

PN-AB-697  
151-14571

AREA MARKETING COOPERATIVES AND THEIR FEDERATION  
IN MINDANAO

GOP/ACDI Philippine Cooperative Marketing Project

Final Report

June 9, 1982 ~ October 8, 1982

Manila, Philippines

Loan No 872-051

Prepared by

John W. Smith

Cooperative Marketing Information Specialist

for

AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL  
1012-14th Street, N. W., Suite 201  
Washington, D. C. 20005



**Agricultural  
Cooperative Development  
International**

December 9, 1982

201 Continental Bldg. • 1012 Fourteenth St., N.W. • Washington, D.C. 20005

Telephone: (202) 638-4661  
Cable: AGCODEV  
Telex: 64253

Donald H. Thomas  
*President*

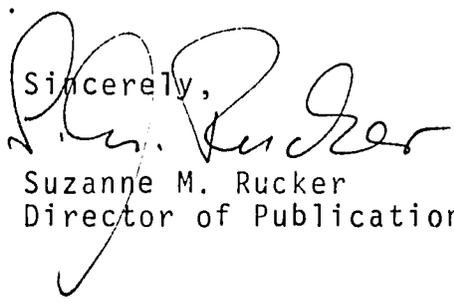
Barlett Harvey  
*Executive Vice President*

DIJ/DI - Acquisition  
Room 209 SA-18  
Agency for International Development  
Washington, D. C. 20523

ATTN.: Helen Davidson

Enclosed are two copies of "Assessment of Cooperative Organizations in the Proposed Northern Zone Development Area of Costa Rica and Strategies for their Incorporation into the Project." The report by David Fledderjohn and Kris Merschrod was completed under our Indefinite Quantity Contract (IQC) No. PDC-0100-I-05-2067-00.

Also enclosed are two copies of a consultant's report "Area Marketing Cooperatives and their Federation in Mindanao" completed under ACDI's Cooperative Marketing project in the Philippines, AID Loan 492-T-051. The report was prepared by John W. Smith, ACDI cooperative marketing information specialist.

Sincerely,  
  
Suzanne M. Rucker  
Director of Publications

SR  
Encl.  
CC: Robert L. Hancock

*Chairman of the Board*  
■ Vern L. Moore  
Land O'Lakes, Inc.

*Vice Chairman*  
■ A.M. Feland, III  
Southern Farmers  
Association

*Secretary*  
■ O. Roy Wiebe  
Western Farmers  
Association

*Treasurer*  
■ Keith K. Kennedy  
Farm Credit Banks  
of St. Louis

TABLE OF CONTENTS

	<u>P a g e</u>
ACKNOWLEDGEMENTS . . . . .	1 - 2
TERMS OF REFERENCE . . . . .	3
INTRODUCTION . . . . .	4
ASSESSMENT OF THE STATUS OF THE FEDERATION . . . . .	5
ASSESSMENT OF THE STATUS OF THE ANCs . . . . .	6
CAUSES OF FAILURE . . . . .	7
GUIDELINES FOR REVIVING THE FEDERATED COOPERATIVES . . . . .	7 - 10
SOME BASIC CONDITIONS NECESSARY FOR IMPLEMENTATION . . . . .	10 - 11
IMPLEMENTATION OF THE GUIDELINES IN SURIGAO DEL SUR . . . . .	12 - 14
CONTINUATION OF THE IMPLEMENTATION . . . . .	14 - 16
EXECUTIVE ORDER 803 . . . . .	16 - 17

## ACKNOWLEDGEMENTS

I would like to acknowledge my gratitude to the many persons with whom I was associated for their spirit of helpfulness and cooperation. As most of my time was spent in Mindanao, I am particularly grateful to those persons in the Ministry of Agriculture Regional Office (XI) who responded so graciously to my needs during my assignment.

This consultancy was the outgrowth of the understanding of Mrs. Melia T. Gonzalez, Assistant Secretary of the Ministry of Agriculture and concurrently, Officer-In-Charge of the Bureau of Cooperatives Development, for the need to develop the Federation of Agricultural Marketing Cooperatives of Mindanao (FAMCO). Mrs. Gonzalez dedicated much time and effort to this Federation and her support has been a major element in the progress of the Federation.

During my stay in Mindanao, Mr. George Voth, AGDI Chief of Party, maintained close contact with the problems and progress of the Federation. He responded promptly with full support to requests for administrative and technical assistance.

Mr. Arturo R. Sarmiento, Regional Director of the Ministry of Agriculture (Region XI) deserves special recognition for the technical support he provided during my stay in Mindanao.

Through his guidance, the Federation was provided a newly remodeled, air-conditioned office. A Ministry secretary and vehicle and driver were put at my disposal for the duration of my consultancy. Discussions that I have had with Director Sarmiento have been useful in providing background and insights into problems faced by the agricultural cooperatives.

## TERMS OF REFERENCE

At the beginning of my consultancy, I was informed by Mr. Voth that the development of the Federation was not moving forward at the pace envisioned by Federation members, nor according to the activities timetable in the development plan for the Federation. My original terms of reference called for assisting the management of the Federation in implementing a Marketing Information Service. However, there was no Federation management to assist, and four of the six member Area Marketing Cooperatives (AMCs) were in eminent danger of collapse. As a result, it was necessary for me to direct my activities toward assisting the AMCs in their most critical areas of need. This necessitated revising the terms of reference to the following:

1. Board of Directors - Education in responsibilities and duties as board members. Setting goals for the cooperative and establishing policy for attaining the goals. Education in leadership.
2. Management - Assistance in financial management. Administrative procedures, marketing and trade targets and leadership activities.
3. Institutions - Establishing functional links between the cooperative and relevant institutions such as the rural banks, the National Food Authority and the Ministry of Agriculture technicians.

## INTRODUCTION

I began my four-month consultancy with the Cooperative Marketing Project (CMP) June 9, 1982. On that date, I flew to Davao City with Mr. Voth to meet the Region XI Ministry of Agriculture personnel and the Chairmen of the Board of Directors of some of the Federation member agricultural cooperatives. After two days of meetings, I returned to Manila for a week where I had discussions with CDP and Bureau of Cooperative Development (BCOD) personnel about my assignment. I began my permanent station assignment in Davao City on June 20. I returned to Manila once a month to participate in the Inter-Agency Coordinating Committee (ICC) meetings.

In Davao City, an office for the Federation was provided by the Ministry of Agriculture Regional Office XI. A secretary was assigned to the office, and a vehicle and driver were made available to me. A single sideband radio was installed in the office to provide communication with the AMCs in North Cotabato, Agusan del Sur, Davao Oriental and the Bureau of Agricultural Economics in Manila.

During my stay in Mindanao, about half of my time was spent in the field visiting samahang nayons (SNs) and AMCs in the provinces where the agricultural cooperatives were to become members of FANCOM. Field trips were made to the provinces of Davao del Norte, Davao Oriental, Surigao del Sur, Agusan del Sur, North Cotabato and Sultan Kudarat.

## ASSESSMENT OF THE STATUS OF THE FEDERATION

The original proposal was that six A'Cs incorporate to form the Federation. They were to subscribe ₱1,600,000 with initial paid-up capital of ₱320,000.00. The paid-up capital was to be raised and the Federation registered as a cooperative by May 15, 1982.

When I arrived in Davao City on June 20, my first major activity was to assess the status of the Federation. Although a board of directors and officers had been elected, there had been no Federation activity. There was no paid-up capital and the Federation had not been registered. Further, of the six A'Cs that were to become members of the Federation, two were closed, two were sustaining heavy monthly losses, and only two were financially viable. The two viable A'Cs continue to have an active interest in the Federation, and indeed, North Cotabato A'AC has extended some of its credit privileges for inputs to Davao Oriental A'AC. The two A'Cs with heavy losses were interested in whatever assistance a Federation could give them, but were in no position to participate in capitalizing the Federation.

I concluded that the development of the Federation was not merely behind schedule, but because of the failure and near failure of four of the six A'Cs, the whole concept of the Mindanao Federation was in jeopardy. It was apparent that if the Federation were to be salvaged, the A'Cs would have to be revived to a point where they could actively participate in the Federation activities.

## ASSESSMENT OF THE STATUS OF THE AMCs

The AMCs in Davao Norte and Sultan Kudarat were no longer functioning. In Davao Norte, the board of directors were holding monthly meetings seeking ways of reviving their organization, but their buying and selling operations had completely ceased. The rice mill was milling a few cavans a day. In Sultan Kudarat, I was told by an employee living near the locked office that everyone was on leave. I was not able to find the manager.

In Apusan del Sur, losses for the first seven months of 1982 averaged about ₱15,500 per month. The AMC is selling only a small amount of inputs and was not operating its mill. In Surigao del Sur, much the same situation existed, except monthly losses were not as great. Davao Oriental AMC appears to be on the road to financial viability but it is too early to judge the permanence of its success. This is only the second year that it has had net profits and it is embarking on a major financial undertaking with the proposed purchase of a rice mill. North Cotabato AMC is the model of sustained success. It has been operating at a profit for about 8 years. Input sales to members were about 7 million pesos a year. Strong linkages have been developed between the SNs, the Cooperative Rural Bank (CRB) and the AMC.

## CAUSES OF FAILURE

From my visits to the two successful AMCs and those that had failed or were failing, I was able to identify some of the striking differences in the board of directors, management and support from institutions. The unsuccessful cooperatives have failed for a variety of reasons, but within the rubric of failure, there is ineffective management, lack of leadership within the board of directors and minimal support from institutions. In discussions with cooperative managers, board members and institutional officials, there are conflicting claims about the causes of these problems. The managers claim that they are ineffective because of lack of direction from the board of directors and no support from institutions such as the MA and the SNs. The boards of directors blame ineffectiveness on the manager for not carrying out policies, and the institutions for lack of support. The institutions claim there is nothing viable in the cooperative for them to support. There is a general feeling of frustration and impotence by all involved which has finally given way to apathy.

## GUIDELINES FOR REVIVING THE FEDERATED COOPERATIVES

The precarious situation of the Federation AMCs required that guidelines to revive them be developed and immediately implemented. The general objective was to provide technical assistance to the financially distressed cooperatives so that they would become financially viable, provide services to the

membership and would be considered "permanent" by the members in terms of their willingness to capitalize the cooperative. This objective was composed of three separate, but inter-related parts.

1. Strengthen the SNs
2. Revive the A/Cs
3. Develop the Federation

A first step was to examine the problems of the SNs. A major problem faced by many SNs is that they do not provide a service that the members value. They need a service that will provide immediate and personal benefit. According to SN leaders, membership is dwindling because the cooperative cannot offer any service to the members. Through discussions with SN presidents, it was agreed that an input program would be an excellent way to help stem the deterioration of the SNs. It is a critical service based on the felt needs of the SN members. Properly administered, it will strengthen the cohesiveness of the SNs, provide income to the A/C and may become a basic business for the Federation.

The logical conduit for an SN input program is the A/C. However, the A/C must have the organizational and technical capability to carry out the program. I identified three problem areas in the failing A/Cs which needed attention.

## 1. Board of Directors

### a. Responsibilities and duties as board members.

Board members must be made aware of their general responsibilities and specific duties.

### b. Setting goals for the cooperative and establishing policy.

Board members must be guided in setting the goals that will lead to a viable cooperative and developing policies that will lead the cooperative to the goals.

### c. Leadership.

Board members must be educated in the philosophy and principles of cooperatives so they can provide the leadership for the general members.

## 2. Management

### a. Assistance in financial management.

Managers must institute an accounting system which will provide accurate, complete and up-to-date financial information. There must be the service of a component accountant available to the AMC.

### b. Administrative procedures.

Managers must know the policies of the board of directors and be willing and able to adhere to them.

### c. Marketing and trade targets.

It is the responsibility of the manager to develop income generating activities, set targets and establish strategies for achieving the targets.

d. Leadership activities.

The manager must act as an advisor to the board of directors. It is his responsibility to develop the confidence of the board members. He also has the responsibility for developing the loyalty and commitment of the SNs.

3. Institutions.

Linkages must be established between the AMC and the relevant institutions. These institutions include the SNs, rural banks, NFA, KKK and the MA.

My activities as CIP consultant were structured around these guidelines which were designed to help achieve the general objective. The guideline activities are also compatible with the "Basic Functions of the Federation" as outlined by Mark Van Steenwyk in his April 1982 report Some Development Considerations for the Federation of Agricultural Marketing Cooperatives of Mindanao (FAMCOM), INC.

SOME BASIC CONDITIONS NECESSARY FOR IMPLEMENTATION

The successful implementation of these guidelines requires some basic assumptions about the SNs, conditions within the AMC, and the quality of the external leadership of the consultant or government technicians.

As the basic building block for the cooperative system, there must be at least a few SNs that have an active and committed membership and the SN chairman must be able to command the loyalty of his members. The SN must have the financial capability to participate in the capitalization of the AMC. Finally, participation in an input program requires that some individual members are eligible for institutional financing or able to self finance their purchases of inputs.

To become financially viable, the AMC must have at least one "strongman". This is a person who is a capable businessman (one with business experience) and who can influence the board members and manager to see that the cooperative is operated on a business basis. This is a necessary, but not sufficient condition. There are many other elements which are needed, but this is the key stone to successful rehabilitation.

There must be strong external leadership. This may be either a consultant or a person from the Ministry of Agriculture. The leader must be willing to personally spend a great deal of time on-site visiting the SNs, AMC and the supporting organizations. The leader must have psychological accessibility to all level of persons from the Governor of the province to the general membership of the SN. He must establish personal credibility and understand the use of influence. Most importantly, the leader must have a "can-do" attitude toward the program. This entails motivation, initiative and decision making capability.

## IMPLEMENTATION OF THE GUIDELINES IN SURIGAO DEL SUR

The basic conditions for successful implementation existed in Surigao del Sur and because of the time limitations of the contract, I concentrated my efforts on strengthening the SNs and rehabilitating the AYC in that province. The rationale for focusing on one cooperative was to test the practical application of the guidelines by following through as far as possible before the end of the contract.

The implementation began July 24 when I attended a board of directors meeting in Tandag, Surigao del Sur and presented the guidelines. A resolution was adopted by the board of directors to accept the guidelines and to actively participate in restructuring the cooperative. August 5, the board of directors called a special meeting and requested the resignation of the manager. That marked the beginning of intensive activity to gain the interest of the SN leaders and members in purchasing inputs through the AYC, and in reorganizing the AYC so it could act as a conduit for the inputs.

The principle persons involved included Mr. Wilfredo Patrimonio, accountant from North Cotabato AYC; Atty. Romeo Serquiña, General Manager of North Cotabato AYC; Mr. George Voth, Consultant Chief of Party ACPI; Tom Moller, Peace Corps Volunteer; Juan Y. Solomon, Assistant Regional Director of MA Region XI; Provincial MA technicians, the AYC board of directors, SN presidents and

myself. On the periphery were the local managers of the NFA, KKK, FSDC and the PNB. These persons have all played a role in the implementation of the guidelines.

During the implementation period of two months, there have been significant accomplishments. Mr. Patrimonio spent nearly two weeks bringing the accounts up to date. The AMC board has now hired an experienced accountant to maintain up-to-date and accurate financial records. A management committee was appointed and the Peace Corps Volunteer was appointed as temporary administrator to carry out the directives of the management committee until a permanent manager can be recruited. Atty. Serquiña is prepared to supply inputs to the cooperative through the North Cotabato credit line if strict requirements on payments are met. Atty. Serquiña and Mr. Voth have attended meetings with board members, MA technicians and SN leaders to discuss the input program. Local input prices, Cebu-Surigao del Sur shipping costs and local truck hauling costs have been collected and analyzed to determine the feasibility of the cooperative selling inputs at prices competitive with local dealers.

Overall, the response by everyone involved has been gratifying. NFA, KKK, FSDC and the provincial MA personnel have responded favorably to discussion about ways in which they can support the cooperative. SN leaders are enthusiastic about the prospect of revitalizing their SNs.

The presidents of participating SNs are listing the names of members whom they consider to be committed and loyal to the SN and are "good credit risks" for the input program. The reliability of these persons will be cross-checked with MA technicians, lending institutions, and the KKK which had administered an input program to the soybean growers. After the reliability and commitment of those persons listed is confirmed, their orders for type and quantity of inputs will be taken. This is expected to be completed in mid-October. The inputs will be scheduled to arrive for the November and December planting periods.

#### CONTINUATION OF THE IMPLEMENTATION

I believe that in Surigao del Sur, enough background work has been done with the SNs, the institutions and the AMC so that there is a good chance to successfully implement the input program if a qualified external leader can be found to continue the work. The leader's role will be to coordinate the activities of the board of directors, the manager, and the relevant institutions such as the NFA, KKK and the rural banks.

This is a crucial time for the Surigao del Sur cooperative. Planting season begins in November and inputs must be on hand for distribution. There is much work still to be done with the AMC before the end of the planting season. The success of this input program will require a continued focus of effort until

the end of the planting season. However, to be truly successful, this effort must be directed not only to administering the input program, but also to tying it in with educating the SM members in the philosophy of cooperatives.

If this input program is successful in Surigao del Sur, it may be an acceptable model to apply to the other failing cooperatives in the Federation. Certainly, successful administration of this input program and the revival of Surigao del Sur AMC will be incentive for future activity by the Ministry of Agriculture and for other cooperatives to participate in the program. This will strengthen the individual cooperatives and provide a strong impetus to the development of the Federation.

Based on the early response of the SMs and the AMC to implementation of the guidelines, I believe that this approach is worthy of continuation. The essence of this approach has been for the consultant to coordinate a concentration of human and institutional resources. A leadership role has been developed which includes motivating and guiding the board of directors, manager, the SN leaders and the institutions. This has required establishing personal rapport with the individuals involved. Technical assistance, in this critical situation, can be effective only when it is personally supervised and is integrated into the whole of the organization by the coordinator. Leadership, which is an important element in the rehabilitation of cooperatives, cannot be provided by a task force. It requires individual commitment

and the ability to gain the confidence of the cooperative members through personal contact. Eventually, individualized assistance may be phased out and institutionalized assistance substituted. However, there is the immediate problem of maintaining the momentum and progress which has been made in Surigao del Sur and which is so vital to the formation of the Federation.

EXECUTIVE ORDER 803

I believe the newly issued Executive Order 803 provides an opportunity for agricultural cooperatives to expand their role in operationalizing agricultural policy and in increasing their effectiveness in meeting farmers' production and marketing needs. The agricultural cooperative, which incorporates the SN, AMC and CRB, may be the most effective means for the Integrated Management System to implement the delivery of agricultural services and inputs.

The effectiveness of the provincial agricultural council in meeting national agricultural policy objectives will depend very much on the responsiveness and support of the farmers. Strong, well organized cooperatives provide the best conduit for dialogue and understanding of objectives between the local government and farmers. The agricultural cooperative provides a ready made production, marketing and credit system through which the provincial agricultural council can carry out policy. Indeed, the cooperative is an organization integrating the essential activities of the farmers.

The agricultural cooperatives can play a significant role under Executive Order 803 if the potentials are pursued with vigor. In my experience in Mindanao, the agricultural cooperatives do not have the internal leadership initiative to take the first steps to develop the rapport and coordination with the provincial agricultural council. This must come from external leadership. Through the Ministry of Agriculture, I am confident that if the ministry provides leadership, the various agencies involved in the implementation of Executive Order 803 will respond positively to the cooperatives. If the Ministry of Agriculture through BCOD can mount a major campaign to get the cooperatives moving and coordinate with the provincial agricultural council, there is every reason to be optimistic about the cooperatives helping to achieve provincial and national agricultural objectives.