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SOME DEVELOPMENT CONSIDERATIONS  
FOR  
THE FEDERATION OF AGRICULTURAL MARKETING  
COOPERATIVES OF MINDANAO (FANCOM), INC.

Prepared By

MARK A. VAN STEENWYK  
COOPERATIVE DEVELOPMENT SPECIALIST  
ACDI/CMP

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PHILIPPINES

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## I. INTRODUCTION

The Federation of Agricultural Marketing Cooperatives of Mindanao (FAMCOM), Inc. was organized on March 10, 1982 as the First Regional Federation of AMC's within the country. As such, FAMCOM is in a unique position to offer its initial six members benefits and services heretofore unavailable to Philippine Agricultural Cooperatives. However, much remains to be done in order to transform this new cooperative apex structure into the viable service organization which its incorporators have envisioned. It is the expressed purpose of this paper to give some direction and guidance to this process.

## II. BASIC FUNCTIONS OF THE FEDERATION

Attachment 1 presents a proposed organizational structure for FAMCOM which separates the functions of the Cooperative Federation into two basic categories, operations and services. For the sake of discussion, we will examine in this section a number of possible roles for the federation to play with respect to each of these areas.

A. BUSINESS OPERATIONS

One of the more important functions of the federation will be to represent its members in terms of business activity. An obvious benefit herein presents itself for the federation to capture certain economic rewards derived from volume procurement and marketing services performed on behalf of cooperative members. But in addition to this economy of scale, the federation may well be in a position to perform other equally important business services for its membership. The cooperative may for example utilize its own funds together with borrowed capital to finance certain marketing and supply operations thereby reducing or in some cases eliminating the need for member cooperatives to seek external financing. Additionally, the federation will be in a position to coordinate the efficient utilization of resources of its members (such as transport, storage, milling, processing, manpower, capital, etc.) in such a way as to maximize economic return. The scale of representation provided by the federation will also provide the cooperative structure important leverage in dealing with competition and will insure a political voice for the cooperatives which may well influence economic policy in the future.

Although the federation will perform important business functions on behalf of its members, it will most probably not be advisable for the federation to actually engage in milling, processing, manufacturing, storage or transport functions (although a time may come when the economy of scale dictates involvement in the latter two areas). These functions for the present are best left to the members and in this manner the federation will be sure to avoid duplication of function, or worse, direct competition with its members.

As a means of promoting sound business development, the federation is encouraged to provide a system for management incentives for its staff and the staff of its member cooperatives. Such incentives should be tied to performance and should therefore induce managers to continually improve the efficiency of their respective operations.

The business operations of the federation are discussed in greater detail in the following sections.

1. Procurement

The procurement and supply of basic agricultural inputs to members should be the initial focus of the federation's business program. As fertilizer is a commodity required

by most if not all of the member AICs, the federation might begin here. It goes almost without saying that no matter which commodity the federation begins with in its procurement and supply program, all business decisions must be based upon sound business planning and feasibility. It is therefore essential for the federation to know the business of its members inside and out. Initial volume estimates for new commodities should be based upon conservative assumptions based upon actual past performance records of members. Written supply contracts between the federation and its membership should govern all business activity. And, the federation should see to it that an effective management information system is established to monitor the procurement and supply of all commodities handled by the federation.

Once the federation has demonstrated its ability to handle (and monitor) one or two products efficiently, it may then wish to cautiously expand its product line to members. Fertilizers, sprays, chemicals, seeds, animal feeds, farm implements and hand tools, farm machinery, parts, livestock supplies, building materials and other farm inputs and/or consumer products may eventually be procured by the federation on behalf of its members. Over time AICs may be able to establish mini-farm supply stores within their jurisdiction.

Perhaps other agricultural and non-agricultural cooperatives can actually begin to produce some of the goods sold through these stores and "market" such goods through the federation.

Centralized procurement of farm supplies will reduce both the costs and the work load of member cooperatives and will allow them to offer a greater diversity of products to their members thereby improving services and patronage both at the same time.

## 2. Marketing

By its second year of operation the federation may wish to begin a marketing program on behalf of its members. The cooperative should limit itself to one or two commodities for at least two-three years in order to gain experience and institutional maturity. The AICs may well find in the federation the economy of scale necessary to insure profitability in rice trading, a long held dream which up until now has alluded them as well as their predecessors, the FaCoMas. This author would not, however, encourage the federation to engage in rice marketing in the foreseeable future. More stable commodities such as soybeans, corn, rubber, coffee, sugar and processed fish and animal products can and are being produced by AICs and offer more opportunity and lower

risk to the federation in terms of a substantive marketing program.

Where possible the federation should facilitate inter-cooperative marketing and trade. In some cases, the federation may actually handle the commodities where in other cases it may just identify markets on behalf of its membership. At any rate, inter-cooperative trade should be highly encouraged. The federation should also strive to identify an abundant supply of regular and alternative private sector markets for each commodity handled both locally and offshore in order to allow for maximum negotiation, maneuverability and security in marketing activities. The federation cannot afford to take the risk of limiting itself to one or two "sure" markets. Too many businesses and cooperatives have failed badly because of just such naivety. And while we're on the subject, NFA in every case should be treated as a market of last resort. It isn't the role of government (or at least it shouldn't be) to compete with the private sector in agricultural marketing activities. NFA's function is to serve as a food buffer and price stabilizing force within the agricultural economy. While it undoubtedly may at times prove to be an ally and a ready market for cooperatively produced agricultural products, rarely will it be in a position to compete with private sector markets.

As in the case of procurement and supply functions, the Federation's marketing transactions should wherever possible be handled through written marketing agreements or contracts with its outlets. Verbal business agreements should have no place in wisely managed cooperative enterprise.

Prior to actually engaging in marketing services to members, the federation should begin building a reliable marketing information system which is capable of identifying markets, monitoring prices and storing pertinent market information which will assist members in marketing their produce. The Cooperative Marketing Project (CMP) has helped to develop such an information system for CMSP. This system should now be transferred from CMSP to the Federation, and with slight modification in adaptability to the local environment, it should serve as a foundation for the gradual evolution of a strong cooperative marketing information system within Mindanao. In preparing for such a system, plans should be made to accelerate the distribution of single-side band radios to the federation and its membership thereby completing a cooperative radio communication network.

B. COOPERATIVE SERVICES

In addition to the business functions, the federation will need to provide, or cause to be provided, a number of vital services

to its membership. Overtime membership may assume some or all of the responsibility for certain services. Other services which are time specific and related to current development constraints may, in time, no longer be required as member cooperatives mature and gain strength institutionally.

During the initial years of its development, the federation will be required to "contract out" many of the support services described in this section. Once a cadre of cooperative talent has been recruited and trained the cooperative can begin to assume some of these responsibilities directly. However, it should be pointed out that certain services should probably best be left to the private sector where cooperative talent or expertise is particularly weak, or where such services are clearly not in the long-term best interests of the federation to provide.

Government will be required to subsidize the cost of these services during the initial years until such time as the business operations of the federation and its membership have reached a level of sustained viability and thereby are able to pay for such services. Such government assistance must be adequate, well-defined and timely in order to be useful. Similarly, an agreed upon timetable for gradual government withdrawal must be established and strictly enforced.

Services which the federation may provide, or cause to be provided, include:

1. Business Development Planning

One of the initial responsibilities of the federation will be to define its own business and institutional environment, and once defined, develop, implement and support a program for accelerated economic growth of itself and its membership. This is not to say that the federation will act independently on its own in this process, but rather it will coordinate this development thrust and will work closely with its membership providing necessary direction, and, where needed, filling technical gaps. In so doing, the federation as the apex of the cooperative structure will take the lead in the cooperative development process. Once viable economic development strategies have been established, the federation, as the apex cooperative organization, will be in a position to define the timing, application and magnitude of internal and external managerial, technical and financial resources required to implement those strategies at each level within the cooperative structure (SN/AMC/Federation). This will make possible, for the first time within the agricultural cooperative context, vertical and horizontal program development which is both coordinated in process and complementary in function.

2. Personnel Development

There is a continuing need for management training and personnel development throughout the cooperative structure. Up until now the responsibility for this function has rested with several different organizations; ACCI, EDF, CNSI, PRRM, BCOD, and CFPI to name a few in recent history. Unfortunately, none of these organizations have been able to support a sustained manpower training and development program for the cooperative movement. The Mindanao Federation will be the first agricultural cooperative organization to be in a position to provide such services to its membership. The development of a sound economic foundation for the Mindanao Cooperatives will be largely dependent upon whether or not such training and development functions can be institutionalized and can systematically address leadership and staff development needs at all levels throughout the system.

3. Management and Technical Consulting Services

Realizing that there is likely to be a significant weakness on the part of member cooperatives to provide the degree of management and technical expertise required to safeguard the network of economic development activities to be undertaken within the cooperative structure's business environment during

the first few years, it is advisable that the federation supplement these needs on a case-to-case basis either by utilizing its own core staff or by providing for such services through contract arrangements with local private sector groups or individuals. In either case, such services where possible should be tied closely to a skill training and transfer program so that the cooperative availing of such services develops its own technical and management capacity over time.

4. Research and Development

As part of an on-going program to upgrade the quality of service to its membership, the federation should establish a unit to conduct research and development functions. In addition to trimming costs and improving business efficiencies, an R & D unit will be in a position to conduct market and business feasibility studies, identify new products and services of membership, test alternative marketing and supply strategies and evaluate present operations. Such a service will over time prove invaluable to new and old members alike and will more than pay for itself by keeping the business affairs of the federation sound, up to date and competitive with private industry.

5. Computer and Other Services

In time and in the interests of systematizing operations within the cooperative environment, the federation may wish to offer other services to its membership. Such services may include centralized accounting, auditing, inventory control, cash flow management, market forecasting and payroll functions. Eventually, some of these functions may be computerized as the business volume and activity of the federation and its membership continues to grow. Manual applications of these services should be designed in such a manner as to lend themselves to automated conversion when at such future point in time computerization is deemed appropriate.

III. DEVELOPMENT PLANNING

A. CURRENT STATUS

As of this writing, the Federation of Agricultural Marketing Cooperatives of Mindanao, FAMCOM, is in the process of cooperative registration with the Bureau of Cooperatives Development. Articles of Incorporation and By-Laws for the federation (Attachments 2 and 3) have been prepared and address among other subjects: purposes and powers of the cooperative; membership; capital structure; directors and officers (and their qualifications

and duties): and manner of voting. Initially, six cooperatives have joined the federation and a seventh, a livestock cooperative, is expected to join in the near future. Active membership currently represents three of the four regions within Mindanao with one of the members coming from Region X, three from Region XI, and two from Region XII. The Federation has decided to establish its principal office in Davao City. No location has yet been selected, but it is suggested that as a support to the program, the government, through the Ministry of Agriculture in Region XI, allow the federation at no cost to utilize for the time being the building previously occupied by the Region XI Bureau of Animal Industry.

B. STAFFING AND FINANCIAL REQUIREMENTS

1. Staffing Requirements

Initially, the federation will not require a large staff. Marketing services will not be required initially as the federation will focus its business operations on inputs procurement. Also many of the initial services which the federation will perform, such as business development planning, personnel development and management and technical consulting, can be partially contracted to local private sector talent which to some degree has already been identified. Never-

theless, it will be important for the federation to begin building a cadre of cooperative talent which will insure the future sustained growth of the organization's function and program.

## 2. Financial Requirements

The proposed initial paid-up capitalization of ₱320,000 should insure a financially viable base strong enough to support external borrowing (CFG) to finance initial procurement operations for present membership. It is strongly encouraged that Cooperative Rural Banks be allowed to invest in the federation through AMCs as a means of further bolstering capitalization. An additional ₱200,000 could easily be raised in this manner. Another source for raising additional capital is BSF and BGF savings which could and should be mobilized for this purpose.

While the business operations of the federation must pay their own way, many of the supporting services as previously mentioned, at least during the first five to ten years, will require subsidy. Many of these supporting service will be essential to the goal of accelerating the cooperative development program in Mindanao. And it is therefore strongly recommended that the government provide the necessary direct

subsidy to meet this need. A ten-year Five (5) Million Peso Trust Fund should be established on behalf of the federation wherein the interest generated from the Trust, not the principal, would be used of these services. At the end of the trust term, the principal amount would be returned to government and the federation and its members would from that time forward absorb the cost of such services and would pay for them out of business profits. As a funding source for this trust fund, three options are herein suggested: a) CDLF (on a non-interest bearing basis); b) the source fund used to create CFPI; or c) a direct allocation of undisbursed CIP source funds coming from USAID (the CIP provided in its design for the use of approximately ₱5 Million in support of Central Cooperative marketing and supply operations).

C. DEVELOPMENT ACTIVITIES AND TIMETABLE

The purpose of this section is to present a rough guide as to the sequencing of future activities necessary prior to fully operationalizing FANCOI.

<u>Activity</u>	<u>By (Date)</u>
1. FANCOM organized	3-10-82
2. FANCOM First General Assembly held	3-27-82
3. FANCOM Articles of Incorporation ratified	3-27-82
4. FANCOM By-Laws ratified	4-05-82
5. General Manager and Permanent Officers appointed	5-15-82
6. Cooperative registration completed	5-15-82
7. Initial paid-up capital raised	5-15-82
8. FANCOM Office established	6-01-82
9. \$5 Million Trust Fund established	6-15-82
10. Initial staff hired	7-01-82
11. Initial technical consulting services contracted	7-15-82
12. FANCOM 5-Year Development Plan completed	8-15-82
13. Pilot SN identification and baseline information gathered	8-15-82
14. Business development Planning Yr I commences	8-15-82
15. Business development Planning Yr I ends	10-01-82
16. Technical, Managerial and Financial Requirements Yr I defined and programmed	10-15-82
17. CTF and SNSP support for Yr I activities in place	on-going
18. FANCOM fully operational, Yr I activities	10-15-82

A PROPOSED ORGANIZATIONAL STRUCTURE  
 For The  
 FEDERATION OF AGRICULTURAL MARKETING COOPERATIVES OF MINDANAO (FAMCOM), INC.

