portion of the cooperative performance. To address this issue, developments were made to improve the measures of financial performance of cooperatives. Lopez and Marcuello (2006) proposed indicators of economic profitability, where profitability is assessed with consideration of the capital productivity (sales per assets), capital intensity (capital per assets) and capital concentration among cooperative members. A more equitable and balanced sharing of capital among members encourages economic efficiency.

³ More detailed discussion of the market-complementing activities can be found in ILO. 2007. The Promotion of Sustainable Enterprises, Report VI. Geneva: International Labour Office. Available online: http://www.ilo.org/wcmsp5/groups/public/---ed.../wcms_093969.pdf

Methodology

Using the case of two agricultural cooperatives in the Philippines, this paper presented empirical evidences of the potentials of cooperatives in providing the condition of economic efficiency to promote sustainability as reflected on their performance as a form of enterprise. These case cooperatives include the Sorosoro Ibaba Development Cooperative (SIDC) and the Subasta Integrated Farmers Multipurpose Cooperative (SIFMPC). SIDC and SIFMPC were purposely selected as case studies for a large and a small agricultural cooperatives. The former operates at a large scale while the latter has small-scale operations. Both are primary cooperatives engaged in agricultural production and marketing.

Secondary data from the 2012 annual financial reports of the cooperatives were gathered during the visits to the cooperatives. Key informant interviews with the cooperative leaders and managers were also conducted to elicit information about the business activities, marketing strategies and problems of the cooperatives.

For this research, two methods were employed to analyze the performance of SIDC and SIFMPC: (a) descriptive analysis based on the concept of economic efficiency under the sustainable enterprise development framework of ILO (2007) and (b) quantitative analysis using selected financial performance indicators. Table 1 defines the different performance indicators used in the analysis.

Table 1. Financial indicators for cooperatives

Indicator	Formula
Profitability measures	
Net surplus (NS)	$NS = \text{Total Gross Revenue} - \text{Total Expenses}$
Profit margin (PM)	$PM = \frac{\text{NS after Allocation of Statutory Funds}}{\text{Total Gross Revenue}}$
Return on assets (ROA)	$ROA = \frac{\text{NS after Allocation of Statutory Funds}}{\text{Total Assets}}$
Return on equity (ROE)	$ROE = \frac{\text{NS after Allocation of Statutory Funds}}{\text{Total Equity}}$
Capital productivity (CP)	$CP = \frac{\text{Total Gross Revenue}}{\text{Total Assets}}$
Capital intensity (CI)	$CI = \frac{\text{Total Capital}}{\text{Total Assets}}$
Members' productivity (MP)	$MP = \frac{\text{Total Gross Revenue}}{\text{Total Number of Members}}$

Capital concentration rate (CC)	$CC = \frac{\text{Total Capital}}{\text{Total Number of Members}}$
Economic profitability (EP)	$EP = \text{Net Operating Profit}^a \times \frac{MP}{CC} \times CI$
Liquidity measures	
Current ratio	$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick ratio	$\text{Quick ratio} = \frac{\text{Cash Assets} + \text{Receivables}}{\text{Current Liabilities}}$
Solvency measures	
Debt ratio	$\text{Debt ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$

^a Net operating profit = Net Revenues Provided by Operating Activities – Operating Expenses

Results and Discussion

The universally accepted definition of cooperative 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” (ICA 1995). Every cooperative has an ultimate goal of helping improve the quality of life of its members. This cooperative goal is very much related to the key aim of sustainable enterprises, which is the creation of full and productive employment and decent work that provide people and their families with fair income, social protection and a workplace where they are respected, can organize, and have a voice (ILO 2010). In order to contribute to the realization of these goals, cooperatives need to operate efficiently in order to become productive, competitive and sustainable. Using the case of SIDC and SIFMPC, the findings of this study revealed the extent to which selected agricultural cooperatives in the Philippines have been able to perform efficiently and identified the cooperative marketing activities and strategies that contributed to such performance.

The Case of Sorosoro Ibaba Development Cooperative

The *Sorosoro Ibaba Development Cooperative* or SIDC is the largest agricultural cooperative and among the most successful cooperatives in the Philippines. SIDC is based in Batangas City and has been operating since 1978. As of 2012, it has 7,882 regular members and 9,599 associate members from more than 100 villages (barangays) in Batangas and from other provinces in Region IV-A (CALABARZON) and nearby regions. Its key business activities include feedmilling; hog raising, contract growing, marketing and related hog products and services; credit services; merchandizing of other agricultural and non-agricultural products and providing other services to members. Its goal is “to develop and offer competitive quality products and services, adopt technologically advanced systems to build prosperous lives and strengthen the spiritual and social development of stakeholders” (SIDC 2013).

The case of SIDC demonstrates a cooperative that adopts a market-complementing activity called vertical integration to improve its economic performance and ensure the viability and sustainability of its hog business. Vertical integration is a business strategy that seeks to own and control two or more complementary business activities at different stages or processes of production and marketing (FAO 2002). Over the years, SIDC has expanded its business activities in a manner that controls a series of stages of the hog supply chain – from feed milling and input supplying to contract growing and retail marketing.

Under vertical integration, SIDC performs the interrelated business activities of feeds production, hog breeding, hog fattening, slaughtering, meat processing and selling, among others (Figure 1). These activities are complemented with enabling mechanisms that the cooperative provides such as credit and technical services (e.g., veterinary services, trainings and seminars). The credit program enables its members to start their own hog business (as contract grower) through provision of loans for hog pen construction and for purchase of piglets, feeds and medicines.

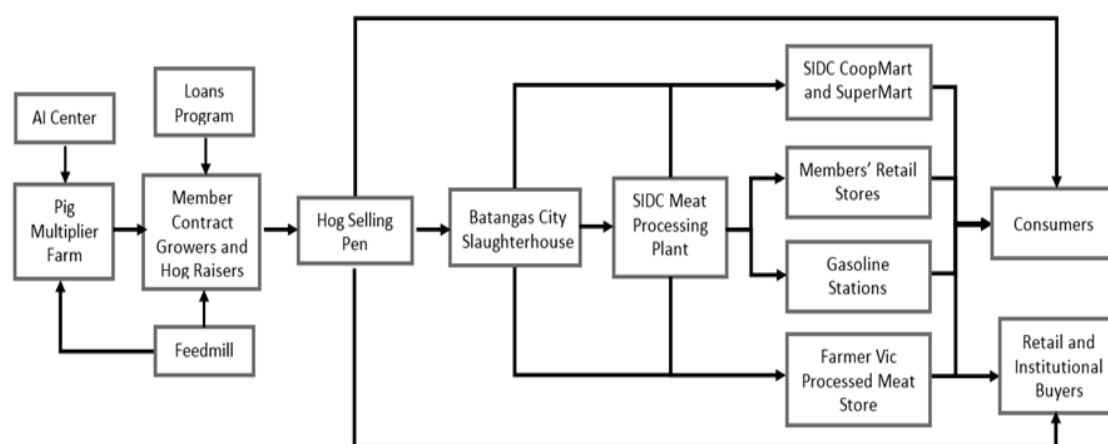


Figure 1. SIDC's feed-to-food hog business activities, 2012

SIDC breeds its own high-grade piglets from F1 gilts and high-grade boars that it maintains and raises in the cooperative's pig multiplier farm. It has its own artificial insemination center (AIC) to provide the gilts with high-quality semen and veterinary supplies and services. The piglets are then distributed to its member contract growers and to its member hog raisers, who raise hogs in the cooperative's communal farm. SIDC makes its own feeds and supplies other inputs, which are made available to the members at SIDC's stores and AIC.

The cooperative serves as a sure market for the produce of its member contract growers and hog raisers. Once the hogs are ready for slaughter, members can bring them to SIDC's hog selling pen for sale to the cooperative at a competitive buying price and also to external buyers. The live hogs purchased by SIDC are sold either as fresh meat or processed meat. SIDC manages a government-owned slaughterhouse to slaughter the hogs and used to operate a meat processing plant (until 2013), where the meat are consolidated and prepared for processing or for direct sale to consumers and institutional buyers. From the meat processing plant, the fresh meat and processed meat are distributed to different SIDC store outlets—which include Farmer Vic Meat Store (which operated only until 2010), SIDC's CoopMart and CoopSupermart, gasoline stations, and members' retail stores—for sale to institutional and retail buyers and consumers.

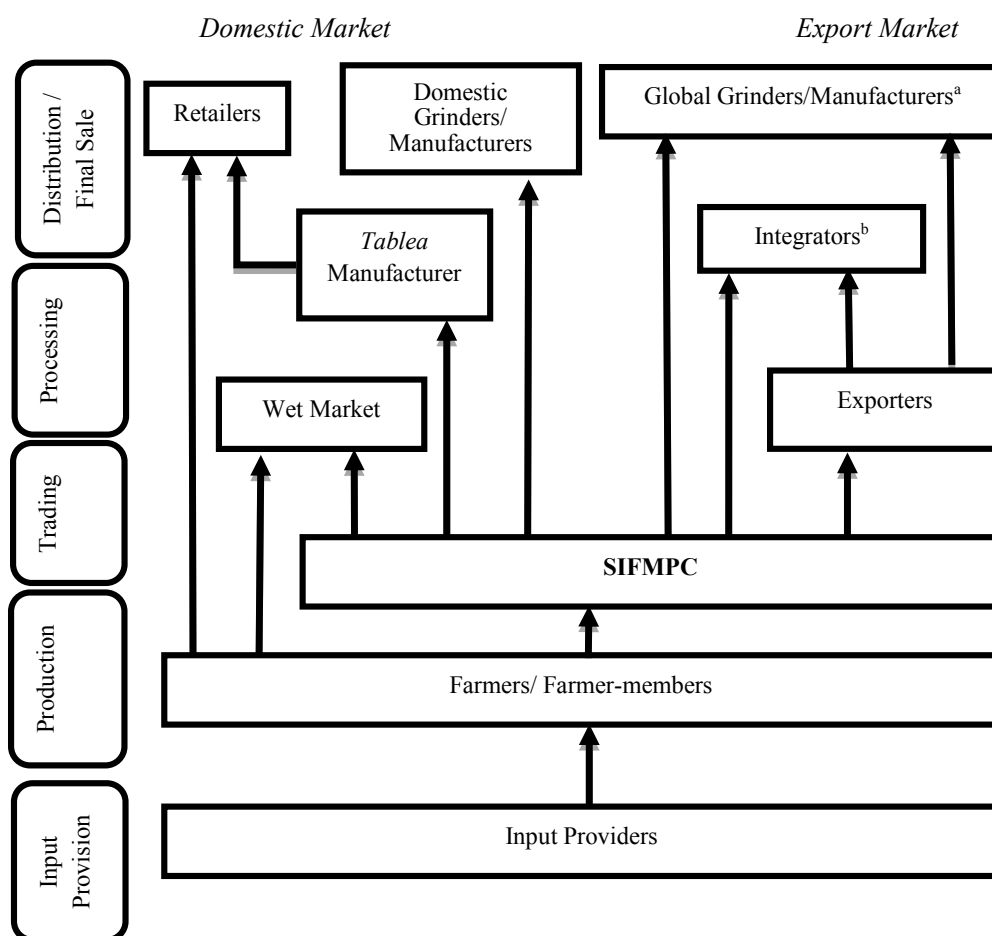
From provision of capital and supply of inputs to meat processing and selling, SIDC has acted as a vertically integrated enterprise that makes it much easier and viable for its members to participate in and access income opportunities at all stages of the hog supply chain. On the consumer side, the vertical integration of SIDC has reduced transaction costs as middlemen (e.g., traders, processors and wholesalers) are eliminated and where expenses involved in transacting with other business firms and forgone opportunities that arise due to bargaining and disagreements are avoided. Controlling the supply chain under one cooperative enterprise also ensures the quality of meat produced for the consumers and the reasonable pricing of the products for its member-consumers and other households in their communities.

Lastly, low cost of information is achieved within SIDC since its suppliers and customers are both members of the cooperative. Working in the same value chain configuration allows for more efficient flow of adequate information on marketing and prices, unlike in IOFs where suppliers and customers are often outside the owner-management circle.

The Case of Subasta Integrated Farmers Multipurpose Cooperative

The *Subasta Integrated Farmers Multipurpose Cooperative* or SIFMPC is a micro agricultural cooperative organized in 2009 by a group of small cacao farmers based in Davao City. SIFMPC is mainly engaged in the production and marketing of cacao beans. It is a supplier of cacao beans to different buyers in the domestic and international markets. With its operations, the cooperative envisions to build “a community where stakeholder-farmers have attained sustainable development in terms of socio-economic and environmental protection” (SIFMPC 2014). In 2012, there were already 100 cacao farmers who have joined the cooperative.

The case of SIFMPC is an illustration of a cooperative pursuing collective action, which in turn allows for market-complementing activity of quality upgrading and productivity of an enterprise. Through collective action, SIFMPC is able to participate and capture economic opportunities in the global supply chain of cacao beans. It mainly acts as an assembler or consolidator of the produce of its farmer-members. It purchases adequate volume of quality cacao beans from its members and other cacao farmers in the village whom they pay on a cash basis. The cacao beans purchased by SIFMPC are either sold as wet beans or processed into fermented and dried beans to meet the demands of the buyers and to command higher prices from its buyers. The beans are sold to the global traders or exporters, integrators and global grinders and chocolate manufacturers as well as to domestic grinders and local cocoa product manufacturers (Figure 2).



^a Askinosie Chocolate

^b Puentespina Orchids and Tropical Plants; Kenner Foods International, Inc.

Figure 2. SIFMPC marketing channel for cacao beans, Davao City, Philippines

Source: Adopted from Quilloy (2015) with some modifications

The cooperative gives farmers access to processing facilities, capacity building trainings, financial service and other resources needed to enable them to do value addition on their commodities and, consequently to enhance the quality of cacao beans and farmers’ productivity. The networks and linkages of SIFMPC with government and non-government organizations and donor agencies have supported the development of facilities and infrastructure of the cooperative as well as the human capabilities of its members. The values formation and cooperative education seminars conducted by SIFMPC taught its farmer-members the practice of honest selling—members deliver and sell only the “good beans” to the cooperative based on agreed standards.

In terms of value addition, SIFMPC performs processing and sorting and grading of cacao beans to ensure uniform standards and quality and premium price for its beans. All the good beans are consolidated and prepared for fermentation and drying, which are done by well-trained farmer-members and laborers of the cooperative using its own facilities. After drying, the beans are sorted and graded based on its moisture content using shedder and tool kit equipment. Only Class A dried beans are sold for export. The beans are carefully packed by class and are weighed using a well-calibrated weighing scale. The packed beans are stored until they are scheduled for quality inspection by the buyer. After passing the quality requirements of the buyer, the required volume of dried beans are hauled and transported to cooperative's buying station for buyer's pick-up or for delivery to the port of cargo shipment, if it is intended for export. The proper standard processing and marketing procedure of SIFMPC maintains the high quality standards of its beans, which enables it to compete successfully with other bean suppliers in Davao region.

SIFMPC's collective action also results in economies of scale in production and marketing, which allows for expansion of the cooperative operations at a relatively lower cost. Likewise, the size of operations of SIFMPC allows for more bargaining power in terms of procuring inputs, availing services and negotiating prices for its inputs and outputs, thereby fostering productivity and efficiency in its marketing. Its collective strategy has also been effective in fostering an efficient flow and sharing of information, particularly on prices of beans, among the cooperative members and other farmers in the village. Like in the case of SIDC, low cost of information has been made possible in the case of SIFMPC by the fact that the bean suppliers (who are the cooperative members) and the buyer (which is the cooperative) are all within the same value chain configuration.

Financial Performance of SIDC and SIFMPC

The performance of SIDC and SIFMPC was further analyzed using selected financial indicators that describe their profitability, liquidity and solvency. Overall, the cooperatives were found to perform efficiently based on the parameters discussed below.

Profitability Measures

Both cooperatives were able to generate a net surplus in 2012, which indicates a positive financial performance (Table 2). SIDC had a net surplus of PhP 33.9 million (SIDC 2013) while SIFMPC obtained PhP 174,003 (SIFMPC 2012). The net surpluses of SIDC and SIFMPC as proportion of their gross revenues were 14% and 29%, respectively. In terms of the earning capacity of the cooperative assets, SIDC's return on assets was 2%, which is lower than SIFMPC's return on assets of 9%. The return on equity ratios of the cooperatives were quite modest: 7% for SIDC and 13% for SIFMPC.

Table 2. Profitability of SIDC and SIFMPC, 2012

Profitability Indicator	SIDC	SIFMPC
Net surplus (PhP/year) ^a	33,943,709	174,003
Profit margin (%)	14.20	28.60
Return on assets (%)	1.80	8.70
Return on equity (%)	7.36	13.27
Capital productivity	0.5867	0.5364
Capital intensity	0.2181	0.5680
Members' productivity	11,076	4,259
Capital concentration rate	19,076	7,941
Economic profitability	0.0658	0.2847

^aAverage exchange rate of Philippine pesos (PhP) per U.S. dollar (US\$) was PhP 42.23 in 2012 (BSP, 2015).

Additional financial ratios that were especially developed by Lopez and Marcuello (2006) for cooperatives were also estimated in this study to consider the non-profit maximization nature of cooperatives. Based on capital intensity, the total assets of SIDC and SIFMPC were being used modestly to generate their capital as denoted by their respective ratios of 0.22 and 0.57 (Table 2). In terms of capital and revenue spread or dispersion, a negative effect on economic profitability of a cooperative is expected. The higher the capital concentration within a cooperative, the less profitable it becomes. In 2012, SIFMPC recorded an economic profitability (28%) that is higher than SIDC's (7%) as SIFMPC's capital concentration among members and member's productivity were lower compared to that of SIDC. This happened to be the case despite the higher net surplus and capital productivity of SIDC compared to SIFMPC. These financial indicators point to the importance of maintaining equality and equity in capital sharing among the members of the cooperative in achieving efficiency.

Liquidity and Solvency Ratios

The liquidity position of the cooperatives describes its ability to meet its current obligations and still have remaining funds to finance its current operations. It is measured in terms of current ratio and quick ratio. Ideally, a cooperative with a current ratio of at least 2:1 indicates a good liquidity position, but for relatively new cooperatives, 1:1 ratio is acceptable. In 2012, SIDC had a current ratio of 2.00 and SIFMPC, which has only been operating for three years at that time, had a ratio of 1.05 (Table 3). Using a stricter financial ratio, quick ratio (a measure that excludes inventories in the current assets), SIDC and SIFMPC obtained a ratio of 1.45 and 0.81, respectively; both ratios are close to the ideal ratio of at least 1:1. Based on the liquidity ratios, SIDC and SIFMPC can be considered as financially stable in the short run.

The long-run stability or solvency of the cooperatives can be assessed using the debt ratio. A ratio of less than 1 indicates that the cooperative has more assets than liabilities and can be considered solvent or financially stable in the long run. The debt ratios of 0.75 of SIDC and 0.34 of SIFMPC denote financial stability for the two cooperatives (Table 3).

Table 3. Asset utilization, liquidity and solvency of SIDC and SIFMPC, 2012

Financial Ratio	SIDC	SIFMPC
Asset turnover	0.1266	0.3047
Current ratio	2.0045	1.0476
Quick ratio	1.4465	0.8065
Debt ratio	0.7558	0.3433

Source: Author's own computations

Conclusion

Cooperatives are already known to provide the enabling conditions of democratic governance and social equity for sustainable enterprise development. Their capability to become efficient enterprises was also established in this study using the case of SIDC and SIFMPC. Regardless of the size of operations, cooperatives can perform efficiently provided they adopt market-complementing activities. Three market-complementing activities identified in ILO's sustainable enterprise development framework have been observed in SIDC and SIFMPC. These include vertical integration, quality upgrading and enhanced productivity and low cost of information. In doing such activities, the cooperatives have exhibited efficient performance in the marketing system. In particular, SIDC and SIFMPC have both maintained a good market position and massive participation in the supply chain of hogs and cacao beans, respectively, thereby allowing them to reap more economic gains from their operations.

The efficient performance of the cooperatives is supported by the quantitative assessment of their financial performance. Based on the financial indicators of the cooperatives, SIDC and SIFMPC were found to be generally in a desirable financial position, given their profitability, liquidity and solvency as an enterprise. However, the principle of "limited return on share capital" of the cooperatives has resulted in a less efficient asset utilization or capital productivity. Yet, this should not be seen as a diminution of the efficiency of cooperative performance because the principle implies that cooperative capital is intended to be used as a tool for providing the members with goods and services rather than for investment opportunity to earn more returns for investors.

Another key finding was that a cooperative tends to be less profitable or efficient as its scale of operations becomes wider and its membership base becomes larger. A primary reason for this is the higher probability of imbalance or inequality in the management and distribution of resources and benefits among the members of cooperative as the number of user-members increases. In the analysis, SIFMPC, which is a micro cooperative, was found to have higher economic profitability than SIDC, despite having a smaller net surplus and being less liquid and less solvent.

From the findings of this study, it can be concluded that cooperatives can be considered as a viable model for sustainable enterprises. Besides the theoretical foundation that underlies cooperatives and value-based and principle-driven operations that provide the basic conditions of democratic governance and social equity for sustainable enterprise development, cooperatives could be highly capable of providing enabling conditions for economic efficiency. However, adequate resources and investment capacities to support their market-complementing activities must be ensured in order for the cooperatives to perform productively, competitively and sustainably. The success of the two case cooperatives is not seen in the experiences of many micro and small cooperatives which are often saddled by limited resources and are unable to undertake efficient business operations.

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