



# Working with Co-operatives: the legal and policy environment

By Linda Shaw

Are you already working with co-operatives in a developing country? Are you considering working with them?

This is the first in a series of briefing paper intended to provide an introduction to working with co-operatives in the developing world.

If you are working with producer groups or micro finance initiatives in rural areas in the developing world, it is more than likely you will already be working with co-operatives. Globally, over 800 million people are members of co-operatives. They remain common institutions in rural areas throughout the developing world and are often the main channel through which smallholders access Fair Trade markets. Co-operatives are one of the largest providers of micro finance to the poor, reaching 78 million people living on less than \$2 a day.

To be effective, development programmes need to be sensitive to the local social, political and economic landscape. However, co-operatives have been “off the development radar” for some time, and so accessing information and expertise about them can often prove difficult.

The situation of co-operatives varies a lot from country to country. This includes the type of activity undertaken as well as legislation, policy, regulation and oversight. Co-operatives have played an important role in most developing countries both before and since independence. They have gone through considerable changes and many are only now achieving sufficient autonomy to control their own affairs.



## A brief history

Many colonial governments supported the development of co-operatives, but at the same time also closely controlled them. This pattern of support and control continued after independence. Typically, countries adopted co-operative systems that reflected the different colonial traditions they had experienced. In Africa, there are four distinct co-operative approaches based on the British, French, Portuguese and Belgian traditions.

The British model was based on a single co-operative movement with a distinct legal framework, with primary cooperatives at the village level and secondary cooperatives such as unions and federations with a single apex body at the top. Under the British model, the registrar or minister in charge had power to intervene directly in the affairs of individual co-operatives.

The other models were ones in which co-operatives are treated as one of a number of similar associational forms so that mutual societies, associations, foundations and trusts became part of the co-operative movement. All continued the tradition of close government control and supervision, frequently serving as vehicles to implement government policies

Under the British system in East and Southern Africa, for example, many co-operatives were set up to export commodities such as tea, coffee, sisal, cotton and groundnuts. This focus continues until today. National marketing boards for commodities were nominally co-operatives. Village level co-operatives could be used to distribute subsidised farm inputs such as fertilisers or to provide loans – repayment of which was often waived. In India, the primary function of village level co-operatives was to provide credit. Systems based on household rather than individual membership or on land ownership

also limited women's participation in co-operatives. State control proved to have a disastrous impact on co-operatives. All too often, the net result was political interference alongside inefficiency and corruption, resulting in poor quality management. This has been aptly described as a system of co-operatives without co-operators.

## Liberalisation

From the 1980s onwards, co-operatives faced the twin challenges posed by market liberalisation and loss of government support. Many struggled as a result and the dominant perception of co-operatives became that of irreversible decline and of a failed model. Co-operatives became marginalised from mainstream development research, practice and policy. There has been little research into co-operatives during this period of liberalisation.

However this narrative of decline is not the whole story. Today, co-operatives have not just survived but are undergoing a period of growth and renewal. Globally, the benefits of co-operative and mutual models are gaining a wider currency. This parallels the re-assertion of the centrality of co-operative values by the movement itself.

## Putting values first

The 1995 reformulation of core co-operative values and principles was accompanied for the first time by an identity statement, which defined co-operatives as autonomous enterprises:

“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-operatives are based on the values of self-help, self-responsibility, democracy,

equality, equity and solidarity (ICA, 2010). Co-operatives are member based, democratic organisations engaged in the market place, providing goods and services. They are based on people, not capital or government direction. The 1995 statement is also gradually being incorporated into co-operative law in a growing number of countries. This process has been assisted by the legal and policy guidelines adopted by the International Labour Organisation in 2002 in its Recommendation on the Promotion of Co-operatives. Governments, for example, need to provide a conducive policy and legal environment which respects the autonomy of co-operatives and ensures equal treatment for them with other types of enterprises.

Co-operative law and policy reform, though gathering momentum, is still in its early stages. One source of information on co-operative law is the searchable Natlex database maintained by the ILO ([http://www.ilo.org/dyn/natlex/natlex\\_browse.home](http://www.ilo.org/dyn/natlex/natlex_browse.home)) There is currently no easily accessible digest of progress but reforms are happening faster in Africa than in south Asia.

Co-operative laws still remain far from homogenous and have many local variations. It is important to obtain country specific information on matters relating to co-operatives such as registration, auditing, reporting, tax issues etc as these will vary greatly even in neighbouring countries.

At the country level, responsibility for co-operatives can also be located in different ministries, e.g. Agriculture, Trade and Industry, Finance, as well as a separate Ministry for Co-operatives. Within many countries, there are government co-operative offices with staff responsible for working with, registering and supervising co-operatives. Their capacity varies

greatly. Many local departmental staff do have considerable experience and knowledge. By contrast, many departments are under-resourced and in reality can play only a limited supervisory role. Because of this, registering a new co-operative can still be a very slow and bureaucratic process which can deter people from setting them up. Staff may be appointed with limited training and awareness about co-operatives.

### Supporting co-operatives

Knowledge of the different types and sectors that co-operative business models operate in can be quite limited. Many are not aware of the extraordinary flexibility of the co-operative model and that co-operatives can perform a wide range of economic activities. Agricultural and finance co-operatives are most common in the developing world but co-operatives can also be found in housing, transport, tourism, health and fisheries, as well as providing delivery of utilities such as water and electricity.



A fisherman from Dunga Fishermen Co-operative, Kenya

Co-operatives need an enabling legal and policy environment, but beyond this there is no simple blueprint for success.

Effective support for co-operatives does, however, have to take into account the dual nature of co-operatives both as an enterprise and an association of members. The most successful co-operatives are ones where both these elements work well and are in balance. Any education and training offered should cover not only the technical aspects of running a business but also co-operative governance and values. Record keeping needs to address annual elections for the board as well as financial transactions.

A successful co-operative is set up by its members to meet their needs. A bottom up development approach is essential. Outside agencies need to ensure they do not impose their agenda when assisting the formation of co-operatives.

The challenges facing co-operatives are many. They can derive from failings in both governance as well as business aspects as they need to work effectively both as an enterprise and as a member based organisation. Elected boards may lack management and finance capacity, they can be captured by elites and there may be limited member engagement. These limitations can, and have been, successfully overcome in many co-operatives and there are a number of strategies that can be used. Increasing members' participation and engagement are central to many of them. Entrepreneurship skills need to be developed so that co-operatives can identify opportunities, innovate and take risks. Leaders need both vision and commitment.

## Co-operative networks and resources

An individual co-operative may be part of a regional union or federation which acts to pool products and organize services such as processing, marketing and exporting. Co-operatives that are connected to wider networks such as Fair Trade tend to be more successful with better access to information, training and other forms of organisational support.

There are a wide range of resources and organisations with experience of working with co-operatives. Co-operative Colleges in many African and Asian countries provide education and training. They vary in size and capacity but provide an important reservoir of in country knowledge and expertise. The International Co-operative Alliance represents and supports co-operatives worldwide with regional offices in Europe, Asia, Latin America and Africa. WOCCU (World Council of Credit Unions) plays a key role in supporting and representing financial co-operatives. Several countries, including Canada, Sweden, Norway, USA and Germany have aid agencies specialising in co-operative development. The UK Department for International Development has also produced a briefing note on working with co-operatives.

Finally, the ILO has a wide range of resources on co-operatives, including the legal and policy framework.

For further information and resources on issues mentioned in this paper please see [www.internationaldevelopment.coop](http://www.internationaldevelopment.coop).

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