COOPERATIVE MOVEMENT

By Hilarion S. Silayan

(To teachers and people engaged in cooperatives the studies here given are recommended. May be used for classroom).

FINANCING COOPERATIVES

What is financing?—Financing involves the conduct of monetary affairs, the raising of capital. It deals with the ways and means of accumulating funds to be placed at the disposal of an organization for the conduct of its activities.

Importance of financing.—For an organization to carry out its policies effectively, there is the ever-present need of having at its disposal adequate sums of money to spend for or devote to the purposes outlined for it. This is necessary because without adequate finances nothing can be attempted with success. It is no wonder, then that the question of financing an enterprise constitutes one of the main problems of operation.

Concept of capital.—Capital has been termed the middleman of production, perhaps so, because it supplies the means of fulfilling wants. It is the amount of money owned by an individual or corporation at a specified time, as distinct from the income received during a given period. The two main classifications of capital are fixed capital and circulating capital, the latter oftentimes called working capital.

1. Fixed capital.—Fixed capital is represented by the physical goods which make possible the handling of the product itself. It is the amoupnt invested for recurrent use in a particular manner. To illustrate, let us take the case of a rice growers' cooperative association which desires to build a warehouse in which to store the rice available for marketing by its members. The amount used in the construction of the warehouse is one item of the cooperative's fixed investment, the use of which will be recurrent for the particular purpose of storing the rice. The physical property which in this case is the warehouse will make possible the handling and storing or rice over a long period.

2. Circulating capital.—Circulating capital is the amount of funds which make possible the financing of the business. It represents the amount consumed in production but is constantly recovered. Thus, when a riee growers' cooperative association buys the produce of its members it will need money to pay either fully or partially for such purchases. The money so utilized is circulating capital, used to finance the business of buying, and recovered back when the association in turn sells the rice to others.

Sources of capital.—Capital may proceed from various sources, such as the subscriptions of members to the capital stock of the association or corporation, membership fees or dues from the members, assessments based on agreed standards and apportioned according to certain measures of allocation, withheld payments during specified periods, reserves, and borrowed funds. Each of these will be expained in detail in the following topics.

The term "stock".—The term stock in the sense in which it is used in connection with the term capital denotes the capital of company or corporation represented by shares, each of a certain and fixed amount.

Stock association.—A stock association is one which sets its capital stock at a certain amount and divides this amount into a fixed number of units or shares, each usually of uniform value. This value is denominated par value. A member may subscribe to any number of shares and whatever total sum he contributes is thus measured in terms of units or fractional shares of a whole. The stock is usually given a par value except where a no-par issue is decided, in which case a certain minimum only is fixed by law.

Non-stock association.—A non-stock association, on the other hand, is one which does not have its canital divided into units with a fixed par value. Instead, the members contribute to its canital by paying membership fees, assessments or other quotas, as may be determined in the articles of incorporation and in the by-laws.

STOCK ASSOCIATION

Division into shares; par value.—At the beginning of its foundation a stock association atipulates in its articles of incorporation the amount of its authorized capital. It simultaneously fixed the number of units into which the authorized capital stock is to be divided, and the par value of each unit. Where stock is a no-par value stock, however, only the number of shares into which the capital authorized is to be divided need be specified. The law provides in no-par value stock that the minimum consideration shall be not less that P5.00 per share. In a stock corporation, the stock may be par-value stock or no-par value stock, or a combination of both.

Subscription to stock.—Subscriptions to the capital stock are made by number of shares and one may subscribe to any given number of said shares, binding himself to pay to the capital fund of the association the total par value of the shares. Payment is usually made at least 25% down and the balance in equal installments at stated periods, when the call is made for same.

Certificates of stock ownership.—Upon full payment of one's quota, certificates of stock are issued to the shareholder to evidence his ownership of part of the capital stock of the association. Certificates indicate the name of the shareholder, the par value of the share, the numebr of shares owned, and the total par value thereof.

Minimum requirements.—Our corporation law requires that before an association can incorporate, at least 20% of the authorized capital stock should be subscribed and at least 25% of the 20% should be fully paid. In other words, 5% of the total capital stock authorized should be paid up at the start.

Rights of stockholders.—Except as to voting rights, which in cooperatives bellimited to the democratic principle of one-member one-vote, irrespective of the amount of one's investment in the capital, the rights and liabilities of a stockholder are usually determined in proportion to his capital contribution.

Kinds of stock.—Stock may be divided into common and preferred. Common stock is the one ordinarily found in most associations and corporations in this country. Preferred stock is one which enjoys preferences as to either interest or dividends. Because of complications which its issue entails, it is not to be commonly resorted to at least in pioneering in cooperatives, but may be adopted in financing big organizations. Hence, it will not be discussed here at length.

Illustration.—The XYZ Rice Growers' Cooperative Association is formed. It is decided to finance its operations by the stock association system. The articles of incorporation set its authorized capital stock at P2,000.00, divided into 1000 shares units of stock) with a par value of P2.00 per share. There are 25 original incorporators to begin with. In this case, the 25 incorporators or original mebers of the association must subscribe among themselves to shares of stock worth at least P400.00 (200 shares) and must pay among themselves at least P100.00 (25% of P400.00) before it could be incorporated. Thus, one may subscribe to one (1) share, another to ten (10) shares, and still another to four (4) shares, etc. The association could then start with a paidup capital of at least P100.00. This will increase as the call for payments on the subscriptions shall have grown with its authorized capital fully paid up and need for more capital presents itself, the articles may be amended to permit increase in the capital stock, the

(Continued on next page)

increase to be sold as in the original issue.

Policy on sale of stock.—A very important question in relation to financing by the stock-association system arises as to whether or not selling of stock should be limited to members of the cooperative association only or it should be extended to non-members—what may properly be called outsiders. Each policy has its own advantages and disadvantages.

Restriction of sale to non-members.—It is desirable for a farmers' cooperative that it should be not only composed of farmers but also controlled by farmers. With this end in view, the feasibility is doubted of allowing unrestricted sale of stock to non-members, for if it is desired that proper control of the association is to be obtained, the financial control of the same should always be in the hands of the members, never in the hands of the persons not directly interested as producers. This financial control can be had through the contribution or control of capital.

The distribution of stock among members should be made in such a way that the danger of letting the capital stock fall into the hands of only a limited few could be avoided.

Sale of capital stock to outsiders.—The selling of stock to non-members has the decided advantage that the association could get financial support from the whole community at large. Furthermore, the financial risk, the presence of which in any undertaking is undeniable, could be so dsitributed as to relieve farmers of at least a portion of it.

Advantages of capital-stock organization.—This system of financing fixes the individual share of ownership. In the attempt of the farmers to limit outside share in the capital, they are obliged to use their own money for operating purposes. On the other hand, if it is desired to attract outside investors, the capital-stock system is more attractive than other forms of financing.

Methods of obtaining funds.—Because where the association is non-stock the capital is not raised by the sale of par or no-par value shares, the association has to levy membership fees or dues; it may make periodical assesments on members; wherever practicable, it may withhold payments for products it handles, or where the financial condition of the association is such as to permit the creation of reserves, it may establish a reserve fund from the profits of the association from time to time.

1. Membership fees or dues.—A fixed quota of so much per member may be imposed as an entrance fee at the outset. This membership fee or due may be considered a prerequisite to full-pledged membership.

Suppose an association organizes and a membership fee of ₱10.00 per member is agreed upon to be payable upon organization. Under this set-up, the XYZ Rice Growers' Cooperative Association, previously mentioned, with an original membership of 25, would be able to raise an initial operating fund of ₱250.00, with which to commence operations.

It may be agreed that the membership quota is payable 50% down and the balance in so many installments. In such case, the initial capital fund of the XYZ Rice Growers' Cooperative Association would amount to ₱125.00 at the start of operations.

Additional capital may be obtained when new members are admitted. Or where the membership remains the same, the membership quota may be raised and additional levies made.

An association may stipulate that each member pay a fixed monthly amount into its coffers, the levy to continue until a certain total is reached. For instance, it may be agreed that each member shall pay P1.00 a month for 12 months, followed by a collection of ₱0.50 a month for 16 months, at the end of which period, the association shall have collected ₱20.00 from each member. By the end of the 28 months, the capital fund of the association shall have amounted to ₱500.00 from membership fees or dues alone.

There are many variations in the manner of levying membership dues and a prospectice association could work out the method that would most practically serve the peculiar cricumstances and needs of the members. Suggestions to this effect are the following:

1. Fees based on the area of a farmer-member's land under cultivation;
2. Fees based on the amount of produce handled by the association for each member;
3. Lump sum membership fee on entrance;
4. Monthly service fee, etc.

2. Assessments.—As a means of financing, the idea of an assessment presupposes a plan or scheme of apportioning or determining an amount to be paid by each individual in a group. Assessments may be made as the principal source of capital, or, as oftentimes happens, it may be resorted to in aid of, and as auxiliary to other forms of financing. It may happen, for instance, that in extremely trying times, an already going concern may suddenly find itself in very tight situations involving unavoidable financial embarrassment unless something is done to obtain relief.

In this case, the association may decide to levy an assessment from the members based on an equitable and economical method, such as will make the burden of payment least felt by the members. The purpose of the assessment would then be principally to relieve the association of serious financial difficulties.

Looking at the assessment from this angle, it would appear that this method of financing is aimed at meeting deficiencies rather than at raising capital; and it would furthermore seem that assessments is one way of financing, and if it may be adaptable to emergency purposes it would just as well fit in as a way of raising ordinary capital.

Just on what should assessment be based, will depend on the circumstances of the

(Continued on page 13)

MARCH OF EVENTS

By CHARLES McCABE
United Press Staff Correspondent

WASHINGTON, Dec. 18 (UP).—The U. S. Department of Agriculture made public today a summary of the 13 principal recommendations made by the recently returned Philippine-American Agricultural Mission.

The mission's conclusions are:

1. the appointment of a technical planning board which will be needed to advise the Philippine government on all phases of national planning;

2. the rehabilitation and improvement of facilities for the production, processing and marketing of agricultural products, both farm and factory, should have priority from both the national government and the War Commission;

3. four agricultural products — sugar, abaca, copra and tobacco — provided the major source of export revenue before the war and appear to be the most promising source of revenue for the immediate postwar period;

4. The Philippine government should place great emphasis on resettlement projects for economic and farm units, having in mind the mechanization and diversification of farming in both areas;

5. The urgent need for improvement of the production of rice, and corn, for which the following steps should be taken—(a) mechanized production, (b) improvement of varieties through plant breeding, (c) introduction of leguminous crops into rotations with rice and corn, (d) more extensive use of fertilizers;

6. Effort should be made to increase the number of agricultural products both for export and home consumption, such as roselle, ramie, derris, cocoa, coffee, peanuts, citrus and other fruits;

7. Water resources should be utilized more extensively both for power and irrigation, with especial attention to drainage in new systems;

8. The livestock industry should be supported by: (a) a livestock improvement program of the Bureau of Animal Industry and a breed development program of the College of Agriculture of the University of the Philippines, (b) expansion of the livestock research program to include disease and parasite control, pasture development and range improvement, and (c) encouragement of private livestock breeders;

9. Greater mechanization of agriculture is desirable but it should be pursued cautiously in a country in which labor is abundant, but fuel is scarce and farm units are small;

10. It appears advisable to consolidate the national commodity corporations and the national cooperative administration into a cohesive organization for the improvement in marketing of farm products;

11. Every encouragement compatible with democracy should be given for the development of industry;

12. Measures should be taken to strengthen education and research and the extension of other essential government services; and

13. There should be a three-fold plan of collaboration between the Philippines and the United States, thusly, (a) the loan of an experienced extension administrator to the Islands to aid in setting up and implementing an extension service, (b) the establishment of a service training program to enable the Filipinos, who are now employed in responsible agricultural agencies, to participate in the United States' agricultural programs in their respective fields, and (c) the establishment of a collaborative research program at the College of Agriculture, U.P.

Cooperative . . .

(Continued from page 10)

moment, these to be determined by the association concerned. Suggested forms of assessment are that of levying equal amounts from the members; that of assesing on the basis of gross volume of business turned in by each member; that of basing assessment on duration of the membership; etc.

To illustrate, suppose the XYZ Rice Growers' Cooperative Association has been operating for several years on a profitable basis. Because of present exceedingly hard times, however, it finds itself in a situation in which its assets are all tied up for the moment. Not that it is on the verge of bankruptcy, but that there is an immediate liability which it cannot meet without liquidating portion of its assets. It so happens that it could do this only at sacrifice prices. To avoid such course, the association decides to levy an assessment on the members to raise the needed sum. This

(Continued on page 17)

Cooperative . . .

Where an association deals in crops of perishable nature, the selling would be quick and, therefore, no questions would arise as to the withholding of payments over long periods. But where the products handled could be stored and marketed over comparatively longer periods, the question of advance payments may be met with. These, and like situations, are problem for the farmer-members themselves to decide.

4. Rèserve fund.—This fund is an accumulation of sums set aside periodically from profits. The policy of retaining a certain percentage of the earnings is both wise and conservative. Instead of distributing the profits at the end of a period, a portion of same is withheld and kept at the disposal of the association for its use in meeting future contingencies. It is a form of savings account which the association assumulates and places at its disposal to be drawn upon when the need for it comes. As the fund accumulates in time, the capital of the association is thereby enhanced.

The reasons for the establishment of a reserve fund are obvious. The name itself indicates the fund to be one not for immediate use. Hence it may not necessarily be in cash but may be in the form of assets which could be easily made liquid. Its creation is desirable in order that unforeseen losses may be cared for without impairing the capital of the association.

Among the advantages of maintaining reserves are that an association is enabled to confidently meet contingencies, and that it is placed in a solid financial position which makes it better able to secure credit. Its entrenchment is made more secure; its stability is made more pronounced. The policy of creating and maintaining reserves may be found unpopular among members because it diminishes the profit available for distribution. But it must be remembered that cooperative organizations are essentially non-profit and the motive underlying their operation is mutual help among the members. The first object of a society should be to make itself financially strong enough to deal with a panic, or an accident, or emergency which may arise at any moment. And for this precise purpose, it has been said that a good reserve fund is a pillar of strength.

An adequate reserve fund is almost a financial necessity in present-day financing. If a certain per cent of the earning is set aside regularly in a reserve fund, the association could, in time, finance itself with money which otherwise would go to farmer-members in the form of dividends. The producers themselves thus do the financing. It would be a wise policy for cooperative organizations to insert in their by-laws a provision for the creation and maintenance of adequate reserve funds.

BORROWED CAPITAL

Borrowed money begets interest. Because of this, borrowing outside capital should be resorted to only in cases when other methods of financing would result costlier. Borrowing money ranges from the simple commercial loan type to the more complicated system of floating bonds. The latter is adaptable only to big organizations.

Ordinary crop loans.—May be secured from banking institutoins, either private or government owned or controlled, or from other outside organizations engaged in giving loans to farmers.

In its efforts to extend effective aid to farmers, the Commonwealth Government created the Farmers Loan Division, an agency to carry out the important task of rehabilitating the farmers through the grant of loans. The functions of the Farmers Loan Division, which used to be under the Bureau of Labor, have been absorbed by the Bureau of Plant Industry. Loans are contemplated to be extended through the agency of cooperative associations. The Agricultural And Industrial Bank and the Philippine National Bank are government controlled banking institutions which extend crop loans. There are also private financing agencies from which borrowing may be done. In some instances an organized association may borrow on its own account on the security of its assets or on that of its directors.

Danger of overborrowing.—The danger to be guarded against in the system is that of overborrowing. The capacity to pay must be the guiding element and no orgazation should borrow beyond its ability to pay back in the normal course of business. Then, again, no association should bororw more funds than it can reasonably have any use or need for. To this effect the making or proper estimates is essential. An association may have a borrowing capacity of twice or thrie what it needs for its purpose. The wise policy would be to borrow only what it can use and no more.

Reasonable interest rates constitue an important factor in the system of borrowing. Now that limitations are imposed by by law on usury, it is muc heasier as it is used to be to botian loans at reasonable charges. An association must so prepare its budget estimates as to enable to secure always the best results.

The extent to which an association should depend on borrowed capital will have to be determined as a matter of policy by itself. Unwise borrowing may result in loss of control by the association over its affairs. The relationship between the association and its creditors may come to a point where the latter are in a position to dictate policies. In such cases the association becomes helpless and ineffective, as long as it remains so indebted. It is to be desired that borrowing should be on such a scale as to preclude the possibility of having the control of the associations interests alienated into the hands of creditors.

SUMMARY

Financing involves the question of raising money. By whatever method an association secures its funds either for fixing investments or for current expenditures, as the case may be, the fact remains that it must use an adaptable method.

The foregoing discussion has shown in brief the different methods resorted to in financing an enterprise. The methods described and suggested are by no means exclusive. They are the common forms utilized by established organizations. It must be known that the use of one method does not preclude the use of the others, and, as conditions may warrant, an association may employ one or more of them.

So it may actually happen that, in due time, an association organized as a stock association, with capital raised thru the sale of stock, and all shares thereof fully subscribed and paid for, may meet with the need of additional funds which it may decide to raise by levying assessment on membrs. Or, an association, the original capital of which proceeded from the levy of fixed entrance fees from members may decide to finance projected expansion programs by adopting a system of withholding payments. In short, adoption and||/or modification of any of the suggested methods to follow would be a question of operation of cooperative associations.

—oOo—