

COOPERATIVES AS STRATEGY FOR DEVELOPMENT

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Among the many development strategies being adopted by the Philippine government in its effort towards economic and social development, cooperative strategy is the most appropriate, yet the most difficult, to implement. This was the gist of the opening remarks of Dr. Orlando G. Sacay, one of our main lecturers this evening, when he presented the current cooperatives development program of the Department of Local Government and Community Development (DLGCD) in a seminar at the International Rice Research Institute several months ago. In my paper I would like to discuss with you why cooperatives are appropriate as a development strategy. I would also like to deal with some of the problems of implementation as I see them from my own point of view.

With these objectives, I would like to present my paper in three parts. Part I will be a discussion of what really is a cooperative in order to erase from our minds some of the misconceptions regarding cooperatives and therefore bring us to better understanding of what cooperatives can do for our national development. Part II will involve a short discussion of the factors that contributed to the success of cooperatives both in the Philippines and in other countries. I hope that such a discussion will shed light on some of our difficulties in making cooperatives work effectively. And finally, in Part III, I hope to bring out some of the problems that hinder proper implementation of the current cooperatives development program of DLGCD.¹

What is a Cooperative?

In many textbooks cooperatives take a number of definitions, among which are, according to Goddard (1968):

1. A cooperative is a group of people who

establish an enterprise on a not-for-profit basis to serve themselves.

2. A cooperative enterprise is one which belongs to the people who use its services, the central of which rests equally with all members and the gains of which are distributed to members in proportion to the use made of its services.

3. A cooperative society is a voluntary association of persons brought together on the basis of mutual help and equality to promote their economic interest.

These definitions bring to the fore one of the basic characteristics of cooperatives — that cooperatives are business organizations. As such, cooperatives must recover costs and satisfy the basic economic objectives of business organizations. Cooperatives seek to make profit. However, profit, from the cooperative business way of operation, may be in the following forms: low cost; availability of needed commodities or services; and long term protection or hedge against unscrupulous or unfair business practices.

There are other characteristics of cooperatives which are borne out of the practices employed by successful cooperative enterprises. These characteristics are: a) an association of people on a mutual basis; b) voluntary association; c) equal rights; d) equitable distribution of surplus or savings; e) common interest; d) ownership and control of the enterprise by the members.

With these characteristics, cooperative enterprises or societies adhere in their operation to six basic principles laid down by the Rockdale Pioneers, and consequently modified to suit the needs of modern-day cooperatives. These cooperative principles are:

1. Membership in a cooperative should be

on a voluntary basis and available, without artificial restriction or any social, political or religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities of membership.

2. Cooperative societies are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed upon by the members and accountable to them. Members of primary societies should enjoy equal rights of voting (one member, one vote) and participate in decisions affecting their societies.

3. Share capital should only receive a strictly limited rate of interest, if any.

4. Surplus or savings, if any, arising out of the operations of a society, belong to the members of that society and should be distributed in such a manner that would not allow one member to gain at the expense of others. Members may decide on the manner of distribution as follows: a) to provide for development of the business of the cooperative; b) to provide for common services; or c) to distribute savings among the members in proportion to their transaction with the society.

5. All cooperative societies should make provision for the education of their members, officers, and employees, and of the general public on the principles and techniques of cooperation, both economic and democratic.

6. All cooperative organizations, in order to best serve the interests of their members and their communities, should actively cooperate in every practical way with other cooperatives at local, national and international levels.

If the formation of a cooperative does not take into consideration the purposes and principles underlying its basic characteristics, then it is bound to fail. One should bear in mind that cooperatives are voluntary societies organized to do business for their members, and which operate within the basic principle of democratic representation. Cooperatives should adhere to the principle of maximum participation of the members in the conduct of business activities, such as patronage, business management and membership obligations.

Put in another way, members should patronize their cooperative, they should provide services for its efficient management and they should strictly carry out their obligations to it. It is imperative that members take their obligations towards the coop seriously because members depend solely on it for their needs and livelihood. This principle is in accordance with the original spirit of the cooperatives. *If members do not view their memberships in this manner, the organization is not a cooperative.* I cannot overemphasize the significance of this last statement. The closer a cooperative comes to the original spirit of the cooperative, the better its chance for success.

Why Do Some Cooperatives Succeed?

There are two ways by which we can measure the success of cooperatives. On the macro level, one would expect the success of cooperatives as a national program to be assessed in terms of their contributions towards the attainment of national economic and social development goals. While these goals can be articulated into many forms, they can be classified into three broad categories. The general goals to which a cooperative's success can be measured are:

1. To increase productivity in order to provide more goods and services which can satisfy every growing want of each member of the national community;
2. To be able to distribute the present products of the country's productive endeavor to the members of society; and
3. To provide for the long-term capacity of the national resources in order to produce the goods and services needed by the incoming generations.

The normative intent of these goals should be one that is socially desirable.

On the micro level, success can be measured in terms of the objectives internal to each of the cooperatives concerned. Longevity and viability are the usual measures of success. I presume that from the point of view of a business organization, some indices of success can also be extracted. And generally, as long as

the cooperative has not gone bankrupt, it is successful.

Viewed in terms of the micro measures, we can see there are cooperatives in operation that are successful. The Central Cooperative Exchange (CCE), the Grain Marketing Cooperatives (GRAMACOP), a number of Farmer's Cooperative Marketing Associations (FACOMA), some cooperative stores and credit unions are examples of cooperatives now operating which are successful.²

What are the factors that have made these cooperatives successful? The single factor that contributes to their success is the way they are operated. They are operated as business concerns which are properly managed. Another factor that contributes to their success is also related to the first. They are able to build large capital through contribution of many of their members. Large membership and consistent payment of the financial obligations of the members are factors that make these cooperatives succeed. Since these cooperatives especially agricultural cooperatives like the FACOMAS are very few, their impact on the national level can hardly be felt. In fact, one can conclude that non-agricultural cooperatives (credit unions, cooperative stores) are more successful than agricultural ones. In the dichotomy of urban and rural, the question arises: Are urban-based cooperatives more likely to succeed than the rural-based? Based on our historical experience the answer likely is the affirmative.

Using the macro scale, as a guide, one can conclude that our past cooperative program is a dismal failure. We hear of cooperatives managers and treasurers running away with the funds, members not paying their loan obligations, government personnel in charge of lending operations malversing government funds and many other irregularities. Despite this experience, we still pin our hope on cooperatives as a means of attaining our national development goals. We have built up this optimism because of our faith in our previous speaker, Dr. Sacay, who single-handedly put up what we now know as the cooperatives development program of the government.

Problems of Implementation

A national program like the cooperatives would naturally be beset with problems ranging from administrative to legal and other constraints inherent in any national program of such magnitude. I do not want to dwell on these problems; rather, I would like to limit myself to that problem related to the attainment of the overall economic and social development goals which I presented before, that is, the ultimate contribution of cooperatives to productivity, equity, and future resource mixes and availabilities.

There are three interrelated and interdependent national programs, namely, food production, land reform, and cooperatives. Since we aim to develop an agriculture based on complete ownership of land by the tillers, the eventual farm size would be too small for efficient operation. Many believe that productivity would decrease significantly, and furthermore, that the main source of operating capital, which is the landlord would be cut-off from the farmer. It was envisioned that cooperatives would bring about the required aggregation of farm units and be the vehicle for continuous supply of needed inputs for efficient farm operations. For this reason, it is required that Land Transfer Certificates (LTC) should be distributed to prospective land owners who have already become members of a Samahang Nasyon (SN). Also in the food production programs of the government (Masagana-99, Masaganang Maisan, etc.) SN recipients of LTC's must be given priority in loan accommodation. In addition, fertilizer allocations can be availed of by the different SN's. However, are these conditions and requirements being carried out?

I would like to mention at this point some of my observations about the problems related to the implementation of the above requirements,³ which really put to a test the basic problems of coordination and integration of national programs.

The National Food and Agriculture Council (NFAC), coordinator of the Masagana 99 program, has agreed to incorporate in its guidelines

the requirement that SN members be given priority in the extension of loans under the program. However, one of the requirements of DLGCD is for every SN member borrower to set aside five percent of the loan proceeds as Barrio Saving Fund (BSF) of the Samahang Nayan; in addition to the requirements that a member pay one cavan of palay per hectare per crop season to the Barrio Guarantee Fund of the association. The DLGCD was able to require the cooperating financing institutions, Philippine National Bank (PNB) and rural banks (RB) to deduct the five percent automatically before loan releases are made to the borrowers. The problem, however, is that some banks (both PNB and RB's) were not able to deduct the five percent requirement because of a certain technicality. What is this technicality? Municipal Development Officers (MDO) or Provincial Development Officers (PDO) of DLGCD who are supposed to furnish the banks with names of members of registered SNs in the program areas, have not done so. I wonder if at this time this problem has already been solved.

Another problem relates to the LTC distribution. In its enthusiastic desire to distribute as many LTC's as possible, the Department of Agrarian Reform (DAR) disregarded the requirement for LTC distribution. Only recently did the DAR finally agree to distribute LTC's only to bonafide SN members.

There is also the problem of fertilizer allocation. SN members have complained that while they were taught that their SN would be the channel for government assistance and technical inputs, they are not given priority in the allocation of fertilizer.

These problems are defeating the main purpose of the cooperatives formation, that is, to increase farm productivity. Some financing institutions are even apprehensive of the magnitude of power at the hands of the cooperatives, once they become operative. The plan to buy shares of rural banks and to form rural banks for cooperatives may have been the reason

behind the failure of some rural banks to deduct the five percent BSF of SN borrowers. There is a plan to use this fund from deductions to purchase SN equity to the rural banks' capital.

Finally, there is a heavy dependence of the present cooperatives development program on Dr. Sacay. The success of the program largely depends on how long Dr. Sacay will remain as Undersecretary for Cooperatives. What if he is kicked upward or given another assignment? What happens to the program?

Notes

At the time he read his paper, Ernesto P. Abarientos was associate professor of Agricultural Economics, College of Agriculture, University of the Philippines at Los Baños.

1. The National Electrification Administration is also pursuing a cooperatives program along the field of rural electrification.

2. From the point of view of the Cooperatives Development Program of DLGCD, these cooperatives are not registered cooperatives.

3. After January 31, 1975, LTCs will be distributed only to SN members.

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