

In the Philippines, before the enactment of specific laws, cooperative associations established their legal status under the Corporation Law (Act No. 1459 as amended). Since 1915, however, there have been enacted laws specifically affecting cooperative associations in this country.

TYPES OF LAWS AFFECTING CO-OPERATIVES: There are generally two types of laws affecting cooperative associations. These are: (1) those that are basic in the formation and operation of cooperative associations; and (2) those that introduce either certain advantages or restrictions upon cooperative associations. Examples of Philippine Laws of the first type are the following (laws that are basic in the formation and operation of cooperative associations):

1. The Agricultural Credit Cooperative (Rural Credit) Law or Act No. 2508. This law was enacted by the Philippine Legislature in 1915.

2. The Cooperative Marketing Law or Act No. 3425. This law was enacted by the Philippine Legislature in 1927.

3. The Cooperatives Law or Commonwealth Act No. 565. This law was enacted by the National Assembly in 1940.

The Agricultural Credit Cooperative Law (Act No. 2508) authorized the organization of agricultural credit Cooperative associations throughout the Philippines. This law also defined the activities of said associations. The Cooperative Marketing Law (Act No. 3425) authorized the organization of cooperative marketing associations among farmers throughout the country, defined the activities and the manner of operation of such associations. The Cooperatives Law (Commonwealth Act No. 565) authorized the organization of cooperative associations of any type throughout the Islands. This law gave impetus to the establishment of consumers' cooperative stores and encouraged the formation of retailers' cooperative associations. In fact, this law may be considered as the organic law for cooperative associations in the Philippines.

Some of the laws that introduce either certain advantages or restrictions on cooperative associations in the Philippines are the following:

1. The Bonded Warehouse Law (Act No. 3893) passed by the Philippine Legislature on November 16, 1931. This law repealed Act No. 3469 passed by the Philippine Legislature in 1928. The

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Bonded Warehouse Law took effect on January 1, 1932. It required owners of warehouses to secure licenses and bonds before they could deposit rice or palay in their bodegas, but exempted cooperative marketing associations from these requirements.

2. Act No. 3929, approved on November 28, 1932, provided for the establishment of warehouses by municipal councils. This law was supposed to benefit cooperative marketing associations, because such associations were expected to utilize the municipal warehouses for their products.

3. Act No. 3932, approved November 29, 1932, authorized the expenditure of ₱2,000,000 for the building of warehouses and permanent bridges. This law also was intended to benefit cooperative marketing associations among farmers.

4. Commonwealth Act No. 192, approved November 14, 1936, authorized the creation of a National Produce Exchange. One of the functions of this exchange is "to encourage and promote the establishment of cooperative marketing association preparatory to the establishment of produce exchanges in the locality served by such associations," Sec. 2, Subsection 2 of the Act.

Things included in laws that are basic in the formation and operation of cooperative associations: The most important things that are included in laws that have to do with the organization and operation of cooperative associations are the following:

1. Scope and purpose of the cooperative association.

2. Who and how many may organize.

3. Capital Stock, if a stock association, or membership fee, if a non-stock organization.

4. Ownership of stock by each member.

5. Voting power of each member, which is specifically mentioned as one for

each member regardless of the number of stock he may own.

6. Earnings of capital stock, which is limited to 8 per centum per annum under Philippine Laws.

7. Distribution of earnings—Patronage dividends.

8. Ownership of stock of other associations.

PHILIPPINE CONDITIONS THAT MAY AFFECT THE MOVEMENT

I. Conditions tending to favor the Movement: There are a number of conditions that may favor cooperative associations organized among our farmers. Among these may be mentioned the following:

1. The Economic Status of the Farmers. The average farmer's holding in the Philippines, 3.6 hectares, is very small. The income received from such an area is consequently small. Cooperative marketing of his products and cooperative purchasing of his needs can effect a great deal of savings for the farmer, which in turn may improve his economic status.

2. The social behavior of the Filipinos tends to favor cooperative effort. The Filipinos in rural districts live in groups in barrios. Under this system of settlement cooperation in one form or another has been and still is the rule in the economic and social life of the people. So that under honest leadership and proper guidance, it should not be difficult to convince the farmers of the advantages of the cooperative method of conducting their business.

3. The Government is behind the movement. The government, through its various agencies, is engaged in the promotion, organization and guidance of cooperative associations. The Bureau of Plant Industry is vested with the duty of promoting, organizing and guiding farmers' cooperative associations. The NARIC assists the Bureau of Plant Industry in guiding the cooperative associations among rice growers. The Bureau of Commerce and Industries is

Nature And Importance of Cooperation

Hilarion S. Silayan

charged with the duty of promoting, organizing and supervising commercial and industrial cooperative associations. Other government agencies, such as the NAFCO, NACOCO, etc., also help in organizing and guiding cooperative associations among our farmers.

II. Conditions that tend to obstruct the progress of the cooperative movement: There are a number of conditions that may delay the progress of the cooperative movement among farmers in the Philippines. Among these conditions may be mentioned the following:

1. Unfavorable effect of the failure of cooperative associations in the past.—The failure of cooperative associations in the past is still fresh in the minds of many people. It will take time before people will forget the unpleasant experience which they went through. So that in places where cooperative associations have failed in the past, vigorous and intensive campaign of education will be necessary before efforts at organization will succeed.

2. Lack of sufficient Capital.—One of the handicaps of the cooperative movement is the lack of funds to finance the needs of the farmers. The Filipino farmers do not have sufficient income from their farms. Therefore, they live from "hand to mouth." Consequently, there is need for considerable amount of funds in the hands of their cooperative associations with which to advance these farmers for their needs. This will prevent them from getting into the clutches of unscrupulous money-lenders.

3. Ignorance and indifference of the farmers.—These conditions tend to retard the progress of the cooperative movement. There is need, therefore, of training leaders in cooperation who will go out and preach the principles, practices, and advantages of cooperation among the farmers. The farmers need a constant cooperative education in order to enable them to take the initiative in the cooperative movement. This educational process should go hand in hand

with the organization and operation of cooperative associations in the agricultural regions.

TYPES AND PRINCIPLES OF COOPERATIVES

Types

There are at least four basic types of cooperative organization, based upon the economic activities in which they are primarily engaged. These are: (1) production cooperatives, (2) marketing cooperatives, (3) finance cooperatives, and (4) consumers' cooperatives. Production cooperatives are composed of groups of individuals who pool their labor to produce. As examples of this type of cooperatives maybe mentioned the Buena Vista Farmers Cooperative Association, the National Footwear Corporation, etc. Production cooperatives should not be confused with production efforts of consumers' cooperatives where control is exercised from the consumers' point of view.

Marketing cooperatives or cooperative marketing associations constitute the second type of cooperative organization. These associations are composed of individuals who produce separately and pool their produce for market, but not their labor for production. They are often called "Farmers' cooperatives" because of their prominence in the marketing of farm products.

Cooperative marketing has been defined as the organized sale of farm marketing on a non-profit basis in the interest of the growers. Cooperative marketing therefore, is primarily confined to the organized business of selling farm products by the farmers themselves for their own benefit. Cooperative marketing associations have been erroneously called "producers' cooperatives." Examples of this type of cooperative organization are the cooperative marketing associations organized among tobacco, abaca and rice growers before the outbreak of the Greater East Asia War under the Cooperative Marketing Law (Act No. 3425).

The third type of cooperative organization is exemplified by finance cooperatives. These are associations composed of individuals who pool their surplus capital or their liabilities in order to enable their associations to make available to themselves as members cheap credit, but not easy money. The Agricultural Credit Cooperative Associations in the Philippines, the credit unions in Canada and the United States, the Peoples Banks of Germany and Italy, and the Raiffeisen societies in Germany are various forms of finance cooperatives.

The fourth type of cooperative organization is exemplified by the consumers' cooperative associations. These associations are economic enterprises taking the form of buying clubs or stores, set up by groups of consumers to distribute consumers' goods to themselves and others. Service cooperatives, such as insurance, medical, utilities cooperatives, etc., are also primarily included under the type of consumers' cooperatives.

Farmers' cooperative associations, the promotion, organization, guidance and supervision of which are entrusted to the Bureau of Plant Industry, are different from any of the foregoing basic types of cooperative organization. These cooperative associations are expected to perform eventually all of the economic activities primarily performed by each of the four types of cooperative organization aforementioned. Hence, these farmers' cooperative associations may be classified as "all purpose cooperatives."

Principles

The principles of cooperatives are nowadays associated with the name "Rochdale," because the Rochdale Society of Equitable Pioneers (1844) has successfully put into practice certain fundamental ideas about cooperative business. These have been accepted as the principles upon which successful cooperative associations may be operated. The experience of cooperative marketing organizations and cooperative credit associations, however, shows that there are other ideas that may be added to those contributed by the Rochdale Pioneers to constitute the principles underlying the success of cooperative organizations in general.

The Rochdale Principles.—The Rochdale principles have been tested by the Rochdale Society of Equitable Pioneers through its cooperative store. These principles are as follows:

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yond the reach of the income of the small farmers and eventually eliminating him. This is a mistaken belief because if this did happen there would certainly be revolution.

Mechanizing our agriculture means the application of machines or mechanically advantageous implements practical to the small farmer in application to his farm work. Labor saving devices, like home gadgets that will grind and shell his corn, grind his coffee, cacao, etc., in less time and with less number of working hands to do the work. Gadgets like the use of a few pipes to furnish his "kubo" with running water from the nearby well with a small mechanical pump. A few more pipes and he has water in his backyard poultry for his chickens and hog. A small heating apparatus and if the farmer in his extra time, desires to improve his poultry project, he can have a small brooding place where he can incubate eggs and have more chickens. A few garden tools like the *seeder* that will plant more per given time, a *cultivator* that will cultivate with less man-labor, a *fertilizer drill* that will make his garden crops grow more luxuriantly to afford him and his family not only enough for his home use but also as a source of extra income, etc. Gadget like the *sprayer* for insecticide to assure him that he does not lose his small garden crop should they be attacked by pests.

With a certain amount of horse sense coupled with a little ingenuity, artistry, and principally industry, the five hundred square meters that a small farmer or tenant has for his home lot can yield quite an income. Aside from what he could get from the "good earth" he must have gadgets to engage himself in home industries like making of salted eggs, bottling preserves of fruits, vegetables, pickles; weaving buri, jusi, buntal; making bacon, homemade ham, cheese, butter; gadgets to curve wood; gadgets to make bamboo fancies and furnitures; gadgets to utilize the thousand and one coconut by-products; gadgets to make coconut wine, vinegar, alcohol, the same with nipa wine and vinegar.

These things mean machanization, although in a small way. Because of the war which wiped out what we had of these gadgets and tools, we need more now of these things and better ones, to cope with our present necessities and necessities that will arise in the future to produce more and better crops, commodities and food for the early rehabilitation to normal status of the farmer-tenant, landowner, consumer, and the people in general.—R. R. de Arana

FARMING AND COOPERATIVES

The Cooperative Movement . . .

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1. Open membership, with shares of low denomination so as to be within the reach of all.
2. Limitation of the number of shares to be held by any one member, to prevent wide inequality in the financial status of members.
3. Democratic control, each member to have but one vote regardless of the number of shares that he or she may hold.
4. Sale of pure goods and fair measures at prevailing market prices to avoid arousing needlessly the destructive hostility of local merchants.
5. Cash sales to avoid loss through delayed payments and uncollectible accounts, to reduce bookkeeping costs, and to insure purchase of goods on most advantageous terms.
6. Payment of not more than 5 per cent interest on shares, the rest of the profits, after deducting for depreciation and reserves, to go partly to an educational fund, partly to charity, and the remainder to be distributed to producers in proportion to their trade at the store.

APPLICATION OF PRINCIPLES

Open membership.—This has long been an ideal of cooperative organizations, but it has sometimes been modified in practice. Among the modifications which have been adopted in practice are the following:

1. Statutory restrictions which allow a cooperative organization to choose its members. The provisions of the Cooperative Marketing Law (Act No. 3425) that "an association shall admit as members... only products to be handled by or through the association..." is one ap-

plication of this restriction. (Section 7 of the Law)

2. A second type of modification of the open-membership principle is restriction on religion, politics or race. In certain European countries, notably Belgium and Holland, religion and politics have established dual groups. In the Philippines this restriction is not being practiced. There is, however, a tendency in certain cases toward political affiliation (in the past) to obstruct the smooth progress of the cooperative movement. Leaders of the cooperative movement, therefore, should endeavor to convince the farmers (and the people) that politics has no place in cooperation, that politics had been one of the causes of the failure of many cooperative societies in the Philippines in the past.

3. The limitation of dividends paid to inactive members; or membership is withdrawn as a result of inactivity; or the right to vote is recalled when a member becomes inactive. This restriction should be applied in the case of many of the farmers cooperative associations in the Philippines in order to arouse the interest of the members in their organizations.

One-man-one-vote.—One of the fundamental aims of cooperation has been that of "union of men, not a union of capital." As a result the old common law rule of one-member-one-vote has become a part of laws on cooperatives. There are, however, two devices that have been adapted in the application of this one-member-one-vote principle into practice, namely: (1) voting by proxy and (2) voting by mail. Statutes have allowed the application of these modifications of these principles. Proxy voting has been made possible in certain cases by providing for voting by delegates. But even in this instance laws have restricted delegates to voting for no more than 10 per cent of the total membership. Statutes have been more lenient in the case of voting by mail than in the case of voting by proxy, because this would still be true to the principle of one-member-one-vote.

In the Philippines, the laws on cooperatives allow only one vote for each member of a cooperative association regardless of the amount of capital invested in the organization.

Limitation of the number of shares to be held by any one member.—Statutes are generally silent in this regard. One of the laws on cooperatives in the Philippines, the Agricultural Credit Cooperative Law (Act No. 2508), however, limits the value of shares to be owned by any one member belonging to any of the Agricultural Credit Cooperative Associations

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Limited interest on capital. — This is called the "living wage to capital" principle. It is followed closely by cooperatives. Membership share should be distinguished from capital share in a cooperative organization. There is usually no return on membership share or membership fee. It provides only for the rights that go with membership. Usually, the membership share is not returned to members and is not transferable.

Capital share receives returns ranging from 1-1/2 to 8 per cent per annum. In fact, Philippine laws limit the return on capital share to a maximum of 8 per cent per annum. Many believe that the rate of return on capital shares is too low, resulting in capital starvation. Some believe that the high mortality rate of consumers' cooperatives is due to a certain extent to this very low rate of return on capital shares.

Sales for cash at market price.—This principle appears to be the most commonly modified in practice, especially in the case of consumers' cooperative stores, and all the modifications lead to credit sales. The modifications of the sale-for-cash principle are as follows:

1. Credit is limited to the extent of the capital invested by a member in the society, or some stated proportion of this investment. This is generally practiced by cooperative stores in the field of groceries and general merchandise.

2. Sometimes a secured note of the member will be accepted in lieu of cash. In this way losses due to bad debts are substantially lessened.

The sale-at-market-price principle has been generally closely practiced by consumers' cooperative stores. Some modifications of this principle, however, have been introduced, among which are the following:

1. Sale at cost plus a reasonable profit plan.

2. Sale at cost.

The difficulties encountered in applying the sale-at-market-price principle are found in the fact that: (1) it is difficult to determine what constitutes market price, and (2) cooperatives, in determining price policies, have to serve their members and the general public. There is the difficulty of determining whether the wholesale price or the retail price is the market price. Members may be satisfied with the prices based on current retail figures with consequent higher patronage dividends if prices are too high. But the general public will not be benefited by this system. Because cooperatives recognize their public responsibility, they often reduce prices with, possibly, some effect on competitive price structures. The danger in this practice, however, is that it encourages price warfare.

Dividends paid on the basis of patronage.—There are a number of methods used in the payment of patronage dividends. These are as follows:

1. The regular Rochdale method of a certain per cent in proportion to total purchases.

2. The "stock company" method of percentage patronage payment on the value of shares.

3. A graduated dividend on the extent of patronage wherein a half share is given the small patron and a full share to those that exceed a certain minimum amount of business.

It is interesting to note that in certain countries, as in Belgium, no patronage dividend is paid, net earnings being retained to finance some purpose, generally of a political or religious nature.

The methods used in paying patronage dividends may result from several systems adopted in the conduct of the business of cooperatives. It is, therefore, necessary to devise records and procedures for accumulating information re-

garding the amount of each member's participation in order to compute the proper share in the distribution of earnings. Some of these are as follows:

1. The preparation, in the case of a cooperative store, of sales slip for every purchase, or delivery receipt for every sale of products, in the case of a marketing association, and accumulation of these by the cooperative for the members.

2. Providing each member with a passbook in which the clerk enter the purchase or sale at the time it is made. When a dividend is declared the members turn in their books and their dividend is computed.

3. The use of cash register receipts. These receipts are signed on the back by the member and deposited in a box or kept by the member until such time as a declaration of dividend is made.

4. Providing each member with a card like a meal ticket. The sales are punched on the card. The card is retained for dividend purposes.

Any system of patronage dividend payment has the following advantages: (1) It stimulates business by tying trade to the cooperative, and (2) it places capital in its proper position of a facilitating agent of business.

The distribution of patronage dividends to members of the farmers' cooperative associations now established in the Philippines may be seen from the following illustration. Let us quote that portion of the cooperative law (Sec. 29 of the Cooperative Marketing Law or Act 3425) which has to do with patronage dividend. It says: "The net profits of the association, over and above expenses and dividends of membership capital, or capital stock actually subscribed and paid, shall be distributed as patronage dividend among the members or owners of common stock thereof, in proportion to the value or volume of agricultural products sold to or through the association during the period for which such apportionment is made..."

The by-laws of the farmers' cooperative associations also say this in this regard:

"All savings and earnings of operations shall be divided as follows:

(a) 50% shall be set aside to amortize the indebtedness of the association, if any;

(b) 10% for reserves;

(c) 5% is to be set aside for educational and information fund;

(d) 35% to be distributed to members as patronage dividends."

If the association is not in any way indebted or if its indebtedness is such as would require no amortization, the balance of the savings or earnings of operations in any year, after setting aside the reserves and that amount for educa-

National Land Settlement . . . (Continued from page 9)

In legal matters are the standing courts. However a "council" of ten settlers under the chairmanship of the director of the N.L.S.A. will hear first the complaint and has to try his best to settle the matter of dispute between the two parties amicably before it can go further to the authority.

After the fifth year the settlers will be sufficiently trained and the settlement will be so organized that the settlers will be able to carry on by themselves, and the N.L.S.A. will only supervise the settlement in an advisory capacity. At the end of the fifth year the settler will receive a statement giving

him the rights on his residential lot of half a hectare and on the field of ten hectares. With accord of the N.L.S.A. the settler may exchange his lots with those of one of the other settlers. The lots are to be distributed under the settlers by "draws". After the tenth year the settlers will receive the title for his lots. They are then his own without any obligation to the National Land Settlement Administration.

For each settler the N.L.S.A. shall have at its disposal the sum of ₱1,500, which is to be used for covering the expenses during the first five years — Total amount ₱150,000.

The expenditure for the officials of the N. L. S. A., for building, etc. have to be made up in a separate budget. #

tional and information purposes,... shall be made available as patronage dividends.

Illustration:

Capital Stock . . ₱1,000 to earn, say, ₱5%
Gross income on sales ₱2,000
Cost of Goods 1,500

Gross profit on operation . . ₱ 500
Less overhead 200

Net Profit on operation . . ₱ 300
50% for amortization ₱150
10% for reserves 30
5% for education 15

Total ₱195
₱300 — ₱195 = ₱105 for dividends
₱105 for dividends
— 50 as 5% dividend on the ₱1,00 capital share

₱ 55 for patronage dividends.
To find rate for patronage dividends:
₱55 divided by —2,000 = ₱0.0275 for every ₱1.00 participation.

Name of member	Purchases	Sales	Total	Patronage dividend (Total X ₱0.0275)
"A"	₱ 30	₱ 80	₱110	₱3.02
"B"	50	70	120	3.30
"C"	100	50	150	4.12

SUFFICIENT VOLUME OF BUSINESS.—No one has worked out, or perhaps no one can work out, the minimum and maximum limits of the volume of any commodity that may be handled by a cooperative organization. Experience is necessary to enable an organization to determine just what these limits are for the commodity that it handles under certain conditions.

A puzzling question is to find out what percentage of the total quantity of a given product is necessary or desirable for the conduct of business. Only the fruit of experience can solve this question. For example, it has been observed that when a country's supply of a given agricultural product is grown entirely in a concentrated area, grading tends to be unsatisfactory, publicity is neglected, and the commercial buyers are few and powerful. The case of tobacco in the Cagayan Valley illustrates this very well. In such cases, cooperatives specify that at least one-half of the output, and often three-fourths, must be controlled. Cooperatives in the United States have found by experience that the most effective basis is 80 per cent of the total production.

On the other hand, some cooperatives have been successful even if the size of their business individually is small. Size, therefore, is no criterion of success taken by itself. Large figures and general magnitude may result in extravagance, easy-come-easy-go procedure, and a departure from the cooperative spirit. Many cooperatives have been wrecked in Germany, in the United States, and in the British Dominions because money has been splashed about like water.

ADEQUATE MANAGEMENT.—The problems of management are personal

and commercial. A manager should not only know his business but he should also know how to deal with the members of the organization.

The commonly accepted test for efficient operation is success. "Nothing succeeds like success" is the common saying. But this test is unsatisfactory taken by itself, since luck, accident, and uncontrollable circumstances are strong factors of success. On this point, Frederick W. Taylor, the pioneer of Scientific Management, proved that there was no direct connection in business between profits and efficiency.

Results are really all that matter. But luck and circumstances are composed of such tangible and intangible elements that no rules for unvarying success can be devised.

The late Justice Oliver Wendell Holmes of the United States Supreme Court remarked that "the art of living consists in making correct guesses upon insufficient information." Cooperatives should secure all possible data affecting policies; but risks can never be wholly eliminated, although they can be minimized. Managers are frequently confronted with proposals from members which involve speculation, too rapid growth, or unsound method. Since managers have a diplomatic role to perform, their decision must sometimes be made upon the shoulders of the convincing party. But if mistakes are committed, they should not be of the heart; they should rather be of the head.

An IMPELLING LEGITIMATE PURPOSE.—There must be a need for cooperation and this need must be both impelling and legitimate. The movement should have a central purpose which should continue to be the overwhelming interest of the rank and file of the membership of the cooperative organization.

It is said that "adversity is the mother of cooperatives." But cooperatives established just because of an attempt to minimize the effects of business depressions are not permanent. What is needed is an association whose membership is well informed about the principles and problems of the organization.

There is no magic in a cooperative association. It has its benefits, but also its decided limitations. These must be well understood by the membership.

LOYALTY.—Loyalty is the tie that binds. Yet loyalty to a common cause is impossible when there is absence of cooperation. Cooperatives lay great stress on loyalty but they often mean the loyal-

ty of the members to the association.

Loyalty in this case should also refer to the employees and officials of the association. There are a number of ways to maintain loyalty in a cooperative organization. Among these are the following:

1. Use of the loyalty pledge.
2. Use of the contract, a legal tie.
3. Constant education of members to promote mutual understanding.
4. Loyalty to loyalty, which is enthusiasm and faithfulness. These are inherently denied to no one and they are the surest guide for the specific performance of duty.

CONSTANT COOPERATIVE EDUCATION.—From the very beginning education has been the bulwark of the cooperative movement. The importance of education in the cooperative movement is expressed in the report of the Committee on Inquiry on Cooperative Enterprises in Europe, appointed by President Franklin D. Roosevelt, in the following words: "To live, a cooperative must have a loyal membership with broad understanding of its purposes and methods. To grow, it must 'sell' the cooperative idea to prospective members."

In a restricted sense cooperative education in part education and part propaganda. Much of the literature of the movement usually advocates the cause of cooperation in the guise of "special pleaders."

Cooperative education may also be divided into external and internal education. External education includes personal and radio addresses, press publicity, pictorial publicity, as well as the "literature" of the movement.

Internal cooperative education includes members' educational forums, various youth educational programs, employees education, women's clubs work of an educational and welfare nature, and cooperative newspapers supported by members of cooperatives.

In regard to employees' education, some cooperative organizations provide a special school for technical training of potential cooperative managers. In such a school, the following, among other things, are taught: training in the theory of cooperation, sales method of cooperatives, and cooperative accounting. The Institute For Practical Training In Cooperatives which is run by the Bureau of Plant Industry, is an example of an institution for training future cooperative leaders and employees. As regards the continuous education of the membership of farmers' cooperatives in the Philippines, the by-laws of such associations provide for the setting aside of 5% of the profits of the associations for educational purposes. #

(To be Continued)