

Agribusiness Management in Asian Co-operatives

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Agribusiness

ASIA is an agrarian based economy and it has made great strides in agriculture in terms of production, productivity and area under many crops. More than sixty-five percent of Asia's population comprises rural households and depend in one way or another on agriculture for their livelihood. Agro-industry and rural industry are still untapped areas in the context of the enormous potential they hold for transforming the rural economy. Poultry, fishery, animal husbandry, crop production, handicrafts and a host of post-harvest occupations offer a plethora of agribusiness opportunities.

Traditionally, Asian farmers have been practicing subsistence agriculture and as a result the farming has become unremunerative. The business approach in agriculture is lacking. Moreover, globalisation and removal of restriction on imports have increased the competition in agriculture. It is now high time to make agriculture remunerative and globally competitive. Agri-business/Agri-preneur approach can improve the competitive strengths of Asian agriculture. Agribusiness sector has the potential to transform Asia into a leading agri-economy of the world.

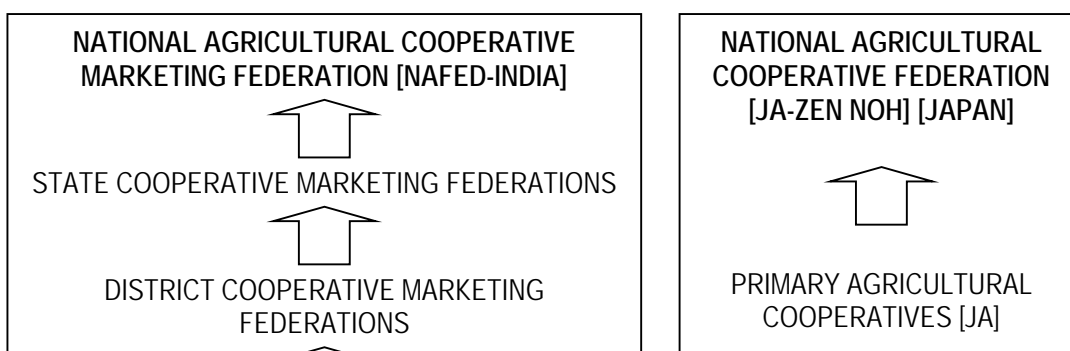
Agribusiness is a generic term that refers to the various businesses involved in food production, including farming, seed supply, agrichemicals, farm machinery, wholesale, distribution, processing, marketing, and retail sales. The agribusiness sector consists of organisations which: Supply raw materials to agriculture; Supply capital goods to agriculture; Procure agriculture produce for selling; Procure agricultural produce for processing; Provide services to agriculture.

For a number of years, one of the strategies for tackling the problems of the agricultural sector in general, and of micro- and small enterprises in particular, has been to organize producers. Now, more than ever, organizing producers is considered to be one of the most promising solutions in the current global context, where competitiveness is a natural requirement. Co-operatives being people's movement can bring people together particularly in rural areas and in agriculture sector.

Barring a few exceptions small and medium agricultural and agro-industrial producers in Asia have a very poor organizational level, as they are organizations whose original reason for joining forces was to resolve common problems. As a result, their management development is very rudimentary, and they have few mutual production and business interests to promote cohesion between them.

Agricultural Co-operatives Business Structures in Asia

Examples of typical organisational structures of agricultural co-operatives in two of the Asian countries are given below:



While in some countries the organisational structure is two-tier, some countries adopt a three or even four tier organisational structure. Some argue that fewer tiers help in taking quick business decisions. The main objective of the apex organisation is to provide support to their constituents in marketing of their produce, processing it, as well as to provide inputs.

Co-operatives as Business Enterprises

Co-operatives comprise a number of people who come together to satisfy mutual socio-economic interests by carrying out a business activity. This might include: agricultural or agro-industrial production co-operatives, trade co-operatives, housing co-operatives or savings and loan co-operatives.

According to the International Co-operative Alliance [ICA], the world association of Co-operative Movement, a co-operative institution is defined in its Statement of Co-operative Identity as: "A co-operative 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."

In co-operatives there are two main types of benefits for members – monetary benefits and services. Monetary benefits are limited and are calculated not on the basis of the capital invested but on the volume of transactions and on the use of each member's services. Services can include credit, sale of inputs and other products at low prices, housing or health programmes, and so on. Sometimes, at the end of the financial year, if the co-operative earns more than is required for distribution to members, the surpluses are earmarked for education programmes, reserves or benevolent funds.

Despite the many different activities carried out under the legal form of co-operatives, all co-operatives share certain values and principles: open and voluntary membership; financial participation by the members; democratic control; autonomy and independence; education, training and information; co-operation among co-operatives and concern for the community.

From out of world's total co-operative population of 800 million in the fold of International Co-operative Alliance [ICA] 65% is from Asia-Pacific Region. Major Co-operative Movements in the Region are India [24%], China [22%], Japan 7.5%] and Indonesia [4.6%] from the global co-operative population point of view. Out of all primary co-operatives of all types within the membership of the ICA, there were 37.2% of agricultural co-operatives in the Region.

Co-operative institutions contribute substantially to the common good in market economies, principally by improving the efficiency and quality of the economy, but also by assuring democratization and environmental rationality. They constitute a model for a people-centred and sustainable form of societal organisation, based on equity, justice and subsidiarity. It has also been recognised that agricultural production has increased through innovations in farmers' organisation and institutions rather than relying on administrative measures.

Major Concerns of Agricultural Co-operatives

The major concerns for an agricultural co-operative cover two aspects i.e., economic activities and managerial efficiency. The management of the functions of the society vests in the management bodies and officers at different levels of the organisational structures. These include, among others, the following: the General Body of members which includes

the annual members' meeting and other general meetings; the managing committee or the board of directors; specialised committees; the Chairman and the vice chairman, the general manager and other business managers. While the general meeting frames the general policies, the managing committee implements them through the general manager and other employees of the co-operatives and being answerable to the general meeting.

Forms of Co-operative enterprises

Types of agricultural co-operatives in the Asian region can be classified as follows:

Service Co-operatives	Co-	Producers Co-operatives	Processing Co-operatives
Credit		Fruits & Vegetable Growers	Dairy
Input Suppliers		Milk	Food
Marketing		Egg	Fruits
Custom Hire		Cotton	Honey
Extension		Bee-keeping	Cattle-feed/Poultry-feed
Warehousing		Plantation	Oil/Ginning/Flour mills
Transport		Farmers	Sugar

Besides the above, single-purpose co-operatives, there are multi-purpose co-operatives carrying two or more purposes or functions. In countries like Japan and Republic of Korea, agricultural co-operatives operating at the local level perform multipurpose functions including social services to members.

Characteristics of a Co-operative

Some of the characteristics of a co-operative enterprise are:

- Democratically-controlled and managed;
- Member-owned;
- Members join together to use the co-operative's goods, services and facilities;
- Members can increase their power by pooling their resources together;
- Members buy, sell, market their products as individuals or as a group;
- Share profit within the group.

Co-operative Benefits

Some of the benefits of a co-operative enterprise are:

- to help develop community-based private enterprises, help build open markets and bring all kinds of people into the mainstream economy;
- to promote grassroots democracy and strengthen human dignity through self-help, community activities;
- effective and proven development tools in alleviating poverty and achieving social goals;
- to enable people to achieve lasting economic independence and economic prosperity;

- to provide jobs, income, basic education and democratic experience;
- to present in nearly all cultures either as formal businesses or informal associations;
- Co-operatives come in all sizes including some of the largest businesses in their country's economy.

Weaknesses in Agricultural Co-operatives

There are certain weaknesses in agribusiness co-operatives, which determined that producer organizations' poor business management is rooted in their inadequate organizational structure and cohesion, stemming from a lack of leadership, rivalry among organizations, producers' lack of awareness, low educational levels and resistance to change.

In an integrated agricultural co-operative, member-farmers' income is expected to increase by: Production enhancement activities [better seeds, chemicals, practices]; cost saving activities [bundle volume purchase of inputs etc.], loss prevention activities [better packaging, storage, transport and marketing], and Value-adding conversion into other products through industrial interventions, and gains due to various welfare activities.

Despite the problems involved in organizing producers, it is common for government-run agricultural and agro-industrial development programmes to promote the creation of agribusinesses that have little chance of becoming self-sustaining, primarily to facilitate implementation of governments' own programme, though the co-operatives may not have adequate business management capabilities. In many instances, agricultural producers become entrepreneurs suddenly without having been suitably trained to carry out this new role. As a result, they have to resort to hiring external personnel, which is not always the best solution besides being expensive for the organisation.

In addition to production and financing problems, further structural deficiencies have been identified that impede the organization and development of rural agribusinesses and prevent them from taking full advantage of globalization. They include: small markets, poor technological development, a poorly trained workforce and constraints on breaking into the export market.

Some of the strategies put forward by government and co-operative institutions for improving business management in rural agribusinesses include: specialized training and continuing professional development, long-term financing programmes and the development of production and marketing support services.

Advantages & Challenges of Producer Co-operatives

It is observed that producer co-operatives present a series of advantages and challenges for producers who decide to join them. These advantages and challenges are summarized below:

Advantages

- Increased capacity and bargaining power;
- Access to new markets and marketing channels;
- Access to credit and support programmes;
- Access to better technical and market information;

- More opportunities for exchanging experiences;
- Greater access to training programmes.

Challenges

- To achieving clear and efficient internal organization;
- To building trust in the managers' decisions;
- To getting members to pledge to deliver products;
- To Abide by previously agreed volumes, conditions and deadlines;
- To running businesses properly and efficiently;
- To designing/implementing efficient & transparent administration mechanisms;
- To setting up proper communication and participation mechanisms;
- To complying with the legislation in force.

What Determines the Impact of Co-operatives?

Some of the studies carried out in various countries indicate that similar types of co-operatives within the same country are known to have varying degree of impact. There are two types of factors - internal and external - which go to determine the impact. These are:

Internal factors

- Lack of involvement of members in decision-making;
- Use of co-operatives for purposes determined not by members but by others;
- Lack of structural support from the above;
- Lack of managerial skills;
- Corrupt management/misappropriation of funds;
- Breakdown in democratic controls;
- Taking over of the co-operative by a narrow interest group;
- Failure to become self-reliant;
- Extensive dependence on an outside agency;
- Domination by big and the rich;
- Loss of goodwill and credibility among members;
- Inept handling of members by co-operative staff;
- Smaller size, limited range of services and non-viable operations;
- Lack of access to credit/capital;
- Difficulties in retaining skilled staff;
- Defective design of the co-operative system itself;
- Unhelpful macro-environment.

External Factors

- Economic inequalities and skewed pattern of land ownership;
- Rapid population growth;
- Illiteracy;
- Absence of infrastructure;
- Market fluctuations affecting prices of crops/produce;
- Political instability;
- Lack of consistent government policies.

Factors to Enhance Impact

Internal Factors

- Viable and integrated co-operative;
- Strong vertical structural support;

- Trained professional and motivated staff;
- Enlightened dedicated and selfless leadership;
- Well-honed means to encourage members' involvement and participation;
- Comprehensive programmes for members' education and information;
- Value-added activities through the use of advance technologies;
- Provision for reasonable coverage of risk for loss of crops and deposits.

External Factors

- Positive support and helpful role of the government;
- Market reforms;
- Reasonable rate of growth in agriculture/economy;
- Availability of basic infrastructure;
- Healthy linkages with regulatory and development agencies and institutions.

Agro-Processing Co-operatives

- The Advantages of 'Value-Addition'

Agro-Processing means processing activities to handle the local produce of the member-farmers with a view to generate additional or higher economic returns to them. It means to reduce post-harvest losses, check outflow of rural population to urban centres, offer remunerative prices to basic producers, help transfer improved/advanced technology to rural areas, industrialise the rural areas, generate employment opportunities, help improve productivity, help develop specific commodities through better land use and appropriate application of fertiliser, bring recognition to the progressive and innovative initiatives of the farmers etc. Agricultural co-operatives happen to be the most appropriate agencies to establish and operate agro-processing industries as they have the distinct and unique advantage of their closeness and support of their farmer-members.

Asian Co-operatives in Agribusiness System

-a Regional Review

Business performance, structural functions and infrastructure facilities in some of the Asian countries are reviewed hereunder:

[i] The National Agricultural Co-operative Marketing Federation of India [NAFED], established in 1958, is the apex co-operative marketing body. It is a farmer-friendly organisation dealing in foodgrains, pulses, oilseeds, horticultural produce, cotton, tea, jute, poultry products, chemicals and bio-fertilisers. It has its main office in New Delhi and operates four regional offices, 24 branch offices, 8 sub-offices and 18 industrial units and shops throughout the country. The 751 membership comprises of state marketing federations, apex level marketing federations, tribal and commodity federations, primary marketing/processing societies and the Government of India. During 2003-04 its turnover was US\$ 307.6 million. Export was of US\$ 122.1 million. It is also a major nodal agency for procurement of commodities like pulses, copra, and potato on behalf of the government.

[ii] National Horticultural Research and Development Foundation [NHRDF-India]

The National Horticultural Research and Development Foundation [NHRDF] was established in November 1977 to carry out research and development activities on various export-

oriented horticultural produce thereby to increase their yield and quality as also export. NHRDF was promoted as an independent autonomous enterprise by NAFED to assist its associate enterprises mainly village level agricultural co-operative of farmers and their growers in production of export-quality horticulture produce. Onion and garlic are the two major crops being researched and developed by the Foundation. It has also started work on other export-oriented crops like okra, French bean, bitter gourd, chilli and baby corn.

For providing better services and planting material to its associates, the Foundation has established its regional offices, seed production and processing plants, farms and laboratories in various parts of the country. NHRDF has an yearly turnover of around US\$ one million. It grows and procures seeds and bulbs for planting which is distributed further for raising onion and garlic as per the quality requirement of market. The Foundation is managed by a Managing Committee comprising representatives of NAFED-India, Associate Shippers, scientists and growers. The Foundation has also established a Mushroom Spawn Production Unit and a compost unit.

[iii] Beijing Fangshan District Farm Produce Production and Marketing Association [China]

The Association, established in September 1998, is an NGO intermediary sponsored and organized by the Fangshan District Supply and Marketing Co-operative to serve agriculture, rural areas and farmers. It has a fixed worth of US\$ 645,161 and a membership of 4000 farm households, 41 units members and 14 co-operatives for cultivating, raising, processing and marketing of Mopan Persimmon fruit, milch cows, mushroom, vegetables, small red beans, wild vegetables and coarse cereals. With an annual producing, processing and marketing 647 million tonnes of various farm produce and earning nearly US\$ 54.2 million, the Association has become an industry. It was selected by the All-China Federation of Supply and Marketing Co-operatives [ACFSMC] as a 'Key Leading Enterprise' and cited by the local government as an 'Advanced NGO' in 2004. The Association also has a business relationship with firms in Canada.

[iv] Sawada Primary Agricultural Co-operative [JA-Sawada], Gunma Prefecture, Japan

The operational area of the Co-operative falls in North-Western part of Nakanojo-machi in the mountainous area. In the area, the complex farming of product mix with paddy, vegetables, livestock, sericulture and mushroom is popular. There are two hot spring resorts in the area. The major industries are agriculture, forestry and tourism. The total membership is about 900, and the average land holding of household is 0.75 ha. The Co-operative is managed by a democratically elected Board.

In a bid to maintain the market price of local products of mushroom and vegetables through shipping control as well as to secure advantageous prices by giving additional values to the products, agricultural processing business was initiated. At present the Co-operative is selling its products with the brand name of SAWADA which are highly appreciated by the customers and are popular in the market. Sawada is the name of the locality.

Raw material is procured through three channels - contracts with and by members; shipping controls, and indent buying. Marketing channels are: sale at own outlets, and through wholesale and private retail shops/supermarkets. The Co-operative follows a five-year development plan. The plan for comprehensive development of local industries includes: development of local industries, commodities, agriculture, processing business, strengthening herbs business, promotion of green tourism and seasonal festivals.

Agricultural co-operatives in Japan are the most sophisticated high-tech managed co-operative institutions which, not only produce and market the needed agricultural products but also look after the members and their interests in its totality.

The phenomenal rise of Japanese post-War economy can safely be attributed to the hard and systematic work done by these agricultural co-operatives in consolidating people, land resources and producing the needed food and providing the needed services to the community. These services range from the 'cradle to the grave' [this slogan has presently and gradually been pushed into the background mainly due to the economic capabilities and capacities of agricultural co-operatives. The fact, however, remains alive because the organisational structure and system firmly exists and has been integrated in the services provided.] The Japanese agricultural co-operatives stand committed to '**3-H agriculture - Healthy, High Quality and High Technology**'.

[v] Agricultural co-operatives in Malaysia are under the registration and supervision of the **Farmers' Organisation Authority [FOA]**. The objectives of FOA are to enhance and develop farmers' organisations and agro-based co-operatives. According to the FOA Act of 1973 the functions of FOA are: to promote, stimulate, facilitate and undertake economic and social development of farmers organisations; to register, control and supervise them and to provide for matters related thereto; to control and coordinate the performance of their activities. There are 268 Area Farmers' Organisations [AFOs], 13 State Farmers' Organisations [SFO], and one national organisation [NAFAS] which operates under the FOA authority. The total membership is over 681 thousand members with a total share capital of US\$ 20 million. The total assets of farmers' organisations is approximately US\$ 234 million and the total networth of US\$ 81 million. The NAFAS deals in distribution of consumer items including fruits and vegetables.

[vi] The **National Union of Indonesian Dairy Co-operatives-[GKSI]** represents the dairy co-operatives in the country. Its main activities are: to help dairy co-operatives on pre-production, processing, and production and post-production [including marketing] of various dairy products. Other activities are: to supply healthy calf, supply of cattlefeed, and member education. It has four major milk treatment plants: Bandung [West Java], Boyolali [Central Java], Pasuruan and Malang in East Java. Its major constituent is North Bandung Dairy Co-operative, which has a membership base of 4,297. It has four business units: marketing of milk, groceries store, loan and savings, and feed. The Union provides 24-hour veterinarian and extension services, health insurance for members and scholarships for members' children.

[vii] The key to smallholder dairy production and India's 'White Revolution' has been the growth of a nationwide network of dairy co-operatives. The co-operative approach started as a successful local initiative in Anand [Gujarat] half a century ago. Since 1970, it has been replicated all across India through a three-phase programme known as 'Operation Flood' implemented by National Dairy Development Board [NDDB] and backed by the Indian Government, the **Anand Milk Union Limited [AMUL]**, FAO and the World Bank. About 11.2 million households are participating in over 101,000 village dairy co-operatives. The Gujarat Co-operative Milk Marketing Federation, propelling the AMUL brand, is now India's first one billion dollar co-operative.

[viii] **Coffee Growers' Co-operatives in Indonesia:** Farmers who are the members of village level co-operatives, especially in the eastern part of Indonesia, grow coffee. The product is collected by co-operatives and sold to coffee processors and exporters. Though the co-operatives endeavour to pay to the growers a reasonable price yet the nexus

between the processors and exports manipulate prices due to which the growers remain at disadvantage. An analysis of the problems affecting the operation of Indonesia's coffee-growers' organizations shows that one of the causes is poor links between the organizations' governing bodies, such as between the participative structure [general meeting] and the executive [board of directors]. In part this is due to the differing communication styles of the rural community and the enterprise.

Another problem is members' lack of awareness regarding their role as members of an organization. Some coffee farmers view their organization *only* as an instrument for selling their coffee beans at a better price, without considering the solidarity and teamwork aspects. Coffee grown in eastern Indonesia is considered to be of high quality. Members of agricultural co-operatives [KUD] in Sulawesi sell their products through their co-operatives and also to the private coffee procurement agencies. Coffee grown in this part of the country is sold in domestic and international market as ROBUSTA coffee [brand name]. These co-operatives are often short of funds to procure raw coffee beans and have poor organisational capabilities.

Private procurement agents supply the product to multinational organisations for processing and marketing and exports. The economic benefits of supplying coffee beans to main processors are retained only by the middlemen. Co-operatives and farmers do not share such a benefit.

Lastly, a frequent problem latent in all self-managed organizations, is an imbalance between the members' interest in obtaining immediate benefits from their organization to meet sometimes pressing necessities, and the need to maintain or increase the enterprise's financial capacity, for which the enterprise must be capitalized as a joint long-term objective. Despite these disadvantages, all the members of coffee-growers' organizations feel that their current financial status was better than if they had been working independently. After the problems were identified through members' survey, the Association has increased linkages with its members through frequent meetings and formal contracts.

Mechanisms to Solve Problems Confronting Producers

In the current globalization context, the competitiveness of the co-operative agro-production system relies greatly on the linkages and associative entrepreneurship capacity between the actors in an agroproduction chain or business concentration. These can be turned into a strategy to enable the actors involved to cope with fast-changing economic and market conditions.

In recent years, a wide variety of mechanisms and instruments have been developed and refined which support and facilitate associative entrepreneurship. Perhaps the earliest example was **contract farming**, which sprang up and grew strongest in some of the Asian countries. After several years of implementing contract farming agreements, the results achieved have been given positive as well as negative interpretations. The advantages cited include higher productivity, the security of having sale and purchase prices set in advance, and better product quality. The disadvantages cited include an negotiation imbalances, information disparities and unequal distribution of business profits. With effective management, contract farming can be a means to develop markets and to bring about the transfer of technical skills in a way that is profitable for both the sponsor and the member-farmer. The approach is widely used, not only for tree and other cash crops but, increasingly, for fruit and vegetables, poultry, pigs, dairy produce and even prawns and fish.

The **joint venture** is another means for enterprises or groups of enterprises to join forces, with each contributing their greatest strengths, whether it be capital, technology, information, infrastructure or market contacts, and in accordance with which they run proportional risks in activities such as testing and adapting new technologies, developing products and exploring markets.

Fertiliser producing co-operative of India, Indian Farmers Fertiliser Co-operative Limited [IFFCO] has set up joint ventures outside the country for the production of Ammonia and Urea in Oman and Phosphoric acid in Senegal. Such joint ventures have helped IFFCO to gain on the raw material resources of other joint ventures.

More recently, there have been institutional developments within agroproduction chains involving rapprochement, dialogue and consultation among the different agroproduction chain actors. This has included industry round tables, advisory boards, product systems and national or regional agroproduction chain councils, whose agreements on medium- to long-term action have led to what some countries have dubbed competitiveness agreements.

Linkage mechanisms are adopted and facilitated as a result of close proximity in rural agribusiness concentrations, fostering collective actions. Another positive result of collective action is that they help to improve social capital in the areas where such business ventures are concentrated.

Summing Up

Agribusiness is a generic term that refers to the various businesses involved in food production, including farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing, and retail sales. The agribusiness sector consists of organisations which: Supply raw materials to agriculture; Supply capital goods to agriculture; Procure agriculture produce for selling; Procure agricultural produce for processing; Provide services to agriculture.

For a number of years, one of the strategies for tackling the problems of the agricultural sector in general, and of micro- and small enterprises in particular, has been to organize producers. Co-operatives comprise a number of people who come together to satisfy mutual socio-economic interests by carrying out a business activity. There are various form of co-operatives e.g., single and multi purpose.

Agricultural co-operatives happen to be the most appropriate agencies to establish and operate agro-processing industries as they have the distinct and unique advantage of their closeness and support of their farmer-members. In the current globalization context, the competitiveness of the agro-production system relies greatly on the linkages and associative entrepreneurship capacity between the actors in an agroproduction chain or business concentration. These can be turned into a strategy to enable the actors involved to cope with fast-changing economic and market conditions.

Agriculture like any other production industry demand professionalisation at each and every level. Farmers, who are the basic producers, need to know more about the technical aspects of inputs and of post-harvest technology. Co-operatives need to be professional with an efficient infrastructure and a line of efficient manpower. Co-operatives also need to upgrade their extension services and communication with the members. Agribusiness is not confined only to the national boundaries but it is needed to be pursued in the global village. To enter any foreign market norms governing production and processing need to be observed.

In providing avenues to enhance income of farm households, providing high-quality safe and healthy agricultural products, reducing production costs, upgrading means of production by making use of machines and quality seeds, resorting to organic farming, agribusiness needs to be managed well. For this purpose farmers' institutions, like co-operatives, need to play a key role by providing information on technology, quality inputs, and best farm management practices besides creating the needed infrastructure. Asia has a number of instances of success in agribusiness. Member-farmers need to interact with each other to learn from each other and trade their own commodities. Research and development in agriculture is a continuing activity, it needs to be expanded and shared by the co-operatives.

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