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Features and Characteristics of a Supportive Environment for Cooperatives

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Features and Characteristics of a Supportive Environment for Cooperatives

I. Cooperative Environment

A cooperative as a community or people based association is a product of the social, cultural, economic and political environment. Therefore the culture of a cooperative also reflects environmental conditions.

The cooperative is an open system that can never be apart from the environmental influences with its social, economic and political characteristics. The role players are: the government, the business world, peoples groups, ethnical groups, religious groups, etc. It will depend on the internal condition of the cooperative itself whether it is capable to lessen, to be beaten or to make a synthesis of the external influences. The strongest external influences in developing countries are usually from political and economic circles and the institutional influences from the government as a political institution and what actually often happened controlled by economic interest of large companies.

Cooperatives that are internally weak that have to face a strong and authoritarian government tend to become a tool of the government that in their development policies consider the role of cooperative as important (as what happened in Indonesia during the past two decades) that may be abandoned whenever the government takes the economic policy that put a preference towards capital based associations.

The ideal condition is when the government believes that the cooperative is in line with its identity, and will open a fair opportunity at least an equal playing ground as other forms of businesses, moreover if it creates a conducive environment for the development of cooperatives and provides support.

According to the Indonesian experience that has more than 200 ethnical groups, groups of foreign descendents and five large religions, the cooperative does not suffer from disadvantageous influences and may be it is the opposite; the cooperative generally can generate cooperation among ethnic groups, of different foreign descendants and religions, whose members are the members of a cooperative.

II. Why Must the Cooperative be Supported?

If we examine the map of the cooperative at this moment, we can see differences among countries. In developed countries we cannot readily see the differences from any other business. What can be externally observed is that the cooperative do not need external support and in fact the cooperative can survive on their own capabilities and have a quite strong competitive power.

The situation is different if we look to the developing countries where the cooperatives are on the average still weak, even-though there are successful and strong cooperatives among them. The question is, is the existence of weak cooperatives a good

enough reason for giving them assistance? In this context the support for cooperatives is not in connection whether they are strong or weak, but whether the cooperatives in fulfilling their role give a meaningful contribution towards their environment or for the national social economic development.

The 5th Asia Pacific Cooperative Ministers Conference in Beijing in October 1999 accepted that the cooperative has created welfare, employment and business opportunities for the people and help the people to get an economic leverage in the market. Further, it was stated that the contribution of successful cooperatives is not only in economics. The cooperative promotes social justice, social equality and responsibility. At the same time the cooperative is an example of a real democracy and community building. It is also added that the cooperative contributes towards peace and social stability.

The cooperative can only make a real contribution to the environment and to development, provided that it is just and faithful to its identity and its social message. The cooperative identity has been formulated clearly in the ICA Identity Statement (ICIS) that has been accepted by the cooperative movement of the world in the 100th ICA Congress in Manchester in the year 1995. ICIS did not occur suddenly just like that but has gone through a maturity process for one and a half century when part of the population demanded a more just and human economic system. Nevertheless there is no guarantee that the cooperative will get support from its environment.

The government will provide assistance if the philosophy, policy, strategy and purpose of development adopted by the government is in line with the cooperative. A government that supports a cooperative that digresses from its identity will destroy the cooperative itself.

Cooperative must not depend on the assistance from the private sector and to a certain extend to the government enterprises, due to the prevailing competition. What really prevails is a temporary economic cooperation as long as their economic interests are similar (strategic alliance).

As long as it has a social and cultural basis, the support from ethnical groups, foreign descendants and religious groups usually does not have any problems. Whenever the economic interests are the same, the cooperative functions as a binding force.

III. Government Policy and Strategy as the Basis for Support to Cooperatives

The most important external support is acquired from the government, due to the important function of the government owing to their political regulatory function. In developing countries usually there are other functions of the government, i.e. the development or promotion functions. If applied in a proper manner these functions will support the development of cooperatives.

The above mentioned government support should have a basis of the state policy that guarantees cooperative development integrated in the long term goals of the state. In the Indonesian case the state policy is mentioned in the constitution that stated that the

cooperative is a model for the development of an economic democracy. The state policy is translated into a government development strategy as a basic concept for national development that can further be translated into implementation regulations.

The basic policy that provides support to the cooperative does not guarantee that the goals of government policies will be reached; that the government burden and the state budget can be inflated that may create a disadvantageous political perception detrimental to the cooperative image, and what is more important is that the cooperative itself may be damaged due to the obligation to implement duties beyond its capacity. In this context the following should be considered: In handing the role of the cooperative to assist the government programs, the objectives of the programs should not be in contradiction with and be different from the aims of the cooperative and the interest of the members.

The government should not determine the organization structure and the management of the cooperative according to the government concept which is not in proper agreement with the cooperative. The government must be aware that a wrong organization will have the consequence of a wrong investment. The cooperative should be free to draft their own plans in accordance with their capacity and capability.

What is important to consider is that government support to cooperatives should not make the cooperative lose its autonomy and freedom and make them not able to develop themselves according to the ICIS that has been universally accepted.

In order that the policy can be beneficial to both parties, the government as well as the cooperative, it is considered necessary to create a legally binding policy to enable the cooperative to maintain sustainable development and the establishment of a mutually supportive partnership between the government and the cooperative movement, as recommended by the Asia Pacific Ministerial Conference in Beijing held in 1999.

The cooperative movement must be aware that the government, no matter how they care about cooperatives, remains a political institution, where the policies and strategies adopted depend on the development and political support that created them. In other words, government policy is a political function. Therefore the cooperative must anticipate any changes and they have to be able to prevent themselves from becoming the 'victim' of such changes. The cooperative must develop their strength and capabilities and become self-supporting. This is not always an easy thing to accomplish. In several countries, including Indonesia, a neutral political position which is part of the cooperative principles, can not always be achieved purely and consistently. Some controversial actions may be taken by the cooperative "to save itself" in a certain situation. The cooperatives that are weak and are not capable to face the political pressure by the reigning government, will easily surrender and become the tool of the government, as experienced by Indonesia in the past. There are also countries that make a disguised political alliance with the government. There are also cases where the cooperative members and their sympathizers form a group that participated in the general election in order to get a seat in parliament, who in fact did succeed as what happened in the Philippines.

IV. The Best Form of Government Support for Cooperatives

Whatever form of support by the government is, it should have the purpose to make cooperatives be able to help themselves as an autonomous and self supporting institution. There must be a monitoring and supervising system that decides upon a gradual reduction of assistance for cooperatives, especially physical and financial assistance for cooperatives individually as well as a movement that can finally be terminated. The cooperative movement should be supported to prepare itself to finally take over the role of the government in supporting cooperatives.

The consequence of this approach is that the government organization that looks after the cooperative will become smaller and the function will only be strictly regulatory, while the organization and function of cooperatives will be extended. The process of the shift of functions and responsibilities should best be made on a subsidiarity basis. The purpose can be declared reached, when the following situation prevails:

The existence of a conducive policy and legal environment that enable the cooperative to develop on their own capabilities. The existence of a good and mutually respectful partnership between the government and the cooperative.

If the government provides support to the cooperative than the assistance should be as follows:

The cooperative law

The first and most important support is a Cooperative Law that recognizes the cooperative as a legal and distinct form of economic company than other companies. Besides that, about the substance of the law itself, it is how much room it gives to the cooperative to act as an autonomous institution to develop itself. There are two things that are always connected to the law. First, the law is a political product that reflects several interests, including the government interest. Second, the law stipulates the authority and power of the government in connection with cooperatives.

The cooperative conduct activities in several economic sectors and therefore abide by several regulations that may be different one from the other. In connection herewith there are two alternatives concerning the nature of the law, the general act or the sectoral act.

(a) About cooperatives

- It must be emphasized that the cooperative is a member-based organization and not a capital based organization;
- The cooperative is an autonomous institution with recognized rights to govern itself;
- The law must interpret the cooperative according to the ICIS definition and use ICIS as minimum criteria in getting legal recognition;

- The law establishes the cooperative principles as legally binding in connection with the implementation of the organization as well as in conducting business;
- Concerning the organization and activities as a cooperative movement, the law does not give any rights to the government to interfere within the organization structure, management and activities that should be left entirely to the cooperative as an autonomous institution.

(b) About the government

- The government only has the authority whenever the law requires. The authority given should be limited to the minimum such as concerning: registration, legal recognition, dissolution of cooperatives that digress from the law and supervision so that all the parties concerned do not infringe the law;
- The government creates an environment that opens the opportunity for cooperatives to play their role in accordance with their identity, and not issue regulations that may hamper the implementation of their role as a cooperative, such as in connection with taxation, licensing, etc.

(c) Within the framework of supervision, the law stipulates that the cooperative must be audited, not only concerning their business aspect but also the organization aspect, to see whether everything has been conducted in line with the law and whether the cooperative functions in accordance with their identity. Besides the internal audit there should also be an external one conducted by independent auditors who must be knowledgeable about cooperatives. The government must give the chance to the cooperative to choose their own auditor, except in certain cases (such as in connection with the amount of cost) where the government is allowed to make the audit at the request of the cooperative concerned.

(d) No matter how good the law is in support of the cooperative and providing a good environmental condition for cooperatives to work, in practice there are still often differences of interpretations found concerning the meaning of the articles in the law. This is because the formulation of the law is general in nature and in several cases they need implementation regulations and also because the government officials as well as the cooperative movement people often do not have a sufficient understanding about the meaning of the cooperative itself.

(e) Therefore it is necessary to organize the existence of a tribunal about the implementation of the law by the government and the cooperative. In order that the legal decisions taken are fair and just, the membership of the tribunal should consist of a judge of the state (administrative), a representative of the government in charge of cooperatives and a representative of the cooperative movement. If the decision taken cannot be accepted by the disputing parties, an appeal should be made possible to a higher court of administrative justice or another institution as stipulated by the law.

Besides that, the law must stipulate the sanctions for the infringements of the articles of the law, such as misuse of the cooperative or the cooperative name, misuse of the cooperative finances for ones own benefit, refusal of the external audit of cooperatives,

disclosing the audit reports to outsiders and for not conducting an annual members meeting. The cooperative can also be dissolved by the government or by the decision of a members meeting, if the cooperative digresses completely from the law, cause criminal disturbances and the infringement of the current state laws. Acts against morality such as gambling, prostitution, narcotics trade and the like should be included as forbidden that can lead to the dissolution of the cooperative.

Education and Training

As an association of people, the success or failure very much depend on the quality of the members. Since the Rochdale cooperative formulated their principles one and a half century ago, education has been given a very important place which is still valid up to now. Seen from the management point of view where the members run their cooperative based on democratic principles, one man one vote, the individual quality of the members is a decisive factor.

Education and training are not only important to make the cooperative function effectively and efficiently as an organization and as a enterprise, but also in a wider sense for the development of a civil society. This is also because the cooperative also teaches the members to obey and uphold the law, to become a good democrat and moreover to become a good citizen. In the long run the success of the cooperative in education will have an influence on the political and social system that is orderly, democratic and human. Due to the above reasons the support for education and training programs by the government and the national development institutions can be accounted for.

For education and training programs even though they were firstly the responsibility of the cooperative movement, due to the high cost, assistance from outside becomes very important because the assistance is not merely for the cooperative but also beneficial for the government and for the people as a whole.

Cooperative education in schools since the primary school up to the university is a support and donation for the cooperative. Also extension services and information services are promotions for cooperatives and remind us about the meaning and importance of social capital as a set of norms and values that enable the people to cooperate for the economic and social life as well as for the survival of the community. Therefore it is not a mistake if we call Cooperation is Education.

Means for Economic Service

In many countries generally ways and means are planned to be prepared for a capital based association. This can be understood because the capitalistic system was already functioning before the cooperative comes into being. In countries where the cooperatives are strong, the cooperative build their own supporting services such as banks, insurance, etc. For developing countries where the cooperatives are not yet able to build their own supporting services, the support from the government is needed. The assistance can be in several forms:

- Through laws and regulations that enable the cooperative to build their own supporting services more easily and at a lower cost;

- The government cooperates with the cooperative especially in bearing the cost;
- The government builds special institutions to provide service for the cooperative.

Cooperatives in developing countries receive assistance from international development institutions such as: UNDP, ILO, FAO, the World Bank, the Asian Development Bank and the like and also through NGOs or overseas foundations that are functioning at present. It is accepted that many of the assistance given were not successful and only half successful. Not many were successful and this gives a bad image to the cooperative programs. The reasons are varied and it should be considered as a lesson if it is carried on. The mistakes may come from the donor itself, from the government side and also from the cooperative itself which is the object of the assistance.

Multi-lateral assistance usually are channelled through the government based on a formal cooperation with the government that gives the government the authority to be involved in the implementation of the assistance itself. Other donors with the agreement of the government generally can have a direct contact with the cooperatives concerned. In the last few years there is a strong tendency for aid from several institutions to be given straight to the cooperatives, since such an approach is considered more effective, it avoids unnecessary government intervention, reduce bureaucratic procedures (red tape) and facilitate supervision especially in the expenditure of funds.

Apart from the above-mentioned procedures, the results were still unsatisfactory, especially in the case of sustainability. Why is it, if the assistance stopped, many of the cooperatives were still not able to grow and develop by their own power. Any assistance to cooperatives, wherever it comes from, should make the cooperative be able to help themselves, develop their ability to maintain a sustainable development and not depend on outside assistance, in other words to be sustainable.

There are cases where bilateral and multi-lateral international assistance donors were interested in supporting the development of cooperatives as during the 60-s and 70-s, but they relaxed and turned to assisting non cooperative NGOs like in Indonesia. At the present moment there is a serious concern again of international institutions to be involved in cooperative development as can be seen in the United Nations General Assembly resolutions 54/123 and 56/114 about cooperatives from ILO that already prepared a recommendation on cooperatives as an amendment of recommendation no 127 year 1966; the existence of the concern of the World Bank towards the role of cooperatives as implemented in Indonesia by financing the renewal/amendment of the Cooperative Law. The Asian Development Bank has a program on community development by involving credit unions in Indonesia; the CIDA program through the CCA for the Indonesian cooperatives.

The meeting held by DESA/DPSD and the United Nations in Mongolia at the present moment, is an important beginning for the reconsideration of the policies of multi-lateral institutions in their involvement in supporting the development of cooperatives in developing countries. Learning from past experience there must be emphasis on institutional and capacity building as a basis and strategic way for a sustainable development and self support, that can play an effective role for social and economic development. Once again, for

cooperatives (and also for other institutions) the organization is important; if the organization is made in a wrong way than the investments may also be wrong.

V. Conclusions

To summarize my paper, I am listing the most strategic and important features characteristics of environment for cooperative development support:

- The support for cooperatives is not in connection whether they are strong or weak, but whether the cooperatives in fulfilling their role give a meaningful contribution towards their environment or for the national social economic development;
- The government will provide assistance if the philosophy, policy, strategy and purpose of development adopted by the government is in line with the cooperative. A government that supports a cooperative that digresses from its identity will destroy the cooperative itself;
- The basic policy that provides support to the cooperative does not guarantee that the goals of government policies will be reached; that the government burden and the state budget can be inflated that may create a disadvantageous political perception detrimental to the cooperative image, and what is more important is that the cooperative itself may be damaged due to the obligation to implement duties beyond its capacity;
- What is important to consider is that government support to cooperatives should not make the cooperative lose its autonomy and freedom and make them not able to develop themselves according to the ICIS that has been universally accepted;
- Whatever form of support by the government is, it should have the purpose to make cooperatives be able to help themselves as an autonomous and self-supporting institution;
- The first and most important support is a Cooperative Law that recognizes the cooperative as a legal and distinct form of economic company than other companies. Besides that, about the substance of the law itself, it is how much room it gives to the cooperative to act as an autonomous institution to develop itself. There are two things that are always connected to the law: First, the law is a political product that reflects several interests, including the government interest. Second, the law stipulates the authority and power of the government in connection with cooperatives;
- It must be emphasized that the cooperative is a member-based organization and not a capital based organization;
- The government only has the authority whenever the law requires;
- The government creates an environment that opens the opportunity for cooperatives to play their role in accordance with their identity, and not issue

regulations that may hamper the implementation of their role as a cooperative, such as in connection with taxation, licensing, etc.;

- No matter how good the law is in support of the cooperative and providing a good environmental condition for cooperatives to work, in practice there are still often differences of interpretations found concerning the meaning of the articles in the law. To settle the legal dispute between the government and the cooperative movement. Therefore it is necessary to organize the existence of a tribunal about the implementation of the law;
- Education and training are not only important to make the cooperative function effectively and efficiently as an organization and as a enterprise, but also in a wider sense for the development of a civil society. Due to the above reasons the support for education and training programs by the government and the national development institutions can be accounted for;
- Cooperative education in schools since the primary school up to the university is a support and donation for the cooperative;
- For developing countries where the cooperatives are not yet able to build their own supporting services, the support from the government is needed;
- It is accepted that many of the assistance given were not successful and only half successful. Not many were successful and this gives a bad image to the cooperative programs. The reasons are varied and it should be considered as a lesson if it is carried on. The mistakes may come from the donor itself, from the government side and also from the cooperative itself which is the object of the assistance;
- Why is it, if the assistance stopped, many of the cooperatives were still not able to grow and develop by their own power. Any assistance to cooperatives, wherever it comes from, should make the cooperative be able to help themselves, develop their ability to maintain a sustainable development and not depend on outside assistance, in other words to be sustainable;
- At the present moment there is a serious concern again of international institutions to be involved in cooperative development as can be seen in the United Nations General Assembly resolutions about cooperatives no 54/123 and 56/114; from ILO that already prepared a recommendation on cooperatives as an amendment of recommendation no 127 year 1966;
- Learning from past experience there must be emphasis on institutional and capacity building as a basis and strategic way for a sustainable development and self support, that can play an effective role for social and economic development. Once again, for cooperatives (and also for other institutions) the organization is important; if the organization is made in a wrong way than the investments may also be wrong.