

PERPUSTAKAAN UNIVERSITI MALAYA

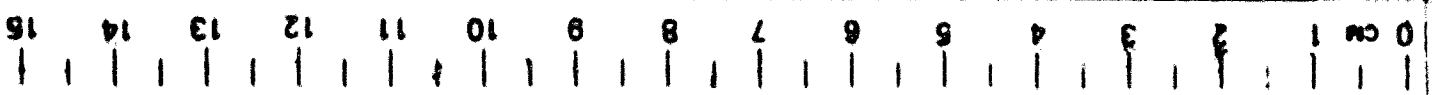
PERKHIDMATAN REPROGRAFI

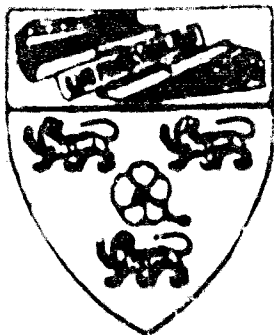
UNIVERSITY OF MALAYA LIBRARY

REPROGRAPHIC SERVICE



UNIVERSITY OF MALAYA LIBRARY . MICROFILM .

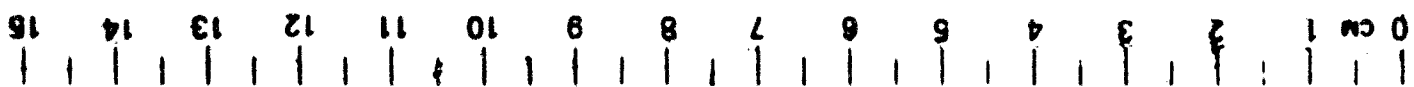




MULA



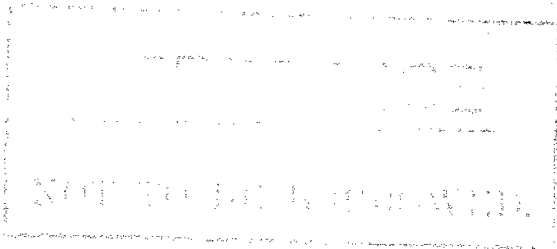
UNIVERSITY OF MALAYA LIBRARY . MICROFILM



PER. UTAMA-UM



A004466126

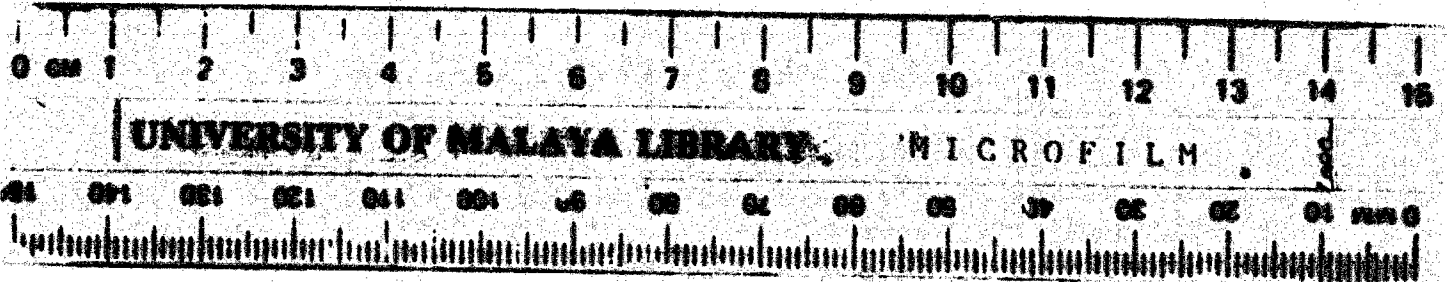


CO-OPERATIVE MARKETING OF PADI IN BAWAH SEMPADAN

TANJONG KARANG

by

Rafidah Abdul Aziz



A Graduation Exercise presented to
the University of Malaya in
part fulfilment towards the
Degree of Bachelor of Arts
with Honours in Economics

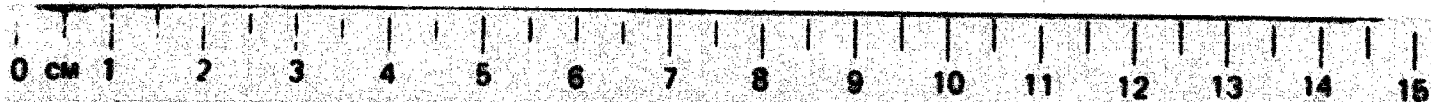
TABLE OF CONTENTS

	Page
LIST OF TABLES	iii
LIST OF DIAGRAMS	iv
 Chapter	
INTRODUCTION	1
I. THE PADI MARKETING SYSTEM IN TANJONG KARANG .	7
(1) Relevance to the Co-Operative Concepts	7
(ii) Structure of the System	10
(iii) Internal Administration and Business of the Union of Rice Milling Co-Operative Societies	11
(iv) Purchases on Sale of Padi	11
(v) Role of the Union	15
II. THE PRIMARY CO-OPERATIVE SOCIETIES IN SAWAH SEMPADAN	16
(1) Their Role in the Marketing of Padi . .	16
(ii) Administration	19
(iii) Business	20
(iv) Problems	23
III. A BRIEF STUDY OF THE:-	27
(1) The Ujong Permatang Co-Operative Rice Milling Society (from 1958-1962) . . .	29
(ii) The Kunchi Ayer Buang Co-Operative Rice Milling Society (from 1960-1963) .	38
IV. THE MIDDLEMAN PROBLEM	43
V. SUMMARY OF CONCLUSIONS	48

LIST OF TABLES

Table	Page
I.	14
II.	30
III.	30
IV.	31
V.	32
VI.	32
VII.	33
VIII.	34
IX.	34
X.	35
XI.	36
XII.	37
XIII.	39
XIV.	40
XV.	40
XVI.	41
XVII.	41

Table	Page
XVIII. To Show the Distribution of 12 Farmers by Reasons for joining Co-Operatives	50
XIX. To Show Distribution of Farmers Selling Padi to Private Traders on the Basis of Reasons Given . .	52
XX. To Show Distribution of Eight Non-Members by Reasons given	53



LIST OF DIAGRAMS

Diagram		Page
I.	Development of the Co-Operative Movement from 1929 - 1949	4
II.	Development of the Co-Operative Movement from 1952-1961	5
III.	Classification of Primary Societies in 1963	6
IV.	9
V.	25
VI.	Sawah Sempadan	28

ACKNOWLEDGEMENT

The following Graduation Exercise is an attempt at giving at least a brief picture of the marketing of padi within the Sawah Sempadan area of Tanjung Karang.

It must be emphasized that the data and information obtained were collected within the short period of one week. Actual figures given by the Co-Operative Societies were taken out of whatever records/accounts that could be got hold of, and in many cases, figures were not available.

I would like to take this opportunity to thank Inche' Mokhsari Abdul Rahim for all the valuable help he has given as Supervisor, and also Dr. M.C. Agarwal for helping me at the initial stages.

I would also like to convey my thanks to Inche' Usir Malik and Tengku Ali of Second Year Arts (Economics) for helping me to collect information from the farmers themselves.

I am also greatly indebted to the Malay Co-Operative Officer, Kuala Selangor, who have assisted me in every way, to give information on the subject, and also to the Co-operative Inspectors, Kuala Selangor.

Thank you.

Rafidah Abdul Asis

INTRODUCTION

THE CO-OPERATIVE MOVEMENT IN MALAYA

A History

The Co-operative Movement in Malaya dates back from the year 1922, after the introduction of the Co-operative Societies Ordinance in the Federated Malay States. At first it developed almost exclusively as a credit movement, with six rural credit societies and three thrift and loan societies, and at total membership of 729 and total share capital of \$16,000.

The Co-operative Societies Ordinance in Malaya is modelled on the Indian Co-operative Societies Act. Like India, Malaya has a Co-operative Societies Department, charge with the task of developing the movement and administering the Co-operative Societies Ordinance.

However, even though the object, origin and legal framework of co-operative societies in Malaya are similar to those in India, there have been difference in development.

The movement was launched in the Straits Settlements in 1924 when the Co-operative Societies Ordinance was passed. The direction of co-operation in the Federated Malay States and the Straits Settlement was then placed under a Joint Co-operative Societies Department. From then up to 1939, we can survey the development in two stages. By mid-1929, the total number of Societies in the Federated Malay States and the Straits Settlements was 167, with a membership of nearly 30,000 and a working capital about \$3 million. The most rapid progress was shown by the urban salary earner's societies which forged the thrift and loan societies. So far there was no other form of co-operative activities.

Then in the decade 1930-1939, the policy of the Department was directed towards consolidating rather than expanding the movement. By now, about 150 rural credit societies of unlimited liability had been formed on the Raiffeisen model, though their development was impeded by the economic depression of the 1930's. However, the general progress of the movement up to 1939 continued to be steady, and at the end of that year, there were a total of 687 societies with a membership of 111,000 and a paid up capital of over \$9 million. The strongest development numerically, had taken place among Indian plantation labourers. These labourers were migrants who worked for a short period after which they returned to their homes in India, and in the absence of any banking system, they had little opportunity to

save with safety, or to send back money to their families. In 1926, co-operative activities were extended to them, when two planters offered their estates for the experiment, and subsequently, successful labourer's thrift and credit societies were established.

Thus, while in 1929 there were only 33 Indian labourer's societies, in 1939 the total was 375, and membership growing from 7,000 to about 68,000. This accounted for over half of the total co-operative memberships in Malaya then. On the other hand, the urban thrift and loan societies had expanded less rapidly, and had made practically no progress, the total number being only 86 at the end of 1939.

The year 1933 saw the beginning of co-operative Marketing and the formation of the first "better-living" and "general purpose" societies. These were with the objective of village welfare, which would organise the clearing up of the village, the making of paths, repairing of bridges, and digging of irrigation ditches. In addition, schools were to be built, water supply to be laid on through bamboo pipes, wasteful expenditures discouraged and even to organise rat-hunts. One society was reported to have built a creche and arranged for the visits of a woman doctor, while others continued to hold shows, sports, or at least an annual social gathering, calculated to relieve the monotony of village life. On the whole, co-operation during these times were more for the social aspects, the economic motive coming only secondary. This is only natural, as Malay peasants have always been steeped in cultural and social bonds, and only attempts to strengthen such "gotong royong" spirit would appeal.

The early 1940's saw the co-operative movement at a standstill, and co-operative activities were suspended during the Japanese Occupation, except in Selangor, Kedah and Perlis. The Staff of the Co-operative department were scattered, and half of the trained audit staff died during the occupation, or had to be invalided out of service. Likewise members and local office-bearers, especially among the estate labourers, were carried off in Japanese labour groups, or died on the Siam railway.¹ One important loss, and a most serious effect of the Occupation, from the point of view of the movement was the loss of books and trained personnel. This had, to a great extent, retarded the reconstruction of the societies in the immediate post-war years.

However, in spite of these difficulties, many of the pre-war societies had begun to function again by the end of 1947. The Official figures for 1949 show that the total number of these societies in the Federation and Singapore was 937, with a membership of about 126,000, and a working capital of over \$10 million. The first post-war task of the Co-operative Department had to be the reconstructing of the societies' books, and auditing them before permitting these societies to function again.

¹ Sheila Corst: Co-operative Organization in Tropical Countries.

During this period, there was a steady flow of new members into existing societies, and a demand, particularly in the rural areas, for new societies. Efforts were also made, with some success, to introduce co-operation to the Chinese population, the movement having expanded rapidly among the Malay peasants. It had formerly been considered, however, that the individualism of the Chinese and their desire for high profits would not attract them to co-operation, and in the pre-war period, their own native organizations appeared sufficiently strong and adaptable to provide all the organization the Chinese required. However, much of this organization was broken up during the Japanese Occupation, and when, later, as a result of the Communist inspired terrorist movement, large numbers of Chinese vegetable growers were brought into "new villages" areas, for protection, it was thought that the time was ripe for the introduction of Co-operation.

In addition, co-operative production and marketing, were progressing, and in 1948, there were 193 producers societies with a membership of a little over 23,000, and sales had amounted to over \$5 million. Among the commodities handled were rice, tobacco, vegetables, onions and chillies. Other societies included fishermen's societies, co-operative dairies, societies of handloom weavers, a small rubber-growers' society and a village factory for the manufacture of coir products.

The war, however, had brought about a most remarkable development in the consumer's movement, and within the space of five years, from 1942 to 1946, the total number of societies rose from 50 to 4,000, and membership rose to one million. In all, they served about four million consumers, or two-thirds of the total population. By 1948, there was some amalgamation of weaker societies into stronger units, and the total number was then 3,887, and sales exceeded \$108 million.

Since 1953, there was a change in policy of co-operation, and it was then one of consolidation rather than expansion. So far, the development concentrated on co-operative thrift and credit societies and these only dealt with a part of the problem of indebtedness. It was necessary to attack the problem on a much larger scale, in order to elevate the level and standard of living of the peasants and labourers. Moreover, it was found difficult to separate co-operative marketing, purchasing and housing from the credit movement, as they are complementary methods of fighting indebtedness. Co-operative marketing would enable the peasant producer to obtain a better price for his product, and by raising his income, helps him to increase his savings.

Hence, by 1954, convenient groups of societies were formed into 12 banking unions and in this year, these Unions formed themselves into an Apex Bank, to which the Government gave a grant of \$10.9 million.

The marketing societies, also increased substantially by then, rising from five in 1948, to 172 in 1954. Total marketing

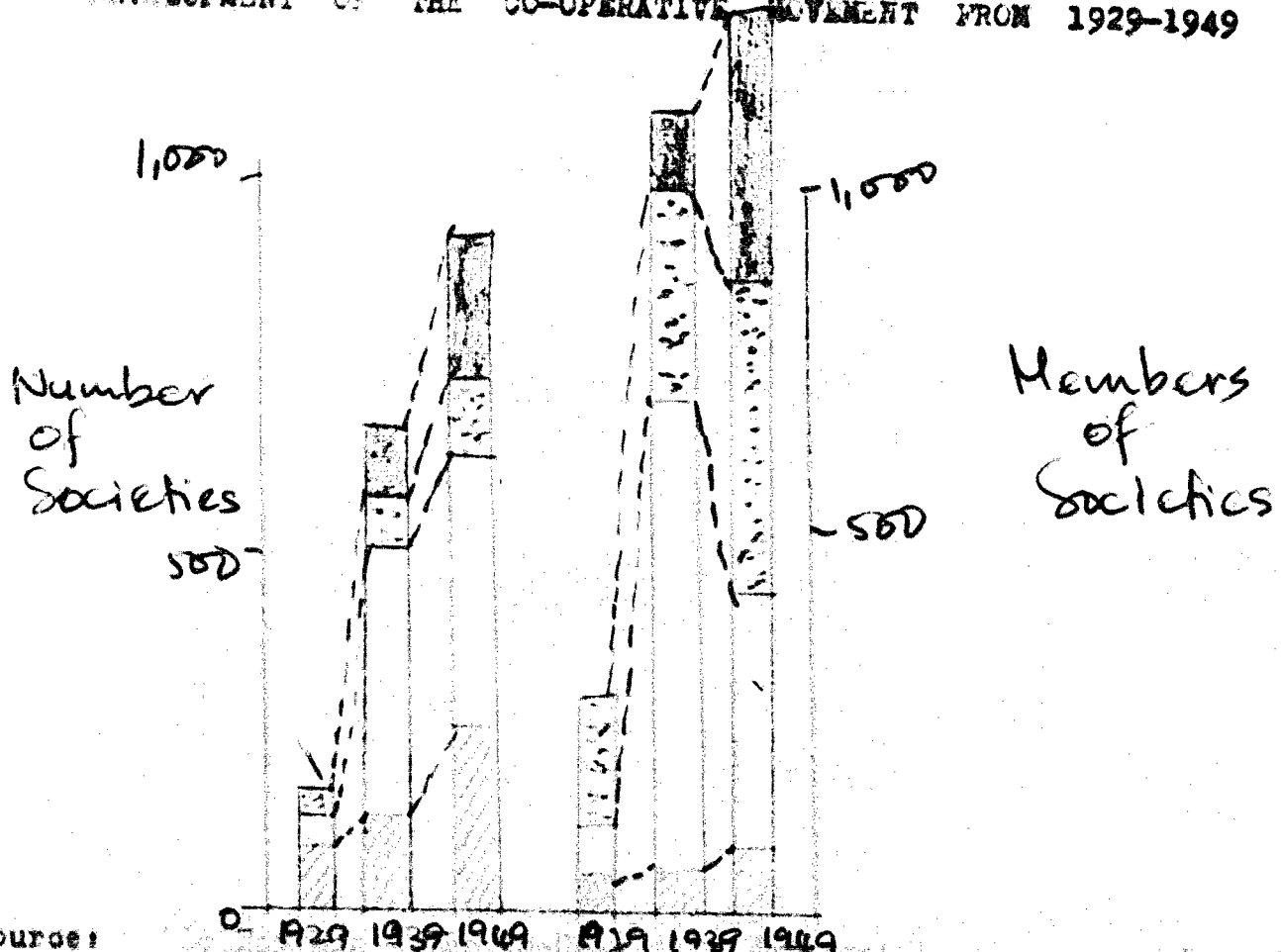
turnover was almost \$70.2 million. These societies comprised of 136 rice-milling co-operatives, 22 rubber marketing, 9 fish marketing societies, 4 oil-milling societies, and one coffee marketing society.

The rice mills were very popular in all the main padi-growing areas, and some act as the Governments' padi-buying agents. In places where there were large numbers of rice-milling societies, operating within the same area, it was the policy of the Co-Operative Department to federate them into milling unions, and hence rice-milling co-operative societies' Unions were formed, the primary, societies acting as agents for the Union in padi marketing.

From 1954 onwards, the whole co-operative movement progressed steadily, and by 1962, there were 2,853 societies. In 1963, this rose to 2,948 and the total working capital amounted to \$166,843,936. There were a total of 410,774 members whose share capital was \$95,780,677. But, these are dominated by rural primary societies, which totalled 2,656, and whose membership stood at 225,298, as compared to respective figures of 232 and \$157,923 for urban primary societies.

From this, it can be concluded, for the present, that the co-operative movement had penetrated far into rural life, where it should be, due for the sake of which the co-operative movement was established in 1922.

DIAGRAM I
DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT FROM 1929-1949

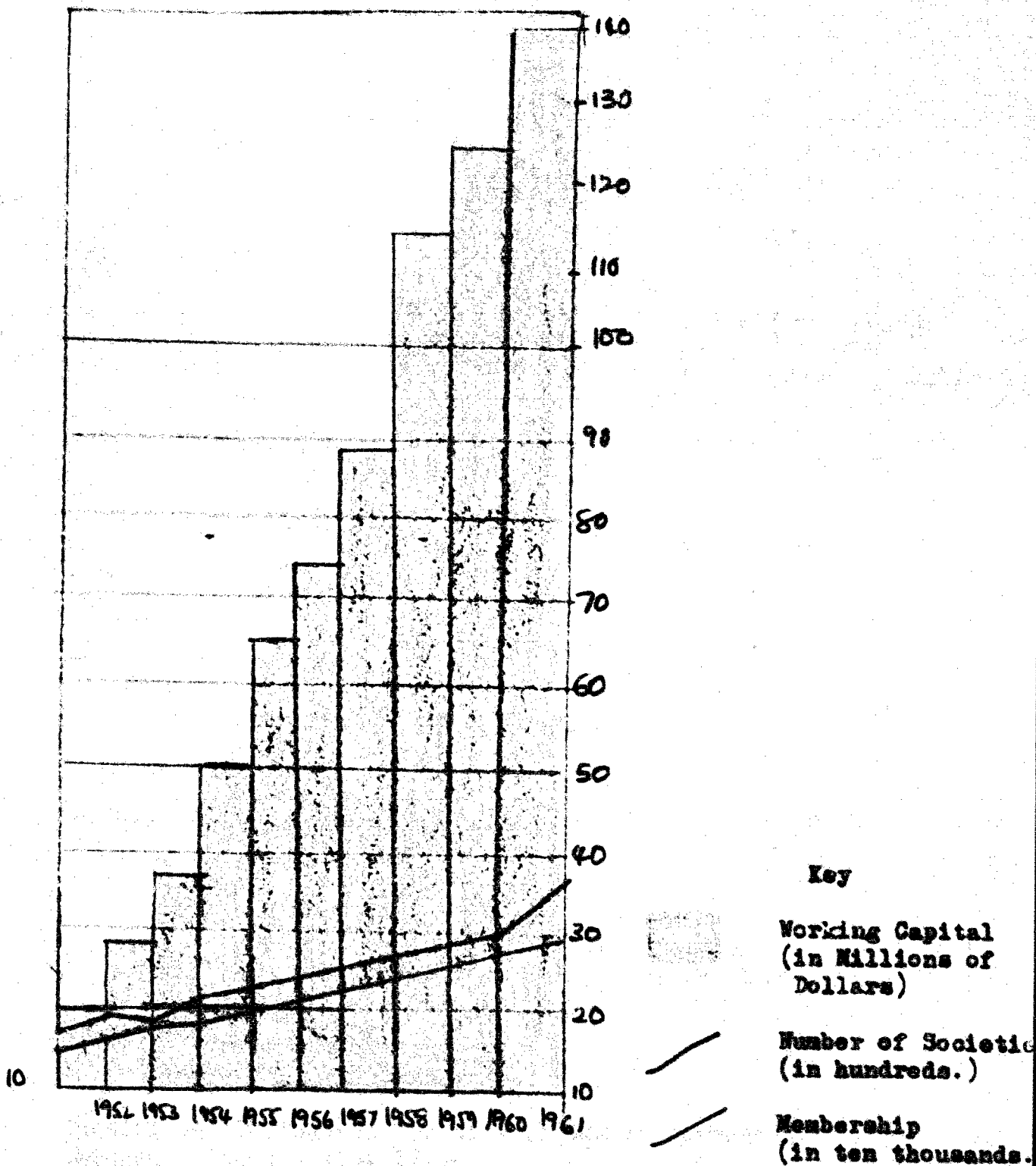


Source:

Lim Tay Boh - The Co-Operative Movement in the Federation of Malaya.

DIAGRAM II

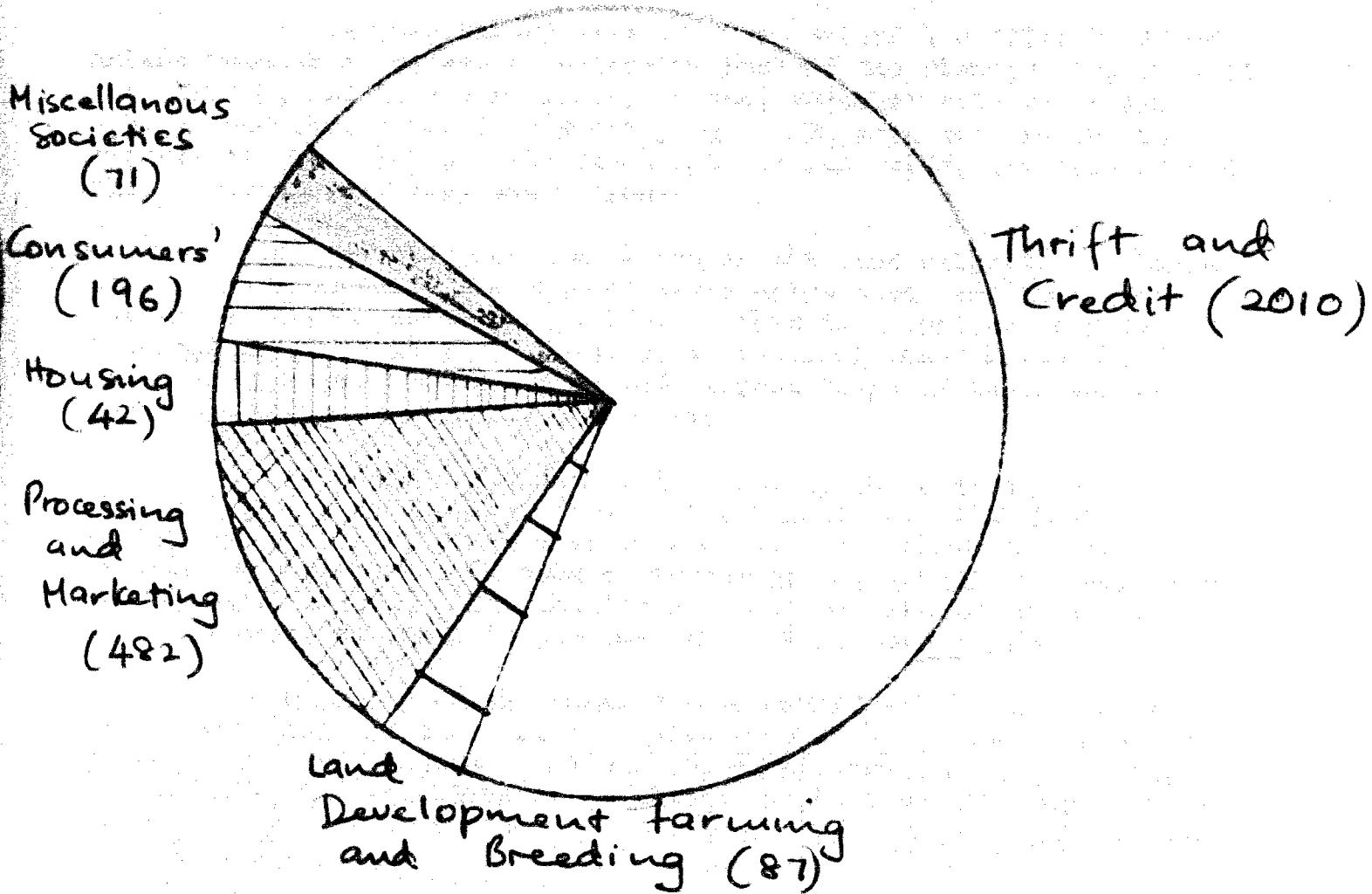
DEVELOPMENT OF THE CO-OPERATIVE MOVEMENT FROM 1952-1961



Source: Statistical Statements relating to the Co-Operative Movement, Federation of Malaya for 1961.

DIAGRAM III

CLASSIFICATION OF PRIMARY SOCIETIES IN 1963



Source: Statistical Statements Relating to the Co-Operative Movement, for the year 1963.

CHAPTER I

THE PADI MARKETING SYSTEM IN TANJONG KARANG

The Tanjong Karang Area has been called the "Rice Bowl" of Malaya because it covers an extensive part of the rice-growing area of the country, and in recent years, it has, together with the Kedah areas, been chosen for double-cropping. The area has one unique feature in that although the total area is very wide, the farmers operate comparatively very small areas.

This results from the clause in the Land Alienation rulings that farmers may only own one lot of three acres each, and that there can be no fragmentation of the land. This is typical of farm holdings in the country. However, in spite of there being the legal prohibition, farmers have made transactions of land, and as such, some farmers own more than three acres.

From these individual lots, roughly 400 gantangs can be obtained from each acre.¹ This will bring up the total yield per season for the 6,100 acres area to roughly 2.4 million gantangs. Of this, the farmers hold back a percentage for consumption and seeds for the next season. But the farmers need to sell the remaining part for cash, in order to purchase their other necessities.

A majority of the farmers also depend solely on their padi for income, and therefore it is important that they find a suitable market for their produce. It must be emphasized that the farmers are selling in a situation of atomistic competition, if they were to market their padi individually. On the other hand, buyers have the oligopolistic advantage, being few in number.

Hence, to ensure that the private middlemen do not have the unfair advantage, farmers need to organize as a combined unit. This will fight off price rings, and also bring with it the benefits of co-operation. The farmers, it must be emphasized, sell their padi in small quantities at a time, the most being sold during the peak harvest season. Should they sell individually, their bargaining

¹The 1964 Farm Survey conducted by the Economics Department revealed an average figure of 412 gantangs.

power will be very much reduced, and, as the farmer lacks knowledge of the market prices, and the facilities to convey the padi to the town traders, they would have to sell on the terms dictated by the village middlemen.

However, the farmers will become a stronger unit when they join forces and by themselves create a market for their own padi, that is, their own co-operative marketing society.

In addition the co-operatives are morally bound to some principles, which can be summed up by the following moral principles, contained in the regulations of the first co-operative, the Hochdale Equitable Pioneers:-

- (1) The sale or display of adulterated goods is not permitted.
- (2) All measures and weights must be correct and verified.
- (3) Prices must be the same as those on the local market.
- (4) All sales are to be on a cash basis only. Credit must not be given, because this would encourage people to make purchases beyond their spending power.

However, it is often necessary to modify the principles to suit local conditions, but ultimately the objectives are still there. On the other hand, these small co-operatives, run by farmers whose knowledge of co-operative principles are as limited as the members themselves, need external aid, in the form of advice guidance and education. It is not quite possible for a Sawah Sempadan Co-operative Society Management Committee to be able to make major decisions regarding the marketing of padi to a wider and more experienced market, especially regarding pricing.

For this reason it makes it necessary for the marketing system to be organised so that the primary co-operative societies could go through other bigger co-operative organizations, and hence their operations would involve only the farmers and these organisations.

At present the marketing system in Tanjong Karang works on this basis and it has been found to be useful. This single marketing system (the organisations of which are the only licenced purchasers and dealers in padi for the area) is supervised by the Co-Operative Officer for Kuala Selangor, but this is only insofar as to ensure the smooth and efficient running of the system.

The Co-Operatives within the marketing system have a monopoly in the marketing of padi, but, as in many other countries, they are not free from competition of private middlemen. The

Controlling body of the system, the Persatuan Kilang-kilang Padi Tanjong Karang, has to be aware at all times of this competition, and more often the system lends itself to unavoidable circumstances when farmers find themselves better off dealing with the private middlemen. However, to see how this could be so, it is necessary to understand beforehand the framework of the system itself.

The Co-Operative Marketing channel attempts to replace the private middlemen and its method can be shown diagrammatically,

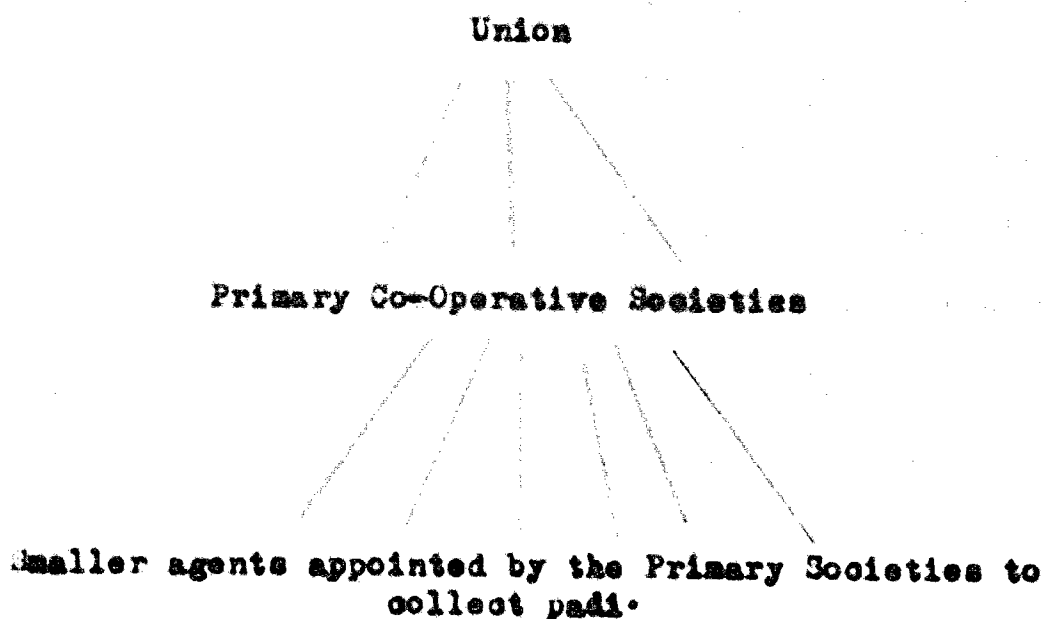


DIAGRAM IV

As shown, the primary societies may appoint their own agents in the area, and these are usually the local shopkeepers, who collect small amounts of padi from neighbouring farmers. This saves farmers time and effort to transport the padi for long distances. However, the prices paid by the shopkeepers are at their own discretion, but this is compensation for the shopkeeper, who has to transport the padi to the Co-Operative.

Each society covers an extensive area but it is not often able to win over all farmers there as members.²

²These problems will be discussed in Chapter II.

Structure of the System

The Union has appointed its "agents" to carry out the purchasing of padi at various points within the area, in order to facilitate the marketing of padi. These are the primary co-operatives themselves, which are the members of the Union. To enable these "agents" to buy padi in their own areas, the Union has also issued permits to them, and it also has the authority to revoke these licences should any of its agents were found to violate any of the rules and regulations it has laid down.

At present, the Union has seventeen member societies, namely:-

- (a) Bharikat Kilang Padi Sungai Nibong
- (b) " " " Haji Said Pasir Panjang
- (c) " " " Parit 11, Pasir Panjang
- (d) " " " Tali Ayer 8, Sungai Leman
- (e) " " " Parit 7, Sungai Leman
- (f) " " " Long Aik, Sekinchan
- (g) " " " Long Heng, Sekinchan
- (h) " " " Long Yip, Sekinchan
- (i) " " " Kian Sit New Village
- (j) " " " Sungai Burong Indian Settlers
- (k) " " " Parit 4, Sungai Burong
- (l) " " " Batu 12, Sungai Burong
- (m) " " " Sungai Sireh
- (n) " " " Sawah Kempadan (or the Kunchi Ayer Buang Co-operative Society)
- (o) " " " Mukim Ujong Permatang
- (p) " " " Peladang
- (q) " " " Sawah Kempadan Tengah

Under the Food Control Regulations, or the Peratoran, Menchegeh Makanan (Kilang Padi), 1950, Peratoran 7, all padi bought by the individual primary societies can only be sold to the Tanjong Karang Co-Operative Rice Milling Union Limited, and therefore the

monopoly for padi purchase is assured. In addition, no other individual or organization is granted permits or licences for marketing padi, other than the registered primary societies. This again, in theory, channels all padi sold by the farmers into the one system, and consequently the Union must lay down proper regulations and conditions for the marketing of padi at any one season.

An Advisory Body, a semi-Government one, exists to keep look into problems of the Union and of the farmers themselves. This Liason, Research and Advisory Committee consists of representatives from various connected bodies, as follows:-

1. Officials from the District Office.
2. D.I.D. Engineer.
3. Assistant Commissioner for Co-Operative Development.
4. Agriculture Officer.
5. Three Representatives from the Union.
6. Officers from the Co-Operative Office.

Administration and Business

The Union is managed by a full time Manager, and it also has a Board of Committee Members, where each society is represented by one man (just as the Committee in the primary society is represented by individuals from the membership roll). It is this Committee that lays down at its Meetings, notably, the Annual General Meetings, stipulations regarding the seasonal variations in padi marketing.

Purchase and Sale of Padi

The Union's main function is to buy and sell padi, just as the primary societies, but it has an extra clause in the licence which provides for it to process padi for commercial purposes, whereas the primary societies can only mill padi for home consumption exclusively. Each year, the Union draws up specific conditions which its members are bound to adhere to, and below is an outline of the items covered:-

Prices of padi purchased by the Government, and the details on quality.

Duration of validity of the various padi prices i.e. main crop/second crop (if any).

Payments on purchase.

Action to be taken on violations.

Keeping of proper records and receipts.

Misappropriation of money.

But the most important, from the farmers point of view, is the details on the quality and prices of padi at which they may sell to the co-operative societies. As far as they concerned, they want to get the most out of a sack of padi, and they are easily confused and irritated by technicalities that must be observed, before they can get the often urgently needed cash. To illustrate this point it is necessary to give an example.

For the 1964/65 season, the Union stipulated that padi may be bought at \$16.00 per pikul as declared by the Government, under the following conditions:-

14% and below of moisture content	-	no reduction
14% to 17%	-	3% reduction
17% to 20%	-	4% reduction in addition to the 3% reduction, making a total of 7%.

This means that if the Government is prepared to buy padi at mill door at \$16.00 per pikul, at not more than 13% moisture content, then if the farmer's padi is far below that, the farmer stands to lose much.

When the system of measuring moisture content by the use of the moisture-meter, was introduced in April, 1965, it aroused dissatisfaction and discontent among the farmers. This leads to much leakage of padi to private traders.

The new system involves the actual testing of every sack of padi to determine the moisture content, by means of the Scott-Oxley Instantaneous Moisture meter, which costs \$570/- each. This instrument has sensitive needles which are pricked into every sack, and at once the moisture content is recorded. But the snag, and the crux of the problem, is that the meter is used several times on one sack, that is at least three different parts of the sack is pricked. This means that a sack of padi, being definitely of not uniform dryness all over, would be recorded as containing say 20% moisture, when each reading had in fact shown 15%, 20%, and 17%. From the buyer's point of view this is good sense.

The farmers fail to appreciate this system, as it is beyond their means to ensure that a sack of padi is uniformly dry all over; again it is beyond their means to control the humidity of the air at the place the testing is done. Being sensitive, the meter also records humid air outside the sack as well, and also during wet days, the sacks become damp, even if the padi is not much affected. Therefore complications arose, and consequently, the Union withdrew the use of the system on the 15th April, 1965.

At present (during the period of the survey), the Union has laid down the stipulation that the primary societies will purchase padi at a pro rata price of \$14.20s per pikul. This has brought about a unanimous approval from members because they can now be certain of getting a "fair deal". The Union, on the other hand will buy from the co-operative society at \$16/- per pikul, but with a fixed 7% reduction on moisture content per pikul, and one pikul less on every 100 pikuls, for dirt. This means that the primary society will get a gross profit of 52 cents per pikul, that is, excluding all other expenses.

Besides the padi from its own members, the Union may also purchase from other mills in Telok Anson, Babak Bernam, Malacca and other neighbouring towns.

On the average, the peak season intake is \$100,000 worth of padi per day, and this will last for about ten days.

Sale of Padi

The Union of Rice Milling Co-operative Societies does not sell all padi it has purchased. As has been stated, it also does padi-processing (that is milling for rice) for commercial purposes. This means that when the amount of padi purchased exceeds the minimum amount that it can process (approximately 200,000 pikuls) it will then sell the balance to other rice mills, especially these in Kuala Lumpur. These are, to be noted, privately owned rice-mills. The most frequent buyers are fellow-members of the Selangor Rice Millers' Association, of which the Union is a member. A significant buyer is the Haji Ahmad Rice Mill. The total sold by the Union per season to these individual rice millers come between 150,000 to 200,000 pikuls.

However, all the rice that the Union has processed, must be sold to the Government. There is no written agreement, but merely an understanding and the Government has fixed the price of \$430/- per ton, (which is approximately 16.8 pikuls), subject to negotiations.

The Union, therefore, needs to have a sufficient amount of Revolving or Circulating Capital in order to carry out its marketing (most important, the purchase) of padi efficiently. For the 1965 double-cropping season, the Union requires about \$5 million⁴, partly in order to purchase 500,000 pikuls of padi. This amount will be available through loans from the Bank Agong, which has been a source of financial aid to co-operative organizations. However, to date,

⁴This figure is about twice that for 1964, due to the fact that the Union has a new mill in construction, expected to be for use during the 1965 season.

only \$1.88 million has been granted for 1965 season. Below are figures showing amounts borrowed for the past three years.

Table I

<u>Year</u>	<u>Amount</u>
1963	\$2.5 million
1964	\$2.8 million
1965	\$1.88 million to date

However, part of this will be distributed to its members as interest free advances but to be repaid in kind, that is, in padi. For the past three years, 1962, 1963, 1964, the interest charged by the Bank Agong was 4% but for 1965, in spite of hopes that it would be lowered, the Interest Rate was raised to 5%.

In the process of marketing padi, there is great importance in the timing, between the purchase of padi, and its sale, by the Union. Normally this period is about two months. For the first crop of the 1965 season, it took three months, that is, between February and May, and it was scheduled that all rice will be delivered to the Government in April. However, the Government only accepted it on 1st May, and there was a standstill in padi stocks at the Union Mill. As this cannot be processed until acceptance, the Union cannot afford to take in anymore of its members' padi.

Here there occurred a bottle-neck. The loan requested by the Union did not come through at all until a week later, that is, a week after, the Union had exhausted its Working Capital on padi purchases. Since it did not make any sale of rice (the bulk of its stocks), it was not able to pay the primary societies for the padi it had bought during the few days previously. This caused a situation whereby the tables were turned and the co-operative societies became debtors to the farmers. This was so because the societies had exhausted their limited working capital, and their padi were either not sold yet or not paid for by the Union.

This caused a virtual crisis and much embarrassment for all concerned. Even though it had happened before, this was the worst so far. For a week, the co-operative societies were faced with farmers who demanded payment for their padi, and it was during this

⁵As this was a closely kept information, it was not possible to get a figure for the debts owed to farmers or to the societies. From pieces of information gathered, the Ujong Permatang Co-Operative Society had, within four days, about \$20,000 owing to farmers.

time that much padi again leaked into hands of private traders.⁶

Rebates and Dividends

The Union's relationship with its members are quite similar to that of the primary societies and their members. It gives rebates to members for padi it has purchased, and also, in compliance with the requirement of its bye-laws, a 6% dividend on the member's Share Capital. But unlike the primary societies, the Union does not give rebates on the milling of padi.

Role of the Union

Like any Union anywhere, the Tanjong Karang Rice Milling Union gives cumulative strength to its members, and subsequently, more bargaining power with regards to rice and padi marketing. It plays an important role in acting as the necessary middlemen between the primary societies and the rice market. From the psychological side it acts as a buffer to smoothen the marketing system, because being the direct purchaser of their padi, the co-operative societies are able to rationalise to farmers for their indebtedness, as the Union being short of cash and therefore unable to pay them. This is an important factor, because in a rural area when technicalities become difficult to understand, rationalization and psychological factors become necessary.

The Union is also important as a source of finance, and advice to the primary societies. (For example, in 1963, the eleven Rice Milling Unions and Federation in Malaya distributed a total of \$3,311,319 to their 194 members for purpose of padi purchase and sale.)

It also provides transport for padi, although its six lorries are not sufficient and it has to depend on private lorries.

With regards to the Tanjong Karang Area itself, the Union is indispensable because left to themselves, the individual Co-Operative Societies would not be able to face the keen competition from the middlemen, and subsequently, a firm hold on the farmer's patronage.

⁶This will be discussed at length in the Chapter "The Middleman Problem".

CHAPTER II

THE PRIMARY CO-OPERATIVE SOCIETIES IN SAWAH SEMPADAN, TANJONG KARANG

THEIR ROLE IN THE MARKETING OF PADI

At present there are three Co-Operative Rice Milling Societies in the Sawah Sempadan Area, and to date, only two are assuming marketing functions, namely the Sawah Sempadan (or Kunchi Ayer Buang¹) Co-Operative Rice Milling Society and the Mukim Ujong Permatang Co-Operative Rice Milling Society. The third, the Sawah Sempadan Tengah, Co-Operative Rice Milling Society was registered only in December, 1964, and at present functions exclusively as a rice-milling society.

According to Agreement (4) in the Padi Marketing Regulations,² all farmers especially the members of Co-Operative Societies must sell their padi to three agents in their area that is the Co-operative societies operating there. In addition only Co-Operative Rice Milling Societies are licensed to buy padi, and hence the farmers are bound by the above ruling as all other individuals or organisations have no legal authority to buy or sell padi.

Therefore, these primary societies assume a dual function, that of rice milling, and marketing (whenever they are licensed to do so). As for their rice milling activities, they are bound by a clause in their licences which stipulates that they can only mill padi for home consumption, and not for commercial purposes. (The latter function is, as have been pointed out, undertaken by the Rice Milling Union.) In this aspect, the primary societies face no difficulties, except in carrying out the activity as cheaply and as efficiently as possible. This involves the use of better mills and sieves, such that they can mill at a lower charge, and yet obtain, to the farmer's advantage, more rice in terms of per pikul of padi.

¹Henceforth to be called Sawah Sempadan Co-Operative Rice Milling Society.

²Vide Co-Operative, Tanjong Karang 13/51/Pt. IV/28.

For milling too, the farmers, whether they are members or not, will send all padi for consumption to be milled in these societies. The added advantage for society members is that they are entitled to a padi-milling rebate at the end of each year, payable in proportion to the amount of padi each member had milled during the year. This rebate is paid at variable rate, for each year.

However, the primary societies have a bigger and more important role to play in the marketing of padi, besides rice-milling. By law, they are the sole purchasers of padi, and therefore purchase all padi that farmers want to sell.³ Subsequently, they should be dealing in a perfectly competitive market, as co-operative societies do not compete with each other. However, this is not the case, because there is keen competition from illegal traders, and as a rule, the co-operatives do compete with each other, especially in the winning over of farmer's patronage. In order to illustrate this clearly, it will be necessary to go into the actual operations of these societies, and analyse their place in the economic system of Sawah Sempadan as a whole.

The Need For, and Importance of These Societies

Rice is a major crop for the people of this country, and being grown by small farmers, there is a need for the proper channelling of the rice into the market. A large proportion of the rice comes out from these small farms as an excess over home needs, or a source of cash incomes to cover other requirements, and for many reasons, it is necessary to have a proper middleman system to cater for this.

Farmers in the Sawah Sempadan area, like other padi farmers anywhere, cultivate the land on a small scale, and each farmer has only three acres of padi land⁴ can yield up to 400 gantangs per season (given all facilities required). However, their standard

³The farmers do not only sell the padi that is an excess over consumption. Many sell their higher quality padi at a good price and then buy low grade rice for consumption. They make some "profit" out of this, and use the cash to buy other necessities.

⁴In many cases farmers own more due to illegal transactions or fragmentations. In addition, the pieces of land may be rented out to tenants, such that a three-acre lot may be operated by three tenants, or operated jointly by a tenant and a co-owner.

of living, and low income do not enable them to obtain all necessary capital to fully utilize the land such that productivity is raised. Consequently, the farmer do not get much from his land. But, it is still necessary for him to sell some of his padi, he needs cash for various purposes. On the whole, the padi that goes into the market are in small amounts at a time although the total comes up to considerable amounts during the peak season.

However, each farmer can only sell a few sacks each time, because he lacks the transport facilities, and in addition, he may sell as contingencies arise.

The selling of padi, however involves problems for the farmer. In the Sawah Bempadan Area, the padi farmers are cut off from the urban area by a distance of about two miles from the nearest point of the padi area. For the farmers in the upper blocks, A, B, C, D, and E, for example, the distance is doubled and trebled. Transportation is a major problem, especially for long distances, over narrow tracks, and it is not efficient for a farmer to carry one sack everytime he needs money, to the town. So the first stage involved in the marketing is to get the product away from the farm.

Next comes the problem of pricing, which is beyond the farmers' control. They lack the bargaining power, and have limited market intelligence. More often, they are in urgent need of cash, and should they make dealings with private traders, they are faced with a "take it or leave it situation."

However, with the co-operative system, the farmers, by means of the Union can indirectly stabilize prices. This is because the Union is the ultimate point in the system, which has its base at the farmers' level.

Through co-operative marketing, the farmers can be certain that they will not be victims of unscrupulous misdealings, such as short weight and price rings.

The advantages of standardising and bulking are, in addition, not obtainable by the farmer due to the limited size of their sales. Therefore it is necessary to have a pool, whereby, all the various types and amounts of padi can be standardised and priced accordingly. Storage, on the other hand, is the farmer's main problem. When he is unable to dispose of the rice for some time, due to his inability to cover the distance or uncertainty of prices.

In short, marketing, being a complex process, involves more than just selling the product. It is necessary to have the services of the middlemen, so that farmers are saved from the pressing problems of transport, price uncertainties and inconvenience of going to the consumer market in the town.

However, the farmers stand to gain when these middlemen services are performed by co-operatives, which are organizations set up wholly by the farmers themselves, and for their own benefits. The co-operatives, when properly run, should be able to diversify middlemen's profits and secure for the farmers, a larger share of the price paid by the final purchaser that is the consumer. In any area, the need for co-operatives is greatest when the margin between producers' prices and consumers' prices is too wide, when outlets are too narrow and when prices change too much and too often. The Tanjong Karang district typifies an area where the farmer's rice sales, though individually in small quantities, form a big supply market. The Co-operative Societies, therefore are necessary for the collection and channelling each small quantity, into the bigger market, without a wide middleman margin. Once farmers consolidate into co-operative societies, they may be able to hold the market itself, and protect their interests.

The two mentioned societies perform the services of private middlemen which have legally been done away with, and act as agents of the Union which is the ultimate buyer for the padi in Tanjong Karang.

Administration

The Co-operative Rice-Milling Societies are formed under the Federation of Malaya, Co-operative Societies Ordinance (1948) F of M, No. 33 of 1948, on the initiative of the Co-operative Department. This is one of the peculiar features of the Malayan Co-operative movement, where co-operatives do not rise out of the necessity felt by the farmers themselves (that is, spontaneous effort from them), but rather from the governmental level. There was no agitation on the farmer's part to have a co-operative marketing society, but it was on the recommendation of the Co-operatives Department Officials that co-operatives should be set up.

This factor is one of several others, that have caused the slower progress of the societies. It is so due to the farmers not knowing or understanding fully, co-operative principles and the roles the co-operatives could play. It is merely another governmental organization put into their society, and therefore it takes much time and experience before the management of co-operatives in rural areas like Tanjong Karang can prove satisfactory.

However, co-operative administration in the area has so far not been independent of external influences, and this is due to the nature of the organization itself. Each co-operative society is headed by a Chairman and has a committee of seven or nine members. General Meetings are usually held once a year, although a provision in the bye-law allows them to hold it twice a year. As is the principle, the entire management is composed of member farmers, but it is a feature of all the societies that the only a handful of the members are really aware of the details of bye-laws. A committee member, on the other hand would be automatically struck off, if he does not

attend three committee meetings successively, and it is not uncommon that committee members make all out efforts to remain for as long as possible, once they have been able to gain personally, by association with the co-operative management.⁵

Therefore, the Co-Operative Department tries to persuade frequent changes in co-operative office-bearers, so that more members can become more involved in the co-operative. The rate of charge so far has been four years once.

In the Tanjong Karang area, the Co-Operative Department takes a keen interest in the activities and condition of the co-operatives, and frequently advice is given to the Committee. Auditors from the department also make frequent checks into the books to see that all accounts are in order. As has been said in the previous chapter, the Department officials are directly involved in the Advisory Committee and the Union, and consequently, their authority is also channelled to the primary co-operatives.

Business

As has been stated earlier, the basic function of the primary co-operatives is to mill rice for home consumption. However, some also undertake marketing functions as agents of the Union.

In Rice-milling, all workers in the mill are members, who take turns to work, and are paid honorarium payments. The farmers deliver their padi to the co-operative for milling and are charged on a pikul-basis.⁶ Each sack is weighed before milling and recorded and after milling the quantity of rice obtained is also noted on the receipts.

Milling facilities are opened to all farmers and the charges are the same, although only members are entitled to rebates.

⁵ This is to say that the longer the committee members stay in office, the more they are able to use their position for personal benefits. One important aspect is in the handling of money.

For the record, one society was suspended for a year due to a misappropriation case.

⁶ The average charge previously was 90 cents per pikul of padi. But since the introduction of a Japanese Milling Sieve at the Sawah Sempadan Tengah Co-operative, and hence leading to a cheaper cost of operations, the other two have reduced their charges.

Several farmers have complained about getting only about 65% rice after milling.

From its milling operations, the societies stand to gain from the sale of rice polishing,⁷ which is the very fine rice grains that penetrates through the mill sieve, and therefore does not go to the farmer. Out of a pikul of padi, 30 is reduced, on the average, as husk and bran. The husk is burnt at the societies' premises.

Marketing

This is only the buying of padi from farmers and the sale of it to the Union, at prices stipulated by the latter. In order to understand the actual marketing scheme, it is best to outline it as has been set out vide Leaflet Hil. Co-Operative: T.K. 13/51/Pt. IV/27, which is for the marketing of padi for 1965. The stipulations are as follows:

1. The price of padi has been fixed by the Government at \$16.00 per pikul for padi that is sufficiently dried and cleaned, that is, of moisture content not more than 1%.
2. This price is for the main crop (first season) and valid until 30th June 1965.
3. For the second crop, the price is also \$16.00 but only for the Malinja variety.
4. The price for other varieties of padi or of mixed varieties has been fixed at \$14.00 per pikul.
5. Only licenced Rice Milling Societies (Marketing Licence) may buy padi from members, within their authorized areas.
6. The price of padi bought from farmers must be paid on the same day, after reductions on moisture content, weight of sack, and handling and transport charges.
7. The padi bought by primary societies must only be sold to the Tanjong Karang Rice Milling Union, and they are not allowed to sell to other places.
8. All weighing will be done at the Union premises, and the payments for the padi sold by the primary societies are to be made at the Union.
9. Any society found to sell to other places will be prosecuted and the Chairman will be replaced. If necessary, the licence will be withdrawn, after three days' notice.

⁷The original is in Malay, and the above summary has been translated.

10. All receipts of purchases and sales must be registered into the (registered into) the stock or receipts book, and only registered receipts can be used. Any violation of this rule will mean that the society's chairman will be replaced.
11. Should, at any time, the Chairman or Treasurer, be unable to account for certain business done, they are liable to be replaced and all books will be confiscated and checked. A new Chairman and Treasurer will be elected, and they will use new books. Any misappropriations or breach of trust will be reported to the Police.
12. All business accounts must be written out and closed every day and the Committee must place emphasis on this.
13. It is hoped that all societies will give their full co-operation towards the Officers from the Co-Operative Department in the running of the marketing system.

The above stipulations have been issued by the "Malay Co-Operative Officer", Kuala Selangor, and from this it is clear that the co-operative societies are far from autonomous and independent. Each year such rules are set out and circulated, and the primary societies are bound to follow them. In short, the marketing of padi by these societies run on the lines prescribed by the Union and the Co-Operative Department.

Each society has a fixed area of operation, for example, the Mukim Ujong Permatang Rice Milling Society is opened to farmers living in Blocks S, T, U, V, W, X, Y, Z, and R. These specifications are to be found on the licence itself, and each society should only concentrate its operations to its own area.

Membership, Financing and Assets

The co-operative societies are of limited liability, and therefore members are only liable to the extent of their share capital, which is \$10/- per share (and \$1/- Entrance fee). Each member can hold shares up to not more than 25% of the total subscribed shares. The highest figure given so far is \$400/- for one single member. Each farmer can only be a member of one society at a time, though there are cases (for reasons to be explained later) where a farmer is a member of two societies simultaneously.

So far membership in the Sawah Sempadan Societies have not been large, and a society has only been able to draw in only 20% of the farmers in its area.

The maximum amount of Share Capital for each society is provided for in the bye-laws, which must be reviewed yearly at the Annual General Meeting. The maximum dividend it can pay out is 6% in accordance with the Co-Operative Societies Ordinance.

Of the profits each year, the societies are required by the Ordinance, to put aside a fixed percentage (at present twenty-five percent) for the Reserve Fund.

In addition the societies maintain a General Reserve fund each, for other purposes, such as contribution to the Co-Operative College in Petaling Jaya, the Khairat Kebajikan, Education fund, Reserve to buy assets (land), and machinery. Each society has a share with the Union, or in other societies like Co-Operative Transport Societies. They have also bought shares for the proposed Urea and Paper Company, and, so far this investment has not brought any returns. One other source of regular income is Interest from fixed deposits in Banks including the Bank Persatuan Sharikat Kampong, Selangor.

The societies' bye-laws also provides that a certain percentage of the profits (after deduction from the Reserve Fund), may also be kept aside for expansionary, or asset-accumulation purposes. One society at present has acquired land and buildings, which it has rented out to a transport company.

Problems

Apart from the middleman problem which shall be discussed later, there are other problems that are faced by the primary societies. First, is the management problems, which involves the human factor. As a majority of the farmers are not fully or even substantially aware of co-operative principles, and of their rights and responsibilities as members. This lack of knowledge leads to what can be seen to be "apathy", towards the society and the co-operative movement as a whole.

However, apathy is also present to the extent that farmers do not want to be involved in the technicalities of the society operations, but on the whole they do not show interest because they do not know what they should know.

⁸ However, lack of membership support, and smallness of the membership total is not peculiar to the Sawah Sempadan area alone. In the whole of Malaya, in 1962, only 1.5% of the population were members of Co-Operative Societies. In India, the figure is approximately 6.5%. Even Iceland, which has the highest figure, shows only 40% of her population as co-operators.

For the purpose of instilling genuine interest in the co-operatives, co-operative education, with emphasis on co-operative principles, and its relevance to the farmers themselves, could be introduced.

In the organisation, honesty is as important as efficiency, and one of the major problems faced by new societies is to prevent the entry of unscrupulous persons into the committee in order to feather their own nest. Such persons do not benefit the membership, but on the other hand try to make personal gains at the societies' expense.

One of the biggest problems is also secure the loyal support of members, who are men of limited business experience, and who are probably with not much power of looking into the future, are suspicious and easily put off. Sometimes, societies attempt to get over this difficulty by persuading members to bind themselves by contract to deliver all their produce or all their produce of a certain kind, to the co-operative. Or they may be bound by a contract to sell to the Co-operative. But in the Sawah Sempadan area, this is not practised, such that members are not bound by any law to sell to their own co-operative. This is one form of product leakage, which if continued on a larger scale, can mean a great loss to the societies.

Internally too, there are problems which are more of the psychological nature, involving rivalries, jealousy, party politics and dishonesty.

But for each society as a whole, the problem of encroachment of areas⁹ is quite significant. The main motive behind this is to obtain a greater share of the farmers' produce in the whole Sawah Sempadan, and therefore to gain more profit. It follows from here that the more dollars earned, the more rebates will be paid out, and this means the committee involved will earn itself a good name, and therefore be able to remain in the society longer. The ultimate reason is again the side benefits which a seasoned committee can strive to gain from the society.

Encroachment problems come in only where marketing activities are concerned, and arises from the fact that there is no legal limit to separate the area of operation of one society from that of another, and likewise a member is not legally bound to join any one particular

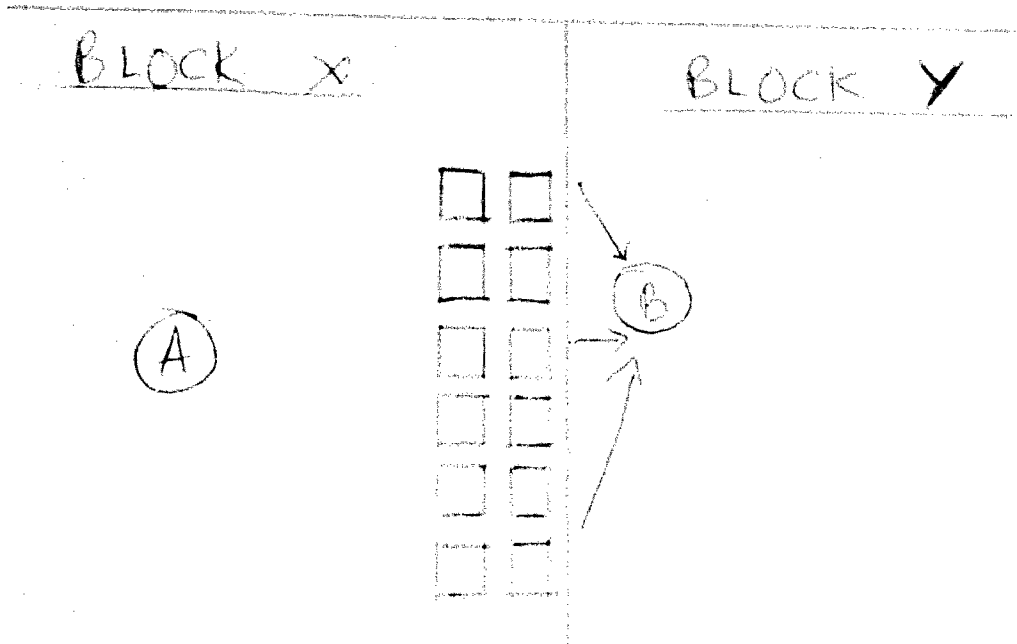
⁹There is competition among the co-operatives themselves, to obtain as much a share as possible of the market.

This only reflects an unsound understanding of co-operative principles.

society. For example, should there be two societies A and B, in blocks X and Z respectively, the farmer M can join any one he likes as he lives in Block Y, in between the two. In addition, farmers tend to join societies which gives more convenience to them. For example, the farmer was a member (and still is) of society X which was opened ten years ago, and is two miles away, and only a year ago a new society was opened up, in his very own block. It is rational for him to join the latter, without severing his ties with the first. Though this dual membership is not allowed, it has not been possible to keep a strict check on such occurrences.

Another was by which a new society can encroach upon another's area, without apparent wrong in doing so, can be illustrated with the diagram below:-

DIAGRAM V



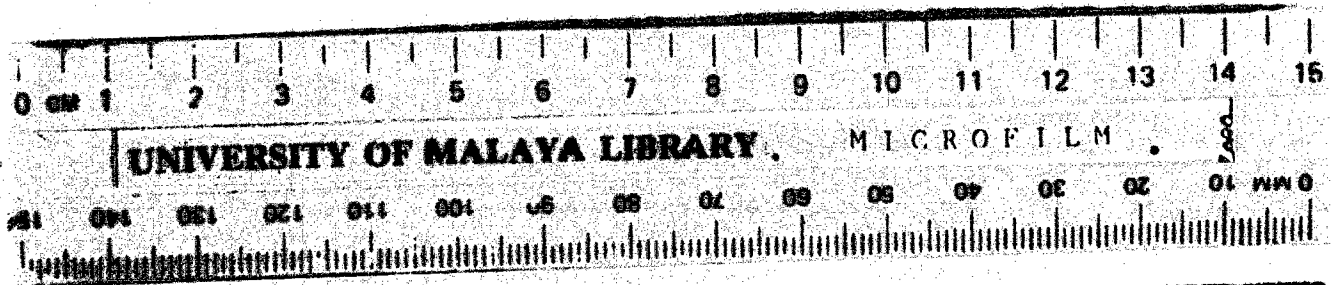
Society A represents the older society, previously serving farmers from Blocks X and Y. But Society B has been set up, on profit making motives, near the block border. This will then enable it, not only to serve farmers in Block Y (as it rightly should), but also to tap on the farmers (shown by squares) in Block X but living closer to Society B's premises. It would only be rational for these farmers to go to Society B, as there is an advantage of it being nearer to them than A. Therefore A will either lose members to B, or members' produce, or even both.

In a rural area, like Sawah Sempadan, too, there are strong

ties

social and kinship/which have effects on the co-operative set up. The "anak bush" relationship is important, especially for the credit co-operative societies, in respect of committees giving out unconditional loans to kinsmen. In marketing too, it is quite important, where preferential treatment, and considerations are given.

The problem of indebtedness of the primary societies to farmers has been discussed earlier, and it would suffice to say that it arises from two factors. One is the limited working capital, and the other is the initial indebtedness of the Union to these co-operatives, which triggers a bottle-neck all around.¹⁰



¹⁰ See Chapter II

CHAPTER III

A BRIEF STUDY OF:

THE UJONG PERMATANG CO-OPERATIVE RICE MILLING
SOCIETY (FROM 1958 - 1962)

THE KUNCHI AYER BUANG CO-OPERATIVE RICE MILL-
ING SOCIETY (FROM 1960-1963)

In this chapter, I shall only try to analyse the development of both societies for the periods stated above, and as both are for different periods, it will not be possible to make a detail comparative study. The reason for the difference is that each society could only produce records for those years, and also previous to these, very irregular and incomplete records were kept. However, wherever possible, I shall try to make comparisons.

Introduction

Both the Kunchi Ayer Buang Co-Operative Rice Milling Society and the Ujong Permatang Society, were formed in the year 1949, and registered the following year, both on 7th November, 1950. In this respect, it is quite possible to compare the progress either has made, with the data obtained.

As has been mentioned in an earlier chapter, the years after the World War II, and subsequently the Japanese Occupation, were times of reconstruction and re-development of the Co-Operative movement. Therefore, both societies were an outcome of the re-organisation efforts of the Co-Operative Department to revive the co-operative activities that had been severely retarded and suspended during the War and the Occupation. They were among the 937 societies operating during that period in Singapore and Malaya whose total membership was 126,000 and a working capital of over \$10 million.

However, co-operative marketing societies were only a small part of that number because the period marked only the beginning of a diversification of co-operative activities, from the usual credit extension and loan and thrift facilities. This was only the start of co-operative processing and marketing.

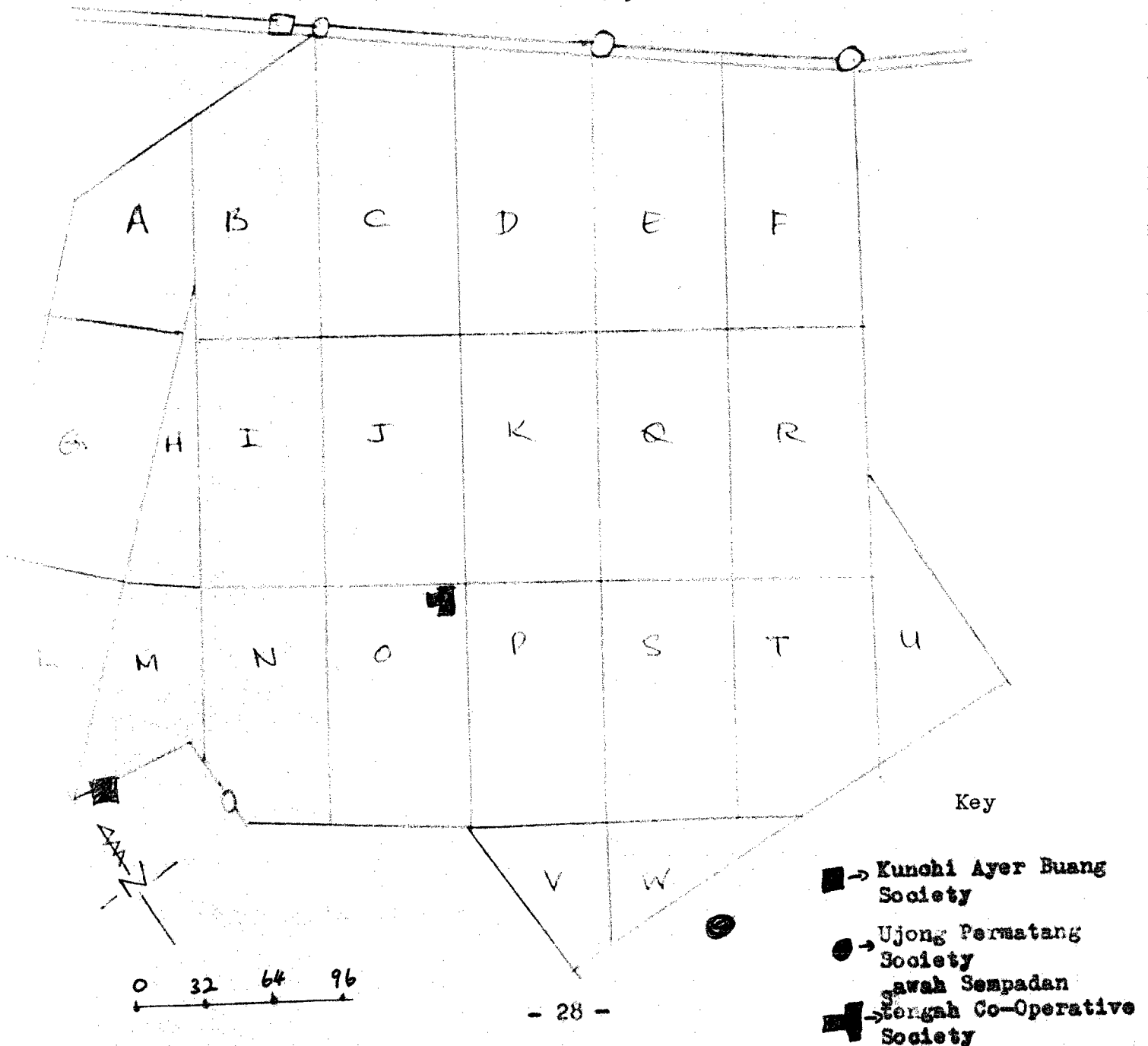
Both societies operated under supervision of the Co-Operative

Department, and to a great extent this has proved beneficial. For rural societies such as these, the technicalities of keeping accounts, business management, and also organization problems are too heavy for the little-educated committee members. In their case, complete independence in every aspect would only result in quick failure of the societies, and until really reliable and able members take over the management, constant advice and guidance would be necessary, from the Co-Operative Department.

Until late 1964, these two societies are the only ones serving the entire Sawah Sempadan Area, and it is probably because of the nature of the land that they are situated at the same end of the area. (See diagram below.)

DIAGRAM VI

SAWAH SEMPADAN (6,108 acres)



In the area, the uppermost blocks namely A, B, C, D, E and F are the least fertile of all the blocks, and in fact almost all of blocks D, E and F are uncultivated, if they are, very little yield is obtained. The middle row is moderately fertile, and all land is cultivated, and farmers do have excess over consumption each season. However, the blocks L, M, N, O, and P are the most high yielding areas and here it is quite common to get average yields of over 1,000 gantangs per lot of three acres. Therefore these are the most well-to-do of all the farmers, and in addition they are more likely to sell a large percentage of their padi in order to purchase the better durable consumer goods that their higher level of living enables them to enjoy.

Consequently, the two co-operative societies were centered around these areas, one serving these blocks M or S, or N or W. It is quite reasonable to explain that the reason they were not placed at the uppermost areas on the grounds that farmers there were too poor even to pay the entrance fee to the co-operative, let alone sell the padi which is not even sufficient to sustain them for the whole year.

However recently, a new co-operative was formed to serve the central region, which is an overlapping of the other two.

In the licence for the Ujong Permatang Co-Operative it was stated that its area of operation blocks R, S, T, U, V, W, X, Y, Z, AA and also the Ulu Tiram Burok. But similar information could not be obtained from the Kunchi Ayer Suang Society, and indications show that it serves the entire area not covered by the other. However, provision must also be made for encroachment of areas, as well as farmers being members of and selling to, both societies at the same time. All along, the societies have been operating competitively with one another, and it was a significant factor when the Ujong Permatang Society almost immediately reduce their milling charges to 50 cents per pikul when the Sawah Sempadan Tengah Society installed a Japanese mill which could give much more rice per pikul of padi than other mills, for a 90 cents charge per pikul.

The Ujong Permatang Co-Operative Rice-Milling Society

In the five years under review, the Ujong Permatang Society has not shown such progress, and in fact, for the year 1960, its licence was suspended¹, due to a case of misappropriation. Below are figures to show the membership figures and also amounts of Share Capital.

¹Henceforth, the year 1960 shall be disregarded.

TABLE II

TO SHOW THE MEMBERSHIP AND SHARE CAPITAL FOR THE
 UJONG PERMATANG CO-OPERATIVE SOCIETY
 FOR THE YEARS 1958 - 1962

Year	1958	1959	1961	1962
Membership	94	94	93	101
Share Capital	\$2,970.95	\$2,970.95	\$1,480.95	\$1,550.95

As shown by the above figures, the percentage of farmers being members of the society is very small, but this not to be taken as indication of total apathy, because figures for purchases showed rapid increases, except for the year 1962. This year was the first double-cropping year, and the Taiwan variety proved a failure. Hence yields were very low, and little rice got into the market. Figures for these are shown below, together with the profits obtained by the society for the said years.

TABLE III

TO SHOW THE PADI MARKETING FIGURES
 FOR THE YEARS 1957 - 1962

Year	31/12/57	31/12/58	31/12/59	31/12/61	31/12/57
Quantity of Padi Bought	571,555	1,860,852	2,191,625	1,004,886	261,599
Quantity of Padi Sold	571,152	1,877,115	2,192,765	921,538	245,282
+ Balance of Padi	-	16,263	1,140	83,348	16,317
Leakage of Padi	403	-	-	-	-
Profits	\$1,350.90	\$2,890.65	\$9,575.24	\$2,712.01	\$107.43

* Quantities are in katis.

+ Balances refer to padi not sold to the Union by the date specified.

From the figures, it can be seen that for 1958, there was an increase of 245% over purchases for the year 1957, while in 1959 and 1961, the figures were only 17% and 4.54%. The decrease in 1961 was a result of the suspension in 1960, and due to this, the society had to rebuild its organization and reputation. The year 1962 showed a further decrease over the 1961 figure, that is of 74%. This is attributed to the double-cropping experiment involving Taiwan padi which was not at all successful, due to prolonged diseases (when the plants became red in colour, and they were attacked from within the stalks.).

Consequently, the trend of profits followed the same pattern, the lowest being in 1962 again. In turn, we can examine rates of rates of dividends and rebates for the above years.

TABLE IV
REBATES ON MILLING TO MEMBERS

Year	Quantity Milled (pikuls)	Rebates Per Pk.	Total \$ Paid Out
1958	505.08	50¢	252.54
1959	163.61	50¢	81.80
1961	252.76	50¢	126.38
1962	533.89	60¢	320.33
Total	1,455.34	-	781.05

From the above, we can calculate what amount of padi (in pikuls) were milled by members, that is by dividing the total milling rebates paid (which is to members only) by the milling charge. The figures derived are as on page 32.

TABLE V

TO SHOW QUANTITY MILLED BY MEMBERS
OUT OF THE TOTAL

Year	Total Milled (Pikuls)	Total of Member's Padi Milled
1958	505.08	126.27
1959	163.61	45.40
1961	252.76	63.19
1962	533.89	160.175

In 1962, we find that the rebate for milling has gone up by ten cents to sixty cents per pikul, and this followed the greater amount milled by members. The reason why more was milled for home consumption was that the harvest was bad (as has been stated earlier), and farmers were forced to consume almost the entire harvest (even that may not suffice), and could not sell such, save for real essentials which needed cash.

Out of the total padi purchased from farmers the following amounts were from members, and we can also show the rebate paid per pikul for patronage.

TABLE VI

TO SHOW THE QUANTITIES OF PADI PURCHASED BY THE
SOCIETY AND TOTAL REBATES PAID

Year	Quantity bought from members	Rate of Rebate per pikul	Total Rebates Paid Out
1958	757.11	50¢	\$378.55
1959	651.11	50¢	\$325.55
1961	1,648.38	50¢	\$824.19
1962 ²	n.a.	n.a.	n.a.

²The figures are still being verified by the auditors.

These represent the following percentages of the total quantities purchased.

TABLE VII

TO SHOW PERCENTAGE OF PADI PURCHASED FROM MEMBERS

Year	Total Quantity Purchased	Quantity from Members	% of total Quantity
1958	18,608.52	757.11	4%
1959	21,916.25	651.11	3%
1961	10,048.86	1,648.38	16%
1962	2,615.99	n.a.	n.a.

Absolute figures are in Pilsals

From these figures it can be said that the co-operative has not obtained full support of the farmers within its area, as more than half of them that are shown to sell to the co-operative are still not members as yet.

Regarding its milking activities, more detailed records have been kept, and the following table summarizes these activities. The figures stand as at the respective year ends, as they are taken out of the Balance Sheet. The next table shows the corresponding Profit and Loss figures:-

TABLE VIII

TO SHOW FIGURES ON MILLING OPERATIONS FOR THE YEARS
1958 - 1962

Particulars	31/12/'58	31/12/'59	31/12/'61	31/12/'62
Quantity of padi milled	879,142 [†]	591,023	631,028	634,358
Quantity of rice obtained	566,212	380,685	407,458	415,868
Quantity of bran obtained	307,721	229,310	219,653	221,051
Average Quantity of padi milled	73,261	49,252	52,585	52,863
Weight of Rice Obtained (%)	64.4%	64.4%	64.57%	65.5%
Weight of Bran Obtained (%)	35.0%	38.8%	34.8%	34.84%
Weight of Bran lost through leakage (%)	0.6%	-	0.6%	-

[†] Per month

^{*} In katis

TABLE IX

MILLING CHARGES AND EXPENSES OF THE CO-OPERATIVE

Particulars	31/12/'58	31/12/'59	31/12/'61	31/12/'62
Total Income from Milling & Bran Sale	\$19,128.38	\$11,572.79	\$15,493.75	\$16,748.91
Total Expenses of Milling & Operations of Co-Operatives	\$ 9,758.27	\$8,379.43	\$10,004.64	\$9,625.15
Profit from milling	\$ 9,370.11	\$3,193.36	\$5,489.11	\$7,123.76
Loss on Milling	-	-	-	-

Table IX shows the figures for the years 1958, 1959, 1961 and 1962, but I was also to obtain similar data for the period in 1960 when the co-operative operated, before its licence was suspended they are as follows:-

Total Income from Milling & Bran Sale	\$2,395.19
Total Expenses of Milling and Operations	3,638.02
<u>Loss</u> on Milling	1,242.83

As can be seen, this was the only year where there was a loss on milling. During this year, there was mismanagement of the committee which resulted in the licence for operations being suspended. Apparently, the loss was the outcome of the inability of the committee to be loyal and honest to the co-operative society.

Apart from the above-mentioned activities of milling and marketing, there is also a secondary activity, that is the sale of Bran. This brings in quite a considerable amount of income, as the bran comes free, that is, it is the remains that is left after milling, and may constitute as much as 35% of padi. For this activity, the figures for 1960 have also been included

TABLE I

SALE OF BRAN

Items	31/12/'58	31/12/'59	31/12/'60	31/12/'61	31/12/'62
Total obtained from Sale	\$ 11,160.93	\$ 5,693.79	1,622.79 + 61,678 (balance)	\$ 9,785.65	\$ 11,000.31
Quantity obtained as wage	307,721	229,310	30,134	219,653	221,051
Quantity sold	304,628	+167,632	-31,359	215,632	212,016
Quantity of Leakage	3,093	*61,678	*60,453	4,021	9,035
Average Price Per Kati	\$ 3.66	3.40	5.17	4.54	5.19

* -60,453 katis destroyed

+ Quantities are in katis

It involved a misappropriation case of about \$10,000.

At each year end, the co-operative society will allocate any Profit made in the various funds provided for in the bye-laws. 45% of the total profit must be channelled into the Reserve Funds and Special reserve funds, and the remaining 55% can be distributed as dividends and rebates. Below are details of the distribution of 45% of the Net Profits for the years 1958, 1959, 1961 and 1962.

TABLE XI

DETAILS OF THE DISTRIBUTION OF 45% OF NET PROFIT

Items	Amount	1958	1959	1961	1962
Reserve Fund	23%	2,530.39	2,492.16	1,290.44	1,039.00
Co-Operative College Fund	2%	220.03	216.71	112.24	90.34
Tithe (Zakat)	2%	275.05	270.90	140.26	112.93
Education Funds	4%	440.07	433.41	224.42	180.70
Land & Building	10%	1,100.17	1,033.55	561.06	451.77
Share Redemption Fund	1%	110.02	108.35	56.10	45.17
General Social and Reserve	2%	275.04	270.90	140.26	112.93
Total	45%	4,950.77	4,875.98	2,524.78	2,032.84

The purpose of the reserve funds are to act as an important source of capital and consequently, to provide a certain extent of self-sufficiency for the society. A Reserve fund is one, into which is paid some part of the surplus of earnings over expenditure at the end of every year, and in the case of the Tanjong Karang Co-Operative Societies, this amount has been fixed at 23% for the main Reserve Fund.

One great advantage of having such a Reserve Fund is that, unlike all other forms of capital is that no interest is paid on them. Reserves, though are interest free, would mean that members have to make a sacrifice, in order to accumulate it, as they will not obtain the full amount of the profits.

Honorarium Payments

It is stated in the Society's bye-laws that payments to committees shall be only nominal in nature and there will be no fixed salaries. Such payments are also made to the members who give their

services, such as helping in the milling and weighing.

One feature in the payment of such money is that it should provide incentive for the committee and members to work harder, as well as being sufficiently remunerative as to prevent swindling and misappropriations.

Although it is sometimes possible and even desirable to elect committee members who are co-operative enthusiasts and are prepared to work for a small "salary", because they believe in the social value of co-operation, a co-operative cannot take for granted that willingness for too long. Margaret Digby gives three reasons why co-operative payments need to be attractive:-

(a) To retain their services as frequent changes and loss of good men can ruin a co-operative.

(b) To put ordinarily honest men out of reach of corruption.

(c) To give them a status equal to that of others with whom they do business, and with whom they have equal responsibilities.

To sum up, it can be said that when the persons actually involved in running of the society are contented and efficient,, the society can hope to progress.

The Ujong Permatang Society has to some extent not been able to avoid swindling by its committee, as reflected by the aforesaid misappropriation. For the year 1958, the Committee and workers were paid comparatively larger sums than the other years, as can be seen from the following figures:-

TABLE XII

HONORARIUM PAYMENTS

Year	Total Paid to Committee Members	Total Paid to Workers
1958	\$940.00	\$100
1959	\$370.00	\$ 30
1961	\$385.00	\$ 35
1962	\$335.00	\$ 40

In such financial matters, the society has the help and advice of the officers in the Co-Operative Department, and are shown the ways to keep accounts and to manage them.

This is of much help and a necessity, because new committees usually have no accounting background at all, and as a result, the book-keeping process starts all over again each time new officials are elected.

Other Activities

The Ujong Permatang Society carries ^{out} no other activities besides those stated above. This has been explained as due to lack of funds. The Society, however, has plans to buy a tractor, so as to enable farmer-members to tractor their land with their own machine.

This society is in addition, facing indirect competition from the Persatuan Peladang, whose premises are only two doors away. This competition comes in the form of siphoning away members. The Persatuan Peladang is an organization, directly under the Agriculture Department, which provides services to farmers, such as ploughing of land for a lower rate than others', distribution of fertilizer and vegetable seeds (like kacang). Farmers around the area, though on the average, are better off than in the other blocks, find it more worthwhile to be members of this Persatuan Peladang, and yet sell padi to the Society. However quite a number join both organizations, in order to get the benefits from both.

The Kunchi Ayer Buang Co-Operative Rice Milling Society

^{- all} This society is the biggest co-operative rice milling society in the Sawah Sempadan area, and is situated in the best point, that is, at the point nearest to the Union, and the town area. This gives the society an added advantage, as transport costs are cut down considerably and in addition, it virtually serves farmers in any area of Sawah Sempadan. This is because it is on the main route to the town, and farmers going to make purchases, find it convenient to sell their padi here, and then proceed to town. This society has in fact more members than the other societies, including the Persatuan Peladang.

Below are figures showing the total membership and Share Capital for the five years, 1960, 1961, 1962, 1963 and 1964.

TABLE XIII

TO SHOW MEMBERSHIP AND SHARE CAPITAL FOR THE YEARS
1960 - 1964

Year	Membership	Share Capital
1960	314	\$5,406.47
1961	322	\$5,565.79
1962	354	\$5,995.79
1963	357	\$6,005.79
1964	360	\$6,055.79

From the above Table it can be seen that within the five years, there has been a steady progress in membership. The highest number of shares bought by any one member is so far 40 shares, held by the present Chairman of the society. Although this society was registered on the same day as the Ujong Permatang Co-Operative, it has gathered more members, and made more progress.

The importance of position can also be seen from the fact that the Sawah Sempadan Tengah Co-Operative, which was registered only on 10th December, 1964, has at present 231 members, and \$7,250.00 share capital. The reason for this big initial number of members is that the society is situated in an advantageous position, in the central part of the Sawah Sempadan area. This means it can serve farmers all around it.

Business

Milling

For the four years, the Society's business can be set out as shown in Table XIV.

⁵Please see Plan of Sawah Sempadan Area in the beginning of the Chapter.

TABLE XIV

TO SHOW THE QUANTITY OF PADI MILLED, PER
MONTH AND PER PERSON

Year	Quantity Milled	Per Month	Per Person	
1960	8,335.06	694.58	2.32	81/-
1961	8,571.53	714.29	2.19	90¢
1962	7,510.09	625.84	1.83	90¢
1963	n.a.	-	-	90¢

(The figure for 1963 was not obtainable, due to accounts being misplaced. At this juncture, it must be pointed out that the book-keeping and even the actual safekeeping of books and accounts was found to be haphazard. In addition, the latest Committee had adopted new methods of keeping records, and from what I gathered, old records had been treated as a thing of the past.)

From this Table it can be seen that the society was also affected by the failure of the Taiwan padi. However, there was only a 12% decline in total quantity milled by farmers.

In its marketing activities, the business can be tabulated as below:-

TABLE XV

TO SHOW FIGURES FOR THE MARKETING OF PADI FOR THE
YEARS 1960 - 1963

Year	Quantity of Padi Brought *	\$ Value	Quantity of Padi Sold	\$ Value
1960	28,348.75	372,877.27	24,869.08	393,644.29
1961	30,723.76	403,802.83	28,062.16	417,826.57
1962	14,852.72	302,498.28	12,098.94	315,425.76
1963	14,427.36	192,582.60	13,824.54	199,325.59

* In pikuls.

In analysing the figures we see that, due to the Taiwan padi, padi purchases had dropped from 30,723.76 pikuls in 1961 to 14,852.72 pikuls in 1962, showing a decline of 51%.

Similarly, this decline was carried on further to 1963. As a result, the Society's net profits were also much affected, as can be seen by the following figures:-

TABLE XVI

NET PROFITS FOR THE YEARS 1960 - 1963

Year	Net Profits	% on Sale
1960	10,701.14	5.27
1961	6,545.74	3.35
1962	4,192.79	1.32
1963	3,175.79	1.59

The profits for 1961 had been a decline of 40% from 1960, and in 1962, the figure \$4,192.79 was a decline of 37% over the previous year. In 1963, it was a decrease of 24% over the net profits of 1962.

Following this, it can be expected that distribution of profits as rebates would be reduced, and the fact that it is so has been received with dissatisfaction by farmers, who expect increasing amounts of rebates paid out per pikul, on milling as well as on purchases, to members.

TABLE XVII

TO SHOW REBATES ON MILLING

Year	Rebate on Milling	Rebate on Purchases
1960	75¢	45¢
1961	30¢	10¢
1962	50¢	10¢
1963	15¢	10¢

The decrease in the rebates paid out can be attributed to the leakage of padi sales to the co-operative society. As such, the turnover declined, and it had not been possible to increase the rate of rebates.

Other activities

This Co-Operative Society also owns a tractor, which can be used by farmers, both members and non-members, at fixed rates of charges. At present, the charge levied for members is \$15/- per acre while for non-members, it is \$17/- per acre. For these purposes, the society engages a monthly paid driver.

Regarding the ploughing of land for farmers, several comments have been received from the farmers, during my course of interview. One farmer stated that he preferred to make use of the tractor which is owned by a Chinese trader to the one belonging to the society. His reason was that the work done by the society driver was far from satisfactory, as he was always inclined to plough the area incompletely. Often the farmer had to be there to see to it that the land was properly ploughed.

But on the other hand, the Chinese driver need not be watched upon, as he always did the work well, such that the farmer did not find any reason to complain. However, the rate of charges are the same, and it is for the satisfaction of getting his money's worth that makes the farmer choose the services of the private trader.

Another comment was on the inavailability of the "Kubota" tractor at the times needed. This is due to the long list of farmers who want to have their land ploughed, and in addition, members are given priority.

CHAPTER IV

THE MIDDLEMAN PROBLEM

This is one of the most important problems facing co-operative societies anywhere, and it is more serious when the societies have not yet gained a strong foothold in it's area of operations. In addition, rural societies tend to be at disadvantage, because its members are merely small produces who have many weakness which make them prone to succumb to the easier way out, and to think merely on immediate or Short Term basis.

It must be emphasized that the Co-operative movement in this country is relatively new, and in the Sawah Sempadan area, the first society was only established in 1950. This means that before that, farmers have always sold their rice to private traders, who perform the essential middlemen services. Subsequently, the co-operative societies have become a rival to these merchants, and have taken away a share of their profits. (It is a well known fact that the weak farmers become victims of price rings and unscrupulous bargains.) Hence, it is only out of anxiety to retain their hold over the market, and to tap away as much of the produce, that the middlemen have carried out systematic operations within the area. This is being done inspite of the fact that it is illegal for them to purchase the farmer's rice.

In the Sawah Sempadan area, the middlemen are Chinese merchants, who have been trading in rice long before the co-operatives were set up. These unlicensed traders are more rampant during the height of the padi season, and especially when co-operatives become indebted to farmers.

The system of operation of these middlemen is quite fool-proof, such that their rings and channels of collection and distribution are difficult to break up and even to discover. In addition, inspite of there being apparent activities, the Co-Operative Department, whose duty it is to break up these illegal marketing, have often failed to find enough evidence to pin them down. This is not due to the inefficiency of the Department but rather because there is always a case of refusing to admit any relationship to the others and elusiveness, when someone in the circle is caught. In the light of such difficulties, the middlemen have been able to carry on without being proven guilty of violating the law.

In order to understand the success of these middlemen, it is important to know the framework of their operations. In the first place, the Chinese traders have cleverly chosen Malay agents, such that all actual marketing activities are done by the latter and it also acts as a camouflage. In turn, the Malay Agents appoint their own sub-agents, who are the more popular and well-known of the farmers. It is not difficult to understand the position of these farmers because they stand to gain when they are working for the illegal ring. They are paid commissions for each transaction, as well as service payments. The top men, that is, the Chinese traders, have big agents in towns like Kuala Lumpur. Therefore no one middleman buys rice in bulk quantities, because the channel spreads out, and the rice comes in insignificant quantities at the start. One Malay sub-agent can collect two or three sacks at a time, and he delivers this in turn, to the Malay agent above him.

However, it is the human factor again, that contributes to the success of this system. On one hand, the poor farmers are forced to sell padi for immediate cash, and when the co-operative is in debt, they have no alternative but to go to the private middlemen who will pay them immediately. Needless to say, the prices are a little lower than the price the Co-operatives give but there are no reductions made for moisture content. All padi is given a pro rata price. In addition some middlemen pay the cost of transport, that is, at the normal rate of twenty cents per sack for any distance. This, to the simple farmer is an added gain, especially if he could bring in three sacks at a time. We can illustrate with an example.

The Co-Operative Society pays a pro-rata price of \$14.20 per pikul. But, it insists on specified dryness, cleanliness and also insist on good sacks. Should the farmer fail to produce padi as specified, he could be told to take it back to dry. This will cost time, effort and above all, embarrassment to the farmer. On the other hand, the middleman will pay him \$14/- per pikul (and maybe an extra payment for transport), and he is not penalised for short comings. To him, there is more to gain by selling to the middlemen, should the co-operative impose too many restrictions and requirements.

However, the Chinese traders are willing to take even moist padi, because with a extra effort in drying and cleaning (involving only labour), they can obtain the \$16/- price, or prices near that figure.

The traders use the services of respected farmers for the simple reason that farmers can be attracted more easily and the social system is such that they will not hesitate to do things for the village elders.

In times of low prices, the middlemen will resort to short weight, and it is an accepted fact to the farmers. The reason given is that the middlemen have become a similar factor as "lenders of last resort", in which case they are the only alternative to the

co-operative, which by right should be the only market for padi.

However, farmers normally turn to these middlemen when their padi have been rejected (due to it being moist, for example) or because they are dissatisfied with the co-operatives in one way or another. Once they have taken the trouble to go to the middlemen, it is unlikely that would refuse to accept the traders' terms, how unfair it may be, because the farmers would only waste the effort of taking home the padi. To go back to the co-operative would be embarrassing. Above all, they need the cash.

The worst year, when the middlemen were rampant, was reported to be 1958, and recently too, with the short duration of the Moisture Test system, there was much diversion of padi to these private traders.

Before the use of the moisture meter, there was a special system, by which the Chinese traders in particular has an advantage over the co-operatives, and this was due to the fact that in the Sekinchan rice area, the Chinese farmers harvest their padi one month earlier than the Sawah Sempadan Malay farmers.

For example, in January 1964, the padi is already being harvested in Sekinchan, and by nature, the padi will be more moist, and we shall assume it contains 20% moisture. However, in the Sawah Sempadan area, the harvesting is not done yet.

In February, the Malay farmers will begin to harvest, and their padi will have 20% moisture. But, by now, the padi in Sekinchan, will have a reduced moisture content, of say 10%, due to the lapse of time. However, in February both kinds of padi will be paid the same price by the Union, as there was no complicated moisture content reduction as was used during April 1965. The reduction was done on a simple basis.

At this point, the private traders make their move, and they buy the padi from the Malay farmers at a low price, (the reason being that the padi is moist); but this price is a little higher than would be paid by the co-operatives.

Then, their next step is to dry and clean the padi and sell it to the Union under the cover of being Sekinchan padi.

The fact is that the Union buys up padi from any private trader from outside the Tanjong Karang area, and these ultimate middlemen are in fact licenced padi traders from outside Tanjong Karang. They have their illegal agents within Tanjong Karang to collect the padi, and hence, they are indirectly encroaching upon co-operative territory.

By virtue of the time lag between harvesting time in Sekinchan and Sawah Sempadan, the Union must buy Sekinchan padi at

higher prices than the Sawah Sempadan padi (that is, the Union deducts a lower percentage for moisture content.

In this way, the Sawah Sempadan padi being sold as Sekinchan padi, fetches a higher price than the price the Chinese traders had originally paid to the farmers. They have reaped a clean profit, and it had only cost them some effort to clean and dry the padi.

However, when the meter system was introduced, all padi had to be tested and there was no discrimination between Sekinchan padi and Sawah Sempadan padi. At present, the method of payment is that of pro rata basis, and the middlemen are deprived of much of the means to carry out their peculiar trick.

On the whole, the middlemen have been able to stay on because farmers have not given undivided loyalty to their co-operatives. However, the cost of loyalty has proven too high in most cases. In order to sell to the co-operative at all times, farmers must need to forfeit several things.

For example, when urgent cash is needed, and the co-operatives are at the time in difficulties, the farmers must be prepared to forgo for a time his personal needs in order to sell to the society. In most cases, the sacrifices would mean restraining consumption.

In addition, farmers do not hesitate to go to these traders when they are disgusted with the management of the co-operatives, and in such cases, the satisfaction gained from selling elsewhere has proven more than the gain that the farmers could have obtained from the co-operatives.

On the other hand, the men in the private middlemen system are very elusive and systematic in their activities, and the use of farmers as their tools have proved a better method.

To sum up this point, we can quote the Registrar of Co-Operative Societies, Ceylon:

".....Needless to say, their (the producers') suspicion and mistrust is actively fostered by the agency which formerly bought their goods, and has no desire to be ousted by your (the co-operatives) organisation. On the co-operative basis, all this has to be done by an association formed by the producers themselves that is cultivators pitted against traders trying to beat them at their own game and oust them from a market which they already hold."

¹In Margaret Digby - Co-Operative Marketing for Agricultural Producers, FAO, United Nations, Rome, 1957.

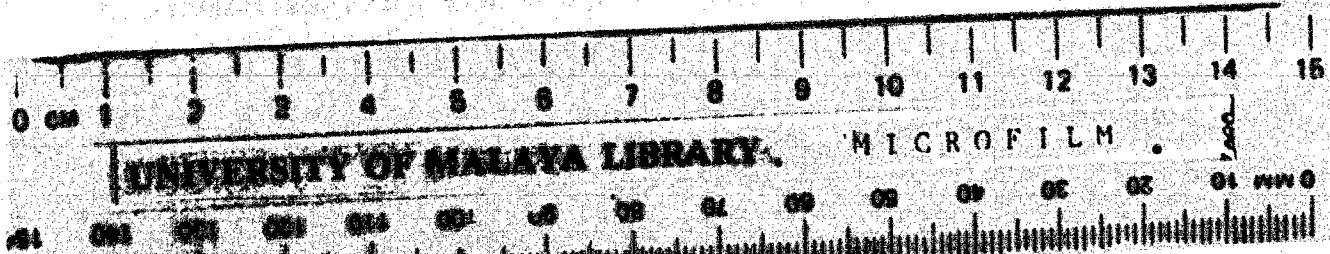
However, it must be emphasized that the middlemen are still there because they perform a service. This is in the form of a last resort for cash, and to the farmers, any source of cash is highly desired.

In addition, the private traders are a substitute as well as a complement to the co-operatives. They are a substitute, when the co-operatives fail to please or satisfy the members and farmers, and are a complement when the co-operatives reject the farmer's padi. In addition farmers sell to both private traders and co-operatives to gain the benefits the one has over the other.

It could be suggested, however, that a force of law could be a panacea to all the middlemen problems. But this in fact, involves much in terms of time and money, although eventually, it could prove a success.

First there is need to spread, intensively, co-operative education among farmers. Then the co-operatives must be streamlined, and activities of all the societies need to be made uniform in character.

But, it is also essential that farmers be made aware of the benefits from producing high quality crops, so that the marketing activities of the co-operatives would be of higher standards, and better prices could be paid to farmers.



CHAPTER V

CONCLUSION

In the Tanjong Karang Area, not unlike other areas where there are a very few buyers and a multitude of sellers in the market for agricultural produce, a concentrated effort on the Supply side is an essential factor providing countervailing power to the oligopolistic buyers. The individual farmers must market their produce collectively so as to reap the various benefits such action will bring. They can offset the imbalance of market power and will be able to counter the price rings that oligopoly on the buyers' side is likely to bring about. In addition, bulk handling also facilitates pricing, storage, standardizing and grading, although the latter has not been done to a great extent in the Tanjong Karang Area.

However, the main problem in the padi marketing is the obtaining of fair prices for farmers. In the present system, when private middlemen still operate, much of the marketing margin is taken away by these traders, and the farmers do not get as much as they should for their produce. To combat this, it has been found that co-operation would be a good weapon, and if possible, this should cover all the farmers.

Therefore, the only way that farmer producers can act together is by forming marketing co-operatives. This will ensure that marketing risks will be minimized because they will be spread out over many farmers. Also there is accumulation of resources, especially capital, which enable farmers to buy, co-operatively, equipments which they can never buy on their own.

In addition, the existence of a Milling Union provides for a source of extra capital and also advice and direct supervision. These benefits arise out of the economics of scale. By having the Union, which is a representative organization of the primary societies, it provides an economical way of obtaining specialist knowledge, because it facilitates direct contact with the governmental bodies such as the Department of Agriculture, and Co-Operatives. As has been mentioned before, a semi-government Advisory body also helps the Union, and therefore the primary societies.

This Union is a necessary factor because with existing standards of knowledge and economic consciousness among the farmers,

the running of a co-operative cannot be left solely to members.

Since its inception, the Union has faced and is still facing several problems. These problems can be discussed under separate categories, namely membership, capital, and organization and administration.

Membership

As has been stated, only a small percentage of the farmers in Tanjong Karang, particularly in Sawah Seapadan, are members of co-operative societies. Out of the number, not all are fully aware of Co-Operative Principles, or the functions of a co-operative as such. According to the Malay Co-Operative Officer, Kuala Selangor, only 20% of the members of co-operative societies know very well about Co-Operation and Co-Operative principles. This number represents the members, who serve on the Committees. The remaining 80% know very little, and half of this number have only a superficial knowledge of what a co-operative really is.

This lack of knowledge is a very important factor contributing to the failure of a co-operative organisation. On the other hand there are other reasons relating to membership problems, which are responsible for hindering the co-operatives reaching their full potential. Roy¹ has given several of these reasons and I am certain that the following can apply to the Tanjong Karang Co-Operative Societies:-

- (1) Poor selection of board members (management committees) who fail to support their own co-operatives.
- (2) Members who join but never use their co-operatives but bypass them for a small gain elsewhere.
- (3) Members who use the co-operatives but fail to take responsibility.
- (4) Members who never ask questions and who let a few persons run everything and say everything.
- (5) Lack of consistent membership education in the problems the co-operatives are facing and the challenges they must meet.
- (6) Cliques and special interest groups may exist. These ought to be closely watched and expelled whenever necessary.

¹Roy: Co-Operatives: Today and Tomorrow.

- (7) All facts about the co-operative, both good and bad should be put above the table, not under the table.
- (8) The blame for the failure of a co-operative usually rests with the members, not with anyone else. It is the members who elect the board of management, and the manager. Therefore, members are the key to the failure.

However, to investigate further into and discover the reasons as to why the members of the Sawah Sempadan Co-Operatives knew so little, I conducted interviews with twenty farmers, in different blocks of the area. The basis for the choice of farmers was the original random-sampling of the Tanjong Karang Farm Survey Phase IV, of the Department of Economics. Out of the already selected lots (five in each block), I randomly selected twenty farmers. The questions asked were mainly to find out the attitudes of these farmers towards the co-operatives, and the reasons for their being or not being members.

Out of the twenty, twelve were members of one of the three co-operative societies in Sawah Sempadan. However, one farmer was a member of two different societies at the same time, and the reason given was that he had joined the longer established society at its formation but when a new society, was set up near his home he decided to join it too.

The above twelve member-farmers, gave several reasons for joining a co-operative society, and it must be mentioned that one farmer may have several reasons for being a member. These details are set out in Table XVIII below:

TABLE XVIII

TO SHOW THE DISTRIBUTION OF 12 FARMERS BY REASONS FOR JOINING CO-OPERATIVES

Reasons for joining	Following Friends	For the benefits	The Co-Operative is nearby	Patronised by Sidang	Total
Number of farmers stating reasons	4	6	1	1	12

Four of the twelve farmers revealed that they had joined as members on the grounds that their neighbours and friends had already done so, and therefore it was only a matter of following the crowd. Six farmers joined because they saw the benefits in it, primarily the prospect of rebates and dividends.

One farmer however, stated that the reason for his being a member was that the co-operative is situated near his house, and he would prefer to sell to it (and get rebates and dividends), than to a private trader.

Another farmer gave a reason that reflected the social ties that exist between the village elders and the villagers. The reason was that he joined up because the Sidang, that is, the headman in his block, patronized the particular Co-Operative Society.

Logically however, a farmer who has only \$10/- at the least, to spare, would find it more profitable to invest it with the Co-Operative, as compared to Investment for interest with the Post Office Saving Bank. This can be seen when the profits are calculated in the amount of returns the \$10/- can bring.

For example, with the \$10/- he will earn 3% interest each year, which will be thirty cents. However if this was invested with the co-operative, he stands to earn a maximum of 6% on dividends and a certain percentage on rebates for his sales of padi, which is bound to make each year. The minimum for rebates on a pikul of padi is ten cents and should he sell ten pikuls, he already earns \$1/- . In addition, he will be paid rebates on milling, and this can be taken as a certainty.

But the most lucrative inducement should be the \$5/- bonus paid out for attending the Annual General meeting. Therefore, the farmer, by putting in \$10/- into the society, can easily earn that same amount within one year, and this is a clean profit each year. However, such attractive benefits have been bogged by other considerations which resulted in many farmers not becoming members, and selling to other purchasers.

Of the twelve members interviewed three admitted that they sold padi to private middlemen and they gave several reasons for doing so. One was that the co-operative was quite a distance away from the farmers' homes, and it entails trouble for them to transport a few sacks of padi at a time to the society. On the other hand the private traders come around to collect the padi from the farmers, or otherwise the middlemen would pay the farmers transport costs at twenty cents per sack if the padi could be delivered by the latter.

TABLE XIX

TO SHOW DISTRIBUTION OF FARMERS SELLING PADI TO PRIVATE TRADERS ON THE BASIS OF REASONS GIVEN

Farmer No.	Short Distance	Immediate Payment	Facilities Provided (Collection by Traders)	Cash needed urgently	Other Reasons
1		-	-		Co-operative too particular
2 ^a	-		-		Transport costs paid by trader
3	-				-
4			-	-	-
5 ^a	-	-			-
6 ^a	-		-		-

^aMember of a co-operative society.

The next reason is that the co-operatives sometimes are unable to make immediate cash payments on padi purchased from the farmers. As a result, the farmers, who need the cash as soon as possible, have to turn to the private traders, even if at the disadvantage of having to accept a price lower than that paid by the Co-operatives.

Another reason given was dissatisfaction and impatience with the co-operative management. Because the co-operatives have to keep up to certain quality standards in the padi purchased, they impose certain requirements on the farmers. This entails the proper drying of padi and the use of good sacks, and in several cases farmers were told to take home their padi to be dried further because it was too moist. This meant undue delay in getting ready cash for the farmers. Also, such dissatisfactions may arise out of sheer personal conflicts, that have been going on between the individuals concerned.

However the incidents lead to farmers becoming disgusted and turning towards the private middlemen.

The eight farmers who were not members, were also asked for the reasons, and five of them revealed that they did not have the money to spare, in order to pay for even one share (i.e. \$10/-) and the entrance fee of \$1/-. Two farmers declared they were not at all interested in joining any co-operative in the area, but all the same they sell their padi there at times. One farmer felt that he was too old to join the society (while he did not have the means to do so, previously), while another was not a Malaysian citizen as yet, and therefore could not become a member. It must also be noted that farmers who do not operate land in the area cannot become members.

TABLE XX

TO SHOW DISTRIBUTION OF EIGHT NON-MEMBERS BY REASONS GIVEN

Reasons given	Not Interested	Too Old	Non-Citizen	No Land	Lack of Means
Number of farmers stating reasons	2	1	1	1	5

However, the most peculiar reason given for selling padi to a private middleman was that the particular farmer was under the impression that all the padi bought by the trader would be sold to the Co-Operative in his (the farmer's) name.² He confidently assured us that he had already told the Chinese trader to inform the clerk at the co-operative, that the padi the trader is bringing belongs to him (the farmer). This, according to the farmer, to ensure that he will get rebates for the amount he has sold to the trader, which shall in turn be sold to the co-operative "under his name". He clarified that the trader cannot be a member as he is a Non-Malay and therefore the rebates shall accrue to himself

²This reflects complete ignorance of Co-Operative principles and activities, and also the extent to which the private trader could fool the farmer.

The Need for Co-Operative Education

From these above reasons, it cannot be denied that the farmers are only vaguely aware of how a co-operative operates, and what are their responsibilities. In my opinion such limited knowledge can only be attributed to the fact that in this country co-operatives did not rise from the "grass-roots level", but rather it was a movement sponsored by the government itself. There had been no spontaneous efforts at the farmer's level, nor were there agitations that legislations be passed to establish co-operatives.

In this way, the farmers have not yet been able to identify themselves with the co-operative, and hence it exists merely as another government instituted organization.

In such circumstances, it was found necessary to educate the members, especially the would-be leaders; and in the Tanjong Karang Area, several methods have been carried out.

The first was to win over the village leaders, so as to bring in the flock. Next comes the actual grooming of these leaders to become responsible co-operators, and be able to hold positions in the management. One way is to give courses in basic principles of co-operation, and point out to the would-be members of a prospective society, of the advantages as well as the disadvantages of co-operation.

In addition courses in co-operation are held at least once a year for co-operators for which they will be required to pay \$3/- per day (normally the courses last for three days), per member. These courses had been mainly attended by members aspiring to hold office in the management committee.

Analysing these methods of spreading knowledge of co-operation, it can be seen that they are inadequate and not entirely practical. For example, the Co-operative department has only tried to educate the interested few, and the courses were only meant, indirectly, for the farmers who had the means to pay the \$3/- per day. As could be seen clearly, only a handful would receive the education, and this, in my opinion, is not feasible.

For one thing, it is giving to a few members much knowledge, and this would enable them to stay longer in the committees. On the other hand, the policy is to have changes in management as often as possible, and therefore, there is a conflict of ideas.

Therefore, what is really needed is co-operative education on a broad basis, that is, to give as much knowledge and to as many farmers as possible. Courses on co-operation should be given free of charge so as to attract more members. It defeats the very purpose of the idea behind these course if farmers have to pay to learn, when they in fact lack the money to even join in as members.

However, it is an interesting point to note that the Annual General Meeting of any society has been very well attended. The main reason for this is that each society pays \$5/- to each member who attends the Annual General Meeting.. Hence members eagerly take this opportunity to earn extra cash. In fact, \$5/- is more than any day's work in a year, and to get this amount by just sitting down and possibly not doing anything, is worth the farmer's while.

This inducement, in a way, is likely to bring about a more passive interest of members. Unlike normal circumstances, when members attend Annual General Meetings to honestly and wisely elect new officials, or to question on matters of business or accounts, these co-operators are merely lured by the prospect of a monetary gain.

On the other hand, however, this system of paying cash for attending General Meetings can prove an effective method of spreading co-operative education among members. As it is a certainty that a majority of the members will be present, the Co-Operative officials could use the occasion as the time to literally force the members to listen to co-operative programmes, such as talks and discussions.

In addition pamphlets on co-operation could be distributed, and also film shows (which is very attractive to the rural farmers) on co-operation could be shown. In this way a more positive use could be made of the Annual General Meetings.

Such action could provide systematic education in the principles of education, and to disseminate the widespread propaganda of the value and possibilities of co-operation.

Even though the co-operative societies in the Sawah Sempadan area have so far sent one or two of their secretaries for co-operative courses at the Co-Operative College, Petaling Jaya, it is not sufficient. It is the members at large that should be made aware of the initiative, enterprise and sound administration required in a co-operative society.

Re-organisation of Trading Activity

Since the main problem in marketing is the leakage of padi to private traders, it would be a more practical step to take if the Union can affect a stipulation that the primary societies include an additional bye-laws, whereby all members enter into an undertaking to deliver all their produce to the co-operatives. This is, of course, provided that, the produce is of the kind that the co-operatives are formed to handle, namely all the specified varieties of padi. This obligation may also be made subject of a special contract. In any case, the members will not only promise to deliver the produce, but also agree to pay a penalty (to be decided by the societies themselves), if they fail to make good their promise.

This promise to deliver is very important because no co-operative can make a success of marketing unless it can count on a supply of produce in quantities which it can calculate in advance.

However, it is an interesting point to note that the Annual General Meeting of any society has been very well attended. The main reason for this is that each society pays \$5/- to each member who attends the Annual General Meeting.. Hence members eagerly take this opportunity to earn extra cash. In fact, \$5/- is more than any day's work in a year, and to get this amount by just sitting down and possibly not doing anything, is worth the farmer's while.

This inducement, in a way, is likely to bring about a more passive interest of members. Unlike normal circumstances, when members attend Annual General Meetings to honestly and wisely elect new officials, or to question on matters of business or accounts, these co-operators are merely lured by the prospect of a monetary gain.

On the other hand, however, this system of paying cash for attending General Meetings can prove an effective method of spreading co-operative education among members. As it is a certainty that a majority of the members will be present, the Co-Operative officials could use the occasion as the time to literally force the members to listen to co-operative programmes, such as talks and discussions.

In addition pamphlets on co-operation could be distributed, and also film shows (which is very attractive to the rural farmers) on co-operation could be shown. In this way a more positive use could be made of the Annual General Meetings.

Such action could provide systematic education in the principles of education, and to disseminate the widespread propaganda of the value and possibilities of co-operation.

Even though the co-operative societies in the Sawah Sempadan area have so far sent one or two of their secretaries for co-operative courses at the Co-Operative College, Petaling Jaya, it is not sufficient. It is the members at large that should be made aware of the initiative, enterprise and sound administration required in a co-operative society.

Re-organization of Trading Activity

Since the main problem in marketing is the leakage of padi to private traders, it would be a more practical step to take if the Union can affect a stipulation that the primary societies include an additional bye-laws, whereby all members enter into an undertaking to deliver all their produce to the co-operatives. This is, of course, provided that, the produce is of the kind that the co-operatives are formed to handle, namely all the specified varieties of padi. This obligation may also be made subject of a special contract. In any case, the members will not only promise to deliver the produce, but also agree to pay a penalty (to be decided by the societies themselves), if they fail to make good their promise.

This promise to deliver is very important because no co-operative can make a success of marketing unless it can count on a supply of produce in quantities which it can calculate in advance.

Consequent to this, it will facilitate the estimation of an adequate amount of working capital which the co-operatives should have in hand for each day. As has been stated in a previous chapter, the primary societies often find their cash tied up in padi that the Union has not paid for as yet. This results in their being indebted to the farmers, and therefore they are aggravating the situation of padi leakage to middlemen.

The adequacy of such working capital should be seen to in peak periods during the harvesting season, as this is the true when farmers sell most of their padi.

Capital

This problem can be summed up as being a shortage of working capital during peak periods of the harvesting season. This is due to the fact that the union cannot dispose of the stock of padi it has in hand, and in addition, not having the sufficient cash to pay the primary societies for the padi it had purchased from them.

The problem is exogenous in nature, and the Union cannot in any way guarantee that all the padi it has at hand in any one day, can be sold. This has a similar effect on the primary societies, which will then not be paid, and at the same time cannot dispose of their padi to the Union.

The problem is usually solved through loans made available by the Apex Bank, but it takes several days during a bottle-neck situation before such loans come through. It can be serious for the image of the co-operative organizations in the area, and I was told that the Manager of one of the primary societies did not come home for four days, because he was too embarrassed to face farmers who came to demand payment.

Such difficulties point to the need for external finance, especially finance of seasonal nature.

On the basis that the Union is a stable organization, it can seek such seasonal finance from overdrafts from commercial banks, this, if necessary can be backed by Government guarantee, based on the latter's guarantee to buy the Union's padi at a fixed date.

These financial aids should be sought at the beginning of each season, before a bottleneck can occur. In short it should be a preventive measure, and not a cure. It would save the co-operative organization from many other attendant problems, if they could avoid being indebted to farmers.

However, I would like to suggest a method of solving this problem. This involves the pooling of capital by each primary

society with the Union as a special reserve to meet future inadequacies. This pool must be regularly augmented each month and each society must put in equal amount of money. This reserve could be called a "loan" to the Union, and should it not be used by the Union, it could be lent out to primary societies which are short of cash. A small rate of interest could be charged for the use of capital in excess of that and put in by the borrowing societies it would accrue to the pool.

Payment should be made as soon as padi has been sold. However, the main point is that at the end of the season, after such payment of loans have been made, the Union can redistribute the various amounts back to the societies.

The system therefore features a "savings" pool which can also be used as source of Short-term Credit. The main benefit would be to form a sizeable source of capital (there being seventeen member societies), which could be used in times of distress.

Administration and Organisation

This problem arises out of the problems pertaining to membership, because wherever the members at large do not know the importance of having a felt need for co-operation and genuine interest in co-operative activities, it is not likely that the persons running the business would be very much better off.

However, attempts have been made to give committee members, especially the Honorary secretaries basic education in co-operative administration, but this is, as has been stated of little benefit. A secretary in one of the societies stated that he had taken much pains to set out yearly statements of accounts but most of the members could not understand them at all, when they were distributed for the first time. Hence the need for mass education.

Nevertheless, the Union can have a hand in this matter. In my opinion it should enforce all the primary societies to keep uniform statements of accounts, and at the same time informing members of how such accounts can help record keeping and operations, and what they are for.

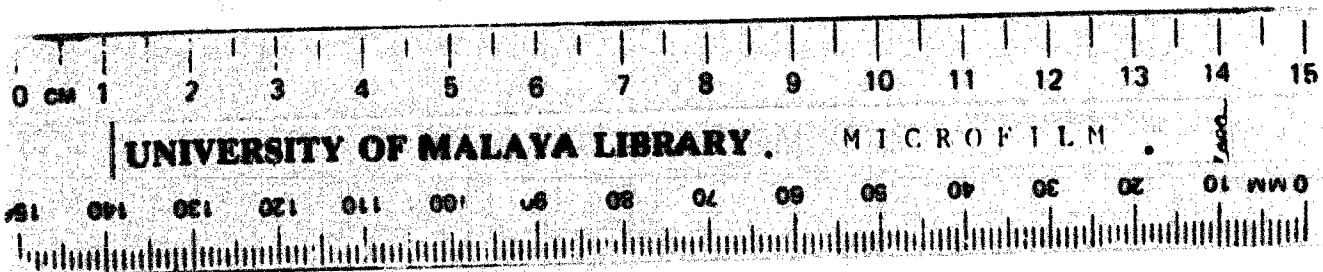
Regarding the encroachment activities of the societies, the Union can clearly define the limits of operation of each society, such that the societies act as complements to each other, rather than as competitors. This would form a stronger front against the private middlemen, than if the societies were to operate competitively with one another.

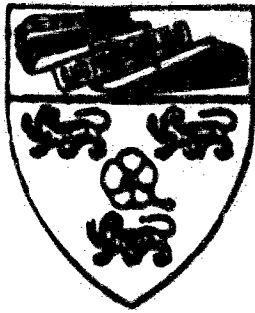
In short, a systematic channelling out of co-operative collecting agents is necessary so that the entire area is covered without unnecessary duplication of areas, or leaving loopholes where the private traders can enter.

However, it would need much external supervision, but the Union has access to the help of the Supervisory body, and it would therefore remain for the societies to co-operate.

It would be necessary for the various management committees to see the co-operative system from the wider point of view and not merely individualistically. Hence, it is important that they understand the need for co-operation.

As a final conclusion it can be said that all the problems of the societies put together point to the fact that it is very necessary for them, and the members to have the technical knowledge on what co-operatives can do, how to run co-operatives, and at least a broad idea of how the economy they are in functions. Such knowledge can only be gained from a formal education structure, which shall be solely responsible for imparting knowledge of co-operation and its place in the everyday lives of farmers, to the general populace.





TAMAT

