

Corporate Governance and Co-operatives¹

Peer-Review Workshop
London, 8 February 2007

PROCEEDINGS REPORT

“Governance is central to making sure that we do have co-operatives that are organized in the right way for the benefit of the very poorest people”

-Gareth R. Thomas, DFID Under-Secretary of State

Background

With the increasing recognition that corporate governance is a critical element for sustainable economic growth, participants met in London on February 8, 2007, to build consensus on the corporate governance priorities and technical assistance needs of co-operatives in developing countries.

The peer-review workshop was hosted by the [UK Department for International Development \(DFID\)](#), led and funded by the [Global Corporate Governance Forum](#) (Forum), and co-sponsored by the [Center for International Private Enterprise](#) (CIPE). Participants included practitioners, academics and donors, representing Latin America, Asia, Europe, Africa, and also regional and international bodies such as the [International Co-operative Alliance](#) (ICA), the [Consultative Group to Assist the Poor](#) (CGAP), the [UK Co-operative College](#), regional corporate governance centers, DFID, and the [Norwegian Agency for Development Co-operation](#) (NORAD). The agenda and list of participants are attached as Annex 1 and 2, respectively.

The Forum commissioned a discussion paper from the UK Co-operative College in Manchester, *Overview of Corporate Governance Issues for Co-operatives*, November 2006, that helped inform the workshop discussions and dialogue. The paper provides a comprehensive assessment of current literature and practice on corporate governance in co-operatives with particular reference to developing countries. As most research on corporate governance has been in large part generated by and for investor-owned firms in developed markets, this paper helps to fill an important gap in understanding the

¹ This report reflects the views and opinions expressed by participants and acknowledges that there are alternative positions to the issues herewith summarized.

corporate governance needs of the co-operative sector in developing countries. The paper is available in full text from the Forum's website: www.gcgf.org

Participants provided guidance, feedback, and general observations on how the Forum could best render assistance to the co-operative sector, particularly in ways that complement the on-going work by other global, regional, and national organizations. The Forum made it explicit that it acts first and foremost as a catalyst, supporting existing institutions and their on-going initiatives that are already advancing good corporate governance practices in co-operatives. The Forum assistance will give priority attention to developing countries.

Discussions took place around three thematic sessions: (1) Creating an Enabling Corporate Governance Environment for Co-operatives; (2) Capacity Building for Good Corporate Governance Practices in Co-operatives; and (3) Revival and Renewal of Co-operatives in Developing Countries. Participants demonstrated general consensus that the co-operative movement is enjoying a renaissance and gaining its due recognition as a key actor to help reduce poverty and achieve the UN [Millennium Development Goals](#). Nevertheless, discussions revealed clear differences of opinion, even with qualified interpretations on major topics and issues that gained general consensus. The report that follows summarizes the debate and all of the cross-cutting issues and topics that emerged from discussions in all three thematic sessions.

DFID Keynote Address

Mr. Gareth R. Thomas, DFID Under-Secretary of State, delivered a keynote address that framed the importance of strengthening the co-operative sector as part of the international development agenda. His observations touched on all the critical issues that surfaced throughout the workshop discussions. Mr. Thomas urged priority attention to reverse the “invisibility” of the co-operative movement within policy makers and the general public, who need to understand and help expand the potential that co-operatives represents for reducing poverty.

Mr. Thomas vividly illustrated how in the developing world co-operatives at times represent the difference between opportunities and a life of poverty. He spoke of a 14 year-old Ghanian girl with a dream to become a doctor, and how the education investments that a co-operative makes in her community is allowing her the first step toward her dream. The [Kuapa Kokoo Co-operative](#) in Ghana, whose fair-trade price premium gets invested in villages, makes the difference between receiving or losing an education. Mr. Thomas encouraged participants to hold onto the image of this girl

because our individual and collective commitment to promote and strengthen the co-operative sector does make a difference in improving peoples' lives.

DFID strongly supports the emphasis on improving co-operative governance. The July 2006 DFID White Paper on International Development, [Eliminating World Poverty: Making Governance Work for the Poor](#), establishes a fundamental link between good governance and poverty reduction. The White Paper recognizes the fundamental importance of private enterprise and emphasizes that co-operatives are key contributors to its growth and sustainability. Mr. Thomas highlighted the issue of access to credit as fundamental if co-operatives are to succeed in helping to win the fight against poverty. World Bank data reveals that co-operatives and credit institutions are providing financial services to 35 million people worldwide. International donors are taking note and increasingly recognize that co-operatives can do much more to further improve access to credit. DFID itself is providing £500,000 in Kenya to expand a loan model. To share this and similar best practices in co-operative finance, DFID and the World Bank will be hosting a multi-donor conference, ["Co-operative Finance: Global Good Practices"](#), from April 10-11, 2007, in Washington, DC. Lastly, Mr. Thomas announced that DFID will be contributing £5.0 million to an International Labor Organization (ILO) facility for the capacity development of co-operatives in Africa. This Africa facility will be officially launched in 2007.

Size of Co-operative Economy

A common theme that surfaced throughout the proceedings was the urgent need to communicate the significant contribution that the co-operative movement represents for the world economy. According to ICA estimates, 1.1 billion people are members of co-operatives, and their economic activity, according to the United Nations (UN), employs 100 million people which is 20% more jobs than all of the world's multinationals combined.

ICA launched the [Global 300 Project](#), which based only on the top 300 co-operatives worldwide, factually illustrates the economic and social impact of the co-operative movement. The 2004 turnover of these top 300 co-operatives was over US\$1 trillion, which places it as the 10th largest world economy. In New Zealand, a dairy co-operative, [Fonterra](#), accounts for 20% of export earnings. Co-operatives operate in all economic sectors and have proven to be dynamic competitors with other forms of private enterprises in both the traditional and new global economy.

Research data from Leuven University in Belgium (see chart below) further reveals the renaissance being experienced by the co-operative movement in Africa. This

development is very significant both for the opportunity that it presents to strengthen corporate governance but also because it demonstrates that co-operatives are natural partners in the fight against poverty.

	Number of Co-operatives		Co-operative Members	
	1990	2005	1990	2005
Ghana	1,000	2,850	Not Available	Not Available
Kenya	4,000	7,000	2.5 million	3.3 million
Nigeria	29,000	50,000	2.6 million	4.3 million
Senegal	2,000	6,000	Not Available	Not Available

Documenting and Disseminating the Success of Co-operative Sector

ICA's Global 300 Project (as cited above) was launched to raise the public's understanding of the significant role played by co-operatives in economic and social prosperity. In the case of government, if it is to be an effective supporter of the co-operative movement, it first must understand what co-operatives are and what they do. So far the co-operative sector has done a poor job of communicating its relevance and significance to economic and social prosperity. In the future it must do a better job of writing its history, of communicating its success, of explaining its dual role as social and private enterprises, and generally become a visible image to the public at large. A key objective of the ILO Co-operative Facility for Africa (to be launched later this year) will be precisely to disseminate the good stories, to make co-operatives more visible, and share best practices widely. [ICA-Americas](#) achieved successful results in educating policy makers about co-operatives through its Advocacy Guidelines which were widely disseminated to co-operatives throughout the region.

The general lack of interest in co-operatives is reflected in the scant availability of academic research about the co-operative sector. Academics have neglected co-operatives as a subject, though this is now beginning to change. For example, Dr. Panu Kalmi at the Helsinki School of Economics tracked the references to co-operatives in economics textbooks going back to 1905 and found that they were commonly cited in early 20th century textbooks and then declined dramatically over time. His conclusion is

that: “The decline seems to be related to the changing role of economists who stress top-down solutions instead of more local and institutional sensitive ones, thus disfavoring co-operatives.” Latin America has seen a recent growth in research dedicated to governance and co-operatives, though this is mostly accessible in Spanish.

Governance problems that plague co-operatives also account for their poor reputation and neglect by policy makers and the wider public. Among the most salient governance problems that participants identified are those of confusion on the role and mission of the co-operative, the entrenchment of power elites (referred to as “power sickness”), conflicts between the principles of profitability and the social objectives of the co-operative, opacity in decision making, weak oversight and control mechanisms, and lack of clear rules on how to adapt strategic objectives to changes in the market environment, particularly those stemming from a global economy. Any of these problems, when they emerge in public corruption cases, generate a direct impact on the image and reputation of co-operatives.

The crisis experienced by the co-operative movement, therefore, can be largely explained by poor governance frameworks. In the post-colonial world, co-operatives were captured and used as instruments of government, rather than as independent enterprises used to reduce poverty. The ILO has documented decades-long state-controlled co-operatives engaged in all sort of agricultural experiments that did not achieve the potential in that sector. It is not surprising that co-operatives emerged tarnished from these failed experiments. However, the poor results were not a failure of the co-operative model, but a failure of broader governance in countries. It was the co-operative model that became saddled with the broader governance failures.

When we couple this negative experience with the image problems that co-operatives had in the developed world, and if we further add in the complexity of understanding the co-operative model, then it is not difficult to appreciate why the co-operative movement has not been embraced by those trying to fight poverty. Fortunately, the renaissance of the co-operative movement is refocusing the development debate on the important role that co-operatives can play to achieve the UN Millennium Development Goals. Indeed, Mr. Gareth Thomas stated that he is committed to support and strengthen this gradual change.

Participants argued strongly that the invisibility of co-operatives is a trend that must be reversed, particularly with advocacy to policy makers who should be made to understand and appreciate the significance and importance of co-operatives to solving development problems in developing countries.

Size and Diversity of Co-operatives

Both the complexity and power of the co-operative movement stems from its great diversity in size and types of co-operatives. On one side of the spectrum there are large co-operative groups with thousands of stores and millions of members, such as those from the Global 300 Project, while on the other side of the spectrum there are very small associations, such as the snake catcher's co-operative in Madras, India, whose few hundred members make important contributions to the development of venom antidotes. The most common types of co-operatives referred to were:

- **Consumer (retail) Co-operatives**
 - buy and sell to members
- **Producer (agricultural) Co-operatives**
 - buy from members
- **Manufacturing (supply) Co-operatives**
 - make and sell to members
- **Service (credit) Co-operatives**
 - supply to members
- **Labour Co-operatives**
 - members supply to others
- **Supply Co-operatives**
 - members purchase inputs and use to supply services to others

Financial co-operatives were singled out as a special category within the co-operative movement, particularly because of their special regulatory requirements as financial institutions. The situation and debate in this special category is not on the appropriate regulatory role of government, but on whether such regulation applies under the co-operative sector as a whole or under the regulatory framework of financial institutions. The unanimous consensus, such as expressed by CGAP, is that financial co-operatives are and should be treated as financial institutions. A further qualification was made that within the regulatory framework of financial institutions, there should be a differentiation between commercial banks and co-operative banks. Additionally, at operational levels, it was pointed out that when members constitute a homogeneous group in terms of their financial services requirements, it becomes easier to make decisions on the products and direction that the financial co-operative takes. But when the target group becomes heterogeneous, as is usually the case, then the task of meeting diverse expectations and creating service products becomes very complex for both managers and boards.

All the types of co-operatives were referred to within a taxonomy of traditional and new generation co-operatives. The characteristics most commonly associated with traditional co-operatives are, amongst others: open and direct membership, long-term affiliation, one person-one vote, equal pricing across all members, and cost averaging in serving members. New generation characteristics, on the other hand, stem from challenges of having to operate in a more competitive global market: differentiating voting power as the need arises to bring in outside equity, separating the price for goods supplied from the return on capital, valuing shares at “fair” market value, and removing cross-subsidies by paying the price differentials among members. Hence, new generation co-operatives face the challenge of adapting co-operative values and principles to business practices that resemble more closely investor-owned companies. But experience and practice reveals (see next section) that there are ways to make this adjustment. Co-operatives may need to call themselves new generation because of their business practices within a global economy, which is perfectly acceptable, but they have also learned to operate in adherence to a basic set of principles and values.

The fact that co-operatives grow large and global in nature, as successful enterprises, does not necessarily imply that they move away from being co-operatives. Nevertheless, there are situations, such as in some co-operatives in the ICA Global 300 Project, where co-operatives own non-cooperative businesses that generate the majority of their profits. Here it is legitimate to debate if the co-operative is indeed one, but this does not extend to the majority of situations where co-operatives operate as successful global enterprises with features of private-owned companies.

Values, Principles and International Standards

“The issue is not just to talk of co-operative governance or corporate governance, but the better corporate governance of co-operatives”

-Karugor Gatamah, Centre for Corporate Governance, Kenya

Despite the governance complexity that arises from having such a wide diversity of co-operatives, the movement has achieved a significant degree of authoritative consensus on what defines and constitutes a co-operative. The 1995 ICA statement on identity is widely acknowledged as the authoritative pronouncement of co-operative values and principles. The definition of a co-operative captures its dual entrepreneurial and associative nature: “a co-operative is 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”. The values of a co-operative are based on self-help, self-responsibility, democracy, equality, equity and solidarity. The 1995 statement also establishes seven principles which guide the

manner by which co-operatives put their values into practice. These seven principles are:

1st Principle: Voluntary and Open Membership

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

2nd Principle: Democratic Member Control

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

3rd Principle: Member Economic Participation

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

4th Principle: Autonomy and Independence

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

5th Principle: Education, Training and Information

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

6th Principle: Co-operation among Co-operatives

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

7th Principle: Concern for Community

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

The emerging international framework on co-operative identity, as represented by ILO Recommendation 193 (issued in 2002) and the UN Guidelines on Co-operative Development (issued in 2001), are based on the 1995 ICA values and principles. Also many co-operative laws in Latin America have incorporated the 1995 ICA statement.

And though there is now greater international harmonization of the co-operative framework, there are alternative traditions with related but distinctly defined values and principles. For example, the Raiffeisen tradition, with its rich history of banking and credit co-operatives going back to the 19th century, is another important variation to the 1995 ICA statement. Also, as already referred to above, co-operative values and principles are generating a new wave of reflections in the context of how they relate to new generation co-operatives.

Even the central tenant that co-operatives exist to improve the living conditions of members is not a simple proposition. In Central America studies show there are many agricultural co-operatives that produce corn at costs that are too high to compete with foreign producers. Consequently, the common question becomes whether these co-operatives are sustainable. The real problem, however, is that these co-operatives compete against highly-subsidized corn production from exporting countries, which in turn undermines the sustainability of the local corn co-operatives. The issue of sustainability is very context specific, so we must be case specific when speaking of competitiveness and globalization.

Participants raised a key question that points to the unique enterprise nature of co-operatives: why would anyone prefer to invest in a co-operative than in an investor-owned company? It is because a co-operative is rooted in the community. Trust and credibility within the community are key assets for co-operatives. Also in the context of developing countries, the closeness of contact between members and managers, which is so fundamental to the existence of a co-operative, becomes critical to the sense of trust and credibility. What matters to a member who holds an equal stake in the success of the co-operative is to know what actions are being taken by decision makers. Accountability is not an abstract concept to them as it may be in large co-operatives where accountability proves more difficult as the connection between member and manager becomes more distant. Accountability resonates because it roots the co-operative in its community.

The values and principles that govern co-operatives are high-level and applicable no matter what type of management or tier structures characterize a particular co-operative. Understanding and achieving clarity on the co-operative identity would go a long way in being able to face governance challenges. Three types of needed clarity were highlighted: (1) clarity by the board on co-operative vision and mission; (2) clarity

by managers and employees on operational practice; and (3) clarity by members on loyalty and sense of ownership.

The widely accepted values and principles of the co-operative movement provide a firm base from which to start building a corporate governance framework. It lays out a road map upon which to act, with built-in flexibility to adapt to the size and diversity of existing co-operatives, but at the same time recognizing that new generation co-operatives add further confusion to the process. What is important to recognize is that corporate governance has to enhance the compliance of co-operative principles and values (the very essence of co-operatives), otherwise a corporate governance framework is no different from investor-owned companies.

A final caveat was posed by participants in thinking through a corporate governance framework for the co-operative model in developing countries. Co-operative governance codes developed in the North tend to adapt mainstream corporate governance codes, or extrapolate from small data sets (e.g., a particular type of agricultural co-operative in a particular geographic location of a country). Such standards and principles may not work or apply in all situations. One must be careful not to implant and deploy the “Northern” model, though being aware that some enduring values do transfer globally (e.g., participation, empowerment, local appropriateness).

Cooperatives are Private Sector Enterprises

*“Co-operatives are an alternative way of doing business,
but an equally profitable way of doing business.”*

-Ian Macdonald, ICA Director-General

The unique characteristic that differentiates co-operatives from other enterprise structures is its dual nature: they are business enterprises based on a membership-owned model. The associate aspect of a co-operative takes place to pursue the social goals of its members. As such, co-operatives form an integral part of the private sector, pursuing successful commercial business practices based on the values of self-help, self-responsibility, solidarity, and democracy. In relation to other enterprise structures, co-operatives are an alternate way of doing business but at equally profitable levels. And the dual model is successful whether at the level of small-credit co-operatives in West Africa or large global co-operative banks, such as [Rabobank](#) in the Netherlands.

There was a recognition that strong economies require a strong biodiversity of business structures and ownership forms. Co-operatives contribute to this rich private sector ecology, as demonstrated by the turnover from ICA’s Global 300 Project. The economic

power of the co-operative movement as a whole is an untapped potential to realize sustainable economic growth and address the problems of poverty. A vibrant co-operative sector posits a key hypothesis worth testing: having a strong co-operative and mutual sector helps national economies be more competitive.

Globalization creates both opportunities and risks for co-operatives. Co-operatives need to review how their values, principles, and structures adapt to operating in a global economy. But as it was pointed out, the accepted values and principles of the co-operative movement are by nature very flexible. And as business enterprises, co-operatives need to constantly reassess and reexamine themselves to make sure that they are up to the challenge of today's business world. The unique aspect of on-going business strategy reviews is that co-operatives must factor in their adherence to a set of values and principles that are central to their constitution. The key issue is for co-operatives to be successful businesses while adhering to co-operative principles. The example of French banks was highlighted in this context. Approximately 60% of the French banking sector is formed by co-operatives and mutual associations, who are very successful businesses while remaining true to the values of the co-operative movement.

Because co-operatives hold so much promise to succeed in the attainment of the Millennium Development Goals, participants called on international donors to exercise the critical role that they can play in transforming the poor image of co-operatives. If policy makers and the public at large can change their negative perceptions, the renaissance of the co-operative movement can leave a more immediate and positive impact on the lives of the poor. The international development community should take action to help policy makers create the enabling environment in which the co-operative sector can realize its potential as a genuine business enterprise.

Regulatory Regime and Role of Government

"It is by exception, where self-regulation or value-driven practices do not happen, that we need a regulatory framework, a legislative framework, or an institutional environment that can provide the traction for co-operatives to thrive and improve"

-YRK Reddy, Academy of Corporate Governance, India

Within the private sector, the trend over the past 20 years has been to roll back the role of government and remove onerous regulations in order to increase private enterprise and make it easier for investors to operate. But this process of limiting government intervention has not taken place in the co-operative sector, partly because co-operatives have not been regarded to form part of the private sector. In terms of what is an

effective way for government to revisit its role as an enabler and supporter of the co-operative sector, a parallel was drawn with the broader public sector reforms that have re-invented the role of government over the past two decades. The shift in government has been away from a command-and-control culture to a regulatory framework within which genuinely autonomous bodies are held to account for their actions. This same spirit should guide the reform process of what should be the appropriate level of government oversight in the co-operative sector.

Government continues to over-regulate and over-interfere, and in many parts of the world it continues to be a major investor in co-operatives. In the South Asian model, co-operative registrars enjoy too much power to the detriment of co-operatives. A recent 2002 Amendment to the Companies Act of India enables co-operatives to be registered as producer companies, which has led to serious consideration by some important co-operatives to make the conversion just to escape the overregulation and restrictions that they now face under existing co-operative legislation. No one disputes the regulatory role that government must play, but a better balance needs to be struck. And such a balance will vary from country to country, and it will shift over time in response to changes in the market and social environment.

Co-operatives, as business enterprises, are demanding an even playing field with other business management structures. For a long-time co-operatives have been insulated from competitive forces, which has generated a certain complacency about the need to innovate and remain sustainable enterprises. But the uncertainty and risks introduced by globalization has shattered all forms of complacency. In this context, government public policy can enable or undermine the development of co-operatives. At the same time, co-operatives need not wait for government to find practical solutions. There needs to be an explicit acknowledgement of the capacity of co-operatives to self-regulate and self-control, even in the ideal state of oversight balance with government and other regulatory agencies. Self-regulation is a critical factor for effective change, as co-operatives take the initiative on their own to improve and raise corporate governance standards. But one needs to recognize the agency conflicts that arise from self-regulation approaches, namely the challenge that apex bodies face when they have problems in collecting member subscription income and then have to discipline or challenge members with corporate governance issues.

But how does one stimulate or make change happen? Where to begin, and does one try to fix a broken institutional system or create new frameworks from scratch? Does one prioritize initiatives with government or with social actors advocating change? The case of Brazil, where corporate governance reforms were not been led by government or corporations, offers some useful lessons. Four major forces pushed the reform process forward: (1) the Brazilian Corporate Governance Institute widely disseminated

best practices and trained board members and executives; (2) institutional investors exerted pressure on corporations to adopt best practices; (3) the Securities Commission created the proper rights for shareholder protection; and (4) the Sao Paulo Stock Exchange's Novo Mercado, by establishing stronger corporate governance rules, attracted new companies to the equity market which led to a large surge of IPOs in the last three years. These changes have set a benchmark for other segments, such as pension funds, state-owned enterprises and co-operatives. The Brazilian experience is a good example of how champions of change can leverage the political and economic environment to create an enabling environment for corporate governance reforms. The lesson is to be proactive agents of change, and not be passive spectators relying on government to initiate needed reforms.

As co-operatives approach the ideal state of being mission and value driven, or where self-regulation is strong, there is a lesser need to resolve governance problems through corporate governance reforms. But in the real world, where gaps exist with self-regulation and value-driven mandates, the policy and regulatory framework emerges as a natural lever to initiate reform. Overall, consensus emerged that there is enormous value within creating opportunities to discuss concrete experiences and share good practices in order to achieve a regulatory regime that is supportive to co-operatives. The solidarity of co-operatives helping each other by exchanging lessons and best practices is equally important to help prevent governance problems.

A clear lesson that all participants shared was that once there is consensus on an appropriate governance framework, and if government reduces its involvement accordingly, but does not remain engaged to help support co-operatives institutionalize and sustain best practices, it is a recipe for broader governance failures. Government withdrawal would escalate not diminish problems of co-operative governance.

Agency Conflicts in Co-operative Sector

Four key agency conflicts were highlighted throughout the discussion which are familiar to practitioners:

1. Members vs. Boards/Directors

Examples of governance problems include directors becoming rent-seekers, taking steps to make sure that members cannot participate, becoming self-perpetuating groups, holding meetings without telling members, and giving themselves inappropriate loans. ICA-America estimates that approximately 95%

of the co-operatives in the Latin America region do not have mechanisms in place to evaluate the performance of directors.

Do directors represent members? The board of directors is a critical link between members of the co-operative and the managers. Among its key functions are establishing performance targets, the employment/dismissal of management, definition and validation of remuneration policy, and oversight of overall co-operative operations. The role, cohesion, solidarity and integrity of the board of directors are essential elements for the performance and relevance of the co-operative within the market place and its broader social setting. Therefore it is key to have clear procedures for the selection and election of directors, plus to provide induction programs and on-going training and professional development.

2. Members/Directors vs. Managers

If directors are not full-time positions, lack the relevant education to exercise their functions, cannot read balance sheets, etc., managers can exploit these gaps in many ways, including the demutualization of co-operatives when it brings economic benefits to managers. Managers can get away with abuse if they exercise unchecked powers. Here, external directors play a fundamental role: bringing commercial acumen and a challenging ability to management actions and decisions.

However, it is very common to confuse the responsibilities of each actor, even among the office holders. In Kenya, for example, the Supervisory Committee oversees that the Board of Directors performs the functions that it is expected to carry out, and reports its findings to shareholders. However, candidates who are appointed to the Supervisory Committee as a rule seek office to the Board of Directors, which points to the perceived inferiority of their oversight office in relation to the management functions of the Board of Directors.

There is a pressing need to address the corruption problem that arises from having board of directors performing functions on a voluntary basis. But even if the work of directors continues on a voluntary basis, the co-operative annual report should specify the benefits and entitlements that they receive in compensation. The point is to promote transparency and not whether services should be voluntary or under a remuneration policy.

How do you get directors to be forward looking? This is a key challenge for co-operatives, especially in developing countries, where the collapse of commodity prices can destroy co-operatives that lack diversified strategies.

On a global scale, succession planning is a big issue for co-operatives. It takes leadership to examine systems that place limits on terms in office so that you institutionalize the need to seek new talent and stop the perpetuation of entrenched elites. The basic lesson about succession reveals that elites recruit peers, and thus shut out younger generations from succession planning. The UK corporate governance code, adopted over 10 years ago, requires that co-operatives train directors and establish training for potential directors. New Zealand's Fonterra identified and screened potential directors from its membership base, trained them and partnered them with mentors so that they would be ready to succeed as future directors. It is critical to have programs that engage young co-operators, those in their late 20's and young 30's, and support them for leadership renewal.

3. Co-operatives vs. Governments

Crony capitalism is the danger resulting from the combination of poor corporate governance framework with excessive government interference. A case in point was cited in the Indian state of Tamil Nadu where the newly elected government came into office last year and wrote off all loans to farmers made by co-operative banks. In the absence of a corporate governance framework, co-operatives were unable to resist government intervention and were left at the mercy of arbitrary and politically-motivated decisions by government. Co-operative sustainability demands independent enterprise actors or players.

4. Men vs. Women

"We need to place very special consideration for the capacity development of women in co-operatives."

-Mumtaz-ur-Rahman Khan, Government of Sindh, Pakistan

In governance terms, there are situations where the head of the household, a male, is the member of the co-operative, but women do most or all of the work but have no participation in decisions of co-operative. This is common in fisheries co-operatives where men, as members, catch the fish but it is the women who are responsible for cleaning, selling, drying, processing and marketing the fish. The issue is how to empower women so that they have a stake in a co-operative where they are not the members but contribute significantly to the business enterprise. Any capacity building measures must be retooled for the specific needs of women. Women's needs require special consideration to avoid leaving them out yet once again.

However, both practice and research reveal that these conflicts are no worse in co-operatives than in other forms of business enterprise.

As to how to best tackle agency problems, the distinction was made between practical and ideal first steps. Practical steps, which could lead to visible immediate results, would be to work with national apex organizations where they exist, and with the board of directors given their impact on the overall management of the co-operative. The long-term solution, which was referred to as the ideal step to take, would be to build the capacity of co-operative members. But as one participant noted, if the capacity development of members is not addressed in parallel with more practical steps, we will create bigger problems. When members are empowered they become the activists and the champions of corporate governance reforms.

A further suggestion was to establish absolute clarity about the roles of boards and managers, namely that boards direct and managers manage. Complimentary initiatives would also entail establishing codes of conduct for directors and other top management officials to avoid conflicts of interest. Another key action would be to strengthen the accountability mechanisms for boards to members, managers to boards, and secondary co-operatives to primary co-operatives.

Education and training is necessary and should stress provisions towards autonomous and independent co-operatives. Programs (including training trainers) must deliver director, member and co-operative identity training, especially in relation to the new needs and the new capacities required from co-operatives by the new global economy, and how it all relates to corporate governance frameworks. Such education programs can serve as good preventive measures of agency problems. It was recommended that training and education programs should use innovative methods, such as theater and drama, to explain and communicate complex corporate governance concepts, particularly but not limited to environments where the target population is illiterate.

A suggestion was made to consider setting up a group of external specialists who would be paid to analyze and review the performance of a co-operative, and provide the information in an understandable form to members. Participants agreed that it is a novel idea that merits serious consideration and debate, but worry was expressed because of the cost implications that such a mechanism would represent in terms of implementation.

Re-empowering Members

“One of the most important things for co-operatives in governance is learning techniques of membership renewal”
-Mervyn Wilson, The Co-operative College

The essence of co-operation is that individuals can achieve their goals by combining efforts with other people. One can achieve far more in concert with other people. Co-operation, such as mutual aid, collective entrepreneurship, and self-help, comes natural to people. A co-operative, as an enterprise, is therefore a business expression of this natural human instinct. The seven co-operative principles of the 1995 ICA statement stress membership by design. The first four are about membership which attest that members are the heart of the co-operative sector. Co-operatives have a transformative agenda and show characteristics that are proper of civil society organizations. The central belief is that co-operatives and cooperation can make the world a better place.

In developing countries, particularly the least developed, where the individual feeling of helplessness to improve one's life is acute, there is a strong spirit to want to work together and co-operate. Individuals seek co-operatives, not because of altruistic reasons, but because it may be the only method open to them. They may feel that all other systems and opportunities are denied to them. In such situations, the concept of a member's role in good governance becomes critical. Interest in better governance is the awareness that directors or those that lead them can fail them. Here, membership renewal is talking about mechanisms that can be put in place for members to hold directors accountable.

In the UK, the development and adoption of a corporate governance code of best practices followed a series of high profile governance scandals in the early 1990s. Without the excesses by the protagonists of such scandals, re-asserting membership would have proven more difficult to achieve. ICA's review of co-operative values leading up to the 1995 principles of identity revealed that a core factor in governance discussions involves “the need for co-operatives to be genuine member owned and member controlled organizations.” More recently, the Co-operatives UK's publication, “Corporate Governance: The Code of Best Practice”, May 2005, states: “We consider that an active and involved membership that has available to it open and fair information is the absolute essential ingredient of good co-operative governance.” A fundamental building block towards an active and involved membership entails recruiting new members and working with them to meet the contemporary needs of members and co-operative objectives. The democratic regeneration of co-operatives lies with building and renewing the membership base.

Co-operatives have a special challenge to ensure that members are rewarded for their individual effort and their individual entrepreneurial drive. Members should never have to face the assumption that in joining a co-operative their individual entrepreneurship disappears. Thus, how can co-operatives create the incentives for individual farmers to produce a better coffee or cacao crop, and not lead to a problem where crops are sold in one batch and it does not matter whether you strive to produce a high-quality product? There is a difference between the collective entrepreneurship of the co-operative and the individual entrepreneurship of the individual as a member of the co-operative. It is important to balance the collective and the individual entrepreneurship within co-operatives, and to strive for a steady equilibrium as co-operatives adapt to changing market forces and consumer preferences. This is a key issue to discuss within each individual co-operative as it is within the co-operative movement as a whole.

For corporate governance reform, greater member awareness of co-operative purposes will lead to greater demands for accountability and transparency. For example, just a decade ago, training courses for directors did not include nor saw the value of presenting issues such as risk, ethics, and auditing. Today, however, whole modules are delivered on these topics. Thus, there is a good potential interface between actions that support membership renewal and those that seek to strengthen co-operative governance frameworks.

Membership also involves, to paraphrase President John F. Kennedy, asking not just what co-operatives can do for members, but what members can do for co-operatives. Short-term member perspectives (i.e., do I elect the person who can give me the most today or who looks at long-term viability) were highlighted as a danger that undermines the economic success of co-operatives. As members and directors know more about what a co-operative is—what is its central mission and the concrete benefits it can provide—and as they become re-empowered, they can take on a greater role in building and sustaining the co-operative's mission. An empowered membership is central to effective self-regulation and to check counter-productive government interference.

Technical Assistance to Co-operative Sector in Developing Countries

It is critical to support the development of self-assessment tools as a means to empower co-operatives in determining for themselves the reform steps that they need to take. By presenting key performance and operational indicators upon which a co-operative can examine its own organization, a self-assessment tool can lead to robust discussions. Simply by forcing such a debate among members and the board, even if the board determines that it is not in a position to adopt the corporate governance

standards under question, you change the environment and landscape for reform. So if we are to help co-operatives in developing countries improve their governance frameworks, it becomes imperative to build the capacity of individual co-operatives to conduct self-assessment.

Participants supported the idea put forward by the Forum of the development of a practical toolkit to guide self-assessments. A toolkit could also help to promote corporate governance reforms in a neutral and de-politicized fashion. For example, if one takes the common problem encountered in co-operatives that directors regard their office as a right and not a privilege, the existence of a toolkit could introduce a debate about limitations on terms of office. By laying out generally accepted procedures and standards of effective corporate governance, a toolkit can serve as a preventive instrument that leads to corrective actions before governance problems escalate to crisis situations. Moreover, such a toolkit could be a living document: adaptive and not prescriptive to local contexts, and reflective of changes in practice over time. Essentially, a toolkit could help create an enabling environment for transparent and accountable co-operative governance.

The value of a toolkit must be judged on whether it is practical and usable. The risk with such toolkits is that they can become philosophical and abstract, thus providing little value to co-operatives on the ground. In developing a toolkit, the Forum and its partners should bear in mind that co-operatives are about practical action and about real people trying to improve their lives and communities. The content and guidelines provided, therefore, must be clear and simple to use. The toolkit must adopt a policy of simplicity and practicality.

As members are empowered and good corporate governance practices are adopted, expectations on co-operatives will rise and continue to rise over time. Thus a toolkit must have multiple entry points so that co-operatives which are at different stages of good governance practices can benefit appropriately in improving their standards. It is very important for a toolkit to incorporate a discussion of the broader institutional framework that structures the incentives for how a co-operative sector develops and operates. If it is important to provide practical and simple guidelines, it is equally important to introduce how such operational tools are impacted by the existing institutional framework.

Any toolkit developed must tailor the language of how it conveys concepts of corporate governance so that target audiences easily grasp their underlying objectives. In many instances there is member audiences who are illiterate, but by no means does this imply that they cannot internalize the substance of the issues. So, for example, in defining the components of a good corporate governance framework, it would be important to

convey three key messages: (1) the essential problem of corporate governance arises when many people act with equal powers but delegate authority to a small group or one individual; (2) how do you hold to account the people to whom you have delegated power and authority; and (3) agreeing on “the rules of the game” of how risks and rewards, which will vary from co-operative to co-operative, will be shared among its members.

With respect to targeting your audience, the Co-operative College described a training session in West Africa with illiterate members where it asked members: If their co-operative leaders were a tree, what type of tree would they want them to be? Members were asked to draw a picture of the tree, and most drew an indigenous tree that dies after five years which is apt analogy for the renewal of leadership to avoid the problem of “power sickness.”

Participants called on the Forum, ICA, ILO, the [World Council of Credit Unions](#) (WOCCU), CGAP, CIPE, DFID, NORAD, and other interested donors and organizations to work together. Precedents already exist for such organizations to work together. ICA has an MOU with the ILO by which they share staff and undertake common projects worldwide. CGAP and WOCCU are jointly developing good governance indicators for all the different vulnerabilities that co-operatives face. The need is to build on this and other mechanisms to increase the collaborative work among institutions working to strengthen the co-operative movement. Also there was a strong call to focus assistance on implementation actions, and limit research to very focused studies and rapid appraisals of existing policy options (e.g., what should be the appropriate level of government oversight?) that can help implementation actions. Co-operative practitioners are well aware of the problems and challenges that they face, and their assistance needs rest more with practical tools to tackle governance problems than on further philosophical or academic debates about how to overcome challenges.

Overall, the co-operative movement faces a bright future. It is enjoying a renaissance based on a better understanding of how co-operatives contribute to economic and social prosperity. To redouble progress we need to do more to realize its potential: to better educate the public and policy makers, to document and disseminate best practices, to re-empower members, to create an enabling regulatory environment, and to reinvigorate co-operative values and principles in the new economy. This support must go hand in hand with technical assistance and practical toolkits that co-operatives can use to improve sustainability and competitiveness as private sector enterprises. The combined efforts of practitioners, champions of change, and international donors—in the same spirit that underlies the co-operative movement—will be of particular importance in developing countries where co-operatives can serve as a primary means to alleviate poverty and attain the UN Millennium Development Goals.



Corporate Governance and Co-operatives Peer Review Workshop

London
February 8th, 2007
Hyatt Regency London-The Churchill

AGENDA

With the increasing recognition that corporate governance is a critical element for sustainable economic growth, the Global Corporate Governance Forum (Forum) places high priority on improving the understanding of corporate governance reform in developing countries. While research on corporate governance has been in large part generated by and for investor owned firms in developed markets, growing attention is being paid to other institutional forms of business and the unique challenges faced by developing countries.

The discussion paper commissioned by the Forum seeks to advance the debate and the policy agenda for the corporate governance needs of the co-operative sector in developing countries. It provides a comprehensive overview on the state-of-the-art and identifies current progress and achievements in developing countries. As such, it is meant to inform the dialogue among workshop participants to build consensus and identify corporate governance priorities for technical assistance and capacity building support to co-operatives.

The peer review workshop, sponsored by the Forum in partnership with the Center for International Private Enterprise (CIPE), will draw on the extensive expertise of participants representing all regions of the world and covering the diverse and heterogeneous nature of the co-operative sector. The collective knowledge will serve to identifying both relevant and practical solutions and approaches for good corporate governance that underpins the sustainability and effective development of co-operatives in developing countries.

Key objectives of the meeting are:

- Consider the findings and recommendations of the **Corporate Governance and Co-operatives** discussion paper written by the Co-operative College to help define priorities and next steps for technical assistance to cooperatives in developing countries.
- Invite participants to serve as a peer review network to follow-up actions to be supported by the Global Corporate Governance Forum which will prioritize practical products tailored to the needs of different regions and individual countries.

Corporate Governance and Co-operatives Peer Review Workshop

Thursday, February 8th 2007

MORNING SESSION	
8:45 – 9:00	Participants' Registration
9:00 – 10:15	Welcoming Remarks
9:00 – 9:15	Keynote Address Gareth Thomas MP, Parliamentary Under-Secretary of State, Department for International Development
9:15 – 9:25	Meeting Objectives Philip Armstrong, Head, Global Corporate Governance Forum
9:25 – 9:45	Presentation of Research Paper Stirling Smith, The Co-operative College
9:45 – 10:15	Questions & Answers
10:15 – 10:30 REFRESHMENT BREAK	
10:30 – 12:00	Session I: An Enabling Corporate Governance Environment for Cooperatives Discussions will examine existing best practices and major constraints in policy and institutional frameworks that limit or facilitate the success of cooperatives as business and social enterprises, including such issues as standards and guidelines, legal and regulatory regimes, and globalization and competition. Session Moderator: Ian MacDonald, Director General, ICA
10:30 – 10:50	Opening Remarks Mrs. Oumou Sidibe, Project Manager, Caixas Comunitaria, Mozambique Prof. Faustine Bee, Moshi University of Cooperatives and Business Studies, Tanzania
10:50 – 11:50	Dialogue Amongst Participants
11:50 – 12:00	Closing Remarks by Moderator
12:00 – 13:30 LUNCH BREAK	

**Corporate Governance and Co-operatives
Peer Review Workshop
Thursday, February 8th 2007**

AFTERNOON SESSION	
13:30 – 15:00	<p>Session II: Capacity Building for Cooperatives</p> <p>What types of technical assistance, toolkits, training, and/or policy advice will have the largest impact on bridging the gaps in capacity and skills faced by co-operatives in developing countries?</p> <p>Session Moderator: Karugor Gatamah, CEO, Center for Corporate Governance</p>
13:30 – 13:50	<p>Opening Remarks Dr. Manuel Mariño, International Cooperative Alliance-America Region Prof. Baqui Khalily, University of Dhaka, Bangladesh</p>
13:50 – 14:50	<p>Dialogue Amongst Participants</p>
14:50 – 15:00	<p>Closing Remarks by Moderator</p>
REFRESHMENT BREAK	
15:15 – 16:45	<p>Session III: Revival and Renewal of Cooperatives in Developing Countries</p> <p>What are the implications for corporate governance in co-operatives posed by current challenges such as democratic degeneration, agency conflicts, accountability to a wider set of stakeholders, gender inequality, dual nature balance, federated governance structures, and evolution to second-generation co-operatives?</p> <p>Session Moderator: Prof. YRK Reddy, India</p>
15:15 – 15:35	<p>Opening Remarks Mr. Mervyn Wilson, The Co-operative College Mr. Tony Baldwin, New Zealand</p>
15:35 – 16:35	<p>Dialogue Amongst Participants</p>
16:35 – 16:45	<p>Closing Remarks by Moderator</p>
16:45 – 17:15	<p>Closing Session From Dialogue to Action – Next Steps</p> <p>-Philip Armstrong, Head, Global Corporate Governance Forum -Andrew Wilson, Senior Program Officer, CIPE</p>



**CORPORATE GOVERNANCE AND CO-OPERATIVES
PEER REVIEW WORKSHOP**

London, February 8th, 2007

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