



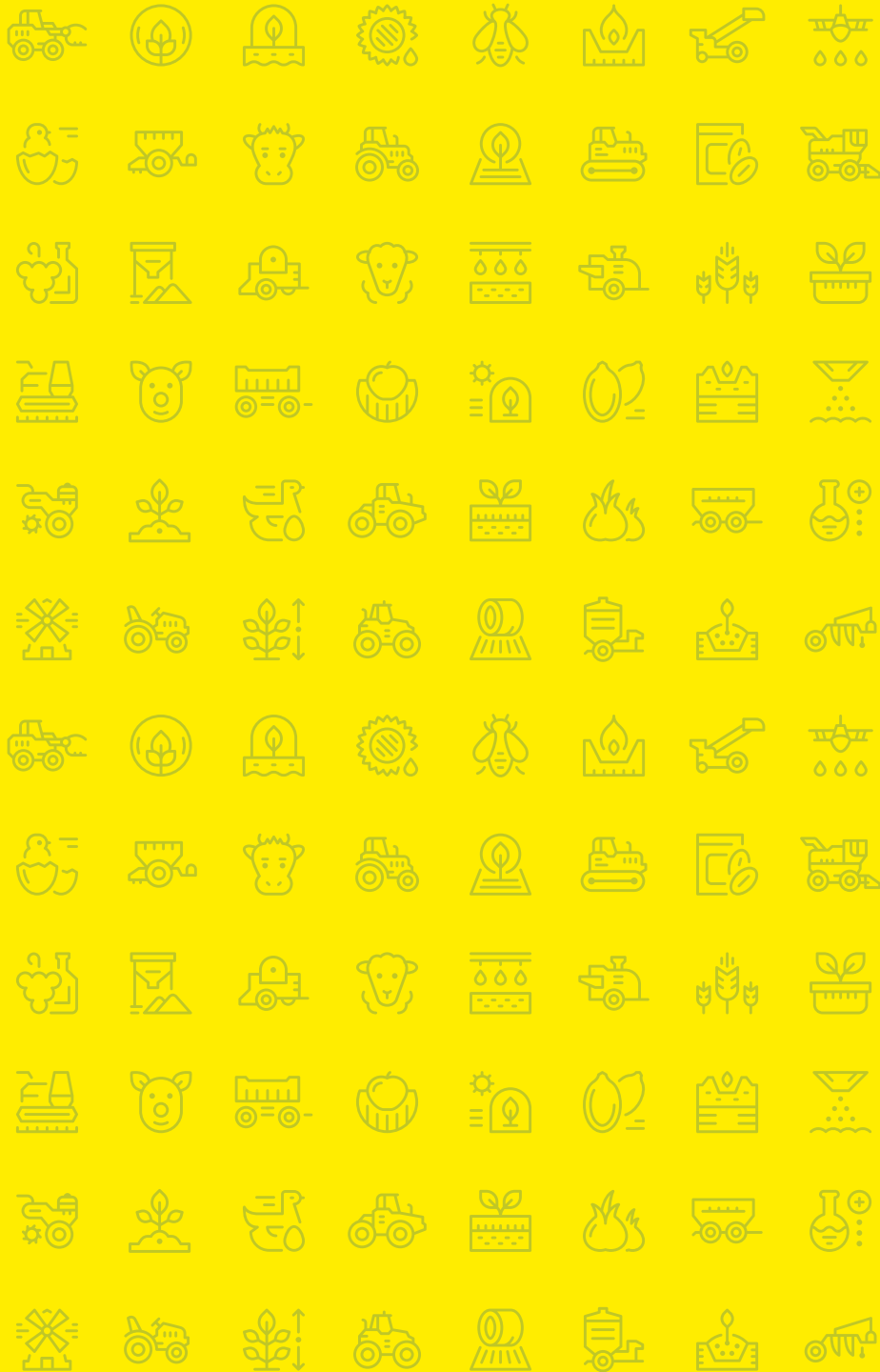
ASEAN ROADMAP FOR ENHANCING THE ROLE OF AGRICULTURAL COOPERATIVES IN THE GLOBAL VALUE CHAIN 2018-2025

ANNEXES



**ASEAN SECTORAL WORKING GROUP
ON AGRICULTURAL COOPERATIVES**

2018



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ASEAN ROADMAP FOR ENHANCING THE ROLE OF AGRICULTURAL COOPERATIVES IN AGRICULTURAL GLOBAL VALUE CHAINS 2018-2025

**ASEAN SECTORAL WORKING GROUP ON AGRICULTURAL COOPERATIVES
2018**

List of Acronyms

ACEDAC	ASEAN Centre for the Development of Agricultural Cooperatives
AEC	ASEAN Economic Community
AMAF	ASEAN Ministerial Meeting on Agriculture and Forestry
AMSs	ASEAN Member States
ASWGAC	ASEAN Sectoral Working Group on Agricultural Cooperatives
EU	European Union
FAF 2025	Food, Agriculture and Forestry 2016-2025
IFAD	International Fund for Agricultural Development and
GI	Geographical Indication
KPIs	Key Performance Indicators
MSMEs	Micro and Small Medium Enterprises

INTRODUCTION

Background

ASEAN aims to expand economic growth and harness trade potential by working towards an ASEAN Economic Community (AEC) that will bring prosperity for the whole region. Towards this goal, the ASEAN Leaders have set up a 2025 vision of a highly integrated, cohesive, competitive, innovative and dynamic ASEAN, specifically geared at 'enhanced connectivity and sectoral cooperation, and a more resilient, inclusive, and people-centred community that is integrated with the global economy'. One of the strategies for a successful growing economy in ASEAN is empowering agricultural cooperatives to deal with their challenges and enhance their roles in the agricultural global value chains.

Agricultural cooperatives in ASEAN can be described in general as small and multi-purpose. Although some have been well-established and nurtured with strong cooperative values, the right mindset and appropriate capacity building interventions vary from country to country. They also often have strong linkages with government institutions.

Agricultural cooperatives face the challenges of competitiveness in ASEAN and beyond. Large and small agricultural cooperatives in the region need to compete with the agribusiness companies or Micro and Small Medium Enterprises (MSMEs) in terms of access to markets, finance, and modern production techniques. Agricultural cooperatives need to improve governance and professionalize management to successfully compete as businesses in modern markets.

Based on a study conducted among ASEAN Member States (AMSs), the most important support needed by agricultural cooperatives are in the areas of institutional and capacity building, competitiveness, access to markets and access to finance to improve their positions in specific value chains. In addition, AMSs also work in many other areas to assist agricultural cooperatives.

In order to strengthen the participation of agricultural cooperatives in agricultural global value chains, ASEAN has been facilitating a dialogue on agricultural cooperative development through the ASEAN Sectoral Working Group on Agricultural Cooperatives (ASWGAC) and the ASEAN Centre for the Development of Agricultural Cooperatives (ACEDAC). One major need identified is the creation of a roadmap for agricultural cooperative development in ASEAN.

Following the endorsement of the Strategic Plan of Actions for ASEAN Cooperation on Agricultural Cooperatives (2016-2020) by the 38th ASEAN Ministerial Meeting on Agriculture and Forestry (AMAF) in 2016 in Singapore, the 20th ASWGAC Meeting agreed to have an "ASEAN Roadmap for Agricultural Cooperatives Development in the context of Agricultural Global Value Chain".

Objectives

The “Roadmap for Enhancing the Role of ASEAN Agricultural Cooperatives in Agricultural Global Value Chains 2018-2025” aims to:

1. Provide guidance for enhancing participation of ASEAN agricultural cooperatives in the agricultural global value chains;
2. Advance the implementation of Strategic Thrusts 2 (Enhance trade facilitation, economic integration and market access) and 5 (Assist resource-constrained small producers and SMEs to improve productivity, technology and product quality, to meet global market standards and increase competitiveness in line with the ASEAN policy Blueprint on SME development) of the ASEAN Cooperation in Food, Agriculture and Forestry 2016-2025 (FAF 2025); and,
3. Serve as a framework to harmonize agricultural cooperatives’ legal structures and institutional arrangements within and among ASEAN member countries and share best practices.

Implementation and Coordination

ASWGAC shall be the overall coordinating and monitoring body in the implementation of the roadmap, while the AMSs will give updates on its implementation during its annual meeting.

In order to create long-term impact for the cooperative network in the implementation of the roadmap, the following principles should be embraced by ASEAN:

1. Working with agricultural cooperatives should be embedded in all agricultural projects in ASEAN to increase their sustainability and inclusiveness;
2. Focus should be on creating showcases and success stories by investing in practical projects with clear expected outcomes for agricultural cooperatives taking part in the roadmap; and,
3. A common message and joint vision on agricultural cooperatives should be continuously shared under the roadmap.

ROADMAP IN 2018-2025

In this roadmap, four main pillars have been identified as the foundation for agricultural cooperative development in ASEAN towards 2025:

1. Institutional and capacity development;
2. Competitiveness;
3. Access to finance; and
4. Access to markets.

Under each pillar, measures have been identified that are equally important and should be simultaneously strengthened to make ASEAN agricultural cooperative development successful in the long run.

Pillar 1: Institutional and Capacity Development

To successfully integrate into the agricultural global value chain, agricultural cooperatives need to be competitive in order to attract financing for investments and working capital and to efficiently access markets. For this to happen, institutional and capacity development of agricultural cooperatives through their management and board is crucial.

Measure 1 – Improve access to good quality advisory services

Success has been achieved in modernizing national legislation in ASEAN countries on agricultural cooperatives that are now almost completely in line with international principles. Nevertheless, these principles must be internalized by government officials and practical implementation frameworks need to be drafted to make sure real changes are seen in agricultural cooperative development on the ground.

At the same time, government institutions must support primary agricultural cooperatives by providing or creating frameworks for high quality services and advise agricultural cooperatives and their members. This support can be provided by private and public stakeholders, but the key source of service provision must be the cooperative sector itself.

The skills and awareness of agricultural cooperative board, management and members need to be improved. Agricultural cooperatives have to understand market developments and strengthen their market position by improving the quality and quantity of their produce through participation in supply and value chains as a consequence of investments in innovation and processing and activities to draw attention of market partners and cooperative members.

Cooperative federations, alliances or associations can play a role in the provision of services by conducting trainings, sharing knowledge and providing advice. Realistically, it is difficult to provide services to all agricultural cooperatives all at once as there are so many of them. In that sense it is important to prioritize service provision in a way that stimulates excellence and provides incentives for well-performing agricultural cooperatives to grow quickly. Showcases are needed to create enthusiasm for working with agricultural cooperatives.

Actions:

- Conduct trainings for government officials on the management and operation of agricultural cooperatives so that they can play the needed facilitation role in the provision of services.
- Benchmark the classification and support systems for agricultural cooperatives against the standard of excellence in order to attract investments and partnerships with business.
- Collect or develop materials for training and support to agricultural cooperatives in the field of production, management, finance and business development, especially in areas where they are most lacking.

Option:

- Provide access to specialised advisory services by agricultural cooperatives in the areas of feasibility studies, business planning, financial management, governance and marketing.

Measure 2 – Peer-to-peer learning and knowledge sharing

Agricultural cooperatives need to support their members in innovating their production systems and adding value to their produce. They should initiate proper service provision at farm level. On the other hand, agricultural cooperatives also require good management systems and human resources. The establishment of an ASEAN peer-to-peer network of agricultural cooperatives can inspire and motivate them to learn from one another in a practical and hands-on manner. Through knowledge sharing, training and advising among agricultural cooperative leaders, agricultural cooperative service provision will be strengthened.

Actions:

- Gather all available information on agricultural cooperative expertise in ASEAN and make them widely accessible through a centralized database system.
- Set up an exchange program on thematic agricultural cooperative policy issues (e.g. by-laws, taxation, financing instruments), especially for young agricultural cooperative managers and board members.
- Share information on youth programs in ASEAN countries that are directed at agricultural cooperatives.
- Improve the use of online learning tools on agricultural cooperatives that were developed by ASEAN sectoral working groups or those from reliable sources like the International Fund for Agricultural Development (IFAD) and European Union (EU).

Options:

- Organize an expert pool at national and ASEAN levels that can provide hands-on advisory services to agricultural cooperatives.
- Invite agricultural cooperative practitioners into the ACEDAC network and transform it into a structure for formulating policies that are based on actual practices of agricultural cooperatives.

Pillar 2: Competitiveness

Agricultural cooperatives in ASEAN must become more competitive in the growing global markets by 2025. This will require optimized institutions and enabling environments. They can grow more quickly in size and number when the legal framework and business environment in ASEAN countries are more firm and secure than those of their competitors worldwide.

Measure 1 – Create resilient cooperatives

In the next ten years, the biggest challenge in ASEAN agriculture will be climate change. It has significant impacts on how agricultural cooperatives will operate and do business. ASEAN countries are at the top of the list in the Global Climate Risk index. Strategies must be developed on how agricultural cooperatives can stay competitive amidst climate disruptions.

Actions:

- Promote a systemic and comprehensive approach to risk management for agricultural cooperatives, including diversification, insurance schemes and internal control mechanism.
- Expose and support agricultural cooperatives to access markets for high-value, organic and Geographical Indication (GI) food produce.

Options:

- Collect tools for agricultural cooperatives to train and assist members in tackling climate challenges in key commodities in line with the priorities of the different ASEAN working groups.
- Support the development and promotion of climate-resilient varieties and agriculture technologies such as agroecology and make them available to agricultural cooperatives through the ASEAN network.
- Promote an integrated area development approach by agricultural cooperatives based on a combination of tourism, biodiversity, local economy and global markets with Geographical Indications (GIs).
- Support farm advisory and extension services of agricultural cooperative for their members on sustainable agriculture.

Measure 2 – Create an enabling environment for agricultural cooperatives growth and viability

For agricultural cooperatives to survive in a competitive global market, governments must provide legal frameworks and policies that will stimulate growth and ensure long-term viability. Agricultural cooperatives must be mainstreamed in agricultural policies and public-private partnerships to create impact.

Actions:

- Allocate budget for capacity building and professionalization of agricultural cooperatives.
- Develop a strategic agenda in ASWGAC to strengthen the position of agricultural cooperatives in the AEC and to develop policies at ASEAN and national levels to enable agricultural cooperative development.
- AMSs to share experiences, improve regulations and intensify efforts in:
 - a) Regional infrastructure;
 - b) Tax policies;
 - c) Rural education on financial literacy, management and business;
 - d) Knowledge transfer through good academic and vocational networks in rural areas;
 - e) Land consolidation and ownership; and,
 - f) Streamlining of regulations and their costs.

Options:

- Provide policy guidelines and incentives for the consolidation or merger of small agricultural cooperatives to attain economies of scale.
- Support national agricultural cooperative federations in building their capacities to provide services to their member agricultural cooperatives.
- Improve auditing systems for agricultural cooperatives to ensure good governance and internal control.
- Encourage ASEAN governments to establish a clear and uniform legal framework for agricultural cooperatives and preferential treatment for ambitious and well-performing ones.
- Develop policies to require and support training for officers and staff of agricultural cooperatives.

Proposals, programs and projects on the actions above should be defined in close consultation with the respective key players in the agriculture sector, namely farmer organisations, agricultural cooperatives and public and private sector agribusiness. It is expected that these stakeholders will contribute to implementation and policy development based on actual challenges and opportunities on the ground.

Measure 3 - Stimulate commodity-specific agricultural cooperation

The creation of a competitive agricultural cooperative sector requires focus on commodity-specific or single-purpose cooperation. Governments may provide specific incentives for the establishment of commodity-specific or single-purpose agricultural cooperatives that can go hand in hand with the development of general or national agricultural cooperative federations representing the sector.

Action:

- Study the potential impact of agricultural cooperative federations in ASEAN and gather lessons learned from different countries.

Options:

- Design commodity-specific trainings for agricultural cooperatives.
- Research possibilities for cooperative-cooperative trading schemes to decrease costs and increase solidarity.

Measure 4 - Promotion and 'marketing' of agricultural cooperatives development

The role of agricultural cooperatives in agricultural global value chains should be promoted among public and private partners in ASEAN. A common vision to start cooperating with other stakeholders such as private companies and donor institutions must be developed by agricultural cooperatives. At the same time, a database of all agricultural cooperatives in ASEAN categorized according to turnover, membership, commodity and service provision should be made available to the public.

Actions:

- Set up an ASEAN Agricultural Cooperative Network based on existing agricultural cooperative federation structures to represent agricultural cooperatives and their members in networking events and policy dialogues.
- Expand the relationship of ASGWAC with donors, companies and financiers in the ASEAN region, such as Grow Asia, EU, IFAD, USAID agri-agencies and others.
- Claim a bigger role for agricultural cooperatives in public-private partnerships and development programs in the region.

Options:

- Develop a marketing and fundraising plan towards 2025.
- Promote agricultural cooperative development in ASEAN through the production of brochures and flyers for donors and financing institutions.
- Develop a computerized and centralized database of agricultural cooperatives in ASEAN for benchmarking, marketing and fundraising.
- Define Key Performance Indicators (KPIs) for the database and establish a baseline for all agricultural cooperatives that will be updated annually.
- Mainstream agricultural cooperatives as important institutions for development programs in the ASEAN Economic Community.
- Develop voluntary guidelines on agricultural project financing by third parties involving agricultural cooperatives.

Pillar 3: Access to Finance

Access to finance for required investments and working capital is crucial for ASEAN farmers to seize existing and arising market opportunities. The establishment of national programs that provide access to finance is a corner stone of agricultural cooperative development. Agricultural cooperatives might also engage in partnerships with agribusinesses when the terms and conditions are beneficial to them and their members.

Measure 1 - Promote sustainable financing systems for agricultural cooperatives

A big challenge in agricultural business is access to finance for investments, especially for smallholders and their cooperatives. Normally, the big stumbling blocks are lack of business plans, collateral and, specifically for cooperatives, lack of member capital. However, some financial institutions are interested in entering the agribusiness sector, despite the risks involved.

It is important to construct mechanisms and programs at different levels to ensure financial access for medium-sized borrowers (e.g. agricultural cooperatives) by reducing risks for commercial financial institutions. The design of programs shall depend on the commodities, areas and available chain partners.

Actions:

- Promote internal capital mobilization within agricultural cooperatives.
- Provide preferential credit to agricultural cooperatives and farmer associations through soft loans from government or financial institutions.

Options:

- Establish collateral security and create transparency in lending mechanisms for agricultural cooperatives.
- Provide guidelines, benchmarks or examples for agricultural cooperatives regarding the need for collateral, business plan and member capital.

Pillar 4: Access to Market

The projected economic growth in ASEAN will bring huge market possibilities for agricultural cooperatives. The growing middle class and the globalization of trade will lead to new opportunities for agricultural cooperatives to add more value and sell their members' produce in a competitive manner.

Measure 1 – Access to existing and to new markets, and outreach to business by agricultural cooperatives

Agricultural cooperatives need to access new and existing markets and trade opportunities for agricultural commodities, which are rapidly growing in Asia and beyond. The challenge is how to add value and integrate into the value chain.

At the same time, cooperation with private sector is needed to deliver agricultural products to the consumers and to bargain for fair price. Sustainability and quality assurance can be challenging for small agricultural cooperatives. Nevertheless, agricultural cooperatives can focus on existing agriculture markets or develop new ones using the branding approaches like agro-tourism, environmental services, carbon credit business, agro-forestry and many others.

ASEAN governments can play the role of facilitator of business deals to ensure fair sharing in the value chains.

Actions:

- Support agricultural cooperatives in using market information systems on consumer patterns, new business opportunities and competitiveness.
- Allocate R&D funding for development of new products by agricultural cooperatives identified through the market information systems.
- Support and attend business fora and match-making events between businesses and agricultural cooperatives.
- Develop a code of conduct for agribusiness in relation to working with smallholders and their cooperatives, e.g. regional certifications and the use of a “cooperative and smallholder benefit logo”.

Roadmap Pillars	Measures	Actions and Options:
1. Institutional and Capacity Development	Improve access to good quality advisory services	<p>Actions:</p> <ul style="list-style-type: none"> Conduct trainings for government officials on the management and operation of agricultural cooperatives so that they can play the needed facilitation role in the provision of services. Benchmark the classification and support systems for agricultural cooperatives against the standard of excellence in order to attract investments and partnerships with business. Collect or develop materials for training and support to agricultural cooperatives in the field of production, management, finance and business development, especially in areas where they are most lacking. <p>Option</p> <ul style="list-style-type: none"> Provide access to specialised advisory services by agricultural cooperatives in the areas of feasibility studies, business planning, financial management, governance and marketing.
	Peer-to-peer learning and knowledge sharing	<p>Actions:</p> <ul style="list-style-type: none"> Gather all available information on agricultural cooperative expertise in ASEAN and make them widely accessible through a centralized database system. Set up an exchange program on thematic agricultural cooperative policy issues (e.g. by-laws, taxation, financing instruments), especially for young agricultural cooperative managers and board members. Share information on youth programs in ASEAN countries that are directed at agricultural cooperatives. Improve the use of online learning tools on agricultural cooperatives that were developed by ASEAN sectoral working groups or those from reliable sources like IFAD and EU. <p>Options:</p> <ul style="list-style-type: none"> Organize an expert pool at national and ASEAN levels that can provide hands-on advisory services to agricultural cooperatives. Invite agricultural cooperative practitioners into the ACEDAC network and transform it into a structure for formulating policies that are based on actual practices of agricultural cooperatives.
2. Competitiveness	Create resilient cooperatives	<p>Actions:</p> <ul style="list-style-type: none"> Promote a systemic and comprehensive approach to risk management for agricultural cooperatives, including diversification and insurance schemes. Expose and support agricultural cooperatives to access markets for high-value, organic and Geographical Indication (GI) food produce. <p>Options:</p> <ul style="list-style-type: none"> Collect tools for agricultural cooperatives to train and assist members in tackling climate challenges in key commodities in line with the priorities of the different ASEAN working groups. Support the development and promotion of climate-resilient varieties and agriculture technologies such as agroecology and make them available to agricultural cooperatives through the ASEAN network. Promote an integrated area development approach by agricultural cooperatives based on a combination of tourism, biodiversity, local economy and global markets with geographical Indications (GIs). Support farm advisory and extension services of agricultural cooperative for their members on sustainable agriculture.

Roadmap Pillars	Measures	Actions and Options:
	Create an enabling environment for agricultural cooperatives growth and viability	<p>Actions:</p> <ul style="list-style-type: none"> Allocate budget for capacity building and professionalization of agricultural cooperatives. Develop a strategic agenda in ASWGAC to strengthen the position of agricultural cooperatives in the AEC and to develop policies at ASEAN and national levels to enable agricultural cooperative development. AMSs to share experiences, improve regulations and intensify efforts in: <ul style="list-style-type: none"> a. Regional infrastructure; b. Tax policies; c. Rural education on financial literacy, management and business; d. Knowledge transfer through good academic and vocational networks in rural areas; e. Land consolidation and ownership; and, f. Streamlining of regulations and their costs. <p>Options:</p> <ul style="list-style-type: none"> Provide policy guidelines and incentives for the consolidation or merger of small agricultural cooperatives to attain economies of scale. Support national agricultural cooperative federations in building their capacities to provide services to their member agricultural cooperatives. Improve auditing systems for agricultural cooperatives to ensure good governance and internal control. Encourage ASEAN governments to establish a clear and uniform legal framework for agricultural cooperatives and preferential treatment for ambitious and well-performing ones. Develop policies to require and support training for officers and staff of agricultural cooperatives.
	Stimulate commodity-specific agricultural cooperation	<p>Action:</p> <ul style="list-style-type: none"> Study the potential impact of agricultural cooperative federations in ASEAN and gather lessons learned from different countries. <p>Options:</p> <ul style="list-style-type: none"> Design commodity-specific trainings for agricultural cooperatives. Research possibilities for cooperative-cooperative trading schemes to decrease costs and increase solidarity.
	Promotion and 'marketing' of agricultural cooperatives development	<p>Actions:</p> <ul style="list-style-type: none"> Set up an ASEAN Agricultural Cooperative Network based on existing agricultural cooperative federation structures to represent agricultural cooperatives and their members in networking events and policy dialogues. Expand the relationship of ASGWAC with donors, companies and financiers in the ASEAN region, such as Grow Asia, EU, IFAD, USAID, agri-agencies and others. Claim a bigger role for agricultural cooperatives in public-private partnerships and development programs in the region. <p>Options:</p> <ul style="list-style-type: none"> Develop a marketing and fundraising plan towards 2025. Promote agricultural cooperative development in ASEAN through the production of brochures and flyers for donors and financing institutions. Develop a computerized and centralized database of agricultural cooperatives in ASEAN for benchmarking, marketing and fundraising. Define key performance indicators (KPIs) for the database and establish a baseline for all agricultural cooperatives that will be updated annually. Mainstream agricultural cooperatives as important institutions for development programs in the ASEAN Economic Community. Develop voluntary guidelines on agricultural project financing by third parties involving agricultural cooperatives.

Roadmap Pillars	Measures	Actions and Options:
3. Access to Finance	Promote sustainable financing systems for agricultural cooperatives	<p>Actions:</p> <ul style="list-style-type: none"> Promote internal capital mobilization within agricultural cooperatives. Provide preferential credit to agricultural cooperatives and farmer associations through soft loans from government or financial institutions. <p>Options:</p> <ul style="list-style-type: none"> Establish collateral security and create transparency in lending mechanisms for agricultural cooperatives. Provide guidelines, benchmarks or examples for agricultural cooperatives regarding the need for collateral, business plan and member capital.
4. Access to Market	Access to existing and to new markets, and outreach to business by agricultural cooperatives	<p>Actions:</p> <ul style="list-style-type: none"> Support agricultural cooperatives in using market information systems on consumer patterns, new business opportunities and competitiveness. Allocate R&D funding for development of new products by agricultural cooperatives identified through the market information systems. Support and attend business fora and match-making events between businesses and agricultural cooperatives. Develop a code of conduct for agribusiness in relation to working with smallholders and their cooperatives, e.g. regional certifications and the use of a "cooperative and smallholder benefit logo".

IMPLEMENTATION GUIDE AT NATIONAL AND LOCAL LEVEL

1. Advisory trajectory for individual agricultural cooperatives and recommended eight steps to set-up a cooperative towards global value chains

In different ASEAN countries, farmers' collective action for their businesses activities differ in scope and stage of organisation. Some are cooperatives founded by the state decades ago, while others are newly formed by farmers working together to improve their business scale.

The various steps from forming farmer groups until transformation into an operational agricultural cooperative business engaged in the value chain have been analysed and observed. This observation gives us insights into the process from the beginning to the establishment of an ongoing agricultural cooperative business. This is of interest, because if agricultural cooperative support and development intends to bypass some of these 8 steps, normally the results will not be as efficient, sustainable and resilient as when all of the steps are followed.

PHASES OF GROUP/COOP S DEVELOPMENT	BASIC STEPS	MAIN ACTIVITY
Pre-inception Phase	1. Developing the initiative	<ul style="list-style-type: none"> Work out proposed initiative and ideas Pull together committed core group & define critical questions Discuss cooperative as one of several options Collect information Explore relevant market/economic need Study economic and social aspects of problem
	2. Building consensus	<ul style="list-style-type: none"> Discuss within core group whether a new cooperative can adequately address identified problems and opportunities Study organisational alternatives Hold initial meetings to review the nature of a cooperative solution Propose cooperative approach in public meeting If sufficient interest among potential members: create initial budget
Inception Phase	3. Establishing a steering committee	<ul style="list-style-type: none"> Identify leadership and establish steering committee Install working groups and agree on timetable and tasks Assign tasks to potential members for subsequent steps Build trust among potential members
	4. Feasibility study and member survey	<ul style="list-style-type: none"> Conduct feasibility study Survey potential members Agree on feasibility and inform stakeholders Obtain support and expertise from third parties
	5. Organisational design	<ul style="list-style-type: none"> Determine organisational structure Prepare preliminary statutes and rules or by-laws Determine basic capital need Raise initial basic capital (members, third parties)
	6. Member commitment	<ul style="list-style-type: none"> Develop a detailed business plan, get advice when needed (most of times) Explain and confirm legal identity Hold first members' meeting to approve the business plan Set up books/accounting system Conduct member equity drive and sign-up Appoint interim board of directors

PHASES OF GROUP/COOP S DEVELOPMENT	BASIC STEPS	MAIN ACTIVITY
	7. Involving other stakeholders	<ul style="list-style-type: none"> • Appoint manager (when possible and/or needed) or appoint a leader to manage the coop. • Secure necessary additional financing • Formalise relations with customers or suppliers • -
Formation Phase	8. Starting up the enterprise	<ul style="list-style-type: none"> • Hold general meeting and establish committees • Secure necessary assets • Registration, and obtaining needed permits,
Operation Phase		<ul style="list-style-type: none"> • Carry out preparatory financial and administrative tasks • Recruit personnel

2. Thematic milestones for an efficient cooperative promotion and support roadmap at country level

In addition to the eight logical steps for forming a cooperative business, another challenge is how to ensure that the promoted and formed business will be sustainable, safe and reliable.

Sustainable, safe and reliable agricultural cooperative business will need sufficient attention to the thematic milestones. The milestones listed here are further explained in the tables below:

- PLANNING THE COOPERATIVE AND ITS BUSINESS
- LEADERSHIP AND MEMBERS' COMMITMENT
- COOPERATIVES MANAGEMENT
- INFORMATION MANAGEMENT

PLANNING THE COOPERATIVE AND ITS BUSINESS	USUAL RISKS UNDERMINING THE EFFICIENCY OF COOPERATIVES PROMOTION PROGRAMS	MAIN SUPPORT SYSTEMS REQUIRED TO PREVENT USUAL RISKS
Clear objectives and strategy	<ul style="list-style-type: none"> - Cooperatives formed without clear focus and purpose (just for the sake of forming it) - The members lack a clear vision, purpose and objectives for forming the cooperative - Lack of clear strategy to achieve the objectives and goals 	<ul style="list-style-type: none"> - Capacity building (trainings and coaching) on: <ul style="list-style-type: none"> a. Generalities of cooperatives, including basic objectives, strategizing for achieving an objective and identification of risks. b. Planning (basic and business planning): interpreting the vision (objectives and strategy) into implementable business plan for actions.
Strong assumptions - based market research and costs analysis.	<ul style="list-style-type: none"> - Overestimating the volume of production and underestimating the cost of production - Feasibility and business plans based on assumptions without clear information to the farmers. 	<ul style="list-style-type: none"> - Advisory support: make access to expert advisors on strategic planning possible, by subsidizing or co-financing.
Identify risks and avoiding starting up cooperatives just because these are promoted by the State.	<ul style="list-style-type: none"> - Risks in starting cooperatives are not fully analysed (a careful study and deeper understanding of factors influencing cooperative such as government regulations, policy, production and market trends, environmental issues, etc. is required before the start of the cooperative). - Governmental agencies and their employees might have a "mandate" to create coops, what might end in groups of farmers getting together because of a 'benefit' offered to them. 	<ul style="list-style-type: none"> - Improve capacities of extension agents and other service providers
Proper business planning - In-depth survey (feasibility studies); - Groups formed with authenticated members interest.	<ul style="list-style-type: none"> - Groups with set-up that is not economically sound or are risky - Detail planning to achieve the goals and purposes are not identified properly. 	

LEADERSHIP AND MEMBERS' COMMITMENT	USUAL RISKS UNDERMINING THE EFFICIENCY OF COOPERATIVES PROMOTION PROGRAMS	MAIN SUPPORT SYSTEMS REQUIRED TO PREVENT USUAL RISKS
Good and 'professionalized' leadership	<ul style="list-style-type: none"> - Outside resource persons shouldn't be the leaders for the group - Leaders from within the group normally lack good leadership abilities - Outsiders professionals get involved in decision-making and leaders follow (this must be avoided) 	<ul style="list-style-type: none"> - Capacity building on leadership attitude and skills with focus on accountability towards members as the key for member commitment (training and coaching with long term follow up)
Lack of members' Commitment	<ul style="list-style-type: none"> - Members lack a broad-based support, they see more obligations than rights. To bring their produce sometime is seen as an obligation which doesn't payoff. - Lack of accountability of leaders and staff as a result of lack of information to members and no feedback, nor validation asked to them they become 'outsiders' of the steering, management and control of the cooperative. - Members are not fully informed about all issues related with the coops and mistrust takes place. - Support of all stakeholders will not take place due to evident lack of members' commitment. 	<ul style="list-style-type: none"> - Support for covering the cost of advisors, ensuring professional advice for planning, which will include a face of identifying members' concerns, therefore ensuring their awareness and interest in the planning process - and afterwards, ensuring their commitment. - Capacity building on Governance related issues, leadership and members' commitment. - National regulations for cooperatives include rules for ensuring that planning processes compels leaders' and staff's accountability to members through information and validation processes (e.g. social control takes place). - Extension agents do monitor and control that the above rules takes place (or others who can take this up)

COOPERATIVES MANAGEMENT	USUAL RISKS UNDERMINING THE EFFICIENCY OF COOPERATIVES PROMOTION PROGRAMS	MAIN SUPPORT SYSTEMS REQUIRED TO PREVENT USUAL RISKS
Proper, modern and professional management	<ul style="list-style-type: none"> - Cooperative members, inexperienced in cooperatives and busy in their own farm leads to low participation and therefore improper management of cooperatives. - This is reinforced by low transparency and lack of periodic information on the cooperative's decision-making processes. 	<ul style="list-style-type: none"> - Access to expert advisors (including a system to make possible for coops to hire 'managers' for a period of time, after which the coops would cover the cost with the operations done by the manager). - Improve capacities of extension agents - Improve Coops capacities by trainings

INFORMATION	USUAL RISKS UNDERMINING THE EFFICIENCY OF COOPERATIVES PROMOTION PROGRAMS	MAIN SUPPORT SYSTEMS REQUIRED TO PREVENT USUAL RISKS
Access to adequate and timely information And existence of communication systems	<ul style="list-style-type: none"> - Members of the cooperatives do not have proper or enough access to information in a range of matters (technical, market, cooperatives activities, implications of new regulations, and many others). - Members do not have ideas on the suppliers, marketing and other support avenues. - Members are not exposed to other cases in which cooperatives are successful with farmer members in similar farming conditions. 	<ul style="list-style-type: none"> - On-line information systems and extension agents connected to the system in some way (computers, smartphones). - Radio programs at key hours in the day (farmers' breakfast time and after-dinner time); basic information on market issues, existing support programs, technical issues, and many others. - Create a system to cover all or part of the cost of exchange visits and study trips.

ACCESS TO GOOD QUALITY ADVISORS	USUAL RISKS UNDERMINING THE EFFICIENCY OF COOPERATIVES PROMOTION PROGRAMS	MAIN SUPPORT SYSTEMS REQUIRED TO PREVENT USUAL RISKS
Access to experienced advisors	<ul style="list-style-type: none"> - Members lack cooperative experience when starting a cooperative, and frequently this remains in time. - Outside resource persons and/or advisors lack specific experiences in cooperatives and their uniqueness (there is a need of advisors in topics like cooperatives in general, planning, management and marketing for cooperatives). 	<ul style="list-style-type: none"> - Generate access to advisors: a system of subsidies or co- financing to cover part or all the cost of private advisors or from experts coming from the professional organisation of the cooperatives (federations or associations) for a certain time. - Use of extension services with professionals specialized in cooperative management matters. - Improve the existing advisors' capacities: a system of subsidy to cover part or all costs of specialization of for advisors (trainings, courses, graduate studies, equipment, and many others).

ANNEXES



Executive Summary

One of the key deliverables for 2018 for ASEAN cooperation on Food, Agriculture and Forestry is to develop an ASEAN Roadmap on Agriculture Development 2025. To deliver this, ASEAN Foundation was in charge to administrate the road map development under a wider project called ASEAN Farmers' Organization Support Program (AFOSP). This is an EU and IFAD Grant funded project which aims to improve the livelihoods and food security situation of smallholder farmers and rural producers in ASEAN countries, contributing to the realization of ASEAN 2025: Forging Ahead Together.

The Roadmap Vision is **'Enhanced Participation of ASEAN Agricultural Cooperatives in the Global Value Chain by 2025'**. This roadmap aims to serve at least three purposes as listed below:

1. To support the efforts in facilitating trade among ASEAN Member States and to provide a vision and direction for enhancing participation of the ASEAN agricultural cooperatives in Global Value Chain (GVC) and inclusive agricultural business.
2. To contribute in advancing the implementations of Strategic Thrusts 2 (Enhance trade facilitation, economic integration and market access) and 5 (Assist resource constrained small producers and SMEs to improve productivity, technology and product quality, to meet global market standards and increase competitiveness in line with the ASEAN Policy Blueprint on SME Development) of the ASEAN Cooperation in Food, Agriculture and Forestry 2016 – 2025 (FAF 2025).
3. To be used as a reference to harmonize the Agricultural Cooperatives' legal frameworks and institutional arrangements in ASEAN member countries.

To meet those purposes and serve the vision mentioned above, the roadmap focuses on the following key areas:

1. Current gaps (challenge and opportunity) in agricultural cooperatives' strategies and adaptation towards globalization;
4. The need for support program and activities to be consistent with ASEAN 2025, Strategic Plan of Action for ASEAN Cooperation in Food, Agriculture, and Forestry (2016 – 2025), Strategic Plan of Action ASEAN Working Group on Agricultural Cooperatives (ASWGAC) (2016 – 2020), Strategic Action

Plan for SME Development (2016 – 2025); How ASEAN (government) and private sector can best support agricultural cooperatives to participate in participating in Global Value Chains;

5. How activities and programs are able to reach the most marginalized and vulnerable groups.

This report is submitted as annexes to the ASEAN roadmap for enhancing the role of agricultural cooperatives in the global value chain 2018-2025. Chapter 2 of this report details the current situation of agricultural cooperatives in ASEAN Member States, and contains a classification of existing services provided by cooperatives. Subsequently, the legal framework for agricultural cooperatives establishment and operations and government interventions and policy framework are described. Chapter 3 assesses Trends in global and ASEAN agricultural value chains, and chapter 4 describes guidelines for strategy for the Agricultural Cooperative Development towards 2025. Chapter 5 finally, details several case studies of cooperatives from ASEAN member states that have achieved successful integration into the regional and/or global value chains.

1.

INTRODUCTION



1.1 Background

The ASEAN Sectoral Working Group on Agricultural Cooperatives (ASWGAC) 19th meeting in Lao PDR in 2017 recommended one of the key deliverables for 2018 for ASEAN cooperation on Food, Agriculture and Forestry is to develop an ASEAN Roadmap on Agriculture Development 2025. To deliver this, ASEAN Foundation was in charge to administrate the road map development under a wider project called ASEAN Farmers' Organization Support Program (AFOSP). This is an EU and IFAD Grant funded project which aims to improve the livelihoods and food security situation of smallholder farmers and rural producers in ASEAN countries, contributing to the realization of ASEAN 2025: Forging Ahead Together.

The main objective of the program is to strengthen the institutional and operational capacities of farmers' organizations in the region and to promote policy dialogues and interactions at all levels. At the ASEAN level, the ASEAN Foundation (AF) facilitates and coordinates the engagement and participation of ASEAN farmers in the regional policy-making process.

The Roadmap of ASEAN Agriculture Cooperative Development 2025 focuses on the strategy to strengthen cooperation in agriculture cooperatives to enhance competitiveness of agriculture and forest products to facilitate trade within ASEAN and access to the global value chain. The Roadmap will inform and guide future investments in-line with existing Vision of the ASEAN Economic Community and goals as mentioned in the ASEAN 2015: Forging Ahead 2025. The vision is presented in box below:

'Our ASEAN Economic Community by 2025 shall be highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centred community, integrated with the global economy'.

As a commitment to this vision, ASEAN Economic community agreed undertake to achieve the following goals:

- A highly integrated and cohesive regional economy that supports sustained high economic growth by increasing trade, investment, and job creation; improving regional capacity to respond to global challenges and mega trends; advancing a single market agenda through enhanced commitments in trade in goods, and through an effective resolution of non-tariff barriers; deeper integration in trade in services; and a more seamless movement of investment, skilled labour, business persons, and capital;
- A competitive, innovative and dynamic community which fosters robust productivity growth including through the creation and practical application of knowledge, supportive policies towards innovation, science-based approach to green technology and development, and by embracing the evolving digital technology; promotion of good governance, transparency and responsive regulations; effective dispute resolution; and a view towards enhanced participation in global value chains;
- Enhanced connectivity and sectoral cooperation with improvements in regional frameworks, including strategic sectoral policies vital to the effective operationalisation of the economic community;
- A resilient, inclusive, people-oriented and people-centred community that engenders equitable development and inclusive growth; a community with enhanced micro, small and medium enterprise development policies and cooperation to narrow the development gaps; and a community with effective business and stakeholder engagement, sub regional development cooperation and projects, and greater economic opportunities that support poverty eradication; and

A global ASEAN that fosters a more systematic and coherent approach towards its external economic relations; a central and foremost facilitator and driver of regional economic integration in East Asia; and a united ASEAN with an enhanced role and voice in global economic fora in addressing international economic issues.

Source 1: ASEAN 2025: Forging Ahead Together

The roadmap should also be corresponding with Strategic Plan for Action ASEAN Cooperation in Food, Agriculture, and Forestry (2016 – 2025), ASEAN Strategic Plan of Action for SME Development (2016 – 2025) and Strategic Plan of Action ASEAN Sectoral Working Group on Agricultural Cooperative (ASWGAC) 2016-2020. The Alignment of the roadmap with the strategies of those three ASEAN Sectors is presented in figure below:

Roadmap Alignment with three sectors of ASEAN 2025 Development Strategies

Strategic Action Plan for SME Development (2016 - 2025)	Strategic Plan Action for ASEAN Cooperation in Food, Agriculture, and Forestry (2016 - 2025)	Strategic Plan Of Action (Spa) For The Asean Cooperation In Agricultural Cooperative (2016-2020)
<ul style="list-style-type: none"> » Productivity, Technology and Innovation » Access to Finance » Market Access and Internationalization » Policy and Regulatory Environment » Entrepreneurship & Human Capital Development 	<ul style="list-style-type: none"> » Enhance quantity and quality of production with sustainable, 'green' technologies, resource management systems, and minimise pre- and post-harvest losses and waste » Enhance trade facilitation, economic integration and market access » Ensure food security, food safety, better nutrition and equitable distribution » Increase resilience to climate change, natural disasters and other shocks » Assist resource constrained small producers and SMEs to improve productivity, technology and product quality, to meet global market standards and increase competitiveness » Strengthen ASEAN joint approaches on international and regional issues affecting the FAF sector » Promote sustainable forest management 	<ul style="list-style-type: none"> » STRATEGIC THRUST 2: Enhance trade facilitation, economic integration and market access. The action Program include: (1) Established business linkages among the potential agricultural cooperatives and farmers organization, (2) Promote direct investment and strategic partnership with ASEAN Agricultural cooperatives and farmers organization, producers, consumer and traders, and (3) Strengthening the Food Marketing System of Agricultural Cooperatives for Enhancing Food Security in ASEAN » STRATEGIC THRUST 5: Assist resource constrained small producers and SMEs to improve productivity, technology and product quality, to meet global market standards and increase competitiveness in line with the ASEAN Policy Blueprint on SME Development. The Action Program include: (1) Assist small scale producers in the FAF sector to become viable and competitive enterprises by provision of better technology, inputs, finance and extension services, access to higher value markets, and by facilitating integration into modern value chains, (2) Promote and strengthen cooperatives and farmers organizations so as to better integrate small producers in the value chains and to provide collective platforms to deal with production and market risks, (3) Empowerment of personnel and leaders of agricultural cooperatives and (4) Establishment of strategic alliances among agricultural cooperatives in ASEAN

1.2 Methodology

This road map is developed based on two categories of data sources followed by consultation with relevant parties. Detail sources of data in developing this document include:

1. Desk review of related literature, together with documents and reports from ASEAN member of states presentation during the 19th ACWGAC meeting, country scoping studies, and other relevant report from various resources.
2. Primary data also collected by interviewing related parties, including representative of community based organizations, representative from relevant non-government organizations, key government representative. Additionally, focus group discussions have been done collectively with government representative from Indonesia, Thailand and Philippine and with representative of cooperatives and CSOs from Cambodia, Lao PDR, Indonesia, Vietnam and Philippine. Both of FGDs were conducted during the ASEAN Cooperative Business forum in Manila, January 2018.
3. Analysis of the primary and secondary information collected in (1) and (2) and generation of a framework for a cooperatives development road map by experts on the subject.
4. At the later stage, this roadmap will be consulted with representative of ASEAN Centre for the Development of Agricultural Cooperatives (ACEDAC), relevant working group under Senior Officials Meeting of the ASEAN Ministers on Agriculture and Forestry (SOM-AMAF), relevant stakeholders and Development Partners.

1.3 Purpose of the Roadmap

The Roadmap Vision is ***'Enhanced Participation ASEAN Agriculture Cooperative of global value chain by 2025'***

This roadmap aims to serve at least three purposes as listed below:

1. To support the efforts in facilitating trade among ASEAN Member States and to provide a vision and direction for enhancing participation of the ASEAN agricultural cooperatives in Global Value Chain (GVC) and inclusive agricultural business.
2. To contributes in advancing the implementations of Strategic Thrusts 2 (Enhance trade facilitation, economic integration and market access) and 5 (Assist resource constrained small producers and SMEs to improve productivity, technology and product quality, to meet global market standards and increase competitiveness in line with the ASEAN Policy Blueprint on

SME Development) of the ASEAN Cooperation in Food, Agriculture and Forestry 2016 – 2025 (FAF 2025).

3. To be used as a reference to harmonize the Agricultural Cooperatives' legal frameworks and institutional arrangements in ASEAN member countries.

To meet those purposes and serve the vision mentioned above, the roadmap focuses on the following key areas:

2. Current gaps (Challenge and opportunity) in agricultural cooperatives' strategies and adaptation towards globalization;
4. The need for support program and activities to be consistent with ASEAN 2025, Strategic Plan of Action for ASEAN Cooperation in Food, Agriculture, and Forestry (2016 – 2025), Strategic Plan of Action ASEAN Working Group on Agricultural Cooperatives (ASWGAC) (2016 – 2020), Strategic Action Plan for SME Development (2016 – 2025); How ASEAN (government) and private sector can best support agricultural cooperatives to participate in participating in Global Value Chains;
5. How activities and programs are able to reach the most marginalized and vulnerable groups.





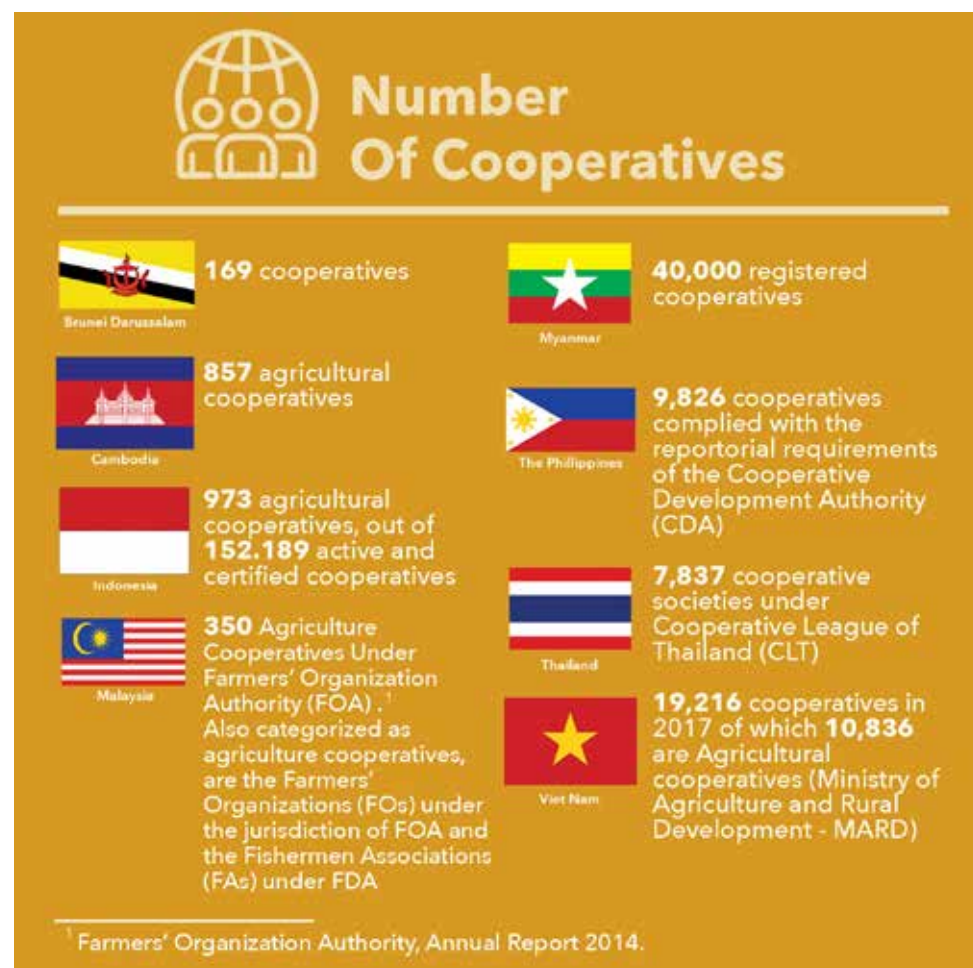
2.

STATE OF AGRICULTURAL COOPERATIVES IN ASEAN

2.1 The existing state of Agricultural Cooperatives

This section details the current situation of agricultural cooperatives including its institutional arrangement (membership and organizational structure), number of registered agricultural cooperatives in ASEAN, dividend and premium payment of members in 5 years (regular or irregular payment of dividend).

Based on reports from different sources and in different time periods, there are around 15,000-20,000 agricultural cooperatives in ASEAN countries.





Economic value



Indonesia

total sales volume in 2017 was **USD 191,013,845.**²



Thailand

On average cooperatives had a working capital of **1,26 billion VND** in 2017 & members received **21,12 million VND** in dividend. Of the cooperatives **50%** are seen as working efficient by the Vietnamese government.



The Philippines

54% were micro, **27%** small, **15%** medium, and **4%** large cooperatives. In terms of assets holdings, the micro cooperatives comprised **2%**; small, **7%**; medium, **19%**, and large, **72%** of the total assets of the cooperative movement.

² Destry Anna Sari, Agricultural Cooperatives in Indonesia, presentation in Regional Consultation on ASEAN Roadmap on Agricultural Cooperative in Manila, Philippines, 18 January 2018

Agricultural cooperative members are usually entitled to dividend and premium payments, where business activities are found. These are paid out to members or retained as revolving capital.

- In **Myanmar**, dividend and premium payments to members are practical non-existent because the majority of cooperatives are not performing business activities.
- In **The Philippines**, revolving capital refers to the "amount available out of the deferred payment of the patronage refund and interest on share capital of the members or by authorized deduction of a percentage from the product sold or per unit of product handled by the cooperative. The Board of Director shall issue revolving capital certificates with serial number, name, amount, and rate of interest to be paid and shall distinctly set forth the time of retirement of such certificates and the amounts to be returned."¹

¹ <http://www.cda.gov.ph/resources/issuances/implementing-rules-and-regulations/rules-and-regulations-implementing-certain-provisions-of-ra-9520>

"Coop members are entitled to earn dividends on their paid-up capital, receive patronage refund on their interest payments and avail of the loan products and services." "...Upon completion of the external audit in compliance with the CDA policy, the Coop deducts the mandatory reserve requirements (10% General Reserves, 5% Cooperative Education Training Fund, 5% Optional Reserves, 3% Community Development Fund) from the Annual Surplus to determine the Surplus Available for Distribution."

2.1.1 Classification of existing services provided by cooperatives

Agricultural cooperatives provide a broad range of business services to their members, depending on the purpose of their establishment. They can provide processing and marketing services, input supply provision (of feed, fertilizers, farm equipment, starting material, etc.); other services (insurance, transport, storage, machinery, temporary labor), but most are involved in saving and credit provision.



Services



Cambodia

Most agricultural cooperatives are mainly involved in saving and credit provision and sometimes input provision. Joint business activities rarely take place.



Myanmar

There are three services provided to members of agricultural cooperatives: micro-finance, inputs and services like transportation of produce to markets. The main services provided to members of cooperatives are micro-finance services though.



Indonesia

It is estimated that more than 95% of the cooperatives provide saving and credit services.



The Philippines

Facilitation of procurement in bulk of raw materials and other equipment for processing/ production; marketing of finished products in bulk; exploring better market for members' products;



Lao PDR

Most of the agricultural coop in Laos in on cropping as well as production groups. All of them provide trade facilitation services, consolidation of produce, negotiation with buyers and access to premium markets through Fairtrade and organic certification. The most active cooperatives are the saving and credit cooperatives and the income-generating groups. Besides saving & credit groups, farmers are organized in "rice banks" and "animal banks".

Conclusion: overall, we see that ASEAN Member States have a large number of registered cooperatives, representing a significant membership. Most of the cooperatives have a variety of services to members, of which saving and credit services are most prominent. Based on available information, very little is known about the economic value of the business represented by these cooperatives.

2.1.2 Agricultural structure and the national priorities support for agricultural cooperatives

Countries in ASEAN are largely agricultural, except for Singapore and Brunei Darussalam, and agricultural cooperatives are often utilized as vehicles for their economic and social transformation.

- **Brunei Darussalam:** According to the FAO, Brunei's agriculture policy focusses on reducing and diversifying the origin of food imports and developing rice production with a view to attaining self-sufficiency in this food commodity.
- **Cambodia:** Agriculture is the backbone of Cambodia's economy and around 90 per cent of population relies on agriculture. In 2015, the Ministry of Agriculture, Forestry and Fisheries developed an Agricultural Extension Policy (AEP) with the vision to increase the effectiveness of agricultural extension services delivery to improve the livelihoods and well-being of the Cambodian people. The goal of the AEP is to ensure that all Cambodian farmers and farming communities will have access to and will adopt improved agricultural knowledge, information, and technologies to enhance agricultural productivity, diversification, commercialization, and sustainable natural resources management. The government acknowledges that agricultural cooperatives are important vehicles to realize agricultural productivity increases and to increase food security. Therefore, the government adopted policies and strategies to support agricultural cooperatives. The primary objectives of Ministry of Agriculture, Forestry and Fisheries (MAFF) are to enable farmers to get advantages from the agriculture sector (i.e. sharing economic growth); Strengthen marketing through collective selling and buying; Encourage farmers to work collectively and forge business links with investors; and lastly to facilitate the transfer of agricultural techniques and services to farmers. Department of Agricultural Cooperative Promotion (DACP) supports agricultural cooperatives via five key activities, being: Establishment and registration of agricultural cooperatives; Dissemination of regulations to farmers and stakeholders; Capacity building; Business development and marketing; Monitoring and Coaching of agricultural cooperatives.

- **Indonesia:** Agricultural structure is dominated by Investor owned Firm (IoF), especially in the off-farm processing business. For example, no agricultural cooperatives in rice that owned modern and big Rice Milling Unit (RMU). Most of them only have pilot scale RMU granted by the Government of Indonesia 10 or 20 years ago. Since 2014, government has changed its view on cooperative from previously as social organization to alleviate poverty and distribution of subsidized (agricultural) products into a business legal entity. Since then government is no longer allowed to give grant or donation to cooperative. Government may provide support in term of capacity building or special loan when the cooperative is classified as MSME (Micro, Small and Medium Enterprise).
- **Lao PDR:** Agriculture is the most important sector of the economy and benefited from the introduction of the New Economic Mechanism leading to increased agricultural production, particularly in paddy. In 2010, the Lao PDR Ministry of Agriculture and Forestry issued the Strategy for Agricultural Development 2011 to 2020, aiming at integrating regional and world economies by gradual transition from subsistence into commercial smallholder production. The strategies are modernization towards climate resilient lowland market-oriented agriculture of smallholders, and conservation of upland ecosystems and improving livelihoods. The role of the Lao PDR Ministry of Agriculture and Forestry will shift from provider of public services to regulator of private sector service provision, by devolving gradually service provision to farmer organizations. "Assisting smallholder farmers in building autonomous and sustainable business oriented farmer organizations, such as business oriented farmer groups and later cooperative groups or full cooperatives". The MAF's strategy also stresses: "Attention will be paid to disseminating the recent Decrees on the Establishment of Cooperatives and Associations as they represent a strong legal basis for the future development of farmer organizations." The recently established Department of Agriculture and Cooperative has to facilitate the establishment of Economic Structures from the Local/Grassroots Level, strengthen production groups in pilot areas; form production cooperatives for marketing systems, processing services, communications, and savings & credit. The support mechanism is tri-fold: at National, Provincial and District Level; respectively: The Agriculture Extension and Cooperatives Department (DAEC), the Rural Development and Cooperatives Department (was to be established by mid-2017), 18 Provincial Agricultural and Forestry Office (PAFOs), and 148 Districts Agricultural and Forestry Office (DAFOs). Besides governmental action, a number of

“cooperative programs” also exist usually in the development projects of international agencies and NGOs. They promote group-based income-generating activities, such as weaving, producing quilts and raising livestock, and provide forms of microfinance for rural villagers.

- **Malaysia:** In 2014, the FOA has 350 Agriculture Cooperatives under its wing,² most of which are multi-purpose cooperatives undertaking thrift and credit, trading, marketing and some are engaged in agriculture production. Also categorized as agriculture cooperatives, are the Farmers’ Organizations (FOs) under the jurisdiction of FOA and the Fishermen Associations (FAs) under FDA. The FOs are more actively supported by the Government through FOA in the form of managerial personnel support and development funding for financing agriculture production, marketing, processing and other business activities that benefits its members. The FAs also enjoy similar support from the Government through the FDA.³ Total membership of Farmers’ Organizations in 2016 is 874,691 individual members from 278 Area FOs.⁴
- **Myanmar:** An Agriculture Policy has been developed by the Ministry of Agriculture, Livestock and Irrigation (MoALI) in 2016. The aim is to produce a greater and more diversified range of high quality agricultural, livestock, and fishery products. A major intention of Agriculture Policy 2016 is to take advantage of the prevailing favourable conditions in the agriculture sector to satisfy the fast-increasing needs of local as well as external consumers. The Policy intends to create an enabling environment for agriculture, livestock, and fishery sub-sectors to expand and to synergize and improve each other’s performance. It envisions an inclusive, competitive, food and nutrition secured and sustainable agricultural system contributing to the socio-economic well-being of farmers and rural people and further development of the national economy. Its mission is to enable rural population and agribusiness enterprises earning profit from production and trade of diverse, safe and nutritious foods and agricultural products using innovative and sustainable production, processing, packaging, logistics and marketing technologies to meet the growing domestic and global demands. To move from policy to implementation, the Agricultural Policy has been translated to an Agricultural Development Strategy for the period 2018-2023 with support of World Bank,

² Farmers’ Organization Authority, Annual Report 2014.

³ Mr. Dato’ Abd. Rahim bin Haji Ahmad Director General Farmers’ Organization Authority Ministry of Agriculture and Agro-based Industry, Agricultural Cooperatives in Malaysia: Innovations and Opportunities in the Process of Transition towards the 21st Century Model, presented in 2006 FFTC-NACF International Seminar on Agricultural Cooperatives in Asia: Innovations and Opportunities in the 21st Century, Seoul, Korea, 11-15 September 2006

⁴ Siti Aishatul Radziah Razali, National Farmers Organization (NAFAS), ASEAN Centre for the Development of ASEAN Agricultural Cooperatives (24th ACEDAC), 16 -17 May 2017, Vientiane, Lao PDR

FAO, LIFT, (ADP) (in final stage of development in Q1 2018), programs, projects and activities. One of the key objectives of Agriculture Policy (2016) is to: “Advance and upgrade the agricultural sector by organizing farmers’ associations, cooperatives and cooperative enterprises inclusive of small holders and subsistence farmers with promotion of gender role”. Key objectives are to support the development of cooperative *enterprises*, support the formation of cooperatives, to improve the living standard of cooperative members, to connect to international cooperative organizations to collaborate and to build the capacity of cooperative societies by focusing on production, services, and trade.

- **The Philippines:** “the partnership between government and cooperative stakeholders is engrained in the democratic process in crafting rules on implementing programs affecting the cooperative sector. The mechanism of consultation with the cooperative sector by the government is provided for in the Cooperative Code and specified in particular, under Executive Order 95 Series of 1993 (EO 95).” EO 95, among others, creates the National Coordinating Committee (NCC) composed of all government agencies with programs on cooperative to coordinate with CDA for harmonious and effective delivery of government services to cooperatives. It also calls for the formation of consultative mechanism the cooperative sector at various levels of bureaucracy from municipality, provincial, regional and national levels. “The harmonious and effective delivery of government services to cooperative by government agencies under the coordination of CDA is executed through memorandum of



agreements (MOAs) or Memorandum of Understandings (MOUs) between and by concerned government agencies and CDA. Basically, the MOAs/MOUs, spell out the obligations of parties in the delivery of services to cooperatives.” The MOAs/MOUs of CDA with relevant government agencies include the Department of Agriculture, Department of Agrarian Reform, Insurance Commission, Securities and Exchange Commission, Bangko Sentral ng Pilipinas, National Housing Authority, Office of Transport Cooperatives and Department of Trade and Industry.

- **Thailand:** With 40% of population earning its living in agriculture and with 9% of GDP, the agricultural sector remains to play an important role in Thailand’s economy. Thai government is attempting to enhance agricultural productivity. By increasing productivity, it is essential to raise incomes and improve the living standard of the people. The twelfth national economic and social development plan (2017-2021) envisions agricultural cooperatives to be the key management vehicle in the entire agroindustry value chain. Agricultural cooperative should scale up collaboration amongst farmers to connect and expand the systems of production, marketing, financing, farmer groups, community businesses, and clusters that link with industries, from the local up to the national levels. In addition, agricultural cooperatives are encouraged to collaborate with the Civil State Initiative for agricultural businesses, public-private partnerships (PPP), and fair contract farming with social responsibility.
- **Vietnam:** “In 2016, agricultural exports amounted to US 30 billion dollar, and was expected to reach \$35 billion in 2017. In 2016 rice exports accounted for \$2.15 billion, coffee for \$3.5 billion, fishery exports for \$7 billion; and fruit, flowers and vegetables for \$2.45 billion. The agricultural sector contributes for 20% to Vietnamese GDP. Nevertheless, the contribution in the GDP is declining annually with around 0,5%. In terms of agricultural policy, MARD in 2012 issued a decree approving the Master Plan on Agricultural Production development to 2020, Vision to 2030. This vision aims to develop modern, sustainable and large-scale agricultural production by applying science and technology to boost quality and productivity thus resulting in high competitiveness in the sector. The private sector is encouraged to enhance their involvement and investment in hi-tech agriculture.” Establishment and strengthening of cooperatives has always been a priority for the Vietnamese government. The legal framework was from the beginning very much oriented on linking cooperatives to control and management by the government, multi-purpose and founded as well to execute public services





in communes (like electricity provision for example). This still has effects on the current state of many cooperatives. Strong government orientation and support, but not lead according to modern-day cooperative (business) principles. The government vision for 2020 is to have 15,000 cooperatives that operate efficiently, focusing on horticulture, livestock, forestry and aquaculture. Each province is supposed to develop around 5-7 cooperative models which are integrated in the value chain. For the cooperative sector the Vietnamese government allocated 310 billion VND for the period 2016-2020 in public funds. On provincial level the public support varies, depending on priorities given.”



2.1.3 Legal framework for agricultural cooperatives establishment and operations

In some/many/most ASEAN countries, there is already existing legal framework for the establishment and operations of agricultural cooperatives. These usually include a regulatory agency that oversees the registration and monitoring of agricultural cooperatives including technical and training support.

Current situation of cooperatives in ASEAN Member States

	 Brunei Darussalam	 Cambodia	 Indonesia	 Lao PDR
Legal framework	cooperatives societies Act	cooperative law	Cooperative Law Number 25	Prime Minister Decree on Cooperatives 14 No: 136/PM
Year of elaboration	1975	2013	1992	2010
Last amendment	2012	N/A		
Institution for cooperative development	Cottage Industry and Cooperative Division (CIC)	Department of Agricultural Cooperative Promotion (DACP) under the Ministry of Agriculture, Forestry and Fisheries (MAFF)		MAF Department of Agriculture and Cooperative

- **Brunei Darussalam:** The Registrar of Co-operative Societies is appointed by His Majesty the Sultan and Yang Di-Pertuan. The Cottage Industry and Cooperative Division (CIC) is responsible for building a dynamic cooperative and cottage industry through the creation and development of successful cooperatives and enterprises in Brunei Darussalam. The CIC is mandated

to carry out the following functions: Implement the Cooperatives Societies Act; register & dissolve cooperative societies; audit financial statements of cooperatives (or ensure that they are audited); provide cooperative education and training; monitor and supervise cooperatives to ensure compliance to cooperative Act, principles and values. A Cooperative Code of Practice has been updated in 2017 and provides guidance in governance as well as basic bookkeeping.

- **Cambodia:** Under the 2013 law, a minimum of 15 people can form an agricultural cooperative with an emphasis on agricultural production systems, agro-industry, agri-business or services related to agricultural production. All members have to buy at least one share in the agricultural cooperative, pay their membership fees and declare they will comply with the statutes. Nevertheless, in an impact assessment of farmer organizations, the World Bank and Australian Aid (2013) conclude that many FOs are not legally registered because the process is excessive and complicated, and formalization doesn't involve real benefits as long as agricultural cooperatives are only involved in savings and credit. **Indonesia:** According to the prevailing Cooperative Law, a cooperative can be incorporated by at least 20 persons. The articles of incorporation should be drafted by a notary that will register the legal entity. To operate a business, a cooperative should get a business permit as regulated per industry.
- **Lao PDR:** Cooperatives are registered under the Prime Minister Decree on Cooperatives 14 No: 136/PM", dated of 5th March 2010. A cooperative is defined as "a collective economic organization established by a group of small entrepreneurs [...] which voluntarily intend to form a cooperative aimed at cooperation on capital, experiences, technology in production, trade and service to succeed their own business as well as to ensure social welfare among the members and their families". In Lao PDR cooperatives are considered profit-oriented organizations. Members invest capital (shares) in the cooperative and profits generated by the activities of the cooperative are distributed to members in proportion of their respective shares. The MAF Department of Agriculture and Cooperative promotes cooperative formation. Yet, the Decree on cooperatives is still very recent and up to now, the number of agricultural cooperatives that have been registered is still very limited. The MAF recognizes that there is "inadequate legal frameworks and policies to promote Agricultural Cooperatives." Cooperatives as defined by the ICA have a role in fostering economic fairness by facilitating access to both markets and services, for groups of people who won't access it if they operated on

their own. Such voluntary and autonomous cooperatives have considerable potential for countries such as Lao PDR, which prize social cohesion over individual advancement.

- **Myanmar:** The Ministry of Agriculture, Livestock and Irrigation (MoALI) is the responsible ministry for cooperative sector development in Myanmar after merging the former three ministries, i.e., Ministry of Agriculture and Irrigation (MOAI), Ministry of Cooperatives (MoCoop) and Ministry of Livestock, Fishery and Rural Development (MLFRD) into one ministry in April 2016. One of the key objectives of MoALI is: "To improve the livelihood and income generation of the rural people through the development of cooperative enterprises and system." The 1992 Cooperative Society Law is currently active in Myanmar. Myanmar became a member of ICA after the release of this law. To implement the law, the Cooperative Society Rules are promulgated in 1998 and then these rules were replaced by the Cooperative Society Rules (2013) which are currently being used for the supervision and regulation of cooperatives in Myanmar. The Cooperative Society Rules (2013) agree to form a Primary Cooperative Society (PCS) if a minimum of 5 members wish to do so. A primary cooperative society can freely develop its own house rules (bye-laws) which need to be approved at the general meeting by a majority vote. A cooperative society can decide freely for hiring a certified audit-firm or to get assistance from the cooperative department for auditing. The major changes with the adoption of the 2013 Cooperative Society Rules are as follows. First of all, The Ministry had the power to assign commissions to establish and liquidate cooperative societies and to decide on registration in the period. Since 2013, every group of at least 5 members who desire to form a primary cooperative society (PCS) can arrange to call the general meeting and a PCS is formed under the decision made by the general meeting. Secondly, no prior consent and approval is required since 2013 to change the type of cooperative, only a report of changes has to be submitted since 2013. Lastly, commissions under the Ministry had the possibility to call general meetings, which is no longer possible since 2013.
- **The Philippines:** The 1987 Constitution of the Philippines contain provision recognizing cooperatives as legal personalities with economic and social functions and mandating the creation of an agency to promote their viability and growth for the good of the nation. The cooperative has been the policy instrument of the government in promoting social justice and economic development. Thus, the basic law of the land envisions the promotion of cooperatives in various sectors of the economy, the expansion of economic

base and the mobilization of the less privilege members of the society to actively participate in nation-building. In response to the Constitutional mandate, Congress of the Philippines (legislature) passed the Cooperative Code (Republic Act 6938) and Cooperative Development Authority (CDA) Charter (RA 6939) on March 10, 1990. The Cooperative Code provides for the general concepts and principles; organization and registration, membership, administration, dissolution, capital, recovery and funds, audit, inquiry and members right to examine, allocation and distribution of net surplus, and special provisions relating to agrarian reform cooperatives, public cooperatives, cooperative banks, credit cooperative and cooperative insurance societies, among others.

Under Philippine Development Plan (2011-2016), Cooperatives are expected to provide a significant contribution in the objectives of creating a) rapid, inclusive and sustained economic growth, b) financial inclusion, and c) reduction of poverty. As a self-help organization, with proper monitoring and support of the government, cooperatives can contribute to rapid economic growth because of the power of cooperatives to mobilize savings and capital which can serve as inputs in the production of goods and services of the less privileged members of the society. Cooperatives which are engaged in deposit mobilization and capital formation have been proven potent grassroots organizations in providing micro entrepreneurs, who are most often denied by formal financial institutions, access to capital. The development of micro and small entrepreneurs which accessed financial services from cooperatives



create a rapid, inclusive and sustained economic growth, particularly in rural and agricultural areas. The strength of the Philippine financial sector as mentioned in the Philippine Development Plan (2011-2016) showed a steady improvement on the balance sheet of the banking industry, the issuance and listing of corporate bonds, and the active participation of the medium and large cooperatives which comprise 9% of the total registered cooperatives in the country in the strengthening of the financial sector. For the year 2013, the reporting cooperatives posted an aggregate ending balance of PhP97 Billion time/savings deposits, paid-up capital of PhP71 Billion, and net surplus of PhP13 Billion, all of which contributed to the inclusion of the marginalized sector in the financial market. The Philippines missed by almost 50% the reduction of extreme poverty by 2015 the MDG targets and commitments. The extreme poverty reduction was only from 33% (1991) to 16% (2015). The target of eliminating extreme poverty by 2015 was missed. However, the provision of technical, financial, and institutional development assistances to micro and small cooperative, on which a large portion is composed of agriculture and agrarian reform cooperatives, are projected to contribute to the creation of rural and agricultural enterprises that will reduce extreme poverty in the rural and far flung areas.

- **Thailand:** The 1999 Cooperative Act is governing all types of cooperatives in Thailand. Under this Act, cooperatives are exempted from payment of a registration fee, cooperatives are financially supported through the Cooperative Development Fund and a National Cooperative Development

Board is in place with the aim to promote the viability and growth of cooperatives. A new Cooperative Act is yet to be approved by Parliament.

- In a national scoping on agricultural cooperatives conducted by AFA in **Vietnam**, it was shared that the cooperative laws of 1996 and 2003 were not so clear on the specific status of cooperative and its differences with other legal forms of enterprises. The new model cooperative law of 2012 is more specific with 9 principles (self-management, every member has its own right of voting, members are owners and customers, among other). There is a perception that the government has a strong will to give prior support to cooperatives as can be seen in Decision 193 under Law 2012 and Support program 2015-2020.
- Under the current legal framework for agricultural cooperatives of 2012, cooperatives founded before 2012 must reorganize themselves, so that they can convert and register again in new-style cooperatives. By 2016, 70% of cooperatives were supposed to be transformed. In practice the transformation (and liquidation) process is still ongoing. From 2012 to present, the number of agricultural cooperatives has increased again. The average number of members also tended to increase (from 459 members in 2003 to 685 members in 2010 and 723 members in 2013).

Conclusion: All ASEAN Members States do have a specific legal framework for cooperatives and a national body to coordinates, support and register cooperatives within the country.



2.1.4 Regional framework on cooperative-to-cooperative trading (c-to-c) including taxation incentive schemes and regulations

There are initiatives for cooperative-to-cooperative trading in ASEAN, such as that being discussed in the 6th and 7th ASEAN Cooperative Business Forum hosted by the Philippines in 2016 and 2018, respectively.

- In **Indonesia**, there are no tax incentives on cooperative to cooperative trading, either domestic or international. Cooperatives have the same playing field as investor owned firms.
- In **Thailand** it is possible for cooperatives to lend, borrow or guarantee loans between cooperatives or to provide deposit services to members of other cooperatives.

2.2 Mid-term and long-term government interventions/ policy framework

This section details the development of agricultural market infrastructure (expansion of road and transport services, supply of water or access to electricity, agro-industry areas, healthcare facilities, and infrastructure on ICT/connectivity).

ASEAN Member States recognize the importance of the agriculture sector for food security, employment, and economic growth. Each Member State has adopted a strategy to boost agriculture and raise the income of farmers. This involves support to agricultural cooperatives as means to add value to agricultural produce.

- **Cambodia**: To realize agricultural development, the government adopted a three-fold strategy: increase productivity, diversification and agricultural commercialization through implementing a package of interrelated measures - infrastructure building and enhancement (roads, irrigation, energy/electricity, and Information and Communication Technologies (ICTs), improvement in the provision of extension services, and improved agricultural inputs, land management reform, finance, marketing, farmer organization, and institutional building and coordination.
- **Indonesia**: President Jokowi administration since 2014 focuses heavily in accelerating infrastructure development, including agriculture infrastructure, especially dam, retention basin and irrigation. Other infrastructure development is to overcome the cost of logistics transportation in Indonesia which is more expensive 2.5 times more than Malaysia and Singapore.⁵ President Jokowi encourages farmers to incorporate a farmer corporation to

⁵ <https://www.infrastructureasiaonline.com/government/president-jokowi-explains-importance-indonesia-infrastructure-development>

add value on the farmer produce. Starting September 2017, several ministries are developing models of farmer corporation. Ministry of Village and Ministry of State-Owned Companies develop a model of farmer corporation that is owned by village and state-owned company, while the Ministry of Cooperative development supports the cooperative model of farmer corporation⁶ The Government distributes farmer cards to buy fertilizers.⁷ But there is no clear definition on farmer, or farm land, or farm business.

- **Lao PDR**: The current state of Lao PDR agricultural market infrastructure doesn't stimulate rapid rural growth. However, the MAF strategy is to address the infrastructure network situation, particularly in transport and communication. This will enable international access and potential markets in Thailand, Vietnam and Cambodia.
- **Malaysia**: The Malaysian government launched its Eleventh Malaysia Plan (EMP) for the period of 2016–2020 in 2015. The EMP is considered as the last and critical economic development plan in Malaysia's journey to become a developed nation in 2020. It is a comprehensive strategy that focuses on delivering both the capital and people economy. The capital economy aims to create wealth for the nation, while the people economy addresses the livelihood of the people. In the EMP, the agriculture sector, namely the agro-food and industrial commodity sub-sectors will be transformed and modernized into a high-income and sustainable sector. This sector is expected to grow at 3.5% per annum, contributing 7.8% to GDP in 2020. Industrial commodities will contribute 57% and agro-food 42.4% to the total agriculture value added in 2020. Efforts will be focused on ensuring food security, improving productivity, increasing skills of farmers, fishermen, and smallholders, enhancing support and delivery services, strengthening the supply chain and ensuring compliance to international market requirements. The development of the sector will also consider the impact of climate change on sustainability of agricultural practices. Special focus will also be given to the industrial commodities smallholders to further boost productivity through the infusion of modern technologies with the aim of reducing labour dependency as well as addressing low commodity prices through income stabilizing measures. Seven strategies have been identified to spur the growth of the agriculture sector. Strategy 1: Improving productivity and income of farmers, fishermen, and smallholders by accelerating adoption of ICT and farming technologies, preserving and optimizing agricultural land, and intensifying R&D&C in

⁶ <http://ekonomi.kompas.com/read/2017/09/13/180918426/pemerintah-segera-bentuk-korporasi-petani>

⁷ <http://www.thejakartapost.com/news/2017/06/07/government-distributes-farmer-cards-to-buy-fertilizers-in-east-java.html>

priority areas; Strategy 2: Promoting training and youth agropreneur development through collaboration across agencies and the private sector to modernize farming techniques and nurture agribusiness start-ups; Strategy 3: Strengthening institutional support and extension services by streamlining extension services and encouraging advisory services from the industry and academia; Strategy 4: Building capacity of agricultural cooperatives and associations along the supply chain by vertically integrating the supply chain for selected crops, enhancing management skills, and pooling resources for promotion and exports; Strategy 5: Improving market access and logistics support by strengthening logistics and enhancing access to domestic and international marketplaces; Strategy 6: Scaling up access to agricultural financing by restructuring and providing a more flexible payment mechanism as well as increasing sustainability of financing mechanisms for replanting programs; and Strategy 7: Intensifying performance-based incentive and certification programs by encouraging farmers to get certified, and prioritizing certified farms for incentives and support.⁸ NAFAS has Farmers Organization Transformation Program 2012 -2020 in six cores strategy: Value Chain Development, Human Capital Development, Strengthening Marketing Network, Consolidation and Mobilization of Financial Resources, Empowering R&D, and The Establishment of Land Bank.

- **Myanmar:** In the period 2010-2015 USD 131.352 million has been invested in the agricultural sector, mostly in infrastructure development. Within infrastructure, development investments were on irrigation rehabilitation and maintenance (45%), followed by capacity development of institutions (30%) and policy, regulatory, governance and production enhancing investments. In the Agricultural Development Strategy, it is envisioned that also in the period 2016-2022 infrastructural development will continue to receive most investments allocated to irrigation rehabilitation and maintenance.
- **Thailand:** The twelfth national economic and social development plan (2017-2021) envisions 6 priority areas for agricultural development. These are: (1) Strengthening agricultural production towards sustainable agriculture; (2) Building and transferring technical knowledge, science, technology, innovation, and co-creation of agricultural local wisdom; (3) Upgrading agricultural and food production to meet appropriate standards, respond to market demands and for healthy food consumption; (4) Strengthening the production capacity of the agroindustry value chain; (5) Supporting and

replicating agricultural practices based on the Sufficiency Economy Philosophy and (6) Developing enabling factors in agriculture and supporting new generation farmers.

- **Vietnam:** continues to drive the global economic integration agenda and expects to maintain annual average GDP growth rate of 6.5% to 7% over the period of 2016 – 2020. In this perspective agriculture is lagging behind with annual growth rates of around 1%. The Vietnamese government aims for a 3% growth in the period 2018-2020. Government spending is around 6,5% of national GDP. Most important initiative for rural development is the “New Rural Development Program 2016-2020”. In this program, 193.155,6 billion VND is allocated to develop necessary facilities like roads, electricity, clean water, schools and medical stations.

2.2.1 Sustainable financing system for agricultural cooperatives

There are banks like the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Myanmar and the Land Bank of the Philippines (Land Bank) that provide credit to agricultural cooperatives and farmers' associations.

The Land Bank capacity building program for borrowing cooperatives:

The Land Bank of the Philippines is a government financial institution. It is by far the largest formal credit institution in the rural areas, ranking also among the top five commercial banks in the country in terms of deposits, assets, loans and capital. The profits derived from its commercial banking operations are used to finance the Bank's developmental programs and initiatives. The bank has a qualification system of

⁸ Rozhan Abu Dardak, Economic and Social Science Research Centre, MARDI, “New Strategies for Greater Growth and Development of the Agriculture Sector in Malaysia.” The full document of the EMP can be read at the <http://rmk11.epu.gov.my/book/eng/Elevent-Malaysia-Plan/RMKe-11%20Book.pdf>.



cooperatives' risks called 'maturity level', going from D (lowest) to C, B and A. When a cooperative applies for a loan, the bank will evaluate and qualify the cooperative using the so called "Enhanced Cooperative Operations Review Instrument" (ECORI).

The objectives of the Capacity Building Program for Land Bank Borrowing Cooperatives are twofold, targeting the improvement of governance and business management:

1. To capacitate the board of directors, officers and management staff of cooperatives on knowledge, competencies and skills on cooperative management specifically to: (a) Develop and/or improve the policies, systems and processes of cooperatives; and (b) Enable cooperatives to identify, address and strengthen their internal control systems.
2. To address the weaknesses identified as a result of the Enhanced Cooperative Operations Review Instrument (ECORI) rating of Land Bank.

There are two modes for cooperatives to avail these training services: Cooperatives qualified A and B (which already are clients using loans with no mayor problem) will pay themselves from their bank's accounts. Cooperatives qualified C and D will receive the capacity building at the expense of the Land-Bank. After the capacity building process, cooperatives that can't initially qualify for lending should be able to reach the required qualification.

This concept used by Land Bank is, with no doubt, an inspiring approach that could be replicated elsewhere. At the end of the day, banks need to lend and cooperatives need to borrow. Therefore, to solve access to finance by cooperatives is a win-win situation for those involved: cooperatives and lenders.

In a national scoping on agri coops done by AFA in Vietnam, one of the policy recommendations was the need to "mobilize more funds and to get access to the budget allocated by the government for those activities."

- **Cambodia:** When being member of an agricultural cooperative, farmers have access to loans for 2-3 percent interest per month and with a flexible repayment schedule. This reduces the dependency on private moneylenders and MFI's. Nevertheless, the majority of agricultural cooperatives has insufficient money to provide loans to members. There is no information retrieved about structural sustainable finance provision in the form of revolving funds or credit guarantee schemes.
- **Indonesia:** There is no agricultural bank in Indonesia. The central government or Bank Indonesia (Central Bank) are not allowed to have

subsidized financing programs for agriculture. The government has a Kredit Usaha Rakyat (KUR, People Business Credit), a subsidized loan interest program for MSME in all sectors.

- **Lao PDR:** Privatization and economic development were encouraged by governmental reforms (NEM). However, access to capital in rural areas remains difficult, for individuals as well as for groups and cooperatives.
- **Myanmar:** There are several funds who provide credit guarantees to commercial banks to finance agri-entrepreneurs and possibly agricultural cooperatives in the future. Examples are LIFT, ADB, Rabobank Foundation. In addition, several private companies and organizations are experimenting with crop insurances. There are no revolving funds or credit guarantees provided by the government, nor are they mentioned in the ADP and ADS.
- **The Philippines:** The cooperative may derive its capital from loans, borrowings and deposits to supplement the members' share capital. In addition, cooperatives are authorized by law to accept subsidies, aids, grants, donations and other assistance from foreign and domestic sources to supplement the members' share capital which shall be governed by the provisions of the Code and the rules and regulations issued by the Cooperative Development Authority.
- **Thailand:** The bank for agriculture and agricultural cooperatives (BAAC) provides credit to agricultural cooperatives and farmers' associations. Agricultural cooperatives can use the credit for re-lending to members, Procurement of farm inputs and equipment's and collection of farm products from members.
- **Vietnam:** For agricultural cooperatives, a special Cooperative Development Fund has been established in 2017. This allows cooperatives to access to finance up to 1 billion VND without having to provide collateral. In practice, credit guarantees and revolving funds in the agricultural cooperative sector are very limited due to low growth rates and minimal business capacity in most cooperatives. In 2017 access to credit was eased for farmers, and "license tax" (excise tax) was reduced for individuals, groups of individuals and households with incomes of less than VND100 million (\$4,400) a year.

2.2.2 Incentives for young farmers to engage in agricultural cooperative enterprises

There are various policies and programs to incentivize young farmers to engage in agricultural cooperative enterprises, but in other countries, it still needs to be developed.

- **Cambodia:** The AEP mentions the ambition to engage youth in agricultural extension dissemination programs, but no further details are provided.
- **Indonesia:** There are no incentives for young farmers to engage in agricultural cooperative enterprises.
- **Lao PDR:** Lao PDR has predominantly a young population, but policies and incentives to stimulate youth to enrol in agricultural cooperatives have not been noted yet.
- **Myanmar:** Myanmar faces the challenge of outmigration of rural youth to urban areas and neighbouring countries. Given an identified negative impact on agricultural development, the Agricultural Development Strategy (draft, 2018) envisions to develop specific initiatives targeted at rural youth. There will be agri-entrepreneur programs and trainings on technical service provision to agricultural machinery targeted at rural youth to incentivize youth to stay in rural areas and to remain connected to agriculture.
- **Thailand:** The Thai government aims to develop enabling factors in agriculture to support the new generation farmers among others by a graduate returning home program. Curricula are developed that focus on learning from practice so that the young farmers are knowledgeable in upgrading their production, processing, marketing, and management and by the active promotion to adopt IT and technology via a knowledge management system and IT networks. Young farmers should be able to adapt to the changing global environment. Creating knowledge and connecting to information technology (IT) development networks. Cooperatives are considered important instruments to create networks to exchange knowledge.
- **Vietnam:** For young farmers the Vietnamese government issued the “Cooperative Development supporting program 2015-2020” in which funding can be provided for agricultural cooperatives to compensate young graduates on the management and board. As well capacity building for cooperative leadership is improved with this program.

2.2.3 Comprehensive support on building climate resilience agriculture

Climate change is a well-recognized challenge in ASEAN Member States. Policies and programs have been instituted to address its impact. This includes agricultural cooperatives as an important vehicle for communities to adopt climate adaptation measures and climate resilient agricultural production systems.

- **Cambodia:** Agriculture-based livelihoods and overall food security in Cambodia are being affected by increased frequency and severity of floods, dry spells and drought events. Although Cambodia has limited exposure to climate hazards, it is extremely vulnerable due to its low adaptive capacity. Several NGO's are running pilots on climate adaption and results will be shared with MAFF to feed in policy development.
- **Lao PDR:** Climate Change is identified as an important issue by the Ministry of Agriculture and Forestry, and mentioned in the Strategy for Agriculture Development 2011-2020 (see Box 3 below). In particular, the connection with Farmer Organizations and their possible roles in the process of adaptation of agriculture to Climate Change is not explicitly mentioned. The government of Lao says that it will address climate change and competitiveness on world market by a systemic approach to risk management including insurance schemes. It will also support producers, processors and traders in their efforts to comply with international certifications. Global Climate Risk Index 2018: Lao PDR = 120
- **Myanmar** has the second highest risk assessment (after Honduras) on the 2017 Global Climate Risk Index. To mitigate the risks for farmers, the Agricultural Development



Strategy refers to develop crop insurance schemes. Next to that, a Myanmar Climate Smart Agricultural Strategy has been developed.

- **The Philippines:** Cooperative members are already much aware of the change in weather and climate and their impact on production, food consumption and human habitat. Cooperatives as community organizations are potent institutions for inducing communities to adopt to climate change by introducing production system and community ecology in harmony with climate change.
- **Thailand:** Climate change has a direct effect on the agricultural production and thus on the export of food and agricultural products, which is one of the main revenue sources of the country. Furthermore, agriculture is the main income basis of poor farmers. Thus, climate change has a tremendous impact on poor individual farmers and has aggravated the poverty issue. Sub regionally, Thailand is part of the Core Agriculture Support Program 2 (CASP 2) for the period 2011-2020 together with Cambodia, China, Lao, Myanmar and Vietnam to safeguard the national ecosystems that underpin agricultural production in the region. The three pillars of CASP 2 are food safety & trade modernization; climate friendly agriculture and biomass and bioenergy management.
- **Vietnam** is among the top 10 countries which are and will be affected by impact of climate change according to the Global Climate Risk index 2017. For this reason, the government instated its "Climate Change and Green Growth Program 2016-2020" with a total budget of 15,866 billion VND to augment the capacity of the whole country in responding to climate change and at the same time take climate adaptation measure and reduce greenhouse gas emissions.

Conclusion: ASEAN Member States recognize the importance of the agriculture sector for food security, employment, and economic growth. Support to agricultural cooperatives is acknowledged as an important and efficient way to boost agriculture and raise the income of farmers. Each Member State has adopted a strategy for this.



Steve Douglas – unsplash.com

A woman wearing a blue long-sleeved shirt, dark pants, and a traditional conical hat is walking through a lush green rice field. She is leading a large, grey water buffalo by a rope. The field is vibrant green, and the background features rolling hills and mountains under a cloudy sky. The scene is captured during the day, with soft lighting.

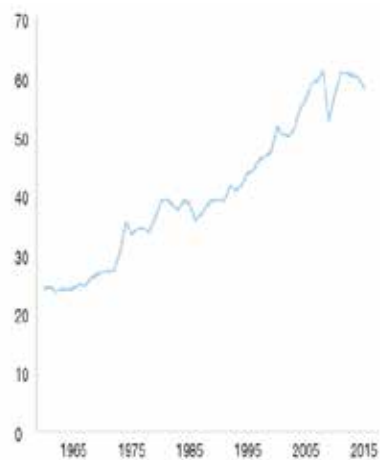
3.

TRENDS IN GLOBAL AND ASEAN AGRICULTURAL VALUE CHAIN

3.1 Trends in Global Agricultural Value Chain

As shown in figure 1, the world's trade-to-GDP ratio has more than doubled over the past 50 years, but it has not seen any increase since the global financial crisis unfolded in 2008. Research suggests that the stagnating trade-to-GDP ratio may well reflect diminished opportunities for global value chains to spread any further. This development may suggest that greater global production sharing will not provide the same growth impetus in the future than it did in the decades prior to the financial crisis. At the same time, technological and business innovations as well as shifting consumer preferences will continue to transform global production. Most prominently, developments in 3D printing, robotics and automated manufacturing have already reconfigured supply chains in a number of industries, and further progress in these areas may well unleash more profound change. These developments may lead to the "re-shoring" of certain production tasks, implying less trade. But the deployment of such technologies could still help spur economic growth.⁹

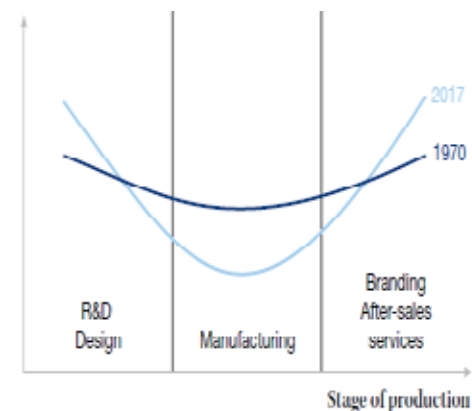
Figure 1: Growth in world trade outpaces growth in world output



The concept of the smile curve captures two important structural shifts: First, technological progress has been considerably faster in manufacturing than in services. This trend has implied a shift of labor and capital from manufacturing to services and consequently a rising share of services in economic output. In terms of figure 2, the share of manufacturing in firms' overall cost structure has progressively fallen.

⁹ World Intellectual Property Organization (WIPO), World Intellectual Property Report 2017: Intangible Capital in Global Value Chains, 2017, ISBN: 978-92-805-2895-4

Figure 2: Production in the 21st century – a growing smile



Second, intangible assets – in the form of technology, design and brand value as well as workers' skills and managerial know-how – have become critically important in dynamically competitive markets. Firms continuously invest in intangible capital to stay ahead of their rivals. As economies have grown richer, consumers' preferences have shifted toward goods that respond to differentiated tastes and offer a broader "brand experience."¹⁰

The growth of global value chains has coincided with both rapid industrial development in certain low- and middle-income economies and the integration of these economies into the global economy.¹¹

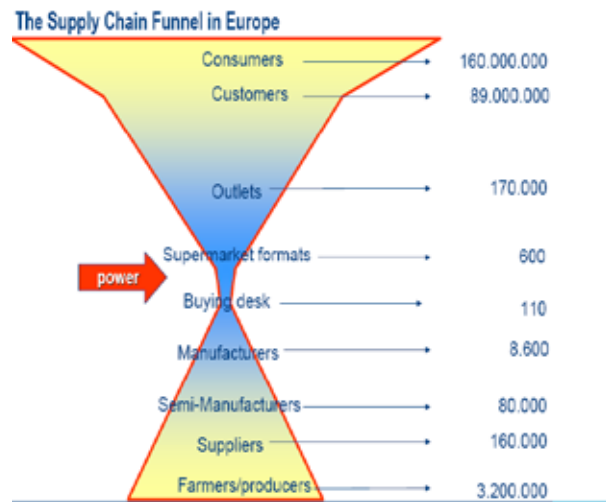
Critical parts of food systems are becoming more capital-intensive, vertically integrated and concentrated in fewer hands (figure 2 & 3). This is happening from input provisioning to food distribution. Small-scale producers and landless households are the first to lose out and increasingly seek employment opportunities outside of agriculture. This is driving increased migratory flows, especially of male members of rural households, which is leading, in turn, to the 'feminization' of farming in many parts of the world.¹²

¹⁰ WIPO, op. cit.

¹¹ WIPO, op. cit.

¹² Food and Agriculture Organization of the United Nations, The future of food and agriculture: Trends and challenges, Rome, 2017, ISBN 978-92-5-109551-5

Figure 3 & 4: key stakeholders in international food production systems



Final markets in the Global North are characterized for placing high importance on product traceability, this is to say, verifying the origin and quality of the products that are allowed into the country's market at every stage of their transit through the value chain.¹³

3.2 Trends in ASEAN Agricultural Value Chain

Global Value Chains are increasingly linked within ASEAN Member States and its neighbouring countries. In ASEAN, the share of foreign value added (imports) used to produce exports (the buying element of GVCs) increased from 29% to 33% in the period 1995 to 2011. This has allowed firms in ASEAN countries to develop their competitiveness as exporters. At the same time, the origin of this value added is changing: increasingly, firms in ASEAN are turning to source competitive inputs from intra-regional and neighbouring Asian partners, replacing more traditional sources such as the European Union and the United States.

Natural resource rich economies such as Indonesia and Brunei Darussalam are predominantly engaged in sales of raw materials into value chains, while Malaysia, Thailand, the Philippines and Vietnam have a stronger manufacturing element to their participation, and Singapore is engaged in the sale of high-skill intensive products and services. This diversity suggests there are good opportunities to exploit complementary sectoral specialization patterns through further regional economic integration.¹⁴

In 2016, the agricultural sector generated \$275.5 billion of value added (\$237 billion in 2010), contributing to 14.2% of ASEAN area total GDP, an amount equal to 9% of global value added from the sector. The sector is also pivotal for employment, accounting for almost 30% of the whole ASEAN workforce. Of these, 40 million people are employed in Indonesia, 25 million in Vietnam, 13 million in Thailand and 12 million in the Philippines. Agriculture also attracts 4.1% of total FDI in the ASEAN area and provides \$24 billion in export value, accounting for almost 10% of global exports from the sector in 2015.

ASEAN area is home to the world's top two largest rice exporters (Thailand and Vietnam) and hosts the top three exporting countries for pineapples, bananas, mangoes, sugar crops, coffee, cashew nuts and cassava. It is the top producer and

¹³ International Labour Organization, Food and agriculture global value chains: Drivers and constraints for occupational safety and health improvement; Volume One Perspectives from relevant research areas, 2017, ISBN: 978-92-2-330285-8 (web pdf)

¹⁴ OECD, Trade Policy Note, Making Global Value Chains work for ASEAN, December 2016



exporter of palm oil, coconut and rubber (Thailand, Indonesia and Malaysia together producing about 70% of the world's natural rubber) and a major producer and exporter of seafood.

Beyond the overall picture, relevant differences among ASEAN Member States exist:

- **Lao PDR** and **Myanmar** have the most significant agriculture sector considering the weight on GDP. In these countries agriculture is the main source of national income, while in urban areas such as Singapore and Brunei it is basically irrelevant, leading to heavy import dependence.
- **Cambodia** has doubled the yield in the past decade and has significant potential for production expansion together with great demand for agriculture machinery.
- **Vietnam** is a major rice exporter and its agriculture sector is growing thanks to improved land usage, increased investment and technology adoption.
- **Indonesia** is the regional leader for total value added from the sector (\$130 billion in 2015). It has large public and private plantations focused on export commodities (palm oil and rubber), while small farmers are focused on production of rice, soybeans, corn, fruits and vegetables.
- **Thailand**, affected by drought in recent years, remains the world's largest rubber exporter, the largest single rice exporter, and the second largest sugar exporter.
- **The Philippines** is reliant on small farmers, with 81% of agricultural land covered by the agrarian reform program.
- **Malaysia** remains a net agriculture importer, with national production dominated by palm oil plantations (accounting for 36% of national

agricultural GDP) followed by rubber (8%), livestock (12%), and vegetables, fruits and food crops (18%).¹⁵

There is no AC from ASEAN that play significant role in the GVC, especially in the agriculture and food industry sector. Most of ACs in ASEAN are only supplier of national multi-national Investor Owned Company (IoC), like MARS, Nestlé, Unilever, etc. Almost all stakeholders only use ACs as aggregator of on-farm products as raw material for big IoC by setting up partnership to develop integrated supply chain, provide micro-financing to farmers and help them access markets. This partnership involved banks, local retailers, and grain traders.¹⁶ Business scope of ACs in ASEAN, just like in Thailand, is to carry out various activities in order to achieve the aims of economic and social benefit their farmers members, i.e.:

- Provide production and consumption loan to members at reasonable rate of interest;
- Encourage savings among members by promoting saving deposits;
- Provide agricultural equipment such as tractor, water pump, and agricultural inputs such as fertilizer, seeds, as well as consumption goods to member at reasonable price; and
- Assist members to market their product at good prices and to maintain fairness in terms of weight and measurement.¹⁷

This approach tried to involve all types of farmers: farmer business-person, fulltime farmer, part time farmer, subsistence farmer and labour farmer.

There is no information on ACs in ASEAN that involve in the off-farm value-added industry processing in a large scale of economy as a prerequisite to participate in GVC. Several ACs may have value-added processing factory, but only at home-industry scale or pilot scale.

¹⁵ Position Paper, Innovation and Technologies In The Agriculture Value-Chain: How To Profitably Share Know-How And Match Competences, High Level Dialogue on ASEAN Italy Economic Relations, Jakarta, May 15-16, 2017

¹⁶ What will food systems look like in Southeast Asia in 2030? (<https://www.weforum.org/agenda/2017/05/what-will-food-systems-look-like-in-southeast-asia-in-2030/>)

¹⁷ Successful Cases of Agricultural Cooperatives Marketing Activities for Improving Marketing Efficiency in Thailand (http://ap.fftc.agnet.org/ap_db.php?id=519)



4.

**STRATEGY FOR THE
AGRICULTURAL
COOPERATIVE
DEVELOPMENT TOWARDS
2025**



4.1 Institutional development

4.1.1 Definition ASEAN Agricultural Cooperatives

Definition for ASEAN Agricultural Cooperatives summarised from ASEAN Member States' practices:

- In **Cambodia**, under the Law on Agricultural Cooperatives of 2013, an agricultural cooperative is defined as “a private legal entity and agriculture-based economic enterprise which is voluntarily established by natural persons through joint investment, joint ownership and joint management in a democratic manner in order to enhance agricultural production capacity, agro-industry, agri-business, or services related to agricultural production aimed at raising economic, social and cultural status of members in accordance with the following basic principles: Voluntary and Open Membership; Democratic Member Control; Member Economic Participation; Autonomy and Independence; Education, Training and Information; Cooperation among Agricultural Cooperatives; Concern for Community.” <http://www.dacp2014.info/asset/technical/95208.pdf>
- In **Lao PDR**, a cooperative is defined as “a collective economic organization established by a group of small entrepreneurs [...] which voluntarily intend to form a cooperative aimed at cooperation on capital, experiences, technology in production, trade and service to succeed their own business as well as to ensure social welfare among the members and their families”.
- In **Malaysia**, there are “multi-purpose cooperatives undertaking thrift and credit, trading, marketing and some are engaged in

agriculture production. They include Farmers' Organizations (FOs) under the jurisdiction of FOA and the Fishermen Associations (FAs) under FDA.”

- In **Myanmar**, “two types of cooperatives can be registered: functional and regional. Most cooperatives are registered as regional cooperative with a heterogeneous membership base. Most members are member to have access to loans, but limited commitment and collaboration is noted since there is no shared ambition in these regional types. The functional cooperatives are underdeveloped in Myanmar.”
- In **The Philippines**, there are micro, small, medium, and large cooperatives. Agriculture cooperatives are composed of agriculture, multi-purpose, agrarian reform cooperatives, and dairy cooperatives.
- In **Thailand**, “Out of the agricultural cooperatives, around half is considered general agricultural (multi-purpose); followed by rubber production; water-users; land reform; dairy; agricultural finance and animal raising.
- In **Vietnam**, the main types of cooperatives are multi-purpose cooperatives (57%), horticulture (19%), and livestock (8%).

4.1.2 Membership, dividend and payment

- In **Myanmar**, dividend and premium payments to members are practical non-existent because the majority of cooperatives are not performing business activities.
- In **The Philippines**, revolving capital refers to the “amount available out of the deferred payment of the patronage refund and interest on share capital of the members or by authorized deduction of a percentage from the product sold or per unit of product handled by the cooperative. The Board of Director shall issue revolving capital certificates with serial number, name, amount, and rate of interest to be paid and shall distinctly set forth the time of retirement of such certificates and the amounts to be returned.” <http://www.cda.gov.ph/resources/issuances/implementing-rules-and-regulations/rules-and-regulations-implementing-certain-provisions-of-ra-9520> “Coop members are entitled to earn dividends on their paid-up capital, receive patronage refund on their interest payments and avail of the loan products and services. Upon completion of the external audit in compliance with the CDA policy, the Coop deducts the mandatory reserve requirements (10% General Reserves, 5% Cooperative Education Training Fund, 5% Optional Reserves, 3% Community Development Fund) from the Annual Surplus to determine the Surplus Available for Distribution.

Strategies for cooperative development

In the national scoping activities done by AFA in the different ASEAN countries under the AFOSP program, the following models or strategies for cooperative development identified:

1. Commodity/farmer clustering
2. Mobilizing pre-coops or FOs for collective bargaining (supply &/or marketing)
3. Transforming FO into FC
4. Re-structuring old-type/traditional coop to business-type coop
5. Organizing a primary coop drawing membership from members of FOs (territorial or commodity specific)
6. Coop-to-coop business ventures, linking the production supply chain and value-addition chain to the market distribution chain
7. Enhancing the capacity of farmers cooperatives to engage in domestic and international markets
8. Building the institutional, operational & financial capabilities of primary cooperatives in order to undertake or expand value-chain development
9. Establishing agricultural commodity-specific cooperative federations
10. Multipurpose-type at the primary level and vertically established into different single-purpose federations with a national apex structure (Japanese model)
11. Establishing a national federation of farmers cooperatives
12. Establishing a regional confederation of farmers cooperatives
13. Developing a feasible capital and investment system involving both internal and external resource generation to ensure the cooperatives' sustainability and business viability
14. Clustering approach
15. Evolving Structure & Relationship with Farmers Organizations
16. Strategy interventions: Consolidation of small farms; Horizontal integration of coops; Vertical integration of coops

4.2 Relevant ASEAN viewpoints and documentation

By analysing the ASEAN 2025 Vision; Forging Ahead Together, and related strategic and action plans from an “agricultural cooperative” point of view, some specific goals do spring out: sustained high economic growth and job creation, robust productivity and practical application of knowledge, value chain development, and better realisation of economies of scale, collective efficiency and the organic formation of regional innovation systems, among others. In broader sense, reference is made to “a resilient, inclusive, people-oriented and people-centred community that engenders equitable development and inclusive growth”.

To start with the last, more general and visionary goal. Terms like inclusiveness, people-oriented and – centred and equitable development are in core of co-operative identity, values & principles. It's in its DNA, in other words. See text box below for the 7 Co-operative principles as elaborated by the International Co-operative Alliance (ICA, <https://ica.coop/en/whats-co-op/co-operative-identity-values-principles>). This leads to ICA's slogan: “Co-operative enterprises build a better world”.

Besides this social aspect, a cooperative is also a business. Many cooperatives have experienced challenges in this dualism character of the organization. Many traditional cooperatives business has remained limited to selling commodity only.

Traditional cooperative is a social enterprise (sometime not enterprise, but just organization) that is established by the government or donor to help to small-holder (who do subsistence income generating activity) or poor to increase their income by finding the buyer who is willing to buy their product with a higher price.

New Generation Agricultural Cooperatives are organizations of business-people who have same business interest in a social-enterprise that can be inheritable from generation to generation and as a vehicle to equalize income distribution or reduce income gap.

New Generation Cooperatives process commodities into value added products (industry). Through value addition, and start of processing, new jobs are created, often in rural areas where it is mostly needed. By differentiating more and applying member criteria, also internal capitalization may increase.

New Generation Agricultural Cooperatives can be vehicles for robust productivity growth including practical application of knowledge, supportive policies towards innovation, science-based approach to green technology and development.

However, it must be noted that farmers have a diversity of ways of getting together for tackling common issues they can afford individually. In this line, farmers can form a diversity of organizational arrangements which, even if it can be different from a formal cooperative, it can bring out the same desired output. Therefore, the State's policies should observe the existence of this diversity of farmers collective actions units with a positive view.

4.3 Diversity in farmers collective action for facing their business challenges

Farmers will not always react positively to government or NGO initiatives to promote or create cooperatives. On one side, negative past experiences will prevent cooperative formation. From the other side, the need to go through and comply with a complicated regulatory process might inhibit farmers. In this case, farmers will prefer to continue with simpler and even informal ways of joining forces for supporting each other in production and marketing matters. An expectable reaction from authorities then, is the promotion of cooperatives and specific types of farmer groups 'tied up' with support systems to farmers. This implies farmers will get benefits only if they are members of a cooperative. Example of this is if farmers can access extension services, soft loans, grants, subsidies, etc., only under the condition of being registered member of a formal cooperative, group, etc. In this case, as the objective for farmers to become a member is to access benefits coming from outside the cooperative, then their commitment as member will depend on the access to those support means. In these cases, cooperatives and other similar organizations are a vehicle for the State to reach farmers in a simple, coordinated and low cost way, what can be fine for that single purpose, but will hardly generate cohesion, the needed commitment and an efficient and truly collective action.

There are examples of farmers forming collective action units different from the ones promoted by the State. These ones should (must) be acknowledged and supported, as they are a truly expression of collective action. Examples of this are the so called 'Peasants' collective companies' in Chile, emerging in the early 90's: cooperative law and regulations were too complicated and benefits were not a crucial difference and cooperatives had a past with political sensitivity. Farmers already organized in farmer groups created normal private companies, with the characteristic of defining that the



company would be managed under a Board of directors elected with the cooperative criteria of 1 member 1 vote -and with other typical governance structures common in cooperatives.

At the end of the day, and according to the International Cooperative Alliance, a cooperative is an organization of people that follows the seven cooperative principles (see box below), and, paradoxically oftentimes one can find other modalities of organized farmer arrangements that fit these principles rather well.

1. Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Co-operation among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

4.4 Policy framework

In general terms, cooperative support systems directed from the State for promotion of and support to cooperatives, require tackling certain main issues that will determine the success of a cooperative business.

4.4.1 Cooperative support systems

Main issues to be tackled by Cooperatives (and Farmers Groups to become a cooperative or similar)	Features related to the main issue
Organizational' Matters	» Business planning and feasibility studies » Regulatory matters » Governance and leadership » Management (Administration and financial)
Organizing and coordinating farmers production (and services to them)	» Adequate Knowledge » Adequate inputs and equipment
Coordinating marketing	» Marketing skills and market information » Market contacts and negotiation
Access to Finance for cooperatives	» Production loans (farmers level, or both investment and working capital) » Cooperative investments and working capital

Considering the above described main issues to be faced by cooperatives and, at the same time, to prevent potential pitfalls in the creation of a cooperative business, a number of significant support systems must be considered as a base line for cooperative development, as follows:

1. Capacity building of cooperatives
1. Access to good quality advisory services and
2. Access to financial resources and services

If these three factors and its related actors are aligned, then, cooperatives will have a fair degree of freedom for reaching success in their activities.

It is highly advisable that the policy framework for the promotion and support of smallholders cooperatives in the ASEAN countries would be based in the recognition of certain realities, which can be shaped and directed in a positive direction but – certainly, need to be taken as part of reality that policies need to deal with. Some crucial examples are:

- When it comes to cooperatives and smallholders' market access, there are different types of cooperative involvement in market access-related activities. But, it is usual that governments and cooperative support programs have a real “push” for cooperatives to work in direct commercialization of their members produce. This is not always is the best option for the cooperative and its members.
- Cooperatives play a crucial role in tackling and solving market imperfections (like low prices to farmers for their produce or high price of farming's inputs). However, sometimes the success of the cooperative is bringing a solution to a specific market imperfection, more than generating a profitable business out of it. This is what we call “the paradox of cooperative's success”. This is crucial at the moment of envision how to target capacity building of cooperatives and how to evaluate the success of these ones.
- Promotion and Market Enhancement of agriculture produce through cooperatives is embedded in a larger policy framework. Cooperatives can engage and be part of a regional marketing promotion strategy.

Going by parts regarding these point above:

4.4.2. Cooperatives and smallholders market access: Different types of cooperatives' involvement in market access-related activities

It is rather normal that State related programs to promote and support cooperatives ‘push’ them to focus on the direct commercialization of their members' produce. However, this is not always the only way of improving smallholders market access and, moreover, it is not always sustainable for the cooperative itself. In fact, cooperatives can improve their members' market access in different ways, which should be evaluated before deciding the focus that a particular cooperative should have for market access related activities.

There is a range of three domains of market-related activities in which cooperative and similar farmers' businesses organizations can foster their members' market access. These are:

1. Direct involvement in commercialization and marketing;
2. ‘Facilitation’ of marketing for members through other channels by networking and negotiation activities (with third parties, which can include other cooperatives); and
3. Provision of market information to farmers, so that they market themselves.

Considering the above, State related programs for promoting and supporting cooperatives must have the above in mind and should avoid ‘pushing’ cooperatives in only the direct commercialization of the members' produce. A combination of the three possible ways of improving market access can be done, or even only one at the time.

4.4.3. Capacity building of cooperatives (technical needs of capacities by cooperatives for efficient performance of their business)

Most ASEAN member states have a multitude of institutions and a diversity of stakeholders that support cooperatives and other farmer collective enterprises in different ways. Examples are diverse governmental assistance programs including several ministries – and their departments, agencies, etc., multilateral institutions, national and international NGOs, national banks, research centres, and capacity building agencies.

Together, a fact is that diverse support strategies and the encouragement of diverse legal forms of farmers' collective action is positive, although it increases complexity for a synchronized work of all actors involved in the promotion and support work. This complexity and lack of harmonization and synchronization counteracts the matching of regulations, technical assistance, capacity building, project's financing, grants, loans systems, etc.

Usually, each of the State's actors lack a complete clarity of what is going on in parallel and what strategies, services and resources can be successfully combined in a particular case. This lack of clarity will even be deeper for actors outside the governmental system, of course including farmers and their cooperatives and organizations.

Coordination and information sharing among involved actors should be seen and recognized as essential for guaranteeing synergy, consistency, coherence and efficacy in the use of the different existing means and programs of support for cooperatives

and other type of farmers-led enterprises. Coordination is needed not only within the State's agencies but also between these ones and other stakeholders like NGOs, selected banks, capacity building institutions and of course cooperatives themselves - through their upper level organizations.

The master plan for Cooperatives' support systems should visualize, identify and systematize the capacity building capacities and existing trainings modules and activities of the range of involved stakeholders, specially the Task Force members. This calls for the creation of a capacity building fund from where to be able to cover part or the total costs of capacity building activities not included in the master plan.

4.5 Access to Good Quality Advisory Services

Several advisory services are essential in different stages of growth and development of cooperatives. Most importantly, farmer members tend to lack the experience in cooperatives as business enterprises. This entails strategic assessment of the factors influencing the enterprise, its feasibility and viability and effective planning to start the enterprise.

Despite a general capacity building aimed at farmers' levels on business planning and others like leadership development and financial management, specialized advisory services are required on feasibility, business planning, management, marketing amongst others by the members of cooperatives in different stages of cooperative development. This entails having the provision of advisory services from service provider and experts.

4.6 Access to finance for cooperatives

A main cornerstone for the success of cooperatives is their ability to access finance. Quite often, poor equity and the subsequent lack of collaterals together with modest management and business planning are reasons for cooperatives not to qualify for lending from banks and other finance service providers. To make cooperatives bankable is, therefore, a crucial matter for smallholder cooperatives' success in developing countries.

Besides a real business case, the most crucial matters that define the qualification of cooperatives to be bankable are good governance, quality business management, internal capitalization and bankable business plans.

The box above (paragraph 2.2.1.) provides an example from Land Bank in the Philippines where a specifically designed capacity building program was established to increase access to finance for cooperatives. In order to increase access to finance in a structured way, sufficient scope is needed in a capacity program. Therefore this task could fall to the task force described in the previous section of the document to advocate for sufficient resources.

4.7 Promotion and marketing of cooperative development

The promotion and Market Enhancement for produce coming from ASEAN cooperatives would need to be fully inserted in ASEAN policies and programs for market development: all protected labels for ASEAN Product, unified packaging and labelling, digital market, e-commerce, mobile agriculture application and services etc., will never be subject of a 'double' certification of ASAEAN "cooperatives" labelling on top of the regional identification. Therefore, support and guidance should be given to ASEAN cooperatives for fully engaging their members produce into existing labelling and certification markets such as social responsibility labelling, organic certifications, etc.

The full participation of ASEAN cooperatives in national, regional and international agriculture and markets-shows events must be ensured by a regional ASEAN support program.

4.7.1 International voice for ASEAN cooperative businesses

Primary cooperatives have better chances of success if being part of a union, federation or other structures which can provide economic and/or advisory services as well as providing a political institutional voice to their member cooperatives. Therefore, cooperatives



integration through unions, federations, councils or other forms should be an essential organizational design and should be promoted and supported by regulatory frameworks.

One of the cooperative principles calls for “cooperating among cooperatives”. Cooperatives can collaborate and join forces by means of generating upper level structures like associations of cooperatives, the so called “second level cooperatives”, unions, alliances and federations, etc. Which terms are used and the meaning and functions of these ‘upper level’ organizations might be highly variable from country to country. While a cooperatives’ federation can be an Apex organization for representation purposes and functions, it also can be the structure in which cooperatives join in a ‘bigger cooperative’ (with cooperatives as members) that will undertake commercial functions, banking functions, etc. Both are needed: aggregation of cooperatives and summing forces for business and for representation. At the end of the day, the nomenclature used for an organization formed by organizations is not the more relevant matter, but the fact that cooperatives should cooperate among them with the same collective action objective that farmers get organized in a primary cooperative. It could be that a group of cooperatives form a higher level organization with the purpose of bulking for marketing, purchasing, providing services to farmers, banking or whatsoever is needed in a certain case - one can call these federations, associations or whatever: nomenclature might be tied up with a country specific legislation. Cooperatives can and should form upper level organizations for representing their interests in front of authorities and other relevant stakeholders related to their activities, as well as for relating with other cooperative movements internationally. These type of cooperatives’ upper level organizations for representation are a must for ensuring that farmers’ and primary cooperatives’ problems, concerns and aspirations are “uploaded” to decision makers so that and solutions can be “downloaded” to their member cooperatives and farmers.





5.

**CASE STUDIES OF
SUCCESSFUL LINKAGE OF
ASEAN COOPERATIVES TO
REGIONAL AND
GLOBAL VALUE CHAINS**

5.1 Case study – Abrasa: Adding value to Cassave via San Miguel Corporation

5.1.1 At a glance

Abrasa Multi-Purpose Cooperative (AMPC) is located in Diffun, Quirino, Philippines. The cooperative was founded in 1992 and as of now, it has around 4,000 members. Main activity (profit) is in the savings and credits. Main agribusiness is cassava trading and processing, other interests are: savings and credit, hotel services, farm input production and trade, and consumer store. As of October 2017, it has 4,000 members with an average land size of 0.5 to 1.2 hectares, 800 of whom are engaged in cassava production, while 3,200 are engaged in production of other crops such as rice, corn and vegetables.

Abrasa main goal is growth of processing and marketing of cassava (tubers) into dried granules and sell these to San Miguel Food Incorporate (SMFI) a full daughter of San Miguel Corporation (SMC), a company considered as one of the largest Asian Multinationals. Although the farmers have previously considered cassava as a minor crop, many have started to consider this as their main crop as the returns is much better than that of corn or rice. One hectare planted to cassava will cost a farmer PHP 15,000 and will yield 20 to 30 MT fresh tubers. A farmer can earn at least PHP 50,000 net income per annum from planting cassava.

5.1.2 Cooperation in the value chain

The business on cassava was introduced by the Philippine Multinational San Miguel Foods Inc (SMFI) to Abrasa MPC in 2008 as part of the company's sustainable sourcing program to procure cassava from small farmers. According to SMFI, their total requirement is for 500,000 hectares of land planted to cassava annually while only 200,000 hectares is currently secured in their planning. SMFI purchases the cassava through accredited assemblers and Abrasa MPC is one of the 3 assemblers in the Municipality of Diffun in Quirino province. The cassava is mainly used by BMEG (the animal feed brand of SMFI) for processing it and selling it as animal feed in the Asian region. SMFI has a clear need of constant and quality supply which is better guaranteed by working with the cooperative.

SMFI also provides technical assistance to Abrasa MPC.

5.1.3 Added value cooperative

Abrasa MPC and other assemblers mainly provide the hauling from the farms to their warehouses in the municipality, quality checking, re-sacking as needed, storage, then fumigation before these are delivered to the warehouses of SMFI. As the trade of cassava grew, Abrasa MPC also increased their capacity to trade and consolidate cassava. The cooperative currently has 2 warehouses and 4 vehicles to cater to the needs of the cassava trading.

Farmer members of Abrasa MPC can at the same time make use of production loans offered by the coop to make sure they can produce cassava. Other crops planted by farmers in the area include corn, rice and vegetables. However, more and more farmers are said to be shifting to cassava as income is better.

5.1.4 Enabling environment

In the Philippines agricultural cooperatives enjoy a tax exemption which makes them more competitive. Being in the top 5 Agricultural cooperatives in the cluster of three provinces of Quirino, Isabela and Nueva Vizcaya, Abrasa MPC enjoys the support of the government especially coming from the Department of Agriculture (DA).

The cooperative received grants in the form of a multi-purpose building where they housed their grains and organic fertilizer stocks. They also received the DA's latest cassava research cultivars where their leading members multiply for their members plantation needs. The cooperative also sources its financial requirements from Landbank of the Philippines, a government owned and controlled corporation.

5.1.5 Challenges

Over the years, the agribusiness contribution to the overall coop income has been increasing. This was a result of the increasing volume of trade of cassava granules to SMFI. However, the growth in the agribusiness was not supported by an improvement in the systems that track and monitor the transactions involved. At present, AMPC does not have the means to quickly assess the performance of the different business operations under the agribusiness department as its current accounting system does not distinguish trade of cassava from other products the coop buys and sells like rice and corn. This makes it difficult for them to "sell" their success to members. Another problem is that only 20% of the members produce Cassava; which threatens the loyalty of other members.

There is also a need to review and improve the current business arrangement the cooperative had with its sub-assemblers to increase the cooperatives share of income and lessen the risks of losing part of the business. Other problems experienced by the cooperative include the longer days needed to unload the cassava at SMFI warehouse and the rejection of deliveries. Although much of the main suppliers in the industry are cooperatives, coordination among the cooperatives have not been organised yet.

Abrasa MPC farmer members have also raised the concern regarding the difficulty in harvesting the tubers and finding areas to dry these specially during the rainy season. These concerns could be addressed by introducing appropriate post-harvest facilities like harvesting machine, community dryers. However, the slow pace by which these interventions are introduced will slow down the expansion ambitions of the cooperative.

5.1.6 Major lessons learnt

This case shows the following lessons for improving the position of cooperatives in the value chain:

1. Cooperation with private sector is possible when there is a genuine interest from the private partner; legal assurance; and a match in the scale of operations of a cooperative
2. Professionally managed cooperatives are key in having small farmers be productively involved with and benefit from big and even global value chains
3. Positive tax incentives and extra support by government can help to improve the competitiveness of the cooperative.
4. Transparent financial systems and good planning help to persuade members to invest in the cooperative (in production or capital).
5. Agribusiness ventures are viable business expansion options for SACCOs – Lending operations are a good prep ground for ventures in agribusiness

5.1.7 Next steps

The opportunities set by SMFI as the biggest market for the dried cassava chips are well worth the investment and efforts poured into the business. SMFI shows to be a reliant partner in the case of cassava production. The cooperative should plan better with their members the timing and volumes to be supplied to SMFI beforehand. This would help address the concerns on long delivery queues and rejections as well as enable the coop to leverage better deal for their members and attract new investments.

The cooperative should exert efforts to work with other cooperatives involved in cassava business to further develop the sector or their position along the chain or within the industry. Possible areas could includes technology to increase yields/ productivity, use of organic inputs, value addition, lobby work to access further support from government, and the long-term sustainability of the business.

5.2 Case study – Cu Chi Cooperative – first HCMC dairy brand

5.2.1 At a glance

In 2016 the Vietnamese Cu Chi Dairy Cooperative had a turnover of 5,5 mln US Dollar and sourced milk from 300 members (5000 cows) with a profit from around 25.000 US Dollar. Since 2012 they doubled their turnover and tripled their profit. The cooperative was established in 1999 and is very close to Ho Chi Minh City. The estimated daily production is about 8 tons of milk.

5.2.2 Integration in the value chain

In recent years, consumption of milk per capita in Vietnam has increased from 3.8kg in 2001 to 17kg in 2015. At the same time Asian cities are growing very fast, like Ho Chi Minh City with a population of 8,6 million people. Meanwhile, milk production in Vietnam by the end of 2015 only met 35% of consumer demand (according to the Ministry of Industry and Trade). Therefore, the development of fresh cow's milk products provides a major opportunity for farmers and their cooperatives.

This cooperative has all by itself and with the help of a strong business-minded director managed to integrate multiple parts in the value chain, leading to a competitive position in the dairy market in Ho Chi Minh City. This is a great achievement while the competition of international market players are fierce.

The cooperative had a very progressive and aggressive strategy in the last five years by establishing direct relationships with wholesalers for which they now produce UHT milk, fresh milk and yoghurt. To be able to deliver they set up a dairy processing factory in 2016. Also they signed a contract for pasteurized milk with a Chinese company directly for around 30 tonnes a year.

5.2.3 Added value cooperative

The cooperative provides a range of services to the members. The most important obviously is the processing of the members' fresh milk leading to a high price for the fresh milk and substantial profit for the cooperative to reinvest and pay dividend to the cooperatives. Profits have been reinvested to improve the breeding of cattle.

The cooperative guarantees the quality and a fair price for the members through a laboratory which checks all incoming milk on quality based on microbiological, sensory, physical and chemical criteria. This objective way of valuing the members' products is important to gain the trust of the members.

The cooperative also focuses on the local community and provides healthy dairy products for schools in surrounding districts. The cooperative also created new jobs for 35 employees in the factory of which 4 highly-educated who know manage the cooperative and operate the production line.

5.2.4 Enabling environment

Funding for the laboratory was provided by an INGO and the Agricultural Extension Center of the Rural Development Department. Furthermore soft loans were provided by the government and guarantees were given so banks were willing to invest in the factory.

Ho Chi Minh City actively linked and facilitated with wholesalers to make sure good and long-term contracts were established on which basis the investment in the factory could be justified.

5.2.5 Challenges

The governance in the cooperative is a challenge. The management is very strong and especially the Director. This can lead to too much dependence in the organisation of one or two persons, which makes the cooperative vulnerable. Also the control function by the members should be safeguarded in this case.

As the demand for the products is there more and more dairy farmers want to join the successful cooperative. Now it is challenging to find the balance between further growth, finding good markets for the products and optimization of the use of the factory.

Cooperative principles and basic knowledge amongst members is still limited and takes a lot of effort of the Board to make sure the members understand the working of the cooperative and explain how it benefits the farmers.

5.2.6 Major lessons learnt

This case shows the following lessons for improving the position of cooperatives in the value chain:

1. Sometimes cooperatives need to take big steps to really have impact.
1. Business skills and leadership is essential to grow. The cooperative has a very strong management.
2. The members have a very direct interest and commitment to the cooperative as they provide fresh products which have to be kept cool and handled on two-daily basis. This makes the connection with the cooperative strong. At the same time they all contribute to the cooperative in share capital
3. Government can play an important role in mediating in finding markets and attracting investments by for example step in as a guarantor for a loan.
4. Cooperatives should focus on growing markets and integrating themselves in the chain to increase margins substantially.

5.2.7 Next steps

Cu Chi cooperative is considering to start a partnership with another cooperative that produce concentrate for feed. In this way a full integration of the chain would be established and a coop-to-coop partnership will be established.

5.3 Case study – LABO Progressive Multipurpose Cooperative – Pineapples for global fashion house

5.3.1 At a glance

LABO Progressive Multi-Purpose Cooperative (LPMP) is active in several municipalities in Camarines Norte, Bicol Region, Philippines. The cooperative was founded in 1987 and as of now, it has around 9.000 members. In the region expansion of members is still possible, because most of the farmers are not yet a member. Main activity is in the savings and credits. The agribusiness most important activities are pineapple juice- and fibre production. LPMP is not involved in the fresh pine-apple, which is the main product of most farmers. In this case we focus on the business of the cooperative that is integrated in a global value chain; the fibre production. This part constitutes around 5% of the annual turnover.

5.3.2 Innovation in the value chain

The leaves of the pineapple have long fibres, just like sisal and other varieties of the Agave plant family. This fibre is used in Philippines' traditional costumes, but LPMPC receives also orders from a design company in London. The fibre is used as a base for a versatile natural textile; suitable for use as a leather alternative from fashion and furnishing.

The international company helped improve the efficiency and safety design of the automated decorticating machine. The company has also introduced LPMPC to larger machines from other countries to assist with scaling up the process, thereby allowing the farmers of LPMPC to increase productivity and possibly optimize the use of the waste materials. Once the leaves have been stripped of fibre the leftover biomass can be used as a nutrient-rich natural fertiliser or a biofuel, so nothing is unused in this way.

About 3 kg leaves are harvested from each pineapple plant and crushed by machines to remove the flesh from the fibre. The remaining flesh is washed from the fibre in a nearby pool or creek and the fibre is dried. The dried fibre are then sent to Manila for degumming and after which these are sent to UK for final processing into alternative leather material and finished products. Plans have been made by the design company with the cooperative to install bigger decorticating machines and degumming facility within the community of Labo.

5.3.3 Added Value Cooperative

LPMPC owns the decorticator machine, collects the fibre from the farmers and sells it to the international company. LPMPC provide a stable price for the farmers and pools resources via their member contacts to make sure they can live up to the market demand. For the international company working together with LPMPC gives them a clear marketing tool for branding their position as a social business which cares about smallholders and their organisation as well contributes to the companies adherence to the principles of a circular economy.

5.3.4 Enabling environment

LPMPC has established partnership with local government units (LGUs), national government agencies (NGA), national and international non-governmental organizations (NGOs). The LPMPC is accredited by the Bureau of Agriculture and Fisheries Standards (BAFS) on Pineapple Good Agricultural Practices (GAP), Fruit Processing Facilities and Operations.

5.3.5 Challenges

Despite training, guidance and free use of the machines and other services, farmers are not very keen on the production of fibre, because it is tedious manual labour with sharp edged leaves and only about 30% of the leaves can be used, since the plants also still have to produce plantlets (suckers) for the following crop. Further mechanization would help to make this part of the cooperatives' business more profitable. However recent analysis on existing farmer production units revealed that certain group managed models can provide livelihood income that are comparative or even better than what other sectors offer.

Though the demand for the decorticated fibre has increased from 5 MT in 2016 to 36 MT; the cooperative has so far delivered only 11% of the ordered volume. This demand is expected to dramatically increase as new institutional and industrial mainstream buyers have taken interest on the product. The underlying reason for the low production output could be that the right incentives for farmers are not in place yet to use the leaves. It seems the margin for members on the fibre production is low and share of farmers in the total value chain has not been determined. The cooperative now considers giving a bigger incentive to the farmers for providing the leaves and setting a higher internal buying price and working with the UK based company to review the farmer's share of income from the over-all value chain.

5.3.6 Major lessons learnt

This case shows the following lessons for improving the position of cooperatives in the value chain:

1. Innovation on local level can create new added value in global markets. Pressure on competitiveness in the innovation stage is also lower as there is no big competition (yet).
2. Social businesses and CSR policies of companies can make a big difference for smallholders and their farmers' organisations.
3. The balance between making profit for the cooperative and giving farmers a good price is a very important consideration to provide needed quantity and quality in the value chain;
4. Members are only willing to invest in new innovative models when there is trust in the cooperative staff and board with the other businesses (fresh juice business unit is very successful);
5. Increasing over-all competitiveness of the chain should result to better benefits for all actors within the value chain

5.3.7 Next steps

Most important now is to deliver the required amount to the company. For this it is important that the cooperative looks at the different model used by farmers working as a group, support and promote this to other areas and build up the production units needed to deliver the fibre requirement. The cooperative should complement this with determining and if possible securing a better share of the economic benefits from the overall income of the chain. Once these have been addressed, the cooperative should seriously consider the offer to co-finance the installation of bigger machines and facilities at the community level.

5.4 Case study – KPBS Pangelengan – build upon mozzarella

5.4.1 At a glance

KPBS (Koperasi Peternakan Bandung Selatan: Livestock Cooperative of South Bandung) Pangelengan, Bandung is the oldest dairy cooperative in West Java. KPBS is the second biggest dairy cooperative in West Java in terms of production volume, i.e. 85 ton a day in 2017.

As many other agricultural cooperatives in Indonesia, one of the biggest challenge is how to remove free rider behaviour within the cooperative. Free riders are farmers who make use of the services of the cooperative but do not contribute by supplying products to the cooperative, contributing capital, etc. In March 2016 KPBS decided to amend their Articles of Incorporation and By-Laws (House Rules). KPBS wants to have more business minded dairy farmers as their member instead of subsistence dairy farmers.

5.4.2 Position in the value chain

In 2016 KPBS had a total of 3,184 farmer members with a turnover of around IDR 244 billion (EUR 17.3 million at EUR) that consist of sales of milk of IDR 162 billion (EUR 11.5 million), Grocery and feed of IDR 67 billion (EUR 4.8 million) and Dairy derivative product (mozzarella, whip cream, ice cream, yoghurt, pasteurized milk) of IDR 14 billion (EUR 1 million).

Most of the pasteurized milk is sold in shops in Bandung or sold from the motorcycles on the streets. The product is sold under the name of KPBS. The processors are either the producers of milk, though also raw milk will be used as ingredient for the processing industry (like candies).

5.4.3 Added Value Cooperative

The cooperative provides stability for their members. The most important services of KPBS is selling milk for their members. Besides that they have a diversified set of services like technical support on animal health, breeding and feeding. Most potential has the processing of dairy products into whipped cream, ice cream and yoghurt. In these products margins are to be made, but this requires more investments and new skills.

The biggest opportunity for KPBS is to add value to their members' product. In 2016 KPBS processed 11% of their milk into mozzarella (600 kg per day from 6 ton milk), whip cream, butter, yoghurt and pasteurized and flavoured milk in their subsidiary milk processing company. In 2016-2017 KPBS built a café and rest area to sell direct their product in front of their processing plant.

5.4.4 Enabling environment

KBPS received the following support from the International dairy program provided:

1. A unit Milk Collection Point in 2017
2. Farmer-to-farmer program (sharing knowledge from Europe)
3. Young farmer program
4. Several researches on market and products
5. Support in financial management and governance

An international financial foundation provided a soft loan for member to buy more cows. And the provincial government provided a small grant.

5.4.5 Challenges

1. No clear picture on the market demand. Every value addition business done today and those to be planned in the future requires a feasibility analysis to ensure that the business entails a real and significant economic benefit in comparison with not doing it.
2. There is no strategic goals in the organization. They lack a dream. They seem to prefer to keep on selling 90% of their raw milk to investor-owned-milk-processing-factories.
3. The cooperative only produces when they have orders from the distributors. There is no relevant and substantial marketing being done.
4. Hiring good people who want to stay working in KPBS is difficult. Staff is not paid based on their added value to the cooperative, which would give more incentives to outperform.

5.4.6 Major lessons learnt

1. The existing Board Members (Board of Director and Board of Supervisor) and farmer group leaders need to understand the cooperative-model of companies versus investor-owned-company.
2. The farmer members will not reap benefits of value addition if the cooperative only sell raw milk, since the value-added in off-farm activities (processing raw milk) is much higher than in on-farm (increasing quality and quantity of raw milk).
3. It is important to ensure that, through education, training and development opportunities for board members and prospective board members, the elected board, collectively, has the skills, knowledge and capacity to fulfil its corporate governance role.
4. A co-operative enterprise that is largely dependent on trading with one investor-owned private sector commercial business creates a significant risk to its autonomy and independence.

5.4.7 Next steps

KPBS needs to focus on transforming more of their milk into processed goods. A study on expansion the markets for their processed products should be carried out to further integrate in the value chain.





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