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**The Changing Roles of the State and the  
International Cooperative Movement in the  
Creation of a Supportive Environment**

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# The Changing Roles of the State and the International Cooperative Movement in the Creation of a Supportive Environment

## I. Introduction

“Coop development thrives in the face of scarcity and struggles in the presence of plenty.” This observation has implications on the changing role of the state, international financial institutions (IFIs) and donors, and international co-operative development organizations in transitional economies.

The onset of economic transition of eastern European and Asian states in the early 90's coincided with an explosion in information technology. While these states grapple with modest budgets their relatively well educated populations are bombarded with information and opportunities provided by mass media and sought out through the Internet. Transitional economies are under tremendous pressure from their citizens for rapid change that cannot be met by their under-resourced governments. Not only are they unable to meet the demand for progressive change, in many cases basic infrastructure and social supports are deteriorating or disappearing altogether. Despite a brief backlash against cooperatives as instruments of the state, new International Cooperative Alliance (ICA) style co-operatives are emerging to fill the vacuum left by the state and the private sector in employment and the provision of goods and services. At the same time there is a resurgent interest in co-operatives by International Financial Institutions (IFIs) and donors with a particular view to poverty alleviation and program delivery. This paper will explore the juxtaposition of these factors in Mongolia specifically but will be informed by experiences in other transitional economies in Asia.

Since 1990 ICA has coordinated and facilitated five high-level dialogues relating to legislation and policy intervention among Co-operative Ministers in the Asia Region. A major development in the Beijing Cooperative Ministers Conference of 1999, sponsored primarily by the Canadian Co-operative Association (CCA) and Development Internationale Desjardins (DID), resulted in the Beijing Joint Declaration as follows:

- Cooperatives contribute their best to society when they are true to their nature as autonomous, member-controlled institutions, and when they remain true to their values and principles (*autonomy and independence*);
- The potential of co-operatives is best realised when their distinct character is recognized by law (*legal existence*);
- Cooperatives can achieve their objectives, if they are recognized for what they are and what they can do (*recognition*);
- Cooperatives succeed like any other enterprises in a competitive environment and where they are allowed to operate in equal footing with other enterprises (*fair playing field*);
- Government must set the legal boundaries, but cooperatives can and should regulate themselves from within (*self-regulation*);

- Cooperatives belong to their members whose shares are the basic capital, but in today's competitive world, they must seek additional resources without threatening their cooperative character (*capitalization*); and
- Development assistance can be important for co-operative growth, most effectively when this partnership recognizes the co-operative essence and is operationalized within a framework of networking (*official development assistance*).

The Canadian Cooperative Association continues to work with and support ICA in its' efforts to bring about policy changes in the region.

## **II. The Role of the State**

Governments in transitional economies in Asia have taken different approaches to cooperative development in recent years. The level of involvement in cooperatives and the status of cooperative legislation varies with where the governments are on the continuum between centrally planned and free market economies. In China, ICA style cooperatives have no legal status and exist as experiments, an ambiguous existence that greatly hampers their development. In Vietnam cooperative law still provides a role for government in cooperatives but policy allows some ICA style cooperatives to develop alongside state organized cooperatives. Changes in legislation were assisted by the opportunity for government to view the development and recognize the success of ICA style co-operatives. Mongolia has a cooperative law that recognizes cooperatives as independent legal entities and of the 3 nations, Mongolia's cooperative movement is the most developed. However, the Mongolian cooperative movement requires a better legal environment to achieve its potential.

The role of the state to is support co-operatives through a positive legislative environment and policy framework that enables co-operatives to explore and achieve their potential while maintaining a high standard of operations to protect public interest. A positive legislative environment recognizes that cooperatives are not franchises. While cooperatives adhere to basic governance structures, their organizational structure is dictated by the needs of the activities it undertakes and the economic and physical environment in which it operates. Therefore one size does not fit all. Legislation needs to be flexible enough to cater to the individual nature of cooperatives. The current Cooperative Law of Mongolia requires 9 members to register a coop. This is not a large number but in rural Mongolia it can sometimes be difficult to find 9 like-minded individuals within traveling distance who have the capacity and desire to form a cooperative. In the case of Industrial or Worker Coops where the activities may be reliant on specialized skills of members a smaller group may be more effective. On the other hand a Savings and Credit Union, which depends mobilizing savings, requires a large and varied membership to be able to offer effective services. The issue of population scarcity can be addressed through changes in legislation; the issue of effective operations is better addressed through training and guided by regulations.

	<i>Canada</i>	<i>Vietnam</i>	<i>China</i>	<i>Mongolia</i>
First Cooperatives	Early 1900's	1955	Early 1930's	Early 1920's
Cooperative Law	National Cooperative law as well as 10 provincial cooperative laws and 10 provincial Savings and Credit Union Laws	National Agriculture Cooperative Law enacted 1996. No Savings and Credit Union Law	No Cooperative Law at present	ICA style cooperative law enacted 1996, no separate law for Savings and Credit Unions
Savings and Credit Activities permitted in multi-purpose cooperatives	Not permitted. Savings and Credit Activities regulated by totally separate law	Law is not clear	No law	Permitted
Recent trends in development	Savings and Credit unions are merging to provide better services. Worker Coops emerging in response to growing unemployment. More social cooperatives appearing, child care, health care, elder care etc.	Cooperatives converting to ICA style coops. Exploring Savings and Credit options	Economic enterprises are operating as coops, strong lobby underway to develop cooperative legislation and support ICA style coops.	ICA style Cooperatives coming back as major economic force after years of challenging a negative reputation as state controlled enterprises. New coops being formed to reduce the impact of natural disasters and environmental issues. Fastest growing sector is Savings and Credit in urban areas.
Strongest Cooperative Sectors	Financial Services – SCU's & Insurance Agriculture-marketing, Housing	Agriculture – input & supply, technical transfer	Agriculture, Industrial Coops	Agriculture – Animal Husbandry –supply & marketing, consumer goods
Challenges	Finding Capital, maintaining member involvement	Finding capital, qualified management	Finding Capital, Finding legal and public identity, overcoming reputation as state owned enterprise	Finding Capital, overcoming reputation as state owned enterprise, market access, lack of national infrastructure, small population

Many jurisdictions are embracing the need for sound business and financial practices for cooperatives and capturing them in regulations. There is ample international precedence to use in setting standards and compliance is easy to measure and regulate. However; the question of ensuring true democratic and transparent governance is also urgent, not only to safeguard the interests of cooperative members but to protect the integrity of co-operative principles. As the state withdraws from active involvement in cooperatives it is important to address transparent governance in legislation or regulation. It is more difficult to set governance standards than financial standards but it is necessary. A high level of financial management skill in the absence of transparency can be very dangerous; we need only to look at Enron as the latest spectacular example. Governance standards should address avoidance of conflict of interest and standards of

conduct and capacity for directors. One aspect of conflict of interest is the concern for family relationships in management and administrative roles of a coop. This is a particular challenge in rural Mongolia where the concept of community is based on interpersonal relationships and often built around family groupings. Keeping that in mind, regulations should be progressive, setting reasonable performance standards and providing guidance. Regulations should not be punitive but should provide remedies to ensure compliance. As mentioned in the Beijing Declaration, “government must set the legal boundaries, but co-operatives can and should regulate themselves from within”.

Cooperatives tend to be more popular and successful in rural areas where alternatives and access to goods and services are limited. Individuals with fewer personal resources usually form them, whether it be assets, education, money or time. As a result they are often challenged to find solid management skills within their membership. State support to build management skills within co-operatives is an appropriate role. In some jurisdictions in Canada, directors of Savings and Credit Unions, are required by law to complete several cooperative training courses within a year of taking office to be eligible to continue to serve as directors. This requirement greatly improves the management capacity but creates a financial burden on the co-operative that is not found in other business organizations. Support in the form of tax policies that encourage cooperatives to train and educate members, providing subsidized training or outreach services can ease the burden and ultimately reduce the cost of regulation.

In many transitional economies, secondary and tertiary (apex) cooperative organizations are not in and of themselves cooperatives but are NGO’s and even government agencies. In Mongolia, apexes are NGO’s and their membership consists of both cooperatives and companies. This creates tension in that co-operatives and companies have different profit motives and therefore require different services and different legislation and that presents challenges to the apex organizations in delivering services to members and as acting as an effective voice for the movement. Advocacy is an important role for apex organizations and useful to both government and the movement in ensuring that the legislative environment and policy is enabling and responsive to the needs of co-ops. Another role for apex organizations is to serve as models for their members, a difficult role to fulfill when their organizational and legal structure is different.

Finally government should ensure that cooperative legislation and regulations are in harmony with other legislation and regulations governing the various business activities that cooperatives are engaged in and that there is even and fair application of tax policy. The challenge is to develop legislation that is strong enough to protect coop members and public interest yet flexible enough to accommodate the rapid changes demanded by a worldly but inexperienced membership while ensuring co-operatives remain effective, competitive and relevant in a market economy.

### **III. The Role of International Financial Institutions and Donors (IFIs)**

Cooperatives are an effective community development vehicle; by their very nature they build economic self reliance and civil society. When left to develop naturally, the benefits of cooperatives accrue to the larger community, they create local jobs, re-invest locally, emphasis on education and skills raises local management capacity and they reduce the migration and

concentration of capital. These features are attracting the attention of IFIs and donors to cooperatives as potential vehicles for program delivery. IFIs are seeking ways to implement their programs closer to the ground and co-operatives face an insatiable demand for services. Both are focused on the needs of less advantaged segments of the population. IFIs are suppliers of capital and building capital from within is too slow to enable cooperatives to meet the needs of their members. The congruent objectives of primary co-operatives and IFIs would appear to be the root of a natural alliance. However, great care needs to be taken not to kill cooperatives with kindness and to avoid having the role former role of the state supplanted by IFIs today, and creating a new dependency.

Many cooperative organizations in Mongolia have successfully reinvented themselves as ICA style cooperatives but have not yet recovered from the loss of state support. They are cash starved, short of human resources, and struggling to provide services to an impatient membership, at all levels of the movement. This makes them very susceptible to exploitation by well meaning institutions. The difficulty arises primarily from the sheer volume of capital and publicity of foreign investment. Not managed correctly it can undermine the cooperative movement by attracting members who have no real interest in or understanding of cooperatives but want only to take advantage of a program, in short, customers not members. This may happen by customers joining existing cooperatives or the creation of new co-operatives whose sole objective is to access a program. When the program ends those members and single objective cooperatives disappear often with devastating consequences for the rest of the cooperative movement. There is a litany of empirical evidence available in market economies, post-colonial economies, and transitional economies, developing and developed economies of this very real danger to the co-operative movement, nationally and internationally.

It is incumbent upon the state, IFIs and international co-operative development agencies that implement on behalf of IFIs and donors, to be cognizant and work to mitigate the potential negative affects of largesse. Education and training are the most important factors in developing a sound cooperative movement. Education and training are critical in ensuring that cooperatives are capable of maintaining autonomy and independence and they do enter into agreements 'on terms that ensure democratic control by their members and maintain their co-operative autonomy'. Government can be supportive by taking a long term view and ensuring that education and training are significant components of any international intervention involving cooperatives.

#### **IV. The Role of International Cooperative Organizations**

International cooperative development organizations face special challenges in transitional economies by virtue of having a highly educated, well informed, but relatively inexperienced audience. Members want fast results and sophisticated services despite the lack of infrastructure support. This is particularly true in Mongolia where even in the vast isolation of the Gobi desert, herders have satellite dishes. Members still rely on barter trade but they are aware of plastic cash.

Members have good capacity to learn technical skills like accounting and business planning but management and decision making are internalized more slowly and much more

challenging to teach. There is a greater tendency of members to be investment oriented rather than service oriented. That is people join co-ops as an investment rather than to be able to take advantage of its services, this is true in Mongolia, Vietnam and China. This obviously impacts the ability of a co-op to grow when one portion of the membership is focused on maximizing dividends. In order to compete in a free market, co-ops need to be able to access external capital to fund their growth. These are new experiences for co-operative development agencies and require new development approaches. At the same time the old skills of community mobilization, encouraging participatory decision making and basic democracy are still critical.

Like governments, co-operative development agencies need to move away from patronage to genuine partnerships with developing cooperatives and cooperative movements. Cooperative development organizations need to remember that the institutions we help to build need to be sustained by members after we are gone. The Co-operative Training Centre (CTC) in Mongolia is an example of an institution that models the behaviour of efficient delivery of services in a market economy by cooperative organizations. The CTC was created by GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit), bringing together seven Mongolian cooperative apexes to manage the centre. Initially GTZ provided training of trainers to establish a core group of co-operative trainers, who are all members of the seven apex organizations, that have been very successful in propagating ICA standards and more recently teach bookkeeping and accounting for coops. The training center delivers a very valuable service but does not place any financial burden on its members. Initially it had no infrastructure to support, no office rent, no salaries and no equipment. Recently it has hired a part time manager who is compensated through fee for service as CTC contracts to do training on behalf of other agencies. This focus on training, skills and education rather than equipment and administrative structures will nurture the movement long after physical equipment is gone. The CTC not only plays a vital role in training co-operative members, its creation brought a new level of co-operation among apex organizations and helps to promote a real movement.

International cooperative development organizations also have a role to play in mediating between cooperatives and government and IFIs to uphold the principles of real autonomy and democratic control. Cooperative development agencies are witnesses to the impact of legislation and government policy, on the ground where it plays out in the lives of members and the daily operations of cooperatives. By virtue of their international nature co-operative development agencies are in an excellent position to share lessons across international boundaries. Government needs both encouragement and direction with respect to developing a 'cooperative' agenda. Cooperative movements, many which are pre-occupied with growth, and their very existence, do not always have the time and skills to effectively and systematically implement advocacy plans. Cooperative development agencies can and should, in partnership with local co-operative organizations take on an advocacy role with local governments. The Cooperative Ministers conferences are an example of how international cooperative development agencies can be meaningful advocates.

## **V. Conclusion**

Mongolia has a long and proud tradition of coops with the first coop, a consumer cooperative being established in 1921. As in many transitional economies, Mongolian

cooperatives suffer from a negative image from the years of collectivization. However, as government struggles to meet its' commitments and the country suffers through severe climactic conditions, Mongolians are again forming coops voluntarily to meet their daily needs and address the gap between government and private sector goods and services. With the exception of financial cooperatives, most coops are forming in the rural areas where the private sector finds it uneconomic to invest and government is unable to provide services. "Coop development thrives in the face of scarcity' People band together in times of trouble and cooperatives are a natural extension of that tendency. However, individual co-operatives are hampered by insufficient access to capital and insufficient legislative clarity, particularly with respect to tax law, lack of knowledge about coops in the general public, financial community and public service and lack of management training opportunities. These are issues that can be addressed by external agencies; government, IFIs and international cooperative development agencies working co-operatively, and in partnership with local primary, secondary and tertiary cooperative institutions.

"Cooperative development struggles in the presence of plenty". As IFIs and donor agencies look to cooperatives as implementing agencies or delivery channels they need to be aware of creating false cooperatives and distinguish between co-operation and cooperatives. It is inevitable that cooperative development will be motivated by the promise of external assistance so training and education that entrenches the responsibilities of members along with the benefits of membership is critical. Cooperative developers should keep in mind the last two items of the Beijing Declaration:

- Co-operatives belong to their members whose shares are the basic capital, but in today's competitive world, they must seek additional resources without threatening their cooperative character; and
- Development assistance can be important for cooperative growth, most effectively when this partnership recognizes the co-operative essence and is operationalized within a framework of networking.

Cooperatives are well suited to meet Mongolia's demographic, geographic and climactic challenges. In many remote areas working co-operatively and through cooperatives is the only way to bring basic goods and services to the community. In some communities established cooperatives are the main economic and social force and leading taxpayers. With responsive legislation and policy, a sound investment in training and education and some capital assistance co-operatives will continue to change and strengthen the communities in which they operate.