ENHANCING CO-OPERATIVE MOVEMENT
TO ACHIEVE
MALAYSIA’S DEVELOPMENT GOALS

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Abstract

The importance of co-operatives as a mechanism for growth and development has been the emphasis of social philosophers and economists around the world. This is evidently clear as co-operatives today are found in nearly all countries from the developing nations of Asia, Africa, and South America to the industrial countries of Europe and North America.

Since first introduced, eighty-five years ago, there is no denying that the co-operative movement has had an impact on the Malaysian economic development. In 2006 there were 4,895 co-operatives registered with 5.86 million members, co-operatives share capital amounting to RM 7,216.96 billion and total assets worth at RM 37,401 billion. These statistics indicate that co-operatives have had the support of the people and undertake activities contributing to economic growth. The government’s continuous commitment to co-operative development is a reflection of confidence in co-operative movement in Malaysia.

The objective of this paper is to evaluate co-operative policies, programs and their performances. As a user-oriented organization, the success of a co-operative relied heavily in its members. Besides members, board of directors of a co-operative must fulfill their responsibility efficiently and effectively in order to secure co-operative success. Co-operatives in Malaysia are at a cross roads due to stiff competition and challenges from other institutions and organizations that are also expanding and developing rapidly with increased opportunities in and outside Malaysia. The issue of whether co-operatives are still relevant and can maintain their integrity and continue to develop at the same pace if not faster in the future contributing to the country’s development process is discussed. The need to reach out to the poorest of the poor is still imperative in Malaysia. It is recognized that an efficient co-operative movement in Malaysia can play this role in helping the poor.
Keywords: Co-operative, Development, Performance
1.0 INTRODUCTION

The present co-operative organizations have deep historical roots in the economy and are very ancient. The foundation of the Rochdale Equitable Pioneers’ Society in 1844 has been acknowledged traditionally as the starting point of the true history of the modern co-operation movement. Lambert offers a lengthy discussion about the historical background of co-operation. In defining a co-operative, most co-operative literature would describe a co-operative as an independent and autonomous non-government organization which has been promoted by co-operative members themselves to achieve their economic and social objectives. The International Co-operative Alliance (ICA), in the statement of co-operative identity (ISCI) 1995 had defined co-operative as:

“…an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.”

Co-operative as an organization operates and are managed based on values and principles first introduced by the Rochdale pioneers in the nineteen century. All co-operatives in Malaysia are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Following the statement of co-operative identity 1995, Malaysian co-operatives also observe the seven universally accepted principles. The principles are:

1. Voluntary and open membership
2. Democratic member control
3. Member Economic participation
4. Autonomy and Independence
5. Education, Training and Information
6. Co-operation among Co-operatives
7. Concern for the community

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1.1 Agencies Responsible for the Development of Co-operatives In Malaysia

Various government and non-government agencies are involved in the promotion and development of co-operatives. They are namely:

1. The Ministry of Entrepreneur and Co-operative Development (MeCD). This is the main agency responsible for coordinating the development of entrepreneurs in Malaysia. It provides entrepreneurial training and development programmes to existing micro, small and new entrepreneurs. It is also responsible for the Malaysian co-operative movement growth and development. The Malaysia Co-operative Societies Commission (MCC) operates under MeCD. MCC registers, audits accounts, advises, motivates, develops and executes the Co-operative Law.

2. The National Co-operative Organization of Malaysia (ANGKASA). ANGKASA is recognize by the government as the national apex body representing the co-operative movement in Malaysia. Formed on May 12 1971, under the Co-operative Ordinance 33/1948. Its function is to promote the co-operative ideology, provides member education and advisory services, publishes co-operative literature as well as represents the co-operative movement in national and international matters. It is a member of the ICA. Its affiliated co-operative members number more than 3,184 co-operatives with more than four million individual members. ANGKASA is financed by the annual subscription of members and statutory contribution of 1 percent of annual net profits of co-operatives, sale of ANGKASA's own publication, contributions and donations. This annual subscription was later reduced to 0.8 percent and subsequently to 0.6 percent, which is the current fee.

3. The Co-operative College of Malaysia (CCM). The college was established in 1956 and is under the MeCD. The College was stabilized in 1968 with the passing of the Co-operative College (Incorporation) Act 1968. This is the only tertiary institution in Malaysia providing co-operative education. It provides training and education to the co-operative movement in Malaysia. It also publishes, conducts research on co-operative activities and provides advisory services to co-operatives. Its allocation for administrative
expenditure is from the Co-operative Education Trust Fund which came from the net profit of co-operatives. It is compulsory for all registered co-operative to contribute 2 percent of their net profit into this trust fund.

4. Federal Land Consolidation Authority (FELCRA), Federal Land Development Authority (FELDA) and the Rubber Industries Small Holders Development (RISDA)

These organizations are in charge of land development and improving the livelihood of the rural population. The government encourages the setting up of co-operatives in these land schemes with the main objective to encourage co-operation amongst the settlers and to improve their socio-economic condition.

5. The Farmers’ Organization Authority (FOA) was set up in 1973 to undertake the supervision of all agro-based co-operatives. The Fisheries Development Authority (FDA) was established by the government in 1971 under the Malaysia Fisheries Development Authority Act 1971. Both authorities are under the Ministry of Agriculture and Agro based Industries. FDA is responsible for the registration, monitoring and the fishermen’s co-operatives and fishermen’s associations.

2.0 BACKGROUND OF CO-OPERATIVE MOVEMENT IN MALAYSIA

2.1 The early period, 1920 - 1957

The earliest effort in introducing co-operative to Malaysia (then Federated Malay States) started in 1907. However response from British officialdom and the European
planting community was not favourable. Co-operative was again introduced when a number of high ranking British colonels realized the need of it in helping the plantation sector by 1919. Cavendish through his report had proposed a structure of the co-operative movement to the Federal Legislative Council. He recommended a self-financing Co-operative Bank of Malaya to solve credit problems among rural and urban population in Malaya. However his proposal was rejected by the government. In 1922, the Co-operative Societies Enactment was passed by the Federal Legislative Council. This enactment was based closely on the Indian Co-operative Societies Act of 1912 and had remained unchanged up to 1948. Co-operatives in Malaya were also initiated by the British government to combat the problem of the chronic rural indebtedness and deficit spending among wage-earners in places of employment. The co-operative movement’s growth later became stable and soon spread to various states such as Kedah, Perlis, Terengganu, Johore and Kelantan. The movement later spread to Sabah and Sarawak in 1958 and 1959 respectively.

The Department of Co-operative Development (DCD) was established in July 1922 (before independence) to register and revoke the registration of co-operative societies. It is also the department’s responsibility to encourage, promote and to ensure that co-operative function in accordance to the Societies Act. Although the early growth of co-operative movement was through efforts of the government through its agencies, it was also envisaged that the state would mainly play a promotional, supervisory and guidance role vis-à-vis co-operatives. So for the first eleven years after the movement began, its emphasis was only on economic functions with very minimal non economic functions. There was also very little efforts put forward into training and educational programmes of committee members and members due to the limited financial resources allocated for these programs. As a result, there was not much awareness of the co-operative principles and philosophy among co-operative members. Despite this, co-operatives were established both in urban and rural areas and their numbers steadily increased. Thrift and loan societies in urban areas, agricultural co-operatives,


5 Ibid., page 4.
fishery co-operatives, housing co-operatives and a nation-wide insurance co-operative society were the significant types of cooperatives.

Historically, the DCD was skeptical about the viability of consumer co-operatives. It was the findings of a Committee on profiteering that led to the formation of two consumer societies in 1922. Consumer co-operatives were to help reduce the high wholesale-retail margin which contributes to high retail prices that burden consumers. The initial progress can be considered slow as by 1939, there were three rural stores operating. By 1950, the number had increased to 21 co-operatives. In 1950s, because of the Korean War, the Suez Canal Crisis and the state of Emergency, the government fully supports the formation of more consumer co-operatives in the country with the objective of overcoming the problem of food shortages, high cost of living and adulteration of foodstuffs. As a result of the direct and active involvement of the state, a consumer network co-existed with the private distributive trade. Consumer co-operative was also an integral part of the Emergency policy to control the flow of commodities to the rural areas. The numbers of such co-operatives grew in the rural and urban areas and were effective in assisting the government distribute essential goods at controlled prices. The Malayan Co-operative Wholesale Society became the central supplier to the consumer societies.

The post-war period saw the establishment of agricultural co-operatives as part of the government plan to develop the rural economy. This was done through the creation of the Rural and Industrial Development Authority (RIDA) in 1950 through which credit, marketing and processing projects were undertaken. Capital for carrying out business and research loans could be obtained from RIDA through co-operatives. RIDA was in close co-operation with the DCD in its effort to help farmers. It was expected to achieve the objectives of self-help and integrated approach to rural development. The role of RIDA in supplying credit to farmers however faced with problems when the demand for loan far exceeded the amount allocated. The role in supplying short-term credit was eliminated in 1955 and subsequently its role in the development of the co-operative movement was reduced.

6 Ibid., page 32.
7 Ibid., page 88.
2.2 The Movement After 1957

It was when Malaysia gained independence on 31st August 1957 the co-operative movement became strong and active. The first half of the 1960s saw a more effective consolidation and rationalization programme being undertaken by the DCD and the Bank Rakyat (Peoples' Bank). By 1966, the realization of the importance of inter-linked markets prompted the policy aimed at encouraging existing and new co-operative to develop into multi-purpose co-operatives.

By late sixties, there were 3,000 co-operatives with a membership of over 500,000. The DCD then began to take a cautious approach towards the registration of new co-operatives. Consolidation and reorganization efforts were made by the DCD and small co-operatives were encouraged to amalgamate, thus bringing in the gradual evolution of a strategy to create multi-purpose co-operative societies. Dormant societies were de-registered and the formation of larger and more viable societies was encouraged. Secondary co-operative organizations such as the Co-operative Union of Malaysia and the Co-operative Central Bank were established. Angkatan Koperasi Malaysia Berhad (ANGKASA) which is the national co-operative organisation of Malaysia was established in 1971.

The government was anxious for speedier agricultural development after the attainment of independence. The experience of agriculture co-operatives in Taiwan had influenced the government to introduce Farmers' Associations in the country from 1958 onwards. Farmers' Associations were to undertake mainly agricultural extension activities and an act in a role secondary to agricultural extension activities and act in a role secondary to agricultural co-operatives. In 1967 the Farmers Association Act was passed for the purpose of forming Farmers' Associations (FOs) which could undertake multipurpose commercial activities. FOs were also granted legal exemption from profit tax, stamp duty relevant sections of trade union laws and company acts to put them on par with co-operative societies. Under the 1967 Act, the single purpose Farmers' Associations whose functions were to provide credit, input supplies, transportation, extension services and marketing facilities. Unfortunately the presence of these two types of organisations within the same locality caused confusion among
farmers and serious conflicts and rivalries. In view of this, two new Acts were enacted, viz. (I) Act No. 109 Farmers Organization Act 1973 and Act No. 110 Farmers Organization Authority (FAO) Act 1973.8

The FOA was vested with power to amalgamate agro-based co-operative society and the farmers' association into one organisation known as Farmers' Organisation (FO). The FOA had more or less the same powers and the responsibilities as the registrar and the director general of co-operatives in respect of farmers' organizations. The DCD thereafter did not have any power and responsibility vis-à-vis co-operatives in the rural areas. No agricultural co-operatives were to be promoted by the Co-operative Department. In 1975, the Fisheries Development Authority (FDA) was set up to oversee the development of the fisheries co-operative.

The rapid growth of Farmers’ Association in the post-1967 era coincided with a rationalization and consolidation programme for the agro-based co-operatives. This programme had the effect of reducing the numbers of mono-functional societies and the creation of a rapidly expanding network of multi-purpose societies. This latter process results in major membership and functional duplication between the two types of producers’ organizations. Their parallel development also led to an intra-ministry, inter-divisional conflict, which was finally to be resolved by integrating both organizations and placing them under the responsibility of the newly formed Director-General, Farmers’ Organization Authority (FOA) in 1973. The position of co-operatives in term of co-operative numbers, members, capital and assets after the take-over is as shown in the Table 1.1. This move towards specialization was to bring about a greater consolidated effort by each of the three agencies to channel their resources towards continued promotion and development of co-operatives in Malaysia. Societies from all these three agencies, however are united under and represented by a national apex organization, ANGKASA. Since the majority of the co-operatives are under the DCD, it has always been held responsible for the development of co-operatives in general, especially so with the inclusion of co-operatives from Sabah and Sarawak after the formation of Malaysia.

Table 2.1

Co-operatives Numbers, Members, Capital and Assets Under Supervising Agencies, 1975

<table>
<thead>
<tr>
<th>Agency</th>
<th>Co-operatives numbers (%)</th>
<th>Members persons (%)</th>
<th>Capital RM000,000 (%)</th>
<th>Assets RM000,000 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FOA</td>
<td>1,502 (58.1)</td>
<td>165,355 (20.7)</td>
<td>10.5 (4.1)</td>
<td>26.9 (4.3)</td>
</tr>
<tr>
<td>FDA</td>
<td>51 (2.0)</td>
<td>10,000 (1.2)</td>
<td>0.5 (0.2)</td>
<td>6.4 (1.1)</td>
</tr>
<tr>
<td>DCD</td>
<td>1,031 (39.9)</td>
<td>724,850 (78.1)</td>
<td>245.0 (95.7)</td>
<td>588.3 (94.6)</td>
</tr>
<tr>
<td>Total</td>
<td>2,584 (100)</td>
<td>900,205 (100)</td>
<td>256.1 (100)</td>
<td>621.6 (100)</td>
</tr>
</tbody>
</table>

Source: Department of Co-operative Development, Kuala Lumpur.

FOA policy seemed initially to be geared towards integration that did not require the dissolution of either institution. It was envisaged that each body would maintain its own identity and retain its own assets and liabilities and farmers would be permitted to maintain dual membership. A number of difficulties emerged, in particular farmer-members continued to have divided loyalty, and joint activities in the parent farmers’ organizations were impeded because each member-unit sought to protect and further its own organizational interests. As a result of this problem a policy to amalgamate farmers’ associations and agro-based co-operative societies into farmers’ co-operative was introduced. Integration proved difficult to implement in practice since full integration can only be undertaken in accordance with the constitution and by-laws of the farmers’ associations and co-operative societies. Basically, this necessitates the
agreement of the two-thirds of the assembly or representatives of the farmers’ associations and three-quarters of the registered members of the agro-based co-operatives.

In the 1980s, a new dimension in the co-operative movement was initiated with the declaration of the New Co-operative Era in 1982. This was a measure taken by the Ministry of National and Rural Development (the Ministry in charge of co-operatives at that time) to activate, streamline and prepare the co-operatives for more dynamic and effective roles in the economic development of the country and in poverty alleviation programmes. The New Era also brought into being new co-operatives initiated by the Government such as the District Development Co-operatives (DDC), the Cottage Industry Co-operatives (CIC), the Village Development Co-operatives (VDC) and the Workers Investment Co-operatives (WIC).

The DDCs and VDCs were aimed to encourage villagers to undertake projects such as the construction of rural roads, religious buildings, community centers, irrigation facilities and housing. DDCs and VDCs were intended to foster unity and co-operative spirit and encourage members to participate in local development projects at district level and village level, and for them to benefit in the form of dividends as well as increased employment opportunities. By the end of 1990, there are 78 DDCs and 5 VDCs with a membership of 28,184 and 1,541 respectively and a paid up capital of RM1,59,084 and RM39,215 respectively had been registered. The National Development Co-operative is the apex organization for DDCs and VDCs, but membership is open to all registered to co-operatives.

The CICs are integrated projects between the Department of Co-operative Development (DCD), the Prime Minister's Department (PMD) and other related agencies in the Ministry of National and Rural development, i.e., KEMAS (the Community Development Department), MARA (Council of Trust for Indigenous People) and the Malaysian Handicraft Development Corporation. They were introduced with a view to intensifying efforts in promoting cottage industry in order to uplift the rural economy and alleviate poverty. CICs encourage the development of village handicrafts from local resources such as clay, bamboo, rattan, mengkuang, promoting many activities on a co-operative basis. By the end of 1990, there were 36
CICs with a membership of 2,219 and a paid up capital of RM48,485 had been registered.

WIC is modeled after the Japanese co-operatives. WICs were set to encourage closer co-operation and understanding between employer and employee and at the same time helping the employees to help themselves. The basic idea embodied in the WIC was to encourage thrift through monthly savings, provide credit and loans, supply of consumer goods, provide transportation to workplace and operate staff canteen. By the end of 1990, there were 20 WICs with a membership of 11,039 and a paid up capital of RM3,650,000.

The school co-operatives are a combined effort by the DCD and the Ministry of Education to introduce co-operatives in secondary schools. Started in 1972 with the first registration of school co-operatives, the objectives are to instill the spirit of thrift among the younger generation and train them in the co-operative movement. It is envisaged that such co-operatives will form the training ground and backbone for the development and continued existence of the movement. The apex of school co-operatives is the National Schools co-operatives which are supported by the Ministry of Land and Co-operative Development. Known as the National School Co-operative, this parent organization undertakes the bulk purchase and production of school requisites for distribution to member co-operatives. In 1990 there were 778 school co-operatives with 659,994 members with a total share capital of RM3 million.

2.3 The 1986 Deposit-taking Co-operative Scandals

The darkest spot on the co-operative landscape happened on the 8th of August, 1986 when the government had to freeze the assets 24 deposit-taking co-operatives were following share and property market plunge, mismanagement and corruptions by directors and bank managers. These co-operatives used high interest rate as bait and had attracted over 1 million members and RM 3 to RM 4 billion deposits. On July 23rd, the government introduced Essential (Protection of Depositors) Regulations, 1986 enabling the Central Bank of Malaysia (Bank Negara) to begin their full investigations and take actions on these co-operatives. The Co-operative Central Bank was put under receivership for management problems and insolvency in 1988. These
co-operatives had experienced bad management practices, either due to lack of expertise and professionalism or the corrupt practices of management. They disregard the co-operatives principles and were found to be operating purely as profit-oriented deposit takers, housing developers and share speculators. At the end of 1988 there were 2,913 registered co-operative in Malaysia. Out of these 322 were in Sabah and 433 in Sarawak. There were 2.6 million members in Peninsular Malaysia, 61,000 in Sabah and 117,300 in Sarawak.⁹

2.4 The Movement, Post 1990s and recently

Structurally, co-operatives movement can be segmented into the flourishing urban segment which is financially strong and the rural segment comprises of various types of agro-based co-operatives, fishermen’s co-operatives and co-operatives under the government agencies. Urban credit and banking co-operatives formed the backbone of the movement. Other primary societies include consumer co-operatives, co-operative housing societies, land development co-operatives and school co-operatives.

The co-operatives supervised by government agencies such as FELDA, FELCRA and the RISDA served the rural community and their main functions are contractual work, transport service (lorries, buses and tankers), retail stores and mini-markets, and the supply of electrical appliances, motorcycles and furniture. Co-operatives in the land schemes are also encouraged to form secondary societies at state levels. These secondary societies became agents for their members to supply the needs of the settlers, thus ensuring quality goods at reasonable prices and at the same time cater for the collective market of their produce including fruits, vegetables, chickens and goats etc. Members and their children are encouraged to take up vocational courses so that they can operate their own service oriented programmes like workshop for motorcycles and agriculture machinery repair.

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In October 1990, DCD was under the Ministry of Land and Co-operative Development. This ministry emphasized on creating more WIC co-operatives operating in factories and in private companies. The objectives in the Sixth Malaysian Plan (1991-1995) were to have 500 WIC co-operatives and 1,000 other co-operatives. The number of co-operatives, membership, capital and assets for 1990 is in table 2.2 below.

Table 2.2

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NO. OF CO-OP.</th>
<th>MEMBERSHIP (million)</th>
<th>CAPITAL (RM billion)</th>
<th>ASSETS (RM billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3,028</td>
<td>3.33</td>
<td>1.64</td>
<td>6.15</td>
</tr>
<tr>
<td>1991</td>
<td>3,083</td>
<td>3.44</td>
<td>1.75</td>
<td>6.55</td>
</tr>
<tr>
<td>1992</td>
<td>3,228</td>
<td>3.66</td>
<td>1.92</td>
<td>7.60</td>
</tr>
<tr>
<td>1993</td>
<td>3,388</td>
<td>3.91</td>
<td>2.18</td>
<td>8.33</td>
</tr>
<tr>
<td>1994</td>
<td>3,473</td>
<td>4.06</td>
<td>2.44</td>
<td>10.14</td>
</tr>
<tr>
<td>1995</td>
<td>3,554</td>
<td>4.25</td>
<td>2.74</td>
<td>10.39</td>
</tr>
<tr>
<td>1996</td>
<td>3,753</td>
<td>4.21</td>
<td>2.83</td>
<td>12.17</td>
</tr>
<tr>
<td>1997</td>
<td>3,847</td>
<td>4.13</td>
<td>3.17</td>
<td>12.96</td>
</tr>
<tr>
<td>1998</td>
<td>3,942</td>
<td>4.55</td>
<td>3.60</td>
<td>14.10</td>
</tr>
<tr>
<td>1999</td>
<td>4,050</td>
<td>4.33</td>
<td>3.84</td>
<td>14.10</td>
</tr>
<tr>
<td>2000</td>
<td>4,154</td>
<td>4.50</td>
<td>4.21</td>
<td>15.82</td>
</tr>
<tr>
<td>2001</td>
<td>4,246</td>
<td>4.76</td>
<td>4.3</td>
<td>18.90</td>
</tr>
<tr>
<td>2002</td>
<td>4,330</td>
<td>5.03</td>
<td>4.40</td>
<td>19.00</td>
</tr>
<tr>
<td>2003</td>
<td>4,469</td>
<td>5.21</td>
<td>5.57</td>
<td>25.12</td>
</tr>
</tbody>
</table>
2004  4,651  5.39  6.06  25.70  
2005  4,771  5.69  6.85  34.87  
2006  4,918  5.86  7.36  38.38  
2007  5,170  6.32  7.80  47.4  

SOURCES: Monitoring Division, Malaysia Co-operative Societies Commission (MCC)

From the year 1990 onwards the movement seems to be having a positive growth. Within the first eight years (1990-1997) the movement grew at 3.1 percent a year with the membership, capital and asset growth of 2.8 percent, 8.7 percent and 10 percent respectively.

The co-operative movement later was effected by the 1997 financial crisis that hit Malaysia and other countries in this region. Fifty two co-operatives with investment in shares and trust funds especially with borrowings from the private financial institutions suffered the worst from the crisis. They faced liquidity problems and had received some form of help from the government to ease their financial problems.10 Despite the crisis the movement recovered with progress in the share market following the economic recovery. As shown in table 2.1, although the economy was not good the co-operative movement showed only a slight decrease in growth from 1997-2000. Co-operatives grew at 2.57 percent, membership at 1.8 percent, capital at 10.47 percent and asset at 6.87 percent. Co-operatives in the 21st century (2000 - 2007) grew at an increasing growth rate of 3.1 percent, membership at around 4.9 percent, capital at 9.5 percent and asset growth rate at 17 percent. By December 2005, there were 4,771 co-operatives registered with 5.685 million members, share capital

10 Ibid, page 42.
amounting to RM 6.849 billion and total assets worth at RM 34.868 billion. These figures had shown a significant increase from the figures at the end year of 2000 where there were 4,154 registered co-operatives with 4.5 million members, share capital exceeding RM 4.21 billion and total assets amounting to RM 15.82 billion. As of December 2007, the number of co-operatives rose to 5,170 with 6.32 million members, RM 7.80 billion and assets worth RM 47.4 billion.

All co-operatives are classified into 9 different functions based on their business activities. The functions are banking, credit/finance, plantation, housing, industry, consumer, construction, transport and services. The performance of co-operatives by functions is shown in table 2.3. The table shows 62 per cent of the co-operatives focus on providing consumer, 10 percent provide services, 9 percent are involved with credit, and 8.6 percent are in transportation, 2.1 percent in construction, 1.7 percent in housing and 1.2 percent are in industry. The movement has 2 co-operative banks that is the Bank Rakyat and Bank Persatuan. The status of these co-operatives by number, membership, capital, assets are also indicated in the table 2.3.

Table 2.3

<table>
<thead>
<tr>
<th>NO.</th>
<th>FUNCTION</th>
<th>NO. OF CO-OP</th>
<th>MEMBERSHIP</th>
<th>CAPITAL (RM)</th>
<th>ASSETS (RM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>BANKING</td>
<td>2</td>
<td>841,448</td>
<td>2,147,940,644</td>
<td>35,257,320,852</td>
</tr>
<tr>
<td>2.</td>
<td>CREDIT / FINANCE</td>
<td>471</td>
<td>1,933,857</td>
<td>3,970,239,842</td>
<td>6,917,854,753</td>
</tr>
<tr>
<td>3.</td>
<td>PLANTATION</td>
<td>272</td>
<td>203,876</td>
<td>207,325,893</td>
<td>1,033,019,696</td>
</tr>
<tr>
<td>4.</td>
<td>HOUSING</td>
<td>90</td>
<td>91,545</td>
<td>118,795,528</td>
<td>454,929,244</td>
</tr>
</tbody>
</table>

Taking these statistics as indicators of performance, these figures had portrayed that co-operatives have had the support of the people and had performed activities that may have contributed to the economic growth. Despite these progresses, co-operatives in Malaysia seem to be at a cross roads due to stiff competition and challenges from other institutions and organizations that are also expanding and developing rapidly with increased opportunities in and outside Malaysia.

The co-operative movement is facing problems and challenges that need to be address by the co-operative themselves and the government. In the National Co-operative Policy (NCP) 2002-2010 the ministry in charge of co-operatives had acknowledge that a majority of co-operatives are small in size and capital, they are facing members’ apathy problem and have very poor networking among them. They are also facing problem generating and getting sufficient capital to implement their activities. Most co-operative are dependent on the conventional sources of capital which is the share capital, fee and accumulated profits. Among co-operatives with access fund, these are not being utilized economically but are channeled to other non co-operative financial institutions.¹² In the long run these problems will hinder co-operative performance

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¹² Malaysia, Ministry of Land and Co-operative Development 2003, Dasar Koperasi Negara dan Pelan Tindakan 2002-2010,
and co-operative will not be able to contribute to the economy. A large proportion of the co-operatives are still being manage by boards on a voluntary basis and not by the full time professional manages as in the bigger and more successful co-operatives. This creates difficulty for co-operatives to maintain good governance, inefficient administrative and poor financial management. As of July 2006, it was announced that 9.8 percent of the 4,771 co-operatives were inactive.\textsuperscript{13} In this year a total of 217 co-operatives were under liquidation.\textsuperscript{14}

\section*{2.5 Co-operative Legislations}

The Co-operative Act 1948 was the co-operative legislation governing the co-operative movement since before independence. This Act had been reviewed and was found to ineffective as an instrument for constitution and control and had been replaced by the Co-operative Act 1993. This new Act consolidates and unifies the various legislations that governed the co-operatives in the country.

To further strengthen the law and give the effects to the principles and provisions of the Act, the co-operative Regulations 1995 was made.\textsuperscript{15} The main features of the Co-operative act 1993 and Regulations 1995 were the promotion of good management practices, enhancement of member empowerment, explicit development role of the Department, co-operatives to set up subsidiaries in order to take part in the economy and to enable co-operative to set aside some portion of their profit to fund projects for the benefit of the community.

A Bill was passed by the Malaysian Parliament in early 1993 (through a Pan-Malaysia Co-operative Act) for the legislation amendment and consolidation governing co-operative movement in the country. The introduction of the new Co-operative Act 1993 is also aimed towards the creation of a self-reliant and self-regulating the

\textsuperscript{13} Berita Harian, 9.8 \% kes koperasi terbiar tidak serius. 23\textsuperscript{rd} July 2006

\textsuperscript{14} Department of Co-operative Development, Annual report 2006

\textsuperscript{15} Department of Co-operative Development, Malaysia, web page, http://www.jpk.gov.my/coop\_20legislation.htm
movement through accountability and transparency in its management.\textsuperscript{16} Amongst the new provisions aimed towards these objectives are the following:

1. Every registered society shall hold an annual general meeting of members or delegates not later than six months after the close of each financial year (sec. 39, 1993 Act).

2. Eligibility for appointment to Board or Internal Audit Committee, sec. 43, 1993 Act
   (1) No person shall be eligible to be appointed to the Board or the Internal Audit Committee of a registered society if - he has been convicted of an offence under this Act; or he has been dismissed as an employee of a registered society.
   (2) No person shall be eligible to be appointed to the Internal Audit Committee of a registered society if he has been appointed to the Board of such registered society and no person shall appointed to the Board of a registered society if he has been appointed to the Internal Audit Committee (IAC) of such registered society.
   (3) From the third year of registration of a society, no person shall be appointed to be a member of the Board of such registered society unless he has been a member of such registered society for a minimum period of two years.

3. The provision for better control through the Internal Audit Committee, sec. 49, 1993 Act. The Internal Audit Committee of a registered society shall examine all accounting and other records relating directly or indirectly to the registered society and its subsidiary or subsidiaries, if any, for the purpose of determining whether the affairs of such registered society are conducted in accordance with the objects of such registered society, the provisions of its by-laws and the resolutions adopted at its general meetings. Such observations will be presented at the annual general meeting.

4. The Act requires all allowances for the board, and that of Internal Audit Committee and payments to members of the board who are appointed on

the board of directors of any of the subsidiaries, shall be tabled for approval at the general meeting.

5. No approval on accounts is required from the Registrar General but every registered society shall submit to the Registrar (not less than thirty days before the AGM) and accordingly, table at its annual general meeting the accounts and balance sheet including those of its subsidiaries, (sec. 59, 1993 Act).

6. The formation of subsidiaries has to get the prior approval off the Registrar-General.

7. With the approval of the annual general meeting, co-operatives are allowed to obtain external loans as opposed to the old Act which requires approval from the Registrar-General.

8. The contribution of the reserve fund has been reduced from 25% to 15%, which allow for greater internal financing of the activities of the co-operatives.

As noted from some of the features of the new law (as in 1, 2, 3 and 7), it is the policy of the government to enhance the supervision of the co-operatives by way of member supervision rather than through external bureaucratic control. The role of government on the financial affairs of co-operatives is only providing observations on the account of the co-operatives. The need to obtain approval from AGM regarding member’s appointments to IAC and scrutiny on Board member’s allowances and remuneration will encourage accountability and discipline in management. Members are given wider chances to be involved and question the affairs of their co-operative management. The penalty for any offence regarding improper management and improper disclosures on the affairs of the co-operatives is severe under the new Act. Any co-operatives or officer, employee, member or any other person guilty of offence under the Act are liable to compound up to a maximum of RM25,000 or a maximum fine of RM50,000 upon conviction and or to a term of imprisonment not exceeding four years.

The Co-operative Act 1993 was amended with 1995 (Act 928), 1996 (Act 963) 2001 (Act A1128) and 2007 (Act A1297) The latest amendment was brought forth by the setting of the Malaysia Co-operative Commission. The introduction of Co-operative
Act 2007 (Act A1297) is necessary to tighten the regulations and oversee the co-operative movement. This Act came into force on the 1st January 2008 and the Department of Co-operative Development is replaced by the Malaysia Co-operative Commission. The changes in the Act are to make provisions for the constitution, registration, control and regulation of co-operative societies.

The objective of introduction is to promote the development of co-operative societies in accordance with the co-operative values of honesty, trustworthiness and transparency in order to contribute towards achieving the socioeconomic objectives of the nation and for matters connected therewith.\(^\text{17}\) The following gives some example of the amended subsections based on the objectives of these amendments:\(^\text{18}\)

1. **Amendments to help facilitate the formation and management of co-operatives.**

In section 5, the conditions for registration has been simplified by a reduction in number of individual persons to be registered in co-operative formation to only 50 persons as compared to 100 before amendments.

Section 37 and 39 (1) had given power to MCC to exclude representatives of co-operatives from attending the Annual General Meeting (AGM) and extend the date of AGM longer than the six months after each financial year duration as stipulated in the 1993 Act.

Under section 57, co-operatives are given permission to use the Statutory Reserved Fund to pay for the shares or subscription and issue bonus shares to members with the approval from MCC. There are more freedom for co-operatives to utilize their net profits for payment of the welfare of its members and community. Previously this payment is only limited to ten percent.

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2. Amendments to improve efficiency of co-operatives governance.

Section 43 (2), (3) Act A1297 had given powers to MCC to verify the appointment or reappointment of any co-operative board and their Internal Audit Committee. MCC scrutiny will ensure that only suitable, responsible and trustworthy members are on the board hence the movement will get a better and more effective governance.

The emergence of Islamic banks and financial institutions in the Malaysian financial market for more than a decade ago had also prompted the government to make changes in the Act to give due recognition on the availability of the Islamic banking and financial facilities to those in the movement who require these services. Subsection 44 A had stress on the responsibility of the board or chief executive officers to disclose the importance of Islamic financing or credit facility. Following this subsection, to prevent any conflict of interest it is also the board or chief executive officer to disclose any conflict of interest. The declaration of the fact, nature and extent of the conflict must be done after he held office.

In relation to co-operative distribution of audited net profits, subsection 57 1(E) states that the Statutory Reserve Fund shall be maintained in a separate account and shall be invested in the Co-operative Deposit Account as referred to in the Malaysia Cooperative Societies Commission Act 2007. It is hope that such step will prevent the misuse of fund by co-operatives and fund will be use to protect co-operatives from liabilities. MCC have the power to determine the amount to be paid to the Cooperative Education Trust Fund and the Co-operative Development Trust Fund in the case of secondary or tertiary co-operatives before declaring dividends for each financial year.

Subsection 59 (2A) of the amended Act further strengthen the MCC financial control by stating that MCC’s observations that have financial effect on the co-operative audited accounts and balance sheet must be adjusted accordingly by the co-operative and should be clearly shown in the audited accounts of the co-operative society in the next financial year. This will prevent co-operatives from ignoring the MCC observation and not portrayed their true financial standing.

3. Changes related to penalties.
The new Act spells out clearly the amount of fine impose in cases where co-operative or officer fails to comply with any subsections and provision. Fines for committing offence are liable to be imposed on the board, the chief executive officer, other management staffs or anyone else in the co-operative. The high penalty for every offence will act as deterrence and warnings to those concerned, that government is serious about poor statutory compliance to co-operative Act. This is to protect the majority of co-operative members from being exploited by their own operatives and at the same time enforce law and order in the conduct of business and affairs of the movement.

3.0 Government Policies and the Co-operative Movement

Co-operative development has been affected by globalization, liberalization, deregulations and changes in government policies. Following this co-operative philosophy, concepts and identity are being challenge by both the external and internal forces.\(^1\) Despite this, the government had and still perceives to have played an important role towards the formation, promotion and continued growth of co-operatives in Malaysia. Technical assistance in the form of seconding government officers to the co-operatives in the land development schemes (under agencies such as RISDA, FELDA, FELCRA) to assist the co-operatives during their initial development stage were given. The officers help to supervise and manage these co-operatives with the intention of withdrawing their service once the settlers are capable of managing the more matured societies themselves.

Incentives have been given to co-operatives by the government since independence. The incentives were to help co-operatives overcome their initial financial burden. These include the provision of free registration; tax relief and other tax exemptions such as free stamp duty and the issue of business licenses. Under the Income Tax Act of 1968, co-operatives too are exempted from paying tax for the first 5 years, from the date of registration. A further five years of tax exemption is given to co-operatives with members’ funds of RM500, 000 or less. The rate of tax is also lower than that for

\(^{19}\) Ibid. Page 42.
private companies. Tax exemptions are also given for the distribution of profits to co-operative members.

As a further commitment, in the efforts to promote co-operative development, the government is giving quality awards to well-managed co-operatives based on their application of good co-operative values and good management practices. Recognition is also given to good statutory compliance in the management of co-operative accounts. Encouragement and awards are also being given by ANGKASA to co-operative leaders in recognition of their efforts towards more effective and responsible management.

The government also believes in the importance of co-operative education and training. The task of educating co-operators and the public has been actively undertaken by the government through the Co-operative College of Malaysia, the MCC and ANGKASA. The Co-operative College provides co-operative training and education in the fields of co-operative law and administration, co-operative accounting and financial management, co-operative business management as well as in computer studies and their application in co-operatives. These are short and long term courses which are conducted in and outside campus. Due to the increasing need for professionals in the management of co-operatives, the College has been conducting a Diploma course in Co-operative Management since 1991. The course is conducted on a full and part-time basis. The Malaysian Technical Co-operative Programme (MTCP), an international course is also offer to those interested. In 2006, the College offer 109 out campus programmes involving 6,781 trainees. ANGKASA has trained and educated about 5,000 trainees yearly. The MCC through its training and publicity division conducts basic co-operative education programmes for members at the state and grassroots levels. The extension division is responsible for activities related to education, learning and dissemination of information to co-operatives and to promote active collaboration with the co-operative movement. This division was provided an allocation of RM1.5 million to implement extension programmes in 2006. The department held annual National Co-operative Day on the 21st of July which was attended by more than 4,000 co-operatives. Expo for co-operative and entrepreneur were organized in conjunction with this day. Various workshop and seminars were conducted for the benefit of the movement.
The government expect co-operative to be the third engine of growth besides public and private sector. Commitment and confidence place by the government are reflected by the financial and none financial support indicated in various development plan. Prior to the Fourth Malaysia Plan there was no clear policy on co-operative. The Fourth Malaysia Plan (1981-1985) clearly outlines the government's policy on co-operatives. It states that: "The co-operative movement provides an important vehicle for the promotion of economic activities, mobilization of capital and the acquisition of property." The Department of Co-operative Development was given an allocation of RM49.55 million to carry out its development programmes. Out of this amount, an allocation of RM41.71 million was given as financial assistance to small co-operatives in the form of advances at a low rate of interest for financing potentially viable projects. This assistance was given to deserving co-operatives which do not qualify for normal bank loans. The Federal government has since then allocated a substantial amount from the national budget for co-operative development.

Under the Fifth Malaysia Plan (1986-1990), a sum of RM33.07 million has been allocated by the government for co-operative development. Out of this amount, RM26.36 million was for loans to co-operatives: RM4.5 million as subsidies for school and other co-operatives initiated by government and RM1 million for the purpose of intensifying member education activities undertaken by the Department of Co-operative Development. Since 1986, the government had taken steps to introduce the formation of workers' co-operatives amongst the unemployed graduates. The aim of the co-operatives was to group graduates together, in order to pool their resources and skills so that they can be co-owners and co-workers of some business or economic venture for mutual benefits. A management subsidy was also given to school co-operatives so as to enable them to employ workers to manage their business efficiently. In 1986, 300 school co-operatives were given RM100 each as management subsidy and a loan of RM200, 000 was given to the National School Co-operatives. The apex organization of the Community Development Co-operatives which co-ordinates and acts as a supplier to the other CDCs were also given a loan of RM1 million in April 1986 for the purchase of cement to be supplied to the CDCs. The Department has provided a total loan of RM65 million at 2% to 4% interest rate for the period 1978 to 1993 to co-operatives in Malaysia.
Under the Sixth Malaysia Plan (1991-1995), the DCD were given an allocation of RM12.75 million. From this amount a sum of RM450, 000 is for the promotion of consumer activities and another RM3.85 million is for the development of school co-operatives (many of which are actually undertaking consumer activities). The balance are for the activities of the Village Industrial co-operatives, Districts Development Co-operatives and for co-operative training's. Besides financial assistance, technical assistance was also given to facilitate co-operative growth in their initial stage of formation.

The Eighth Malaysia Plan (2001-2005) had incorporated strategies, programmes and projects designed to achieve the National Vision Policy. The objectives are of sustainable growth, strengthen economic resilience as well as create a united and equitable society. In this plan a total of RM 33.2 million was allocated for co-operative development.

The National Co-operative Policy (NCP), 2002-2010, was launched in 2002 to provide for the orderly re-development of co-operatives. This is the first national policy on co-operative development since independence. NCP however was introduced in details later in 2004 to all co-operatives to encourage co-operatives to play a bigger role and to participate actively in the economic growth of the country. NCP envisaged a co-operative movement which is active, strong and self-reliant and the government as the movement’s regulator. It outlines the short and long term goals of the NCP and eight strategies of achieving the NCP’s objectives. This policy is in line with the other development policy such as the Vision 2020 and the National vision Policy.  

The objectives of co-operatives are as follows:

1. Short-term objective: Enhancing the understanding of co-operative ideology amongst the people, so that the co-operative can function as organizations

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20Department of Co-operative Development, Malaysia, Dasar Koperasi Negara dan Pelan Tindakan, 2003
that are capable of contributing towards economic growth and social development.

2. Long-term objective: To transform the co-operative movement into a vehicle that is competitive and geared towards eradication of poverty, creation of employment and business opportunities and upgrading of quality of life, based on the co-operative principles, for the national development in line with Vision 2020.

The eight NCP strategies are:

1. Ensuring co-operative philosophy and principles are understood and practice by the co-operative movement.
2. Review law and policy to encourage the progress of the co-operative movement.
3. Recognize the co-operative movement as a catalyst and contributor to the country economic development.
4. Strengthen the co-operative governance, management, financial and monitoring.
5. Increase the co-operative capital sources to enable co-operative to be competitive.
6. Increase co-operation among co-operatives and between co-operative and another third party.
7. Constantly improve the product quality and services so that members will always receive the best product and services.
8. Setting up of the National Council of Co-operative Representative. (MPKK)

The overall thrust under the Ninth Malaysia Plan (2006-2010) will be to develop a more robust financial services sector to support socio-economic development and capitalize on new growth and wealth creating opportunities. The government had stated that In order to enhance access to financing through co-operatives, the industry will be strengthened with priority accorded to improvement in their financial capacity and operational capability. Towards this end, the newly formed Malaysia Co-operative Societies Commission (MCC) will play a significant role in spearheading
the implementation of the National Co-operative Policy (NCP) that focuses on a more holistic approach in the development of co-operatives. The focus will be on ensuring the stability and soundness of financial and management operations of co-operatives. Among others, this will include the mandatory registration, regulation and supervision of all co-operatives including those which were previously under the FOA and FDA. The government allocated RM 69.5 million to further promote and develop co-operative activities.

With the acceptance of the Malaysia Co-operative Societies Commission Bill 2006, Malaysia Co-operative Societies Commission was approved to replace the present Department of Co-operatives Development of Malaysia to effectively regulate and supervise the co-operative sector and to realize its full potential. The objectives of the Commission are to:

a) foster sound and orderly development of co-operative societies and the co-operative sector in accordance with co-operative values and principles to contribute towards achieving the socio-economic objectives of the nation;

b) promote a financially sound, progressive and resilient co-operative sector; and

c) maintain confidence in the co-operative movement.

The Commission functions are as follows:

(a) to promote and maintain stability of the co-operative sector;

(b) to be responsible for the surveillance, supervision and regulation of co-operative societies and the co-operative sector;

(c) to encourage and promote sound and orderly development of co-operative societies and the co-operative sector;

21 Ninth Malaysia Plan 2006-2010, Kuala Lumpur: Economic Planning Unit
(d) to foster co-operative values and principles;

(e) to create a conducive environment for co-operative societies to carry out their activities;

(f) to register and revoke the registration of co-operative societies;

(g) to act as trustee and to manage any scheme of Islamic financing or credit facility set up by the Government of Malaysia for co-operative societies;

(h) to advise the Minister on all matters relating to co-operative societies and the co-operative sector; and

(i) to carry out any function under any written law as may be prescribed by the Minister by notification published in the Gazett.

The Central Liquidity Fund (CLF) and Cooperative Deposit Account (CDA) was set up following this Act. Co-operative societies are compelled to contribute a percentage of their money to these funds. CLF will give loans to member co-operative societies in the event that they face cash-flow problems or run into financial difficulties. This Act requires co-operative to put their finances in their own statutory reserve fund while excess fund are put into CDA. The fund is to assist co-operatives expand their businesses. The Central Liquidity Fund (CLF) aims to help co-operatives facing liquidity problems and the Central Deposit Account (CDA) is to assist co-operatives expand their businesses.

4.0 Co-operative Role in Poverty Eradication

The Malaysian government had made consistent and committed efforts towards eradication of poverty. Malaysia’s poor are mainly concentrated in the states of Kelantan, Terengganu, Kedah, Perlis, and Sabah. The incidence of poverty and hardcore poverty in Malaysia had decrease to 5.7 percent and 1.2 percent respectively in 2004. Please refer to table 4.1. The poor households are predominantly rural, agriculture based. The characteristics of households with hardcore poor are normally headed by female, elderly male, of low education background, large family size and
of ethnic minority such as the indigenous population. The Poverty Line Income (PLI) now used is based on the food PLI and non-food PLI defined in household income survey (HIS) based on size, demographic composition and its location. A household is considered poor if its monthly income is less than the food PLI.

Table 4.1
Poverty and Hardcore poverty in Malaysia 1999 and 2004

<table>
<thead>
<tr>
<th></th>
<th>1999 Malay</th>
<th>Urban</th>
<th>Rural</th>
<th>2004 Malay</th>
<th>Urban</th>
<th>Rural</th>
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<tr>
<td>Hardcore Poverty</td>
<td></td>
<td></td>
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<tr>
<td>Incidence of Hardcore</td>
<td>1.9</td>
<td>0.5</td>
<td>3.6</td>
<td>1.2</td>
<td>0.4</td>
<td>2.9</td>
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<tr>
<td>Poverty¹ (%)</td>
<td></td>
<td></td>
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<tr>
<td>Number of Hardcore Poor Households (‘000)</td>
<td>91.7</td>
<td>11.9</td>
<td>79.8</td>
<td>67.3</td>
<td>14.1</td>
<td>53.2</td>
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<tr>
<td>Poverty Gap² (%)</td>
<td></td>
<td></td>
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<tr>
<td>Overall Poverty</td>
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<td></td>
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<tr>
<td>Incidence of Poverty³ (%)</td>
<td>8.5</td>
<td>3.3</td>
<td>14.8</td>
<td>5.7</td>
<td>2.5</td>
<td>11.9</td>
</tr>
<tr>
<td>Number of Poor Households (‘000)</td>
<td>409.3</td>
<td>86.1</td>
<td>323.2</td>
<td>311.3</td>
<td>91.6</td>
<td>219.7</td>
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<tr>
<td>Poverty Gap (%)</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Total Household (‘000)</td>
<td>4800.0</td>
<td>2612.</td>
<td>2187.</td>
<td>5459.4</td>
<td>3605.9</td>
<td>1853.5</td>
</tr>
</tbody>
</table>

Source: Economic Planning Unit and Department of Statistics – Household Income Surveys, 1999 and 2004

Notes: 1 Refers to households with monthly gross income of less than the food PLI. PLI 2005 Methodology: Malaysia: Urban (RM687), Rural (RM 698), Overall (RM691) per month
2 Refers to the total income shortfall of poor households. Food PLI based on 2005 Methodology: Malaysia: RM415 per month
During the Ninth Malaysia Plan period, efforts will be undertaken to eradicate pockets of poverty among the disadvantaged groups, in particular the Orang Asli in Peninsular Malaysia. The thrust of poverty eradication strategies will focus on eradicating hardcore poverty and halving overall poverty by the end of 2010. New and improved institutional mechanisms and specific social welfare programmes will be pursued to ensure that hardcore poverty continues to be eradicated beyond 2010. In addition, measures will be undertaken to reduce poverty in the rural and urban areas as well as among Bumiputera in Sabah and Sarawak through income generating projects and employment opportunities. Only the elderly, poor single parents, handicapped and destitute who are unable to participate in gainful economic activities will continue to receive outright assistance.22

In relation to poverty, the Malaysian co-operative history shows that co-operative had a role in poverty eradication. Tebuk Haji Musa Co-operative in Parit Buntar, Krian, Perak was the second co-operative to be registered in 1923. This co-operative was set up by the farmers and peasants who are majority poor. Rural poverty was prevalent at that time. Poor farmers had no savings, they were exploited by their own local moneylenders, traders and shopkeepers. Not only they were made to pay exorbitantly high rate of interest for their loans, because of the debt they also have to sell their produce to the particular trader at very low prices. Most of the farmers end up mortgaging their crops and their land. Rural Co-operatives Credit Societies and banka became important in the early years in Malaya with membership numbered over 60,000 people mainly paddy-planters and rubber small-holders. Loans from co-operatives help them pay their living expenses and improve lives. The Employees’ Co-operative Credit Societies formed among the employees mostly from the rubber estates had played a significantly role in helping eradicating poverty among estates

22 Malaysia, Ninth Malaysia Plan 2006-2010, chapter 16
Co-operatives have been set up to help the poor and less fortunate in the community. The target groups are the handicapped, single mothers and orphans. MCC had identified four co-operatives for handicapped persons operating with services and consumer functions, two single mothers’ co-operative involved in health services and consumer activities. These co-operatives are situated in Perlis, Kuala Terengganu, Penang, Selangor and Wilayah Persekutuan. There are also co-operatives for the Orang Asli. Orang Asli is an ethnic minority that is still left behind in the development process. The Department of Orang Asli Affairs (JHEOA) reported that 29,873 or 87 percent of the Orang Asli population are poor. Out of this, 12,435 are hard core poor. Currently, this minority group is given attention by various government and non government organizations as they have the highest school drop-out rate among the students in both primary and secondary schools. The community is facing economic and social problems. However, currently there are seven Orang Asli co-operatives only running independently to help solve their problems. Their activities are mainly in agriculture, supplies, book shop business, services and consumer activities. These co-operatives were set up by their members with the specific objectives of helping, developing and promoting activities to enhance the well-being of their community.

Co-operatives in the land settlements (FELDA, FELCRA, RISDA, MADA, KADA, KESEDAR) and the Development Programme for the Hardcore Poor (PPRT) in KEDA, had also played a significant role. Co-operatives began as a government tool to provide help for the poor. Later on, these co-operatives progress and they not only grew in size, membership, asset ownership but also provide employment for the rural


24 Ibid., page 151

25 MCC, 2007 Co-operative Role In Eradicating Poverty and In the Development of Economic Corridors. Papers presented in the MPKK Bil. 1/2007
labour force, provide return in the form of dividends, rebate and bonus shares to their members and most importantly provide the needed services for their members and the community. As at December 2007 there are 318 co-operatives in FELDA, 165 co-operatives in FELCRA, 69 co-operatives in RISDA, 19 co-operatives in KEDA and 8 co-operatives in KESEDAR. These co-operatives are actively involved in plantation, transportation, construction and consumer activities.

Co-operatives among the poor fishermen are not a new development. However fishermen co-operatives progress is relatively slower compared to in other agriculture sector. Fishermen co-operatives were formerly under the surveillance of FDA following the 1971 Fisheries Development Authority Act. With the new MCC set up, the remaining 34 fisheries co-operatives are return back to MCC. These co-operatives will once again be oversee and supervise by MCC and be subjected to the Co-operative Societies Act. The government wants more co-operatives to function in the fishing community and help support the fishing industry. Investigation by MCC had reveal that only 53 percent of these are active. Another 26 percent are with potential and will be revived. Among their activities are marketing, transportation of fish, produce and supply ice, renting out boat license and selling diesel. MCC is also responsible to help empower fishermen (turn the traditional coastal /inshore fishermen into deep-sea fisherman) through skill enhancement by giving technical training and turning the fishing industry into a commercialized industry. The government had recently launched the Pahang People Development Co-operative on the 1st June 2007 with the objective of elevating the hard-core poor and their families in the fishing community in various places in Pahang such as Pekan, Kuantan and Rompin. The objective of this co-operative is to create jobs for the poor, provision of transportation for fish, fish processing plant, provide an efficient fish marketing services and a workshop or marin engeneering services. With a RM 12 million government grant, four commercial fishing vessels are being built and will be ready by 2012.

26 ON Site Devison, MCC, Report on Fisheries co-operatives Under section 64, 2008.
5.0 Conclusions

The moderate but steady growth of the co-operatives for the past 86 years has been due to the trickle-down effect of the country's buoyant economic growth. Although co-operatives’ performance are impressive, they still lagged behind in growth as compared to the private businesses. Since the introduction, until the middle eighties, co-operatives in Malaysia needed the backing of government to play a dominant role in the economy.

There was an unequal growth of the co-operative movement in general as much attention, and supports were given to rural co-operatives, so much so that urban co-operatives became neglected and were left to develop on their own and became self-supporting. Despite having potential business capabilities, co-operatives face great challenges from the non co-operatives businesses. They also face serious problems of internal weakness arising from management inefficiencies and members' apathy.

Co-operatives have been perceived by members as reliable and beneficial organizations however, these positive perceptions were let down by members poor reaction towards increasing shareholdings in co-operatives. This negative reaction has serious implication for those co-operatives which rely heavily on members for finance. Poor financial achievements experienced by members could cause this reaction. Co-operatives also faced free-rider problems and because of this, members are not reliable financial sources for co-operatives and they under-invest in their co-operatives.

The socio-economic context surrounding co-operatives in Malaysia makes the role of co-operatives more significant and complex. Two factors that influence the socio-economic environment in Malaysia are:

(a) The level of education of the peasantry in the country. Any form of developmental programme, whether co-operatives or alternatives, would need a considerably long time to be accepted by people especially the rural and urban poor. Co-operatives usually start with a small number of members and these co-operatives will be able to attract more members only if this small group of
innovators is successful. This phenomenon also implies that the principles of voluntariness of membership and the democratic principle may need to be compromised to a certain extent, to enable the co-operative movement to start. This problem is the reason why the Orang Asli, farmers and fisheries co-operatives are lagging behind in terms of membership.

(b) Co-operatives became a political tool to achieve quick social and economic change after independence. Co-operative movement increased rapidly because of the intensive efforts by the government. People joined co-operatives without understanding the ideologies and principles of co-operation, thus they have no sense of commitment to co-operatives. There is the problem of members' loyalty as members have no sense of belonging and tend to regard co-operatives as just another organization supported by government. As in many other developing countries such as India, Indonesia and Thailand, co-operatives are a stepping stone to get to the subsidies, credit or other incentives given through the co-operative.

Today's co-operatives performance is being influence by the huge and complex role assigned to them in the NCP and the various Malaysia Plans (e.g. 6th - 9th Malaysia Plans). Expectation placed on the co-operatives are high as they are supposed to be the third sector, play a vital part in reducing poverty and are given a specific place in the overall plans for the national development. Co-operatives are, in essence an association of people that work together to achieve certain economic objectives, but the expectation of them is growing: to help peasants to become more business oriented and progressive, and further, co-operatives are now also burdened with the role of transforming societies. In reality the co-operative movement only contributes just slightly more than 1 percent to the GDP of Malaysia.27 MCC is targeting an increase to 5 percent contribution by 2020.

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Another important issue that is crucial to co-operative future is whether they are efficient or not. As agent of social and economic change for the masses of the poor people they have to be efficient and successful first. There are well managed, self-supporting and profitable co-operatives. Profitability ratio showed that slightly over 50 per cent of co-operatives are generating profits. On the 20th July 2008, MCC had announced the “100 Best Co-operatives Index”. This index became a benchmark for all the co-operatives in Malaysia. The list of 100 best co-operative were revealed. This index is similar to the ICA Global 300 list of co-operative ranking. It is based on the co-operatives financial and organizational information. At the event, Bank Kerjasama Rakyat Malaysia Berhad was declared as heading the list of 100 outstanding cooperatives followed by Koperasi Permodalan Felda Berhad in second place and Koperasi Peserta-Peserta Felcra Berhad on the third spot. All these co-operatives are professionally manage co-operatives with competent managers and entrepreneurial experience. These co-operatives are aggressive, creative and had adopted business strategy good enough to compete with their competitors.

Access to dependable and adequate sources of finance is also an essential precondition if a co-operative is going to be successful. Financial assistance from the government although necessary, it can also turn out to be a negative factor in co-operative development. Government subsidies may lead to massive government interventions so that the co-operative may lose its autonomy. Furthermore, the issue of fairness should also be considered since at present public funds only benefit a relatively small number of active co-operators, where as they could be used to improve the economic position of the large group of low income people in general. Permanent government assistance will not promote self-help and self-reliance in co-operatives. Nevertheless, co-operatives must not be written off as a mechanism for enhancing economic development and alleviating poverty, especially as the advantages of co-operative organization have been demonstrated in many developed countries today. Government assistance should be concentrated on education, promotion, advisory services and audit by government officers who would respect the independence and autonomy of co-operatives.

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