

# A New Cooperative Architecture

*Mr. Udaya Ranjith Seneviratne, the former Principal and Director General of the School of Cooperatives, Polgolla, has played a key role in promoting education and training in the field of Cooperatives in Sri Lanka. He has also submitted several papers on this subject at various national and international fora. Mr. Seneviratne is presently attached to the Ministry of Finance and Planning as an Additional Secretary.*

## Do we need cooperatives?

In 1993, when Francis Fukuyama in his book, *The End of History and the Last Man*, proclaimed, when referring to the collapse of the former Soviet Union, "History is Over...." he was affirming the ultimate triumph of the market and liberal democracy over all other politico-economic systems. He viewed history as a record of the struggle between various strands of economic and political systems.

Undoubtedly, the pendulum has swung to the other extreme; from viewing the state as the ultimate savior of mankind, it is the market under a liberal democratic set-up which is expected to usher in the golden era for the human race. Under the new orthodoxy as propounded by the neo-liberals, markets are the best means of social and economic development; markets know best where to allocate scarce resources; and markets provide the best guarantee against state excesses and unnecessary interventions.

Recent economic meltdowns and their severe adverse social consequences in East Asia, the Russian Federation and elsewhere have already exposed the limitations of the market, as indeed of globalization and structural adjustment programmers in meeting the societal challenges.

Markets are known to develop distortions, dislocate individuals and selectively reward individuals and tend to punish those who find themselves excluded from the market or are unable to stand up to the fury of market forces.

Advocates of neo-liberalism have often talked of a safety net for those who are unfortunate enough to be left out by markets, or who become victims of changes that markets unleash in their wake, or who live on the margins due to a variety of reasons. However, there has been no credible operational mechanism which can provide such a safety net.

In the light of recent upheavals, especially in the Russian Federation, even the ardent advocates of the market have proposed and

alternative model, namely, market economy with a strong welfare state. That is how market distortions can be met and vulnerable individuals can be safeguarded. It is here that collective social action, based on common interest and common goals, but with a strong desire among people joining the action to stand up and be counted, can help all those who suffer exclusion or are unable to access the market, but such collective social action must be people's own, under their own leadership and with their own resources. A state committed to social welfare could facilitate indeed should and must do so, but only by creating favorable conditions, and not by incorporating such action oriented groups in to the strait-jackets of the sprawling administrative set-up of the state.

A genuine cooperative is one such example of collective social action, but its true potential was lost and its value greatly undermined once the state took unto itself the responsibility for its development and growth.

In a way the time has come, now that opportunities once again beckon, for cooperatives to be given a fair chance to demonstrate that they are as ideally suited to meet the societal challenges as any other arrangement in the new market-oriented set-up.

Cooperatives have to adjust, change and reposition themselves in the new environments, which are characterized by intense competition, corporates struggling to add to shareholders value, and well-endowed individuals with access to levers controlling markets shaping the contours of society. Cooperatives also will have to craft strategies, which, while addressing the commercial concerns and market related challenges, help them to retain their distinct identity as ethical and socially concerned organizations.

It was in response to some of these and related issues that cooperative leadership at the international level, after long debate and deliberations, came out with a set of new values and principles of cooperation more appropriate to the new environment. That is how the International Cooperative Alliance (ICA) statement of cooperative identity came to be formulated and approved.

## Udaya Ranjith Seneviratne

*Additional Secretary  
Ministry of Finance & Planning*

### Ian MacPhearson's report on cooperative identity

Dr. Ian MacPhearson of Canada was asked by the Executive Committee of the ICA in 1992 to coordinate the review of Cooperative Principles and preparations of recommendations for the 1995 General Assembly and Congress. Dr. MacPhearson prepared a draft report and circulated it for discussion and comments (MacPhearson, 1994: 8-24). He later submitted his report, including a draft Statement of Cooperative Identity, to the Executive Committee of the ICA in the latter part of 1994. The ICA Executive Committee reviewed the draft Statement in its meetings – the last one in Manchester on 18 September 1995, and made some vital changes in the draft prepared by Dr. MacPhearson and then recommended it for approval by the General Assembly.

### The definition of a cooperative

This is the first time that the ICA has produced a definition of a cooperative. Earlier, definitions given by scholars and others had often been used. The most quoted and used definition was the one given by the International Labour Organization in its *Cooperatives (Developing Countries) Recommendation, 1996 (No:127)*; it stated: it (a cooperative) is an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the understanding in which the members actively participate (ILO, 1966).

The definition given in the Identity Statement reads:

A cooperative 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 definition emphasizes the following characteristics (ICA, 1995: 11):

- The cooperative is autonomous: that is, it is as independent of government and private firms as possible. The autonomous feature of a cooperative has come to be included because of widespread interference by governments, particularly

in the developing countries, in the management and working of cooperatives. Similarly, cooperatives are also distinctly independent of investor-owned private enterprises.

- It is "an association of persons". Here, a person may include a legal person, including another cooperative, or a company. The membership of the cooperative should be free to decide how it wishes to deal with this issue. Generally, at the primary level only individuals have been eligible for membership, but now this may change.
- The persons are united "voluntarily"; which means membership of cooperative should not be compulsory.
- Members of a cooperative "meet their common economic, social and cultural needs". Here the emphasis is on the members' needs; these are the central purpose for which the cooperative exists. Cooperatives are organized by their members, for their members. And their needs may be economic, or social or even cultural or a combination of these.
- The cooperative is "a jointly-owned and democratically controlled enterprise". There are two parts, the first part, i.e. jointly owned and democratically controlled makes it clear that cooperatives are jointly owned by their members, but at the same time these are democratically controlled – a clear distinction from a public enterprise, which may be jointly owned but is not democratically controlled. The other part, i.e. it is an enterprise, implies that a cooperative has to operate in the market place and hence to be successful, it must strive to serve its members efficiently and effectively.

### Cooperative values

This part of the Statement, although also new, is really the core of the Statement. It draws its inspiration from the debate initiated by Lars Marcus and Sven Ake Book during the past seven years or so.

Earlier the values now explicitly stated and included here were assumed, inserted or otherwise attributed to cooperatives, but did not form a part of any authoritative interpretation of the cooperative principles. The first sentence on values reads as follows: "Cooperatives are based on the values of self-help, self-responsibility, democracy, equity and solidarity."

It can be argued that honesty, openness, social responsibility and caring for others are values which can be found in all kinds of organizations.

However, these are particularly cogent and undeniable within cooperative enterprises (ICA, 1995).

Some scholars have raised the issue of oriental values vs Western values in the context of defining basic values of cooperatives. Ki-Won Suh (1992:49), for instance, has argued that there are marked differences between Western society and Asian society and thus between the values each society believes in, cherishes and upholds. For instance, he claims that the human factors are emphasized even in economic activities in Asian countries. This is, however, an area which has yet to be fully explored.

### Cooperative principles

A few preliminary remarks need to be made here:

- The principles are not independent of each other. They are subtly linked; when one is ignored, all are diminished. Cooperatives should not be judged exclusively on the basis of any one principle, rather, they should be evaluated on how well they adhere to the principles as a whole.
- Of the seven principles, the first three essentially address the internal dynamics typical of any cooperative, while the last four affect the internal operation and the external relationships of cooperatives.
- The principles should be seen as empowering frameworks - energizing agents - through which cooperatives can grasp the future. The vision and the inspiration that each principle provides must be ingrained in the daily activities of the cooperative.

### The first principle: voluntary and open membership

This principle forms a part of the previous six principles, and affirms the fundamental importance of people choosing voluntarily to make a commitment to their cooperatives. People cannot be made cooperators.

This principle also affirms a general commitment basic to cooperatives since their emergence: a commitment to recognizing the fundamental dignity of all individuals. It also acknowledges that cooperatives are organized for specific purposes, in many instances, they can only effectively serve a certain kind or number of members. In other words, a cooperative may impose a limit on membership. Members, in turn, have obligations to their cooperative. Such obligations, which may vary, include exercising voting rights, participating in meetings, using the cooperative's services, and providing equity as the need arises.

And, cooperatives should do everything to encourage women to join as members; and

cooperatives do not discriminate, when admitting members, on a basis of social, cultural and racial basis. But, at the same time, cooperatives based on ethnic (or religious) considerations have every right to exist as long as they do not impede the organization of like cooperatives among other cultural groups, as long as they do not exploit non-members in their communities, and as long as they accept their responsibilities for fostering the development of the co-operative movement in their areas.

Members are central to the very purpose of a cooperative; membership must therefore mean, in all cases, that cooperatives will be committed to a particularly high level of service to members.

### The second principle: democratic member control

This principle stresses that members ultimately control their cooperatives, it also emphasizes that they do so in a democratic manner. It also affirms the right of members to be actively involved in setting policies and making key decisions.

This principle also reminds elected representatives that they hold their offices in trust for the immediate and long-term benefits of members. Cooperatives do not "belong" to elected officials any more than they "belong" to the employees, who report to these officials. They belong to the members, and all elected officials are accountable, at election time and throughout their mandate, for their actions to the membership.

That a primary cooperative should be governed on the basis of one member one vote is self-evident and has been customary. However, in many secondary and tertiary cooperatives, systems of proportional voting have been adopted so as to reflect the diversity of interest, the size of membership in associated co-operatives and the commitment among the cooperatives involved. But care should be exercised that smaller cooperatives are not pushed to the periphery.

### The third principle: member economic participation

This principle was the most difficult to evolve and finalize. It was in fact finalized by the ICA Executive Committee just five days before its final approval. It combines the third and fourth principles of the previous six principles.

The principle underlines the fact that co-operatives operate so that capital is the servant, not the master of the organization. This principle reinforces both the need for members

to contribute capital to their cooperative and for them to do so in an equitable fashion. Generally, interest on capital contributed by members, is very limited, if any. However, when a co-operative has to raise capital from members for special investments in the future, it will be appropriate to pay interest on such investments at a "fair" rate – normal bank interest rate. Members have the right to own at least part of their capital collectively, a reflection of what they have accomplished as a collectivity.

When the activities of cooperatives create surpluses, members have the right and obligation to decide how those surpluses should be allotted, but a part of these surpluses must be allotted to a common, indivisible fund.

**The fourth principle: autonomy and independence**

This is a new principle; and in a way this underscores a part of the definition of cooperatives explained earlier. The principle has been included to clearly emphasize the distinctive character of a cooperative vis-à-vis the government.

In referring to "other organizations", the principle acknowledges the fact that cooperatives are entering into joint projects with private sector firms. The principle stresses, however, how important it is that cooperatives retain their freedom ultimately to control their own destiny whenever they enter such agreements.

**The fifth principle: education, training and information**

This is also an old principle; it underscores the cooperative movement's long – standing and distinguished commitment to education. Education here transcends the usual concept of transmittal of knowledge; it means engaging the minds of members, elected leaders, managers and employees to comprehend fully the complexity and richness of cooperative thought and action. Training means making sure that all those who are associated with cooperatives have the skills they require in order to carry out their responsibilities effectively. The principle also stress that cooperatives have a responsibility to inform young people and opinion leaders (politicians, public servants, media representatives and educators ) about the "nature and benefits" of cooperation.

**The sixth principle: cooperation among cooperatives**

The is also an old principle. If cooperatives are to achieve their full potential, they can only do so through practical, rigorous collaboration. Cooperatives around the world must recognize

more frequently the possibilities of more joint business ventures. They must enter into them in a practical manner, carefully protecting the interest of members even as they enhance them.

Cooperatives must also recognize, even more than in the past, the necessity of strengthening their support organizations and activities. This principle underscores all these aspects.

**The seventh principle: concern for community**

This is also a new principle and partly redeems the relative neglect of general social and community issues. The principle emphasizes that although cooperatives primarily exist for their members, yet they are also often closely tied to their communities. They have a special responsibility to ensure that the development of their communities – economically, socially, and culturally – is sustained. They have a responsibility to work steadily for the environmental protection of those communities.

**Positioning Cooperatives in the new millennium**

Collective action in the form of cooperatives may provide a response to market distortions resulting from globalization and structural adjustment.

This new paradigm for socio – economic development, where the market is assumed to be the final arbiter of what needs to be done, where and by whom, with role of the state essentially restricted to regulation in public interest, certainly changes the entire context in response to which development of cooperatives has hitherto been fashioned crafted and strategized in Sri Lanka. This paradigm shift will profoundly impact on cooperatives in two ways; the state cooperatives relations in the future will be redefined; and co-operatives will have to seek social relevance by entering new fields like food security, social services and poverty alleviation through employment generation, in addition to all existing activities.

The time has therefore come when cooperatives must selves them begin some serious introspection, develop a profile which appropriately positions them in the new, emerging environment, and strive to rebuild themselves on the basis of values and ideals, which make them socially unique, economically attractive and politically desirable. Cooperatives in Sri Lanka in the contemporary context in general, face four kinds of crises in varying intensity and combinations these crises are; \*—

- (iii) The management crisis and
- (iv) The capital crisis

In a way, these crises stem from, and are closely related to, the historical circumstances and the context in which the cooperatives had been sponsored, nurtured and protected by the state. In order to overcome the crisis, co-operatives may consider addressing the following issues, if these are to establish their relevance and emerge as potent means of collective social actions.

- Imbuing cooperative values.
- Evolving new architecture
- Fine – tuning the governance structure of cooperatives.
- Making education central to cooperative development process.
- Meeting the capital needs
- Redefining relations with the state.

**Imbuing Cooperative Values**

Two sets of values that ought to inform cooperatives have been spell out in the ICA Statement of Cooperative Identity of 1995 (see Annex I.) These are: (i) self-help, self-responsibility, democracy, equality, equity, and solidarity; and (ii) honesty, openness, social responsibility, and caring for others. The first set of values defines a cooperative; the second set of values is what the cooperative members believe in, in the tradition of their founders.

Self-help is based on the belief that all people can and should strive to control their own destiny. It emphasizes that, first, each individual is responsible for his/her own destiny, and second, each individual must control his/her own destiny. Democracy is the very essence of cooperatives; it means that cooperatives are above all governed on the basis of one member one vote. But it also implies that a cooperative provides an opportunity to its members to influence its direction, its actions and its operations. In a cooperative, democracy is "measured by involvement of members as well as by the counting of votes".

A cooperative is based on equality – equality of members, who are its basic units. This basis in human personality is one of the main features distinguishing a cooperative from firms controlled primarily in the interest of capital. Members have rights of participation, a right to be informed, a right to be heard, and a right to be involved in making decisions. Members should be associated in a way that is as equal

- (i) The ideological crisis
- (ii) The credibility crisis

as possible. Equity refers to how members are treated within a cooperative. They should be treated equitably in how they are rewarded for their participation in the cooperative, normally through patronage dividends, or reduction in charges.

A cooperative is more than an association of members; it is also a collectivity. Members have the responsibility to ensure that all members are treated as fairly as possible; that general interest is always kept in mind; this is what solidarity means. Solidarity also means that a cooperative has a responsibility for the collective interest of its members. In particular, it indicates that, to some extent, the cooperative's financial and social assets belong to the group as a whole; they are the result of joint energies and participation. Solidarity also means that cooperators and cooperatives everywhere accept that there is commonality among all cooperatives regardless of their diverse purposes and their different contexts.

The ethical values of honesty, openness, social responsibility, and caring for others emanate from the very purpose for which the Rochdale Pioneers set up their cooperative. These values distinguish as well as underpin the working and operations of cooperatives. These values underscore the point that cooperatives have a special tradition of honesty and openness; cooperatives have always aspired to honest dealings with their members, which in turn has led to honest dealings with non-members.

Cooperatives will have to internalize these values, reinterpret and restate the principles in the light of these values, and evolve management and operational practices informed by these values.

### **Architecture for the New Millennium**

The real strength of a cooperative lies in its spontaneity, its highly decentralized decision-making processes and above all its autonomy. It may therefore be somewhat presumptuous to talk of the architecture of cooperatives. For autonomy, self-responsibility and democratic functioning do not lend themselves to any pre-designed architecture; they are and should remain an ever-evolving process. But some thinking on the topic might be useful.

Cooperation – as an organized, collective response to external threats, pressures, and opportunities – has been a preferred means for those who are (i) either economically vulnerable, suffer from social exclusion, or subject to exploitation of any kind; (ii) and/or not in a position individually to ameliorate their socio-economic status in the face of competition from more organized or better endowed and larger enterprises.

### **Desirable architecture of cooperatives**

Three planks on which the cooperative system needs to develop are: the base – consisting of strong, large, viable, autonomous, self-governing primary cooperatives of different types; the vertical federal structure – organized, developed and sustained by primary cooperatives with the sole purpose of enhancing their competitiveness in terms of price, quality, range and depth of service and innovative practices; and an apex/anchor cooperative – an umbrella organization of the entire cooperative system, directly responsible (through appropriate affiliated units at the regional and local levels) for ideological aspects, liaising with government, and international cooperation; and indirectly for education and training, auditing and business advisory services, each through autonomous institutional mechanisms and operating in a market in competition with similar other service-providers.

At some stage, it will also become crucial that an integrated structure of financial cooperatives at appropriate levels is developed and sustained in order to meet the growing financial needs of all types of cooperatives.

A primary cooperative society represents the twin facets of cooperation; as well as an enterprise it is also an association of individuals. It is an enterprise in the sense that it is a business, it has to prepare its balance sheet and work out its operating surplus and deficit like any other form of enterprise. It has to compete in the market place, raise resources, make investments, innovate and take risks. It also faces the real possibility of closing down, as any other business, should it fail to satisfy its members and customers, or incur losses over a period of time, or manage its workings properly. However, the business that a cooperative conducts is informed by certain values and principles, ethical considerations and concern for the community. To that extent, it differs from ordinary businesses.

### **The federal structure**

The ideal state for a primary cooperative is to be absolutely autonomous; for only when it is autonomous can it offer the fullest opportunities to its members effectively to participate in its working and operations and influence its governance and management on the cardinal principle of democracy, one member, one vote. However, a cooperative is not always free to determine its size, or its working procedures, or its modes of working. For a cooperative operates in a market; and the pressure from the market on a cooperative is at times so overwhelmingly great that a cooperative has often to seek unorthodox ways to contain the pressure from the market and thereby survive and grow to serve its membership. Two sorts of compromises have now come to be widely accepted as fairly normal: these are ever

increasing size of an individual cooperative ( which tends to make effective members' participation more and more difficult ) and the acceptance of a vertical federal structure ( which tends to take away some of the decision-making powers from the base level cooperatives to higher tier federal bodies).

The fundamental equation that forms the basis of relationship between a primary and its federal cooperative is that a primary agrees to surrender some amount of its cherished autonomy ( by way of decision – making powers) to the federal cooperative in exchange for some tangible and long-term support and/or benefits from the federal cooperative. This support and benefit from the federal cooperative then enable the primary to serve its members more effectively, more efficiently and more comprehensively. A federal cooperative is a creation of primaries; its sole reason for existence is, and should always be, to help the primaries to serve their members as best as possible.

### **Cooperative integration**

Several factors determine the minimum viable size of a contemporary enterprise; technology employed, nature of competition, cost of capital and legislative and administrative environment. But the trend, at least until recently, unmistakably has been towards larger and larger size. Cooperatives in cooperatively advanced settings have responded in two ways to this inexorable trend towards larger size: one has been rationalization of vertical structures and reducing the number of tiers, and/or mergers and amalgamation; and the other is increasing centralization of decision-making in vertical structures although formal identity of individual units at the base level remains intact. Consumer cooperatives in Denmark, for instance, responded to competitive pressure by amalgamating into one single consumer cooperative for the entire country, supported by a network of branches instead of primaries. In Sweden, for instance, they responded by retaining the identity of a greatly rationalized primary structure, but moving the decision-making powers in many crucial areas from the primary to federal level. This process of responding to competitive pressure has thus evoked a dual response pattern from cooperatives, which is now popularly known as cooperative integration. Cooperative integration may be defined as a process of rationalization, centralization of decision-making powers and pooling of resources by cooperatives in an appropriate manner in a competitive setting with a view to retaining their competitiveness and capacity to serve their members more effectively and efficiently.

The second type of cooperative integration is, however, preferable, in that it still affords, at least to some extent, a distinct opportunity for members to participate and influence the working of their co-operatives.

#### **Fine-tuning the governance structure**

The governance structure of cooperatives is based on one cardinal assumption: the leadership of the elected representative of members. Because he/she is democratically elected, a cooperative leader is assumed to be always under competitive pressure to truly represent the larger interests of the members. But what happens if the leader, instead of safeguarding members' collective interest, begins to seek self-interest? There are many examples of leaders who will fully use cooperatives for their personal, political or pecuniary interests. There is therefore a need to interpret and apply the principle of democratic control in a manner such that leaders seeking self-interest are kept in check and full-time, trained managers and staff are given adequate freedom of action in order to make co-operatives competitive.

The two dimensions of a cooperative – an association of people, and an economic enterprise – make the governance of a cooperative typically different. The principle of democratic control and the imperative of professional management have to be combined and balanced in order to ensure that even as a cooperative adheres to certain values and principles and thus remains distinctly different, it retains its competitiveness.

The underlying ethical values that ought to inform governance of a cooperative have been identified as: honesty, openness, social responsibility and caring for others. Other aspects of cooperative governance that have been identified are:

- An open and easily understandable election procedure; contested elections to the board are desirable, and should be encouraged;
- Elected office-bearers should be made fully aware of their duties and responsibilities through education and training, and involvement in the management of their cooperative;
- Clear-cut division of legal responsibilities between the board of directors and paid managers should be set in the bye-laws, if not already provided for in the law;
- Internal and external audit should be conducted on a regular basis, and the audit reports should be thoroughly evaluated by the board;

- New ways should be developed and introduced of information, consultation and control so as to increase members' participation;

- A "co-op code of best practice", with the objective of helping a cooperative to redefine the duties and responsibilities of the governing bodies and management to make governing and control issues more transparent and to formulate strategies to achieve this, should be developed and adopted.

#### **Making Education Central**

It is widely accepted and recognized that to be effective and successful a cooperative must invest in the development of human resources, particularly its membership. Continuing and purposeful education of membership holds the key to the ultimate success of a cooperative. The purpose of member education is not merely to explain the values and principles of cooperatives in abstract; rather, it is to raise members' level of awareness, to make them recognize the imperatives of cooperation; how the values and principles of cooperation, when practised, can contribute to their overall social and economic development and the creation of a culture which nurtures a spirit of self-reliance and entrepreneurship. Past experiences of member education which largely focused on ideology and the conventional orthodoxy of cooperatives had often failed to evoke interest among ordinary members, as these were too far removed from the daily life of grind and toil that they normally experienced.

It is of crucial importance that cooperatives initiate moves to involve youth in the cooperative movement through their systematic exposure to co-operative thought and practice during the mainstream education system at the school and college level. For maximum impact, the quality and level of teaching of cooperation at the school and college level will have to be considerably enhanced by way of better reading material, rationalizing curricula, and motivating and encouraging good teachers to undertake teaching of cooperation.

Besides the school and college level education, massive investment may have to be made in the existing arrangements created to educate members and train cooperative leaders and managers. The present arrangements are wholly inadequate both in terms of quality as well as capacity to cope with the demand. It is here that the role of the apex/ anchor cooperatives described in the desirable architecture of cooperatives comes in.

#### **Meeting Capital Needs**

A cooperative is generally a small enterprise, often comprising members of limited means. The underlying motivation of the members in joining a cooperative is to seek ways to improve their social and economic conditions through collective effort. They are people with very limited means and little to contribute by way of share capital and savings to their cooperatives. But cooperatives do need capital – investment capital as well as working capital. Earlier, the State had often come to the rescue of cooperatives in this regard but this option is unlikely to be available in the future. Even if it were to be available, cooperatives will be well advised to opt for it after very careful consideration.

Cooperatives, on the other hand, appear to have the following options and strategies to choose from, when looking for practical means to meet their current and future capital needs:

- Strengthen, consolidate and create a conglomerate of cooperative banking, thrift and insurance businesses, with a powerful apex at the national level, which should then provide capital to cooperatives;
- Incentives should be offered to members in order to persuade them to contribute more towards their share capital; greater participation in management, increased awareness of their role and reasonable return on the invested capital to members are some of the options that need to be encouraged;
- Raise non-refundable long-term deposits from members out of the sale proceeds of their produce;
- Raise "cost of capital", and pay higher rates of interest on capital deposits; cooperative laws, rules and bye-laws may be suitable amended for the purpose;
- Seek strategic alliances with private investor-owned enterprises in order to enhance members' income and value;
- Larger cooperatives requiring enormous capital may opt to set up a limited company with the cooperative owning a majority share;
- Governments may set up independent organizations at the national/state levels to provide for venture/risk capital to cooperatives, if necessary against government guarantee;

In recent times the so-called new generation cooperatives have been organized. These cooperatives restrict membership and reward capital but otherwise work on the principle of democracy. The need to raise adequate capital lies at the heart of these attempts.

### **Redefining Relations with the State**

Whatever pundits might have to say in respect of the State, cooperatives will be well advised to always keep in mind the stark reality of modern times, namely, that the State will always profoundly shape how cooperatives function. It will therefore be vital for cooperators to understand the priorities of the State, and position themselves accordingly.

Governments might once again be tempted to venture forward and seek to bestow undue patronage on the cooperatives, once the current pressure is off, in order to promote the interest of one section of the community or the other. There can be no such arrangement, for state patronage, particularly direct participation in the share capital of cooperatives, has in the past often blunted the edge of self-reliance and made cooperatives subservient to the government machinery. That is what the experience of the last few years in the region conclusively shows; and if attempts were to be made once again to rope in cooperatives to provide some type of safety net, but under the aegis of the government, history would simply repeat itself. This places even greater responsibility on cooperatives; they must display even more creative urges and take more imaginative initiatives to help themselves withstand the after-effects of this grim crisis.

When development of cooperatives becomes a subject of public policy, several consequences follow: uniform pattern of cooperative development; enactment of laws that empower government officials to control and direct cooperatives; keeping cooperatives artificially alive through subsidies and protection; turning away members and snubbing local leaders; and cooperatives becoming almost indistinguishable from public sector undertakings.

In the new, emerging environment, a government cooperative relationship should revolve around three features; creating a conducive climate and favorable conditions for cooperatives by coming out with a clear policy on cooperatives (a policy which is formulated on the premise that only autonomous cooperatives can effectively meet the needs and aspirations of their members); enactment of cooperative legislation (a legislation that merely

regulates and not controls and directs cooperatives of results in micro-management of cooperatives by government officials); and repositioning of the Department of Cooperatives (the repositioning which turns the role of inspectors into that of facilitator and counselors); The question of providing financial assistance remains, but it can be addressed only in a specific context, and that too, after the real motivation and conditions for providing assistance are known. But whatever may be the conditions and circumstances, any loss of autonomy of dulling of members' initiative and will to mobilize their own resources and make personal sacrifice will be detrimental to their long-term interest. State aid and assistance to certain types of cooperatives, however, might become unavoidable.

Keeping in mind some of the points elaborated above, it can be argued that the role of the State should be confined only to the following (without any direct or indirect intervention in cooperatives, including projecting itself as a potential patron of cooperatives);

- formulating and enunciating a clear public policy on cooperative development.
- creating an appropriate regulatory framework, consistent with the new paradigm shifts through new and appropriate legislation; and
- designing, strengthening, and refocusing cooperative development and financing institutions, so that these begin to operate on a financially prudent basis and possibly solely in the interests of cooperatives and cooperative-like institutions.

### **Establishing Relevance**

The eminent cooperator Margaret Digby once remarked; "What distinguishes cooperatives belongs partly to ends and partly to means" this remark contains the unique selling points (USPs) of cooperatives in the new environment. The means that cooperatives adopt are characterized by honesty, openness and transparency; participatory decision-making and equity and equality; and the ends that these seek to achieve are informed by concern for the community. Only by practicing and internalizing these features will cooperatives establish their relevance in the emerging, market-oriented, competitive environment.

It might be argued that cooperatives can establish their relevance only by effectively competing on equal terms with other types of private enterprises. However, that statement is valid only where the community has a choice, and can decide which enterprise to patronize. The argument to seek and

establish relevance of cooperatives by effectively competing in the market is thus valid only in respect of such cooperatives as are seen to be alternatives to existing types of enterprises. However, there are two other situations, where the community might not have that choice. The first situation is where the community needs some service, which the State alone ought to provide; and the second situation is where neither the State nor the market finds it possible to provide the needed services to the community. In the first case, a cooperative, by merely providing relief to the community, establishes its social relevance. Cooperatives engaged in Public Distribution System already do so. In the second case, a cooperative, by providing the needed service to the community, establishes its social relevance. The Rural Electricity Cooperative in the United States is an outstanding example of this type of co-operative.

Whether cooperatives should be involved in these two kinds of situation is a different issue and must be left to the members to decide; the important point is there should be no coercion on the part of the government. The assistance from the government to cooperatives should carry no condition except that of performance.

It has been customary to think primarily of agricultural cooperatives when we talk of cooperatives in India. This conception is severely restrictive and excludes several other forms of cooperatives. One must view the role of the cooperative movement in all-inclusive terms. In years to come the main challenges before cooperatives are likely to be food security, social services and poverty alleviation. Cooperatives should, therefore, consider shifting their emphasis from agriculture to food security; and should endeavour to provide such services as the community might need, including wherever possible health care, care of the senior citizens, providing a social safety net perhaps in conjunction with what the government might decide to provide. Attempts should be made to organize workers - unskilled, semi-skilled and skilled - into cooperatives, so that the problems of employment and consequently poverty alleviation can be effectively addressed. Cooperatives must above all seek to establish once again their relevance to the community at large, even as they strive to attain a certain degree of economic success and efficiency.

Cooperatives of different types, particularly in rural areas, can discharge their social role and thereby establish their social relevance by;

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- stemming the outflow of capital from the country;
- meeting the critical needs of rural communities;
- organizing more vulnerable sections of the community collectively to safeguard their interests;
- developing socially informed tools for curbing malpractice;
- proving that values-based institutions provide the best means to promote the economic interests of the people.

It also needs to be pointed out that cooperatives can never meet the challenges facing them by simply imitating the organizing principles, management practices and decision-making structures of successful private enterprise. If cooperatives were to attempt to do so, they will simply end up as poor cousins of private enterprises, and will lose in the process their distinct character and position. Cooperatives will have to develop alternative organizing principles, management practices, and decision-making structures. It is important to note the true character of a cooperative can be retained only when its members can interact with each other, hold management accountable for results and performance and collectively influence decision-making processes. In some of the countries strong in cooperative traditions, two-tier cooperative structures are gradually evolving. At the base, there are primary cooperatives, which are small enough to permit closer interaction among members and afford opportunities for members to participate in crucial

management decisions, with fairly strong federations/cooperatives industries, at the second tier. The role of the second tier should essentially be that of supporting the primary to become more competitive, self-reliant and viable. These federation and cooperative industries may have to enter into strategic alliances with private enterprises, float wholly owned companies with stock-exchange listings, and set up joint ventures with international capital.

Establishing social relevance in the new millennium is likely to be a formidable challenge for cooperatives. Finding ways to do so will test the quality of leadership, and challenge the validity of cooperative values and principles. However, before cooperatives can seek to establish social relevance, they will have to become effective, efficient, resource-conscious enterprises striving to attain ever higher rates of profitability and productivity.

### **Conclusion**

Now that the old context within which cooperatives had hitherto positioned themselves is undergoing fundamental changes and even public policies are beginning to veer round to the view that markets are better suited to initiate development, the role of the government concerning cooperatives should hopefully undergo some transformation. Essentially, the role of the government should in future be that of a facilitator and an enabler, and not that of a controller, a protector of an initiator.

The social and economic relevance of a cooperative in the contemporary context and in the new millennium is linked to its ability to respond effectively to the needs and aspirations of its members, particularly those who may feel threatened and vulnerable, as indeed of the community at large. The strength of a cooperative

lies in its ability to cultivate a feeling of trust and confidence among its members and a strong commitment to continue to retain this feeling. In a competitive setting, however, it may prove difficult for a single, isolated primary, whatever the intensity of its members' loyalty, to compete more effectively with well-integrated, well-endowed enterprises, at times even with access to international capital. The coming together of primaries and organizing themselves into federal organization(s) has been one of the several responses that cooperatives have fashioned over a period of time. However, the organization of a federal structure should then work only to enhance the capacity of its primary cooperatives to compete effectively and serve their members more comprehensively. Federal cooperatives are, however, known to develop their own objectives, which may not be consistent with the goals for which they organized in the first place. In such a case, it might even be better not to have a federal structure than to be structurally linked to a federal organization which has lost its moorings and is adrift in a competitive market. Cooperatives will also meet the services of anchor organizations, which, even as these meet their development and promotional needs, provide them with some ideological moorings.

In a way the time has come, now that opportunities once again beckon, for cooperatives to demonstrate that they are as ideally suited to meet the societal challenges as any other arrangements in the new market-oriented environment. In this context, special mention needs to be made of the potential that new types of service cooperatives, such as, for instance, health, day-care, education, and pension cooperatives have in helping the community to meet some of their needs in the absence of effective social safety nets. ■