TRANSITION
TO COOPERATIVE
ENTREPRENEURSHIP

Case studies from Armenia, China,
Ethiopia, Ghana, Poland, Russia,
Uganda and Vietnam

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This volume documents current entrepreneurial and management practices in cooperatives in selected transition and developing economies and identifies the key factors determining the success of cooperative entrepreneurship in the transition from central planning to a market-driven economy.

In broad terms, cooperatives in centrally-planned economies were subjected to considerable State interference at all levels of their operations. In many cases there was little difference between State-owned enterprises and so-called ‘cooperatives’ and the ensuing distortions not only made it impossible for cooperatives to function as member-owned and member-run business enterprises but also tarnished the reputation of cooperatives among the general population. With the collapse of the Soviet system in Eastern and Central Europe cooperatives were, for the first time, exposed to the challenges posed by the market economy. Similar challenges have been faced by many cooperatives in African and Asian centrally-planned economies under the pressure of adjustment policies. Cooperatives and their representative organizations entered a period of crisis, characterized by lack of clarity regarding ownership of assets, internal division, intense competition from the private enterprise sector and general demoralization. Despite these difficulties however, the changing needs which have emerged through more open markets and the reduction in State-run services have presented cooperatives with new opportunities. Many cooperatives have not only survived, but have succeeded beyond expectations to adapt to the new environment, to continue to provide goods and services to their members and to maintain and even create new jobs.

Between 1993 and 1996 the Cooperative Branch issued a series of reports dealing with the socio-economic and policy environment for cooperative development in Africa, Asia, Latin America and Central and Eastern Europe. These reports focussed on the establishment of favourable conditions for cooperative development in liberalized market economies, and dealt substantially with transition processes in former socialist countries. It was not possible at that time to review the newly emerging entrepreneurial and management practices in cooperatives in the transition economies, which have enabled a growing number of cooperatives to function as successful cooperative business enterprises.

The eight original case studies contained herein are presented in abridged form as a series of chapters in which key factors of successful cooperative development are outlined. They are presented in the following order: Eastern Europe
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- Armenia, Poland and Russia; Asia - China and Vietnam; and Africa - Ethiopia, Ghana and Uganda. Each of the chapters follows a similar structure, including a general introduction, a presentation of the historical background of the cooperatives, a presentation of initiatives undertaken by the cooperatives to cope with changes, and a general description of the results obtained as a consequence of these initiatives. This is followed by a comparative analysis of the main factors in successful cooperative entrepreneurship in transition and developing economies. The key factors have been grouped as: social and human aspects, financial and economic aspects, cooperative principles and governance, and the legal, policy and institutional environment. The last chapter contains a review of the main issues, as discussed in an international workshop hosted by the Netherlands Institute for Cooperative Entrepreneurship (NICE) at Nyenrode University from 9-11 July 2001. The participants comprised the authors of the studies and staff of NICE and the ILO’s Cooperative Branch.

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Cooperative Branch
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1.1 COOPERATIVES IN TRANSITION AND DEVELOPING ECONOMIES

In the last decade – and in some cases, from the beginning of the 1980s – many Asian, East European and African countries have experienced a major shift from centrally planned to market-driven economies. This change, while generally welcomed as a sign of democratization, has also had dramatic economic and social consequences for many small enterprises. Cooperatives, which had been subjected to State control for decades, were deeply affected by the liberalization of the market. Many of them were simply unable to cope with the competitive market’s new requirements. However, although the challenges seemed insurmountable to many cooperatives, others successfully adapted themselves to the new economic, political and social context.

There have been many studies aimed at understanding the consequences of market liberalization on cooperatives. However, some effort still needs to be made to analyse the key factors leading to the successful development of cooperatives in transition and developing economies. Successful cooperative development is important among other reasons because of the contribution of cooperatives to employment and hence to social stability. Cooperatives play a distinct role in this respect, because of their large number, and their role in motivating and enabling entrepreneurship at the grassroots. Understanding the keys to successful cooperative development will help improve their performance and secure their long-term viability. The aim of this publication is therefore to underline the main factors favouring cooperative creation, re-launching and growth in liberalizing economies. This is done with the help of eight case studies, synthesizing experiences in Central and Eastern Europe, Asia and Africa. Conclusions drawn from this study not only improve our general understanding of the situation, but also serve as concrete points of reference for genuine cooperatives to support their development during the periods of transition.

In this publication, ‘genuine cooperatives’ are referred to instead of ‘socialist’ or governmentally dominated cooperatives. The term thus refers to voluntary, politically independent, user-owned and user-controlled businesses created
to provide their members with material and social benefits in a market environment. In many cases the cooperative principles formulated by the International Cooperative Alliance in 1995, at the time of its Centennial Congress, provide helpful guidance to direct 'genuine' cooperative development. These principles are: democratic member control (generally 'one-member, one vote'); voluntary and open membership; member economic participation (on the base of equity provided by members, limitation of individually held equity, distribution of surpluses as patronage refunds, limited dividend on equity capital, etc.); autonomy and independence; education, training and information; cooperation among cooperatives; and concern for community.

Before introducing the case studies, an overview is presented of the socio-economic changes that currently affect cooperative development in transition and developing economies. The cooperative environments in Africa, in Asia and in Central and Eastern Europe, are presented separately.

1.2 CENTRAL AND EAST EUROPEAN COUNTRIES

The collapse of socialist regimes in the 1980s led to the decline of the cooperative movement in many Central and East European countries. As they were used to being subjected to State control, many cooperatives were not prepared to face the challenges of the competitive market and manage their social and economic development in an autonomous manner.

The State-controlled period was characterized by government interference in cooperative affairs at all levels. Most of the time, member registration was compulsory, and the directors and staff were not appointed or elected by the members, but directly appointed by the State. In many countries, cooperatives were not particularly concerned about profitability since they were subsidised by the government and received preferential treatment. In the same way, they were subjected to rigid State planning, which did not provide them with the possibility to develop their own entrepreneurial strategies. Their business affairs were often restricted to a small range of products and services, and State control extended to instructions and directives concerning, for example, the number of employees and their wages. In many countries, cooperatives were in actual fact instruments of the State, and were used to help meet the nation's - and not the members' - needs.

The collapse of the socialist regime brought about drastic changes. Since membership was no longer compulsory, cooperative membership and, consequently, capital share income, dropped. Also, government subsidies disappeared or decreased significantly. These financial losses, in addition to the consequences of hyper-inflation on input prices and the buying capacity of the population, led to huge financial problems.

It was also difficult for many cooperatives to survive in the context of a 'shadow economy' and unfair competition. Inconsistent taxation policies and
the weakness of the banking system were also obvious factors which hindered cooperative development.

Also, cooperative directors and managers were often not well-trained – and sometimes lacked the necessary minimal competencies – to manage a cooperative in a liberalized market context. The training programmes that were offered by the State did not enable managers to face the new challenges of a competitive environment. Moreover, as a consequence of the State-controlled period, cooperatives systematically suffered from over-employment; the consequent disappearance of government subsidies forced many of them to dismiss employees, or perhaps worse – to act as a pension fund for retired workers.

As a result, the general population does not have much confidence in cooperatives. Genuine cooperative principles, having hardly been applied, were not generally shared by the members or the population, and cooperative membership was usually passive.

All these problems eventually led to the dissolution and bankruptcy of many cooperatives. It should be noted that also the particularities of privatization often played an important role in setting the pace for cooperative development.

1.3 ASIAN COUNTRIES

The countries in the Asian region present a varied picture. While some countries are more advanced in economic terms, some others are still in a very difficult situation. Also, the historic and current political context, which directly influences the environment in which cooperatives exist, differs from one country to another. Consequently, the conditions and environment under which cooperatives operate in the countries of Asia are highly diversified.

In China and Vietnam, the two Asian countries presented in this study, the socialist regimes did not collapse as happened in many Central and East European countries. However, markets are gradually being liberalized and governments are in the process of changing their attitudes and functions as regards their role as supporter of cooperatives. Cooperatives are regaining their autonomous status and democratic character, but this also represents a daunting challenge for them, as they have been dependent on the government for so long and have in many cases neglected their most important asset – their membership relations.

The consequences of a newly liberalized economy on Asian cooperatives, in China or in Vietnam for instance, are similar to those faced by Central and East European cooperatives, as presented previously. The members and the general population lack confidence in cooperatives. The cooperatives' directors and managers are inexperienced and sometimes unable to deal with the new challenges introduced by the competitive market. The diminution or disappearance of governmental subsidies left cooperatives with huge financial problems. More specifically, Asian cooperatives that develop in countries where the centrally-planned
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economy was not abolished, as in China or Vietnam, also face particular issues. Due to the still significant governmental control, management and ownership of cooperatives overlaps between government and cooperatives. This remains a problem that hinders autonomous and democratic cooperative development.

1.4 AFRICAN COUNTRIES

Many African countries, such as the ones presented in this study, have been exposed to economic and political recovery policies since the mid-1980s. These policies, such as the Structural Adjustment Programmes (SAPs), were designed to force governments to adopt the rules of the liberalized market and to democratize their political system and have consequently had a significant impact on cooperative development.

There is a long tradition of solidarity in Africa. Without adopting the cooperative model as it is known in western countries, many informal organizations developed in order to improve the socio-economic life of the population. The first formal cooperatives were usually created during the period of colonization, and were used as tools serving the colonizing countries' interests. After independence, national governments, often inspired by the socialist system, did not contribute to genuine democratic and autonomous cooperative development. Cooperatives were thus treated as an extension of State control until the 1980s and sometimes later.

The consequences of State control on cooperative development in Africa are mainly the same as the ones mentioned in the sections on Asian and East European countries. In many countries, the African governments controlled all levels of cooperative activities, from the appointment of directors and managers to business activities. Again, there was often a relationship between generous cooperative credit schemes and the rhythm of political elections.

The political and economic changes undertaken under the SAPs had both positive and negative consequences on cooperative development. Among the positive consequences are obviously the possibility for cooperatives to regain their autonomy, but also their obligation to respect a number of important business rules (recovering their funding, holding annual general assemblies, etc.) As a consequence of the SAPs, many cooperatives that had remained informal during the State-control period chose to register formally.

However, the withdrawal of the State from cooperative affairs and the quick arrival of the competitive market economy also caused problems for cooperatives. As was the case in former socialist countries, many African cooperatives, deprived of government subsidies to which they had become addicted and of a part of the income coming from membership fees, ended up with major financial problems.

Moreover, generally speaking, people in Africa had little confidence in cooperatives, as genuine cooperatives had hardly existed in their region.
ARMENIA: ARARAT, ARTASHAT, ARAPAN, VARDENISS AND TALIN CONSUMER COOPERATIVES

by Grigori Altshul

Type of cooperative: Consumer “multipurpose”
Created: Beginning of 20th Century
Re-launched: Late 1990s
Membership: 24,300
Employees: 1,320
Turnover: S$ 990,000

2.1 INTRODUCTION

The Armenian cooperative movement was not prepared to face the consequences of the collapse of the socialist regime. In the 1990s, with the beginning of the land reform process, the Government liquidated all agricultural cooperatives, and only a few consumer cooperatives, including the five cooperatives presented in the following case, survived. These five cooperatives could easily have gone bankrupt, as many of their ‘sisters’ did. Their membership, which was usually made up of poor and relatively uneducated peasants, was used to being passive. Their financial resources were extremely limited, and competitors had their eyes on their traditional markets. To dissolve the cooperatives would have been the easiest and fastest way to walk away from the apparently insurmountable problems they had to face. However, they decided to rise to the challenges. These cases show how the development of new services adapted to the members’ needs is crucial to rejuvenate cooperatives in a traditional cultural environment.

2.2 HISTORICAL BACKGROUND

Armenian cooperatives were subjected to tight State control until the end of the 1980s. At this time, new industrial and service cooperatives emerged, as a result of the adoption of the Law on Cooperatives in the USSR initiated by
M. Gorbachev in 1988. This Law was aimed at developing private entrepreneurship through the cooperative sector without changing the basic characteristics of the old system. Between 1988 and 1991, a large number of ‘new’ cooperatives were set up. However, with the beginning of the reform, practically all the ‘new’ cooperatives turned into private enterprises which, at the time, seemed more appropriate and promising for entrepreneurial activity.

Former collective farms, which were regarded as agricultural cooperatives in the USSR, were totally eradicated in Armenia with the beginning of the land reform in the middle of the 1990s. Consumer cooperatives are the only type of cooperatives that still exists in Armenia. Currently there are 40 cooperative societies affiliated to the Central Union of Consumer Cooperatives of Armenia (HAYCOOP), with an individual membership of 528,000 people.

The situation in Armenia, apart from being affected by a period of political change and the transition from a centrally-planned economy to a free enterprise one, is also aggravated by the after-effects of an earthquake, a military conflict with Azerbaijan, a flow of refugees from Azerbaijan and a transport and energy blockade. However, in spite of the difficulties, some cooperatives have managed to develop a number of entrepreneurial initiatives aimed at providing improved services to their members.

This case study provides an overview of different initiatives undertaken by five Armenian cooperatives in the Ararat, Artashat, Arapan, Vardeniss and Talin districts. These five cooperatives participated in a project called ‘Development and democratisation of consumer cooperatives in some selected areas of the Caucasus,’ which was funded by the Olof Palme International Centre of Sweden and carried out under the patronage of the International Co-operative Alliance (ICA) from 1999 to 2000. Together, the five cooperatives boast a membership of 24,300 individual members. All of them faced the same challenges and tried to develop new entrepreneurial strategies not only to survive, but to revive their fortunes and enhance their role as efficient tools for poverty alleviation and enhanced participation in rural development.

2.3 KEY FACTORS OF THE RE-LAUNCHING OF THE COOPERATIVES

The five cooperatives identified several top priorities regarding entrepreneurial initiatives in order to cope with the changes. The first one was the creation of a stable system for purchasing and marketing the agricultural products of their members. The second one was the creation of a network of small processing enterprises based on market demand. A third priority was restoring their position in retail trade and increasing the competitiveness of their retail shops. These priorities are not the only ones, but they are the basis for the concrete examples of cooperative entrepreneurial activities which have been selected for this study.
2.3.1 Directors and leaders

Before discussing in greater detail the new managerial strategies undertaken, it is important to stress that much of the credit for the accomplishments should be given to the elected cooperative leaders and managers of the cooperatives in question, who initiated and played a key role in the entrepreneurial undertakings. In most cases, they were men and women with true devotion to the cooperative cause and a strong motivation to prove that their cooperatives could be efficient and competitive for the benefit of their members. Without such dedicated leaders, even marginal success would have been impossible, considering the generally gloomy picture of economic and social degradation and extreme poverty in rural areas in Armenia.

2.3.2 New managerial and entrepreneurial strategies

Assisting peasants to market their products

In order to create a sustainable procurement and marketing system for agricultural products from peasants, the selected cooperatives had to carry out the following tasks: evaluate their current levels of activity in the procurement of products from peasants and in the organization of the marketing of these products; evaluate the levels of agricultural produce which can be offered by the peasants for marketing through a cooperative; review the status and capacities of the cooperative’s existing facilities for the storage and sale of procured produce; and finally, identify processing opportunities and marketing channels.

Special working groups were established by the cooperatives. Their job was to visit a number of households and identify all available resources and marketing opportunities. The results of this investigation showed that the most difficult problem for the five cooperatives was the establishment of marketing channels. However, each cooperative tried to solve this problem using its own local resources. Some of them are described below.

- Procurement and marketing of tomatoes in the Ararat consumer cooperative: The district where this cooperative operates is traditionally known for its tomato production. The cooperative concluded an agreement with a local canning factory for the supply of guaranteed volumes of quality tomatoes obtained from peasants at set prices. Similar agreements for guaranteed procurement of tomatoes were concluded with the participating peasants. A credit line was opened for them by the cooperative in return for future harvests. With the credit line, they could acquire necessary commodities and implements in the cooperative’s shops.

- Procurement of grapes, vegetables and fruits in the Artashat consumer cooperative: The Artashat cooperative concluded agreements with peasants for the procurement of their horticultural and vegetable garden produce. For
this purpose, three specialized procurement agencies were established for grapes, fruits and vegetables and a refrigerated storehouse was re-equipped. Twenty-five shops with cooling equipment were also used for procurement and marketing. A network of specialized retail stores was set up in the district centre and a number of stalls were rented for marketing purposes in major peasant markets in the capital.

- Procurement and marketing of milk in the Aparan district cooperative: There existed a State milk-processing factory in the Aparan district centre. After the factory had been privatized, its capacities were reduced to 10-15 per cent of its normal level, mainly because its new owners were not able to organize the collection of milk from local inhabitants. Taking into account the interest of local farmers in marketing their milk, the cooperative engaged in the task of setting up a procurement network for milk collection. This project was started by the cooperative in 1998, with 12 million drams (approx. US$ 21,770) invested in this new business. A net profit of at least 8 million drams is expected in 2001 (approx. US$ 14,500).

Delivery of agricultural services to peasants and development of their own agricultural production

- Agricultural services provided by the Vardeniss district cooperative: A specific feature of the Vardeniss district is that it is inhabited by a large number of refugees from Azerbaijan. It is one of the poorest districts of Armenia. In order to assist the member peasants to cultivate their lands, the Vardeniss cooperative decided to create its own enterprise to provide agricultural services to peasants. The enterprise has two divisions: one for providing services and one for the development of the cooperative's own agricultural production, while providing job opportunities mostly to members. Sixty million drams (approx. US$ 108,840) were initially invested. The cooperative acquired three grain combines, five tractors, two cultivators and several trucks with appropriate equipment. Five hundred hectares of arable land were rented for the cooperative's own production of cereals.

- Use of deserted lands by the Ararat consumer cooperative: In 1999, the Ararat cooperative rented 45 hectares of deserted lands and started to cultivate them for vegetables and cattle feed. During the preparation for the sowing season of 2000, the cooperative built several greenhouses for tomato seedlings and other vegetables. In 2000, the cooperative rented another deserted plot of 20 hectares and developed it into a tobacco plantation. This project provided a reliable source of additional income for the cooperative owing to the great demand for raw materials from local tobacco companies.

- Horticultural project in the Aparan consumer cooperative: One of the Aparan cooperative's entrepreneurial initiatives was a successful horticulture venture. In 1999, the cooperative purchased a 6.3 hectare apple orchard at a
good price. Later in the year, 25 tons of apples were harvested and stored in the cooperative's cold storage facilities. In the winter, the stock was marketed at a competitive price, bringing the cooperative a net profit of 1 million drams (approx. US$ 1,814).

Development of small industries

- Small processing enterprises in the Ararat consumer cooperative: The Ararat cooperative purchased abandoned premises that had formerly belonged to a State collective farm and established its own milk-producing farm with 200 cows. Animal feed was prepared from plants grown for this purpose by the cooperative and a small processing unit was established nearby. Another small unit was set up to process meat for the production of sausages and other meat products. The cooperative also took part in a workshop network restoration programme for fruit and vegetable processing.

  In 1998, with financial support from HAYCOOP, 73 million drams (approx. US$ 132,420) was invested in this sector, and 8 workshops were reopened for the production of fruit and vegetable preserves using modern packaging technologies. The end products (including tomato paste, natural juices and fruit preserves) were partly marketed on the internal market and partly exported to Georgia, Russia and Turkmenistan.

- Wool processing and carpet and leather article production in the Artashat consumer cooperative: Taking into account the members' interest in marketing wool produced in their households, the Artashat cooperative decided to establish a wool-processing and carpet-producing enterprise.

  The cooperative also established a tannery where raw materials obtained from local peasants were used.

- Chicken farm in the Aparan consumer cooperative: In 2000, unused parts of the cooperative's warehouse were reconstructed and a chicken farm was established. The development plan aimed at selling chickens to interested peasants as well as establishing a processing unit for the farm's products.

- Creation of a small industrial enterprise by the Talin district consumer cooperative: In 1999 an unused two-storey department store owned by the cooperative in the district centre was reconstructed. Then, in a joint venture with the Yerevan Jewellery Factory, which had well-established marketing channels including business ties with France and the USA, the cooperative set up a jewellery production workshop in the department store.

- Development of a bakery network: A total of five district networks of small bakeries were established. Most of the bakeries are specialized in national brands, which are in great demand in the local communities. In 2001, all five cooperatives plan to increase bread production by about 50 per cent, through more efficient use of existing facilities and partial expansion.
Raising the competitiveness of consumer cooperatives in retail trade

- A new image of retail shops in the Vardeniss district cooperative: The Vardeniss cooperative initiated the creation of a retail network dedicated to the poorest strata of the population. The basic strategy was to minimize operational costs through the rational use of facilities and equipment, cutting excess staff, improving management efficiency and selling commodities at equitable prices. A wide selection of locally produced foodstuffs has been maintained on a permanent basis and the sale price is generally about 75 per cent lower than private competitors’ prices. Each large shop has a small cafeteria which is usually equipped with simple equipment to make popular local dishes. Supply is secured through the cooperative’s wholesale depot located in the district centre.

- Modernization of peasant markets in large cities: Armenian consumer cooperatives own 28 agricultural markets located in Yerevan and other large cities. The purpose of the modernization programme was to strengthen their competitiveness and position in urban areas. The programme also aims at creating favourable conditions for agricultural producers who sell their produce independently in cities as well as at a more efficient use of markets to sell produce obtained and/or processed by the cooperatives themselves.

2.3.3 Cooperative principles and democratization of consumer cooperatives

In 2000, the majority of the consumer cooperatives in Armenia adopted new by-laws providing for an increased role for the cooperatives’ self-managing bodies and respecting the cooperative principles. These committees have begun to play a role in improving the flow of information to members, raising public awareness of the cooperatives’ entrepreneurial activities and developing their strategies. However, their influence on the decision-making process and their ability to realistically estimate strategic development opportunities are still very limited. Nevertheless, the adoption of new by-laws helps strengthen positive trends such as increasing the number of members and their participation in decision-making processes.

2.3.4 Support from HAYCOOP

HAYCOOP actively promotes its affiliated members’ entrepreneurial initiatives. A special investment fund is available to provide technical and financial assistance to affiliated cooperatives that initiate promising projects, especially in entrepreneurship development. HAYCOOP currently intends to develop a formalized training module for cooperative entrepreneurship at the local and
national levels. HAYCOOP has also elaborated a strategy for retail network development and for identifying priorities. The immediate objective is to create a network of well-identified cooperative shops whose basic competitive advantages are guaranteed quality goods at equitable prices and services that take into account the interests of the members and customers.

2.4 THE RESULTS

The above initiatives, even though they did not solve all the problems, made it possible for the cooperatives to achieve positive results.

2.4.1 Financial results

Overall, the five cooperatives studied were profitable in 1999 and even more so in 2000. These five cooperatives' average profit growth reached 142.5 per cent between 1999 and 2000. Viewed separately, the entrepreneurial strategies adopted by each cooperative have led to profitable financial results or should do so in the near future. For instance, due to the development of its tomato marketing activities, the Ararat cooperative made a net profit of 6 million drams in 1998 (approx. US$ 10,880), while its losses were estimated at 5 million drams in 1997 (approx. US$ 9,000). Similarly, the procurement of grapes, fruits and vegetables by the Artashat cooperative resulted in a profit of 1.8 million drams in 1999 (approx. US$ 3,265) and 3 million drams in 2000 (approx. US$ 5,440).

These figures may not be very impressive, but they provide a foundation for future growth. More importantly, positive experiences and successful initiatives are proliferating in other areas of the country.

The initiatives taken, while contributing to an improvement in financial results, also increased the production and/or sales of some products. For example, the procurement and marketing activities in the Artashat cooperative contributed to an increase in the production of grapes and other fruits and vegetables from 1,270 tons in 1998 to 1,560 tons in 1999 and 2,590 tons in 2000. Also, in this cooperative, the carpet production project had good results. In 1999, a total of 400 m² of carpet was produced and in 2000, production rose to 700 m².

By assisting peasants in marketing their products, the five cooperatives also improved their business relations with their members. Hence the percentage of sales made by the members to their cooperative rose considerably. In 2000, 86 per cent of the total egg production, 87 per cent of milk production, 83 per cent of meat production, 80 per cent of both cabbage and fruit production as well as 75 per cent of both tomato and potato production were marketed through cooperatives.
2.4.2 Job creation

All the initiatives undertaken by the five cooperatives resulted in job creation. Overall, the five cooperatives contributed to the creation of 990 jobs. Individually, Ararat created 360 new jobs; Artashat created 260; Aparan created 60; Vardeniss created 130, and Talin created 180.

2.4.3 Social results

In addition to job creation, the cooperatives fostered the development of decent working conditions. For instance, the employees of the Talin cooperative have access to showers, canteens and well-equipped restrooms. Moreover, the Talin cooperative offers regular training and good opportunities for professional growth to capable young people. In general the initiatives undertaken also contributed to improve living conditions of many families in rural areas.
3.1 INTRODUCTION

The Stefczyk credit union was created after the collapse of the socialist regime. Its establishment, like the re-launching of the Polish credit union movement in general, was due both to the initiative of young Polish leaders and to the support of international organizations. The short history of the Stefczyk credit union is characterized by a series of mergers, which occurred within quite a short period of time. The last one, which led to the creation of the current Stefczyk cooperative in 1999, was considered necessary by the managers and had a dramatic effect on the credit union. Its membership rose considerably, the number of employees multiplied, but its financial situation became worrying. The problems faced by the cooperative could have led to its dissolution without the persistent efforts and wise financial management of its managers and the constant support of several institutions composing the Polish credit union movement.

3.2 HISTORICAL BACKGROUND OF CREDIT UNIONS IN POLAND

The origins of the credit union movement can be traced back to the second half of the 19th century, when Poland was occupied by Russia, Prussia and Austria. Cooperative companies were one of the few types of enterprises that could be legally established under foreign rule and credit unions served not only as credit-providing institutions, but also as a means of maintaining national identity and helping keep the much endangered agricultural property in Polish hands. They
flourished after Poland regained independence in 1918 and until the German/Soviet occupation of Poland during World War II. Then, they were taken over by the State. Fortunately, it became possible to re-establish the system when the country became truly independent again in 1989 and the transition process towards a market economy was started.

At the end of the 1980s, initial contacts were made by young Polish leaders with international development organizations. Representatives from the World Council of Credit Unions (WOCCU) visited Poland in 1989 to explore the opportunities for developing a credit union system. This initial undertaking was followed by others, and the Foundation for Polish Credit Unions was established in 1990. Another project sponsored by the USAID was launched two years later and the first ‘Cooperative Savings and Credit Unions’ were created.

In 1991, the Trade Union Act made it possible for employees to create credit unions at work, but the Act was felt to be incomplete. The potential of the quickly developing credit union system and the efforts of the movement’s top leaders resulted in the Credit Union Act, which was enacted in 1995. Among other things, this Act empowered the National Association of Cooperative Savings and Credit Unions (NACSCU) to solely supervise and regulate the credit union sector.

The current credit union sector in Poland has not only an increasing number of primary organizations, but also many second-tier institutions with the previously mentioned NACSCU at the apex level.

Stefczyk Credit Union

The current Stefczyk Credit Union is the result of a series of mergers, the most important of which was the merger between the original Stefczyk and the Staszic Credit Union. The original Stefczyk was established in 1993 and was designed to meet the needs of the NACSCU staff and individual credit union employees. However, individual credit unions started admitting their own employees into the membership, which eliminated the need to maintain a separate credit union for credit union employees. Stefczyk’s membership was gradually extended to include employees from various professional communities.

The Staszic Credit Union, which was created in 1995, was the first Polish credit union based on the common bond of association system. It was established for members of the Association for the Dissemination of Financial Knowledge and was located in the same building and managed by the same president as the Stefczyk. For some time, the two credit unions existed virtually side by side but a need for consolidation became clear and, in 1999, the Stefczyk and the Staszic merged. Shortly after, a series of take-overs involving other credit unions took place, leading to the formation of the current Stefczyk credit union. The result of these mergers meant that the new cooperative was faced with entirely new economic, managerial and social challenges.
3.3 THE KEY FACTORS OF THE LAUNCH AND GROWTH OF THE STEFCZYK CREDIT UNION

3.3.1 Directors and leaders

The Stefczyk credit union's growth relied, among other things, on the important role played by some leaders and managers. The current president of the new Stefczyk used to manage the two cooperatives that were merged to create the Stefczyk. His experience and his involvement greatly contributed to the success of the merger. Moreover, all the members of the Management Board meet or even surpass the strict qualification requirements set by the NACSCU. Special care was taken in selecting the members of both the Management Board and the Regional Directors team and in ensuring good co-operation between the ‘old’ and the ‘new’ Stefczyk leaders.

3.3.2 New managerial and entrepreneurial strategies

The growth and expansion of the Stefczyk credit union would not have been possible without the adoption of innovative managerial and entrepreneurial strategies listed below:

- **Human resources management**: Employee selection, recruitment and training is an issue of particular importance at Stefczyk. The head of the human resources management division (a position that was created relatively recently and whose holder has been granted special powers regarding the recruitment and training of the staff), plays a special role within the structure. Before candidates are hired, they undergo an 8-day training session which ends with an exam. Once hired, Stefczyk’s employees can follow courses appropriate to their needs. Training is generally organized directly by Stefczyk’s training division, but it can also be provided by the Credit Union College. The College also provides the necessary training to members of the Supervisory Board lacking adequate professional background.

- **Respect for the employees’ ideas**: Stefczyk’s structure is built along clear lines of responsibility. In this respect, a lot of initiative and flexibility is expected from the employees of the branches that are close to the members’ needs.

- **Wise financial management**: Stefczyk’s managers are aware of the double nature of credit unions, which are based on the principles of self-help and business democracy on the one hand, and the rules of business on the other. Thus, their financial management is aimed at using credit union funds for the interests of the members, providing them with quality services while securing the financial safety and solvency of the cooperative entity. The recent merger led to new financial challenges that are not entirely solved yet, but wise financial management enables the cooperative to cope with changes.
Transition to Cooperative Entrepreneurship

- Diversify the membership and meet the needs of the new members: One of Stefczyk's managerial strategies is designed to diversify the membership, which was traditionally made up of quite poor people who were not well educated and who had lived in the old economic system. Membership now includes people from all salary levels. Consequently, new needs arose and the cooperative made considerable efforts to provide the members with innovative products and services, such as ATM cards that can be used all over Poland and Visa Electron cards that can be used anywhere in the world. Stefczyk also developed insurance and business lending services. All kinds of marketing tools are also used to attract new members and sell new products, with the marketing plans drawn up first at the lower branch level.

Finally, it should also be mentioned that, together with a couple of other major Polish credit unions, Stefczyk has been selected to implement a special programme that aims to provide counselling on personal finance management and the skillful use of credit union products as well as teaching people how to avoid the traps set by banks or lending agencies that provide 'personal' loans (and charge 160 per cent a year). In addition the programme provides people with advice on how to find a job. All these activities, while not typically part of credit union business, help anchor Stefczyk in local communities and make people have more trust in cooperatives.

3.3.3 Cooperative principles

The Stefczyk credit union aims to respect the cooperative principles as stated in the Credit Union Act of 1995 and the Cooperative Law of 1982. Considering the size of Stefczyk and its territorial spread, the cooperative replaced the General Assembly of Members by a General Meeting of Representatives. The representatives are elected during individual Member Group Meetings held prior to each Meeting of Representatives. As the supreme body of the credit union, the General Meeting of Representatives elects the Supervisory Board of Stefczyk in addition to exercising its other powers. The Supervisory Board, in turn, appoints the Management Board and Credit Committee, which acts in an advisory capacity.

3.3.4 Support from national and international organizations and cooperative legislation

Among the most important factors that explain the successful growth of Stefczyk is the support received from both national and international organizations. Many organizations have been created to provide credit unions with support services. Among others are NACSCU, mentioned above; the Central Financial Facility, which provides protection to credit unions in case of unanticipated
withdrawals of member savings; the Stabilization Fund which assists credit unions facing financial difficulties due to the unstable economic environment of the country; the Credit Union Mutual Insurance Company, an insurance company entirely owned by the credit union system and offering a whole range of insurance products; the Credit Union College which offers training to both employees and managers and the previously mentioned, Foundation for Polish Credit Unions, which contributes to the development of the credit union system in the country.

The Polish credit union system received important financial and political support from international organizations, namely the WOCCU (funded by USAID) and sister credit union systems in the United States and Ireland. A number of twinning agreements were arranged between American and Polish credit unions for technical assistance.

As mentioned in the introductory part of this chapter, adequate legislation was passed quite quickly and in 1995 Polish credit unions could already benefit from the Credit Union Act. However, another law, the Business Activity Law of 19 November, 1999, offered to credit unions an entirely new opportunity to maintain accounts for micro or small enterprises and to provide business loans to them, a service that was not allowed under the 1995 Act.

Finally, a favourable social environment contributed to the development of the Stefczyk credit union as well as to the development of the Polish credit union movement in general. The traditional inclination of the Poles to help one another, a set of traditional family and religious values shared throughout the nation and fond memories, especially among the older generation, of true cooperative principles fostered the successful development of Stefczyk.

3.4 THE RESULTS

3.4.1 Financial results

The recent mergers have affected the credit union in an incredible way. Indeed, between 1996 and 2000, its assets grew twenty-fourfold, the capital grew thirty-eightfold, the number of branches went from 6 to 87, the number of members went from 5,500 to 60,000, and between 130 to 140 people applied daily for membership. However, at the same time, the mergers also resulted in a loss of US$ 557,944 in 1999.

This sudden growth and its economical consequences constituted, and still constitute, a huge managerial challenge. Nevertheless, thanks to the various factors previously presented, the credit union can view the coming years with optimism.

The 1999 loss, being an aggregate of the problems encountered by individual credit unions, is constantly decreasing and is not a danger in itself. Stefczyk's main financial ratios are mostly positive and sales are more dynamic
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than ever. The credit union meets a majority of the standards set forth by the NACSCU and delinquent loans are skillfully collected.

In 1999, the Stefczyk credit union obtained the ISO 9002 quality certificate. This international sign of recognition proves that the credit union has lived up to the expectations of its members.

3.4.2 Job creation and social results

Moreover, the credit union contributes to the improvement of the living standards of its members and, above all, contributes to the alleviation of unemployment in poverty-stricken areas. It offers new professional employment opportunities to local people. The fact that 80 per cent of Stefczyk’s employees are women proves that the credit union does help those who particularly need to be helped in Poland’s labour market. In addition to offering jobs, Stefczyk also provides its employees with training opportunities and prospects for further professional development.
RUSSIA: KLINSKI AND STUPINSKI CONSUMER COOPERATIVES
by Grigori Altshul

Type of cooperatives: Consumer “multipurpose”
Created: 1925
Re-launched: Klinski, 1996
Stupinski, 1995
Membership: Klinski, 4,500
Stupinski, 4,800
Employees: Klinski, 407
Stupinski, 638
Turnover: Klinski, US$ 3 million
Stupinski, US$ 5 million

4.1 INTRODUCTION

Cooperative development in Russia was greatly hindered by the Soviet political system and successful cases of genuine democratic cooperative re-launching are rare. Throughout their history, the Klinski and the Stupinski cooperatives had undertaken structural, economic and entrepreneurial changes in order to develop themselves in the socialist environment. Their predisposition to innovate and face difficulties was strengthened when they were confronted with the huge problems caused by the collapse of the socialist regime and the quick transition towards a market economy. At that time, the two cooperatives lost a large part of their membership and faced serious financial problems. Increasing competition and the development of the black market complicated the work of the cooperative managers. In such a context, very few cooperatives achieved successful re-launching but the Klinski and Stupinski cooperatives nevertheless succeeded by adopting new entrepreneurial strategies.
4.2 HISTORICAL BACKGROUND

Russian cooperatives were subjected to tight State control and mainly used as food distribution tools. After the collapse of the USSR and the beginning of the transitional process toward an open market economy, cooperatives had the opportunity to grow as independent entities. However, most of them found themselves affected by the general economic crisis. Legislative acts aimed at accelerating the transition did not contribute to the creation of a favourable legal environment for cooperatives and the legal and organizational status of Russian cooperatives remained vague for a number of years. The laws on producer and agricultural cooperatives in Russia, for example, were passed as late as in 1995 and 1996, but the final text of the Law on Consumer Cooperatives was adopted only in 2000.

The Klinski district is located in the northern part of the Moscow region, 85km from Moscow. The district includes four towns and 260 villages, with a total of 135,000 inhabitants, 78 per cent of whom live in the four towns. The most developed industrial sector is food production. The agrarian sector is oriented towards the production of milk, eggs, potatoes and vegetables.

The Stupinski district, which was created in the 1940s, is a relatively new district of the Moscow region. The town of Stupino, the administrative centre of the district, is located 99 km to the south of Moscow. The town evolved from the village of the same name due to the rapid industrial development in this part of the region and the population growth that followed. The district has now a population of 117,000 people. The district includes three towns and 210 villages. Since the early 1990s, the Stupinski district has attracted large investment. Large industries such as Mars (chocolate) and Danone (yoghurt) as well as various milk or animal food industries were established in the district. Many new jobs were hence created, which played a positive role in raising incomes and in increasing demand and the buying capacity of the population. Along with the industries, agricultural production is also growing in the district. The main agricultural activities include pig breeding, milk production and the cultivation of cereals, potatoes and other products.

The Klinski cooperative was founded in 1925 when mandatory food distribution was not required by the State. The cooperative could therefore adopt its by-laws in a relatively free manner. Nevertheless, the cooperative was heavily dependent on the State. In its first year of existence, it had a membership of 1,847 people. Its own capital made up 30.8 per cent of the total operational resources and the remainder was covered by borrowed money, mainly loans from the State.

In the 1930s, the Klinski cooperative was transformed into a district cooperative union made up of five primary consumer units. At first, each unit had no more than 4 or 5 shops, but a few years later bigger village shops replaced the old ones and their equipment was also modernized. By 1935, the union had about 50 retail outlets. However, shortly after, the retail outlets were national-
ized by the State. The cooperatives kept only their village shops, with a very limited range of commodities.

In the 1970s and 1980s, the Klinski District Union restructured its retail network. Along with food stores, several specialized stores were opened, offering essential goods, toys, books and more. By the end of the 1980s, several shops had been opened in the district's towns as well.

By 1991, the Klinski district cooperatives owned 139 retail stores. Foodstuffs made up 56.3 per cent of the sales. There were also 11 procurement units and three factories producing confectionery, pre-fabricated parts and vegetable preserves. While the union's profitability was low, there were no losses. In the early 1990s, the cooperative lost its operational funds, mainly due to hyperinflation. This led to a sharp drop in the cooperative's performance and profitability. After a detailed analysis of the situation, the Klinski cooperative's leaders initiated the development of an anti-crisis strategy.

The Stupinski cooperative has 4,800 members. Its current characteristics regarding performance and development are very similar to those of the Klinski cooperative. One of its specific features is the presence in the Stupinski district of the Moscow Regional Union of Consumer Cooperatives, which owns a large regional warehouse. This is an important advantage for the Stupinski cooperative, as it allows quick access to commodities. In 1991, the cooperative had 123 shops. Foodstuffs made up 49.4 per cent of the sales. In 1995, a new development programme was designed and adopted at the members' general meeting. A merger was carried out and the union was transformed into a district cooperative. This merger helped the cooperative overcome negative trends and improved its performance. Positive changes took place regarding democratic member participation and professional management. Four out of the seven top managers on the Board are women.

Today, the Stupinski cooperative is responsible for about 20 per cent of the sales in the district. It has considerably strengthened its financial position, raising its own operational resource share to 47 per cent.

4.3 KEY FACTORS OF THE KLINSKI CONSUMER COOPERATIVE RE-LAUNCHING

The anti-crisis strategy developed by the Klinski cooperative's leaders and approved by the General Assembly in 1996 involved several activities.

4.3.1 Directors and leaders

Some inventive and motivated new members were elected as directors. The Board of Directors was also strengthened when several young and ambitious professionals, trained in Moscow's various cooperative training centres, joined
the Board. Moreover, the cooperative's success can be attributed to a large extent to its competent leaders, who have managed to adapt to new conditions and identify new challenges. All of them have a life-long career in cooperatives, an adequate level of professional training and solid practical experience.

4.3.2 New managerial and entrepreneurial strategies

The anti-crisis strategy relied on the adoption of several new managerial and entrepreneurial strategies as described below.

- Member re-registration and structural changes: A member re-registration campaign was carried out. The campaign was aimed at creating a stable and loyal membership on a voluntary basis. A total of 4,500 members have re-confirmed their membership. In addition, one of the most important decisions was aimed at radical structural changes and twelve local units were merged into one district cooperative.

- New conception of retail trade development. In view of the growing number of retail enterprises, the cooperative's directors considered it essential to develop a chain network conception of retail trade, under which shops of a certain type operate with a specific image, follow a universal assortment policy, use similar equipment, interior and exterior decorations, servicing methods, pricing policies, and so on. The Klinski cooperative has developed four new types of store chains.

  The first type of stores are named ‘Coopproducts.’ They are shops selling foodstuffs and everyday essential goods. The motto of this chain is ‘high quality foodstuffs at equitable and low prices.’ Goods can be sold at low prices by minimizing delivery costs and using simple equipment and as few employees as possible. All shops are owned by the cooperative, which means that they do not have to pay rent, unlike their competitors. The cooperative chain’s prices are 10 to 30 per cent lower than their competitors’ prices. Also, members receive bonuses according to the number of purchases.

  The second chain of stores is called ‘Your home,’ and sells such items as construction materials, furniture and household articles. Each store of the chain is meant to be ‘a place where a maximum selection is provided for household and construction needs.’

  The stores in the third category, ‘Coopunivermag,’ are department stores offering a wide variety of non-food articles. The basic business objective for the development of this chain in the Klinski district is to provide a wide selection of goods to local customers so that they will no longer need to go to Moscow for shopping.

  Finally, the stores in the fourth category, ‘Gifts of nature,’ sell fresh agricultural products, game, honey, processed food and wild nuts, berries and mushrooms as well as products processed and produced by the cooperative itself.
Offer of secondary raw materials: The cooperative also provides secondary raw materials to its members. This activity, apart from its economic profitability, has a certain ecological significance. Thus, a unit for processing paper and cardboard was set up in the peasant market in Klin. Old paper is collected in the market itself, as well as in nearby shops and small enterprises. It is then pressed and sold to paper-producing units (200 tons per year on average).

Improvement of agricultural product marketing: Product marketing used to cause serious problems to small farmers. The cooperative started a programme aimed at making more efficient use of the existing procurement and processing units as well as building a new procurement and processing complex of adequate capacity. An agricultural market in the centre of the district, owned by the cooperative, was renovated and equipped with modern facilities. It now provides a number of services at equitable prices including storage for perishable products, the provision of agricultural equipment and product transportation.

Return of cooperative trade to urban areas: After having been forced to stay away from urban areas during the period of State control, the cooperative decided that a return to urban areas was necessary to ensure the development of its members' activities. First, business contacts were established, for instance with a number of Moscow supermarkets and restaurants. The cooperative also participated in Moscow fairs and exhibitions to sell its own products.

Financial decisions and active investment policy: The Klinski cooperative was able to improve its financial situation by adopting some specific financial strategies, partly supported by the Government. For example, in order to avoid losing more shops, several shops were rented to their staff for 6 month periods. The tenants could buy commodities either through the cooperative's warehouse or from other suppliers. They covered operational costs, paid taxes as individual entrepreneurs and paid a rent to the cooperative. This practice has already been going on for five years. Also, the cooperative continuously invested money for its future development. Between 1995 and 1999, its investments increased almost eightfold. Moreover, the cooperative also adopted a capital construction programme as well as a programme of reconstruction and renovation of existing enterprises.

Another positive development is that both the Klinski and Stupinski cooperatives managed to borrow money from their members on a permanent basis through the organization of deposit services. Borrowed money does not play such a decisive role in a cooperative's business activities, but it is often used as a reliable source for financing current needs.
4.3.3 Cooperative principles.

The cooperative adopted new by-laws that were better adapted to the internationally accepted cooperative values and principles and to the changing legislation of the Russian Federation.

4.3.4 Support from Government authorities.

In 1994, the Russian Government passed a decree containing measures aimed at providing goods and services to rural inhabitants of the Moscow region. Cooperatives were allowed under this decree to make allocations (within a 10 per cent limit of the prime cost of marketed commodities and services) to the development fund by counting them as production and operational costs.

The cooperative also benefited from an agreement with the local authorities according to which the cooperative received partial compensation for electricity and heating costs in return for its application of an equitable pricing policy.

4.4 RESULTS

4.4.1 Financial results

By implementing a number of entrepreneurial initiatives, the Klinski cooperative attained financial stability. Its profitability level in 1999 was 11 per cent. New opportunities were thus created for better development and investment policies. From 1996 onward, the cooperative has showed stable growth in its performance in retail trade, provision of agricultural products and raw materials as well as in industrial production and services. Between 1995 and 1999, its retail turnover increased almost threefold, while its capital investments increased almost eightfold and its financial results, almost sevenfold. Its sales increased by 154 per cent.

Now, despite the emergence of many private commercial enterprises in the Klinski district, the cooperative has managed to increase its share of retail trade to 18 per cent. It can be seen as a good and positive indicator, considering the fact that consumer cooperatives have lost their monopolistic position in rural areas.

Through its deposit services, the cooperative was able to borrow 2,526,000 roubles (approx. US$ 85,627) from its members in 1999, which is 115 per cent more than in 1998.
4.4.2 Job creation

Between 1996 and 1999, the Klinski cooperative contributed to the creation of 676 new jobs. The average salary offered to the cooperative's employees is higher than the average in Russia.

4.4.3 Social results

Thanks to all the changes, members appreciate their membership in the cooperative much more than before. Annual bonuses have been offered to members and additional bonuses paid to veteran members. Elected member representatives receive a monthly remuneration equal to an established minimal wage. Through the decisions of the General Assembly, several charity donations have been made to local schools and hospitals. In 1999, 404,000 roubles (approx. US$ 13,695) was donated to charitable causes. For example, the cooperative bought an ambulance for the Nudolsk hospital; construction materials were supplied free of charge to a number of village schools and one school was provided with computer equipment.

4.5 KEY FACTORS OF THE STUPINSKI COOPERATIVE RE-LAUNCHING

Many of the key factors that ensured the development of the Klinski cooperative are also true for the Stupinski cooperative. In order to avoid repetition, only some specific initiatives undertaken by this cooperative will be presented below.

- Mobilization of financial resources and priority investments in the development of the retail network: The Stupinski cooperative's preferential investment policies centre on the development of a retail network, whereas Klinski puts more emphasis on the development of the procurement and processing sector. This retail network was developed through, for instance, the utilization of a shopping centre in the town of Stupino and the construction of several mobile shops designed to sell products in small villages. The cooperative also took advantage of the right granted by the Government to form a development fund by the cooperative. Between 1995 and 1999, nearly 40 million roubles (approx. US$ 1.36 million) were allocated to this fund. Most of the money was allocated for capital investment which, for the last five years, has amounted to 34 million roubles (approx. US$ 1.15 million).

- Personnel policy and cooperative management improvement: The Stupinski cooperative paid special attention to the application of a consistent
personnel policy. It made efforts to combine democratic governance based on cooperative principles with efficient professional management. All the top managers underwent professional training and have good practical experience. Out of the ten top managers, seven are women. Among the cooperative's employees, 20 per cent are young people under 30 and 77 per cent are women, and 30 per cent have a specialized high school diploma or a higher diploma.

4.6 RESULTS

The cooperative was able to achieve positive results through several strategies undertaken to deal with new challenges posed by the market.

4.6.1 Financial results

By improving its retail network, the cooperative's sales increased considerably between 1996 and 2000. Between 1999 and 2000, sales increased by 173 per cent, and the Stupinski cooperative's share in sales volume in the district stabilized at about 20 per cent. Moreover, its profitability reached 10 per cent.

Through its deposit services, the cooperative was able to borrow 438,000 roubles (approx. US$ 14,847) from its members in 1999, which is 161 per cent more than in 1998.

4.6.2 Job creation

In 1999 and 2000, a total of 130 new jobs were created in the cooperative. In 1999, the cooperative employed 638 people. The peasant market in Stupino provides for about 900 trading places daily.
CHINA: THE XIANGCHENG SUPPLY AND MARKETING COOPERATIVE
by Shen Tai-ji and Zhang Wang-shu

Type of cooperative: Supply and marketing
Created: Early 1950s
Re-launched: Late 1990s
Membership: 14,730
Employees: 150
Assets: US$ 1.19 million
Turnover: US$ 1.63 million

5.1. INTRODUCTION

The Xiangcheng cooperative is a primary level supply and marketing cooperative located in a rural area. Its mission is to support poor farmers living in the Xiangcheng region. For 40 years, the cooperative has provided its members with farming inputs and consumer goods. However, as its activities were strongly subjected to State control, the cooperative was not autonomous. In the 1990s, when the cooperative finally became independent again, its leaders realized that independence from the Government brought with it major problems. In the first half of the 1990s the cooperative tried to cope with the changes but the problems seemed insurmountable. Its financial situation deteriorated almost to bankruptcy. Its managers were not able to improve the situation and the competition, which became stronger and stronger, threatened the very existence of the cooperative. It had two alternatives: either to accept its defeat or to undertake radical changes. By creating a new network of outlets and implementing new managerial strategies, the cooperative managed to retrieve its members' and staff's commitment and redress its financial situation.
5.2 HISTORICAL BACKGROUND

Cooperatives were first founded in China in the early 1950s, however, under central planning they were quickly subjected to State control. In 1978 social and economic reform was initiated but cooperatives had to wait until 1992, the year the socialist market economy was launched and the central planning system was abolished, to recover their autonomy.

The Xiangcheng Supply and Marketing Cooperative (SMC) is located in the Xiangcheng Township, one of the biggest townships administratively subordinated to the Zoucheng City Government. The region surrounding the Xiangcheng SMC has unique advantages in agricultural, mineral and tourism resources and these advantages have been enhanced since the social and economic reform. As a direct consequence of these favourable features, the region has showed impressive economic results in the past years. For example, fiscal revenue has remained at its highest point since 1996, leading business enterprises have been created, public facilities have been improved and the tourism industry has fully developed.

The township where the Xiangcheng SMC is located has a population of 54,000 people and 88 villages. Agricultural produce comprises mainly wheat, peanuts, potatoes, corn and orchard products and the annual individual income of farmers in this area is about 2,409 yuan RMB (approx. US$ 291).

Xiangcheng SMC was founded in the early 1950s and, like most Chinese cooperatives, was kept under State control until the socialist market economy was launched. During this period, the services provided by the cooperative to its members and local farmers were limited to purchasing rural products from cooperative members and supplying them with farming inputs and consumer goods. Market competition did not exist because of the monopoly of the Xiangcheng SMC, and neither did efficient financial management since the cooperative benefited from substantial financial support from the Government.

This relatively carefree situation disappeared when market reforms were implemented in the 1990s. The Xiangcheng SMC was then faced with several problems, which could have been fatal to the cooperative had major changes not been undertaken. These initiatives, which enabled the cooperative to cope with the changes, are discussed below.

5.3 KEY FACTORS OF THE XIANGCHENG RE-LAUNCHING

The market changes deeply affected the cooperative, which was totally unprepared to cope with the consequences of the new market rules. By 1997 the cooperative had already deteriorated almost to the point of bankruptcy with less and less business activity and poorer and poorer operational efficiency. The Xiangcheng SMC, like many Chinese cooperatives that did not survive the market changes, would probably only be a hazy memory today had it not been for the effective implementation of some important recovery measures.
5.3.1 Directors and leaders

One of the first initiatives undertaken by the cooperative after 1997 was the election of a new Board of Directors, which had more flexibility to cope with the changing market and the increasingly intense competition. The new team consisted of young, creative and committed leaders.

5.3.2 New managerial and entrepreneurial strategies

The Xiangcheng SMC constantly kept in mind that it was firmly rooted in the rural community, which is less economically and technically developed than urban areas and where the education level is also inferior. Thus implementing new managerial strategies in accordance with modern management systems, which are common in well-developed and better-educated societies, was not considered appropriate by the managers. Instead, they decided to develop managerial and entrepreneurial strategies that, in addition to being efficient, would respect the social and cultural features of their environment.

- Centralization combined with decentralization: One of the new managerial strategies was the implementation of a well-balanced centralized and decentralized decision-making process. Hence it was decided that management decisions would be taken on a centralized basis, while other decisions would be decentralized, i.e. taken directly by the village-based outlets.
  For example, the outlets could be individually responsible for purchasing, pricing and supplying consumer goods. They could for instance choose the supply sources, the sale prices and the inventories they wanted to keep.
  However, in the specific case of agricultural inputs, purchase and supply, decisions were maintained centrally because it was a key business activity for the cooperative and because the outlets were not supposed to be qualified to identify the quality of the products.

- Personal benefits linked to business performance: Another managerial strategy consisted of making the outlets aware of their responsibilities by linking their income with their sales results. Thus, depending on their capacity to meet their pre-set sales objectives, the outlets were allowed to retain a certain percentage of the total revenues.
  Such strategies proved to be effective not only in encouraging member participation but also in improving management efficiency and business performance.

- Improvement of the distribution network: The new management was fully aware that a well-constructed distribution network was crucial for delivering services, fostering goodwill among the members, increasing market shares and, finally, gaining control over the local market. One of the most
successful strategies undertaken by the new directors was the establish-
ment of service outlets in as many villages as possible. This network today
covers 64 per cent of the 88 villages of the Xiangcheng SMC area, serv-
ing around 15,000 member households.
Obviously resources to create these outlets were limited, so the coopera-
tive could not afford to invest a lot in the building of a village-based net-
work. To cope with these difficulties, the cooperative used a number of
strategies.
Firstly, it took advantage of existing service outlets and stores already
available in some villages as part of the cooperative's fixed assets. Thus,
only limited renovation work and some physical improvement of the
shops were required, and thus did not necessitate major investments.
Secondly, the cooperative used the financial and real estate resources
owned by the villages in the form of partnership operations with them.
Thirdly, the cooperative established partnerships with individual busi-
nesses that had already a strong position in the villages. These businesses
worked as sales agents and were paid on a commission basis according to
the sales volume.
The outlets were usually staffed by two or three employees. Great efforts
were made to supply the outlets with modern facilities, for example, 52 per
cent of the outlets were equipped with a telephone.

- New services: In addition to improving the distribution network, the
Xiangcheng SMC endeavoured to offer several new services to its mem-
bers. Money was invested to purchase new technology such as soil testing
instruments. Also, long-term relations with many rural produce processors
who could buy the cooperative members' products were developed. The
cooperative also invested in a market information centre aimed at collect-
ing and delivering information about the changing market and, thus,
enabling the members to forecast, for instance, the changing demand and
prices and cope with them.
Last but not least, was the creation of a programme dedicated to poor
farmers. Correspondence cards with the whereabouts of a contact person
were distributed to 6,200 households. The farmers who received such
cards could call the contact person, who would then visit them and give
them feedback on their work methods and financial support in the form
of products sold on credit.

During the period of State control the Xiangcheng SMC did not have to con-
sider its target market, but the new challenges introduced by the liberalized mar-
et made such thinking essential.
The Xiangcheng SMC decided to focus on agricultural supplies. The
choice of this market was based on the fact that farming was the major indus-
try in the township and agricultural inputs (particularly fertilizers and pesti-
cides) were in great demand because of the large areas of cultivated land. The
Xiangcheng SMC also benefited from a substantial competitive advantage in this field of activity.

The choice of this market was also favoured by the township authorities as a safeguard against illegal competition from the producers and distributors of cheap, fake products. To prevent the fake products and illegal competitors from commercially harming its members, the Xiangcheng SMC developed its ‘five-operation centralized policy’, which included centralized purchasing, checking and receiving, distributing, pricing and accounting.

To secure a stable supply of agricultural inputs, the cooperative signed long-term purchase and supply contracts, agency contracts and distribution agreements with agricultural suppliers and manufacturers.

The emphasis placed on the sale of farm inputs did not stop the cooperative from providing consumer goods. This activity was still one of the major business activities in the township, and competition was as strong as in the agricultural supplies market.

The cooperative decided to transform its one-shop-many-lines system into a one-shop-one-line system. Concretely, this meant that instead of selling limited items of every line of product in one store, the cooperative started selling a wider range of items of the same line in one store. The advantage was that the selection and the quality of the products was increased and lower prices were offered.

5.3.3 Respect of the cooperative principles

The solution chosen by the Xiangcheng SMC to encourage people to have confidence in the cooperative movement again was to create a new and genuine, member-controlled, democratically-managed primary cooperative within the existing cooperative. The new cooperative, called the Agricultural Supply and Marketing Cooperative, had its own by-laws and was organized in accordance with the cooperative principles. Services provided to members included pre-production information services, supply of agricultural inputs, interactive technical services and post-production marketing services, as well as free delivery of purchased farming materials and free consultancy and services in soil testing, fertilizer application or other technical matters. Of the 14,730 households in the township, 3,280 have become members of the new cooperative.

5.3.4 Support from the township authorities and cooperative federation

The Xiangcheng SMC tried to develop a new and positive relationship with the township authorities and the support received was in fact an essential factor in the cooperative's success.
Firstly, the local authorities recognized that the cooperative was the major dealer in agricultural inputs. This measure was aimed at preventing the sale of fake products.

Secondly, the regional Government of Xiangcheng submitted the cooperative to a favourable tax policy. In China, the adoption of a preferential tax policy for cooperatives is not required by law and depends on how the local authorities regard the cooperative movement.

Thirdly, the township authorities decided to provide as much financial support as possible to the cooperatives located in their territory. Aside from monetary contributions, support was also offered for such activities as routine business operations, local environment control, promotion of the cooperative movement, member education and training.

The apex organization or federation of the Xiangcheng SMC is located in Zhoucheng City, which is one of the well-developed cities of the province. The Federation has achieved great business success in recent years, which makes it possible for it to provide efficient support to its own members, namely the primary cooperatives. The cooperative Federation strongly supported the Xiangcheng SMC in its business operations as well as in technical matters. Moreover, the open-mindedness of the Federation was essential in the launching of new projects such as the village-based service outlets.

5.4 THE RESULTS

The changes undertaken to cope with the new market reality did not solve all the problems facing the cooperative. However, they did enable the cooperative not only to avoid bankruptcy but to significantly improve its situation.

5.4.1 Financial results

The financial position of the Xiangcheng SMC totally changed from 1996 to 2000. Its assets increased fourfold while its debt ratio went down from 103 per cent to 95 per cent. Its sale revenues doubled within these four years and the total profits generated by the cooperative were 60 times higher in 2000 than in 1996.

5.4.2 Job creation

It is essential to mention that more than 60 jobs, which represent about 40 per cent of the total workforce of the cooperative, were created by the village-based outlet project. Young people with sufficient education can also find jobs in the other services of the cooperative. The annual income of a cooperative
China: The Xiangcheng Supply and Marketing Cooperative

Employee ranges from 8,000 to 10,000 yuan RMB (approx. US$ 967 – 1,210), which is a good salary in the Chinese context.

5.4.3 Social results

Alongside the impressive financial results, there were a number of positive social aspects of the changes. The service network of the cooperative reached 64 per cent of the villages located in the territory of the cooperative. Thanks to the special support service dedicated to the poorest farmers, 92 farmers received assistance and about 40 tons of chemical fertilizers were sold to them on credit.
6.1 INTRODUCTION

The Hop Tien agricultural cooperative was created in a socialist environment and is still developing within this context. Indeed, the collapse of the socialist regime in the USSR did not bring about its rejection in Vietnam. However, in the 1980s, the Vietnamese authorities initiated a transition towards a liberalized market economy, which provided cooperatives with the possibility of recovering their autonomy. The Hop Tien cooperative was among the first to take advantage of this opportunity and transform itself from the old cooperative model into the new. The re-launched cooperatives faced many challenges including regaining their members' confidence, improving their financial situation and management and coping with new competitors. Quite a few cooperatives succeeded in making the change while many others failed. The Hop Tien cooperative, by enlarging the services it offers and by investing in staff training is now considered a good example of how cooperatives in Vietnam may go about shifting to a new cooperative model while remaining true to their roots.

6.2 HISTORICAL BACKGROUND

Collectivization in the agricultural sector was initiated in April 1959. Even though they were created in accordance with cooperative principles, the cooperatives and mutual-help groups that existed in the North were quickly subjected to State control. Agricultural production came to a standstill, which resulted in bankruptcies, low income and poverty. After its liberation in 1975,
the Southern part of Vietnam experienced mainly the same type of cooperative agricultural development.

At the end of the 1970s, the economic crisis had made changes in cooperative management systems unavoidable. In 1981, the Central Committee of the Communist Party of Vietnam issued Instruction No. 100, which was aimed at changing ‘planned contracts’ into ‘product-oriented contracts’ and ‘contracts with production brigades’ into ‘contracts with individual households.’ Later, in 1988, the Politburo of the Communist Party issued Resolution No. 10, which set the stage for management reform in the agricultural sector. Under this Resolution, land and farming tools were given to farming households for long-term use. Thanks to these reforms, agricultural production, especially food and foodstuff production, started to grow again. Since 1991, Vietnam has produced food surpluses for export despite an annual population growth rate of 2 per cent.

Moreover, many important national laws and regulations have been enacted over the past few years, such as the Amended Land Law in 1993 and the Cooperative Law in 1996. Since 1996, the Government has initiated a process designed to change the cooperative structure in rural areas from the ‘centrally-planned’ and ‘collectivized’ model into a new cooperative model based on business co-operation and service delivery.

At the end of 1999, 5,346 cooperatives were ‘newly registered for renovation,’ making up 59 per cent of the total number of ‘old-model agricultural cooperatives.’ In addition, 1,037 new cooperatives were recently created.

Hop Tien is a rice cultivation community located in the Red River delta 15 km from Ninh Binh Town and 175 km south of Hanoi. The village is part of the Khanh Nhac commune and comprises 1,411 households with 5,686 inhabitants, the majority of whom are farmers. The land is cultivated in a variety of ways: it is used for paddy fields, rice seedlings, upland crops and aquaculture.

Brief history of the Hop Tien agricultural cooperative
In 1958, the Khanh Nhac commune began to encourage farmers to take part in ‘mutual-help groups.’ A year later, the commune merged 81 mutual-help groups into four local cooperatives. At first, each cooperative had 23 household members and 14 hectares of land. Almost 90 per cent of the members were poor farmers. From 1961 onward, the local cooperatives kept getting bigger and bigger. In 1965, the four cooperatives merged again into three. Each cooperative had 100 to 200 household members. During the 1965-1975 period, the Khanh Nhac cooperatives operated according to a planned work schedule and distributed all finished products according to specifications laid down by the Government. These factors lowered and constrained agricultural production. In 1976, the three cooperatives merged again into the Khanh Nhac ‘high-level’ cooperative, but production levels did not improve. In 1983, the Khanh Nhac cooperative was divided into two cooperatives, one in the
Dong Tien region in the east of the commune and one in the Hop Tien area in the west. Unfortunately, their production levels kept decreasing while their debts increased, and the cooperative members remained poor.

6.3 KEY FACTORS OF THE HOP TIEN RE-LAUNCHING

In 1996, thanks to the new Cooperative Law, the members of the Hop Tien cooperative decided to transform their cooperative into a new cooperative model based on business co-operation and service delivery. To cope with the re-launching, the Hop Tien cooperative undertook several changes as described below.

6.3.1 Directors and leaders

Before they voted on the new cooperative model, local members of the Hop Tien cooperative nominated two leaders, who were in charge of all the preparation required for the transformation of the old cooperative into the new one. Among other things, they created a business and production development plan as well as new rules and regulations for the new Hop Tien cooperative.

At the end of 1996, 200 member representatives agreed upon the proposed rules and regulations of the new cooperative and on the business and production plan. At the same time they elected new directors, including members of the board of directors, the supervisory committee and the accounting division.

6.3.2 New managerial and entrepreneurial strategies

The re-launching of the Hop Tien cooperative relied, among other things, on the diversification and improvement of its services. The new cooperative:

- Selected 23 people to be part of the water management team. Under the supervision of a team leader and two assistants, the members of this team received training on irrigation and drainage techniques to meet the irrigation and drainage needs of local farmers.
- Selected an electricity management team consisting of 10 people. For the most part, this team has met the electricity supply needs of the cooperative members.
- Set up a land preparation service requiring the participation of 110 workers. The main purpose of this service was to ensure that the planting season calendar and quality of land preparation was respected.
- Established a team specialized in the delivery of agricultural equipment. This team was responsible for providing cooperative members with high-
quality paddy seeds and other seeds. In addition to providing seeds, this unit also purchased fertilizers and redistributed them to cooperative members.

- Established a plant protection service to monitor the spread of insect pests and diseases in the fields, recommend appropriate solutions and protect the crops.

- Established a veterinary service to monitor the evolution of infectious diseases, recommend appropriate solutions and protect the animals within the cooperative’s area of operation.

In addition to these services, the new cooperative also developed several other services to meet the needs of its members. For instance, the new cooperative provided credit services as well as construction materials to its members. It also encouraged its members to save and used its reliable reputation as a cooperative to borrow money from banks and lend it to its members.

All the services offered by the new cooperative are provided by teams of workers. The selection of the team members was based on very strict criteria, which varied according to the type of services offered and the expertise required. For instance, good health and relevant knowledge of local farming practices were required in order to be on the irrigation and drainage service team.

In addition to carefully choosing the workers, the new cooperative also made sure that all team members received training on the relevant techniques and skills for each service.

6.3.3 Cooperative principles

The Cooperative Law, ratified by the National Assembly in 1996, includes seven cooperative principles as suggested by the International Cooperative Alliance (ICA). In accordance with this law, the entire Hop Tien re-launching process has been based on cooperative principles and has respected the voluntary and democratic rights stipulated in the by-laws.

6.3.4 Cooperative legislation and support from the Government

The ratification of the Cooperative Law in 1996 is certainly one of the main factors that can ensure the growth of genuine, democratic and autonomous cooperatives in Vietnam today. This Law was the first formal legal document on cooperatives in the history of Vietnam. The new Law has been explained to interested citizens and cooperative members alike through the organization of numerous training courses. The Hop Tien cooperative offered three training courses – one for cooperative leaders, one for cooperative members and one for local citizens.
Under the new legislation, all sectors of the national economy were allowed to develop their own principles or models in accordance with the Cooperative Law. Thus, the agricultural and rural development sector issued, in 1998, the ‘basic principles of agricultural cooperatives.’ These principles also contributed to the successful re-launching of Hop Tien.

Another factor that supported the development of cooperatives is the recognition of the private sector’s role in the national economy through new governmental reforms. These reforms gave new rights to farmers, such as the right to use the land on a permanent basis, to cultivate whatever crops they wanted or to sell their products on the competitive market. Farming households are now considered independent and self-controlled economic units. These new policies have changed the way that agriculture is managed in rural areas.

Local authorities within the Hop Tien area paid special attention to the re-launching process and demonstrated their determination to build a strong community in accordance with the Cooperative Law and the basic principles of agricultural cooperatives.

6.4 RESULTS

In spite of all the difficulties, the Hop Tien cooperative was able to cope with the changes and develop into a successful cooperative.

6.4.1 Financial results

Most of the cooperative’s services are offered to the members at a lower price than in the regular market. Moreover, most of the units, except the veterinary service and the plant protection service, are profitable and generate incomes. Thanks to the new services, the average rice, maize, groundnut and potato production increased by 51 per cent, 96 per cent, 94 per cent and 187 per cent respectively.

The average savings per household reached VND 11.2 million annually (approx. US$ 768) and the average income per hectare was VND 28 million (approx. US$ 1,920). For the sake of comparison, the income per hectare before 1995 was VND 14-15 million (i.e. between US$ 960 and US$ 1,030).

6.4.2 Job creation

Job creation is one of the main objectives of the Hop Tien cooperative, and the development of new services, such as the savings and credit service, is aimed among others at creating jobs. In its first years, the cooperative created more than 300 jobs for local people.
6.4.3 Social results

In 2000, 96 per cent of all farming households could produce enough food to feed their families. Hunger and extreme poverty do not exist anymore for the Hop Tien cooperative members. Now, all cooperative members have a brick house and tiled roof and 95 per cent of them have access to safe water and adequate sanitary facilities. All cooperative members have finished at least primary school and all their children are able to go to school.

Moreover, the cooperative contributes towards public projects in the village. It participated, for instance, in the restoration of rural roads, the building of brick canals and the renovation of several public facilities.

The Hop Tien cooperative has 3,200 members. These members, who decided voluntarily to be part of the new cooperative, are now looking forward to becoming involved in all the activities of the cooperative, from paying their shares and using the services, to participating in the decision-making process and even being elected as directors.
7

ETHIOPIA: AMECHA MULTIPURPOSE AGRICULTURAL COOPERATIVE
by Lelissa Chalchissa

Type of cooperative: Multipurpose agricultural cooperative
Created: 1979
Re-launched: 1992
Membership: 889
Employees: 6
Assets: US$ 76,500
Turnover: US$ 62,000

7.1 INTRODUCTION

The Amecha multipurpose agricultural cooperative has had to face several problems over the past 25 years, including a complete interruption of its activities for a few years. Its 1992 re-launching was not only a positive initiative by its leaders, but also an audacious project. Considering the limited financial resources available as well as the lack of managerial and entrepreneurial experience of its members, living mainly in rural areas, their leaders’ dream could have easily failed. Nevertheless, because they improved their financial administration and instituted democratic management, the cooperative achieved positive results and qualifies as a positive example of cooperative re-launching.

7.2 HISTORICAL BACKGROUND

The first cooperative organizations were created in Ethiopia at the beginning of the 1950s. Unfortunately, as they were subjected to State control, they did not achieve significant results in terms of democratic management and autonomous development. In the 1960s, two cooperative acts were written but mainly because of government control they were not such a useful tool for the democratic and autonomous development of the cooperatives.
Different types of cooperatives, mainly agricultural, financial and consumer cooperatives, were created and registered during the socialist government period, from 1974 to 1991. The Proclamation of 1978 greatly contributed to the creation of thousands of different types of cooperative societies throughout the country. However, these cooperatives were managed in accordance with the Soviet and East European style, and the majority of the multipurpose agricultural cooperatives survived without being profitable as their existence was maintained through Government subsidies. All the cooperative principles adopted by the International Cooperative Alliance were violated. The combined effect of these problems accelerated the dissolution of agricultural cooperatives after the declaration of the mixed economy policy in 1989. However, the enactment of the Agricultural Cooperative Society Proclamation in 1994 and the Cooperative Society Proclamation in 1998 created a fertile ground for restructuring and strengthening all types of cooperatives previously established as well as creating new cooperatives.

The Amecha cooperative is located in the East Shewa zone, which is itself located in the Oromia region. About 5,300 peasant associations, representing more than 2.52 million farmers spread over 11 zones, operate in the Oromia region. In this region, 1,562 multipurpose agricultural cooperatives were established under the socialist system government. After the regime collapsed, 350 of them decided to restructure.

The Oromia Cooperative Promotion Bureau, which was established in 1997 to support cooperatives, is also located in the Oromia region. The Bureau's head office is located in Finfinne, the capital, but it also has 12 zonal departments and 180 district offices.

The East Shewa zone, where the Amecha cooperative is located, is the second smallest zone of the Oromia region and has a population of 1.8 million people. A total of 442 peasant associations are located in the East Shewa zone, with a membership of more than 100,000 people, most of whom (91 per cent) are men.

More specifically, the Amecha cooperative is located in the Aanaa Bosat area, the second largest part of the zone. This area has 31 peasant associations, 17 of which operate as cooperatives. Most of them are multipurpose agricultural cooperatives and irrigation cooperatives.

The Amecha cooperative was established in 1979, during the socialist period of Ethiopia. Initially its membership totalled 1,008 people, only 112 of whom were women. The cooperative obtained its first legal recognition in 1984. During the transition period to the present Government, it became non-functional as its property and money were looted.

The old members of the cooperative reorganized and strengthened themselves, and they re-established the Amecha cooperative in 1992. In 1995, the cooperative was restructured again, this time in accordance with the cooperative proclamation of 1994. At the time, the cooperative had 866 members. Thanks to its good financial position, the Amecha cooperative was awarded its legal certificate in 1997. Its main objectives are to:
solve the common problems encountered collectively and help develop self-reliance;

- increase the members’ income through increased productivity and the introduction of agro-industry;
- distribute agricultural inputs, which contribute to productivity maximization, and to
- provide consumer goods at reasonable prices to members.

7.3 KEY FACTORS OF THE AMECHA COOPERATIVE RE-LAUNCHING

7.3.1 Directors and leaders

The first new initiative adopted by the Amecha cooperative was to hire a new manager. A new Board of Directors was also elected by the members. As stated in the by-laws, the election of a new management committee takes place every three years. There were therefore two elections between 1995 and 2000, in 1995 and 1998. In spite of their right to elect new directors, only 44 per cent of the members participated in the last two committee elections. Also, only 35 per cent of the members participated in the adoption of the by-laws. These by-laws were developed in accordance with cooperative principles.

7.3.2 New managerial and entrepreneurial strategies

The re-launched cooperative’s directors decided to diversify the cooperative’s entrepreneurial activities. Thus, unlike other cooperatives that offer only one service, the Amecha cooperative offers fertilizer marketing, grain marketing, consumer goods supply and flour mill services. Under the socialist regime, subsidized consumer goods used to be distributed through the cooperative’s consumer shops. However, this practice ended in 1996 and, due to the difficulties faced in the highly competitive market, the consumer goods supply service is still suspended.

One of the initiatives undertaken by the Board of Directors consisted of improving the financial management of the cooperative. Efforts were made to evaluate and gain insight into the financial performance and position of the Amecha cooperative. The cooperative adopted a relatively good accounting system and started using various financial tools to analyse their financial results.

Some initiatives were also undertaken in order to improve the management of the loans offered to the Amecha cooperative’s members. The Amecha members are entitled to credit to purchase fertilizer. However, one must have repaid all one’s previous loans in order to be eligible for credit. The credit committee of the cooperative analyses each credit application and makes its
recommendations. Afterwards, the application is studied by the district’s Cooperative Promotion Office. The Office conducts its own screening and submits the remaining applications to the district’s Input Coordination Unit, which makes the final decision.

In order to facilitate the transition to the market economy, the cooperative attempted to create adequate stores. The Amecha members revitalized the damaged stores using available local resources.

7.3.3 Cooperative principles

In former times people were forced to become members of the cooperative. The new Board of Directors of Amecha cooperative avoided such practices and made sure that all new members were recruited on a voluntary basis. Thus in a survey of the membership, 83 per cent stated that they had voluntarily become members of the re-launched cooperative. Overall, the re-launching of the new cooperative was conducted in accordance with the cooperative principles.

7.3.4 Cooperative legislation and Government measures

The 1994 and 1998 Acts clearly contributed to the development of the Amecha cooperative. The emergence of the new political environment in 1991 provided the cooperative with a new opportunity for genuine autonomous and democratic development. Since then, the Government has launched several measures aimed at supporting the development of cooperatives. For instance, the Government has launched measures to improve loan repayment and, thanks to these measures, the number of overdue payments has declined substantially in the Amecha cooperative.

Also, the creation of independent cooperative institutions, such as the Oromia Cooperative Promotion Bureau, fostered cooperative development. This organization offers technical assistance to cooperatives and information on matters such as credit, training, market information, audits, registration and legal recognition.

7.4 RESULTS

7.4.1 Financial results

In spite of the efforts undertaken to re-launch the Amecha cooperative, the financial results are still not entirely satisfactory although progress has been made. As mentioned previously, the consumer goods supply activity is suspended. The flourmill service is the costliest one, and it has shown significant
losses for the past four years. The same trend affects the fertilizer marketing activity. Due to some problems, such as the increasing fertilizer prices and the high transportation costs, this activity does not generate positive financial results. However, 83 per cent of the members purchase fertilizer from their cooperative, which means that the need for such an activity exists.

Overall, the cooperative depends largely on external funds to finance its entrepreneurial activities. Fertilizer sales are mainly financed through credit, for example, and grain marketing while profitable, needs financial support on a short-term basis in the form of funds provided by the UNDP. In spite of the difficulties, some initiatives are promising. Thus, the grain marketing service, a recent business activity, achieved positive results from 1997 to 2000.

The total assets of the cooperative have been fluctuating since 1996. The Amecha cooperative lost money three times in the past five years. However, the cooperative was able to distribute a surplus to its members a few times.

7.4.2 Job creation

The Amecha cooperative has employed 6 workers since 1992. Their salary increases by about 8 per cent a year. These workers hold positions such as manager, accountant, grain mill operator and guard. None of them have not pursued their studies past high school.

Since entrepreneurship requires adequate skills and know-how, trained personnel should be in charge of management and leadership-related activities in cooperative societies.
GHANA: GHANA COOPERATIVE PHARMACEUTICALS LIMITED
by Cletus Kayenwee

Type of cooperative: Service cooperative
Created: 1974, not formally re-launched
Membership: 179 (47% women)
Employees: 21
Assets: US$ 200,000
Turnover: US$ 340,000

8.1 INTRODUCTION

For the past 25 years, the Ghana Cooperative Pharmaceuticals Limited has supported pharmacists in their mission to provide the population with appropriate and necessary drugs. However, despite the importance of the role played in Ghanaian society by this small cooperative, its existence was often threatened. The implementation of structural adjustment policies in the 1980s, which were accompanied by a transition towards a market economy, had serious consequences for the cooperative. Due to the devaluation of the Ghanaian national currency, the international purchasing power of the cooperative diminished considerably. Increasing competition also became a serious threat. Without substantial efforts focused on the expansion of its distribution network and the diversification of its products’ supply, the cooperative could easily have been dominated by the new suppliers of pharmaceutical products, including those in the black market. Fortunately, the cooperative coped with the changes for the benefit of its members and, perhaps more importantly, for the benefit of the urban and rural population as a whole.

8.2 HISTORICAL BACKGROUND

The first formal cooperatives in Ghana were introduced by the British around 1928. However, the basic concept of cooperatives already existed in the country
and efforts had previously been made – even before the beginning of the 20th century – to organize farmers and other groups into associations to ensure their socio-economic development. Up to 1945, cooperative activities were concentrated in the cocoa sector, cocoa being an important export product. Afterwards, cooperative organizations began to expand to other sectors, such as vegetables, coffee, citrus fruit and foodstuff. By the end of 1951, the first and most important cooperative movement (the Gold Coast Cooperative Movement) was involved in the following types of activities: farming, product marketing, banking and supply. Cooperatives progressed until Ghana became independent in 1957.

During the colonial period, Government officers were often in charge of managing cooperatives. The colonial Government’s primary objective was to ensure the stability of cocoa production rather than promote genuine, democratic and autonomous cooperatives that benefited their members. The situation did not really change after independence, and cooperatives remained under State control until the early 1980s, when structural adjustment policies leading to market liberalization were implemented in the country.

Ghana Cooperative Pharmaceuticals Ltd was created in 1973 to help pharmacists obtain the import licenses required to buy drugs from foreign countries. The initial objectives of this cooperative were mainly to offer pharmaceutical expertise to the Government and the population and to establish cooperative pharmacies in Ghana’s many districts and regions. In 1976, the cooperative was reorganized and its membership was restricted to pharmacy owners. This new policy resulted in a decline in membership from 100 members in 1973 to 23 in 1977. However, the cooperative overcame this difficulty and the membership eventually increased again. In 2000, the cooperative had 185 members owning more than 200 pharmacies. Since the beginning of the 1980s, the implementation of structural adjustment policies and liberalization of the market has forced the cooperative to adapt itself to the new open market economy.

8.3 KEY FACTORS IN THE DEVELOPMENT OF GHANA COOPERATIVE PHARMACEUTICALS LIMITED

In the past 15 years, the cooperative has carried out several initiatives to maintain its financial position and meet the needs of its members.

8.3.1 Directors and leaders

For the first time since its creation, young pharmacists agreed to serve on the cooperative’s management committee. These new managers brought fresh ideas and youthful energy to the cooperative.
8.3.2 New managerial and entrepreneurial strategies

During the first years after its creation, the business activities of Ghana Cooperative Pharmaceuticals Ltd were restricted to the importation of a limited variety of drugs that were sold to the members. In 1985, the cooperative decided to expand its activities and adopt new managerial and entrepreneurial strategies. This decision resulted in a diversification of its business activities as well as new financial approaches as described below:

- **Creation of a credit union.** In the 1980s, the cooperative realized that its members were increasingly seeking bank credit to support their business activities. To meet this need, the cooperative founded a credit union in 1985. This financial institution was aimed at raising funds from the members in the form of savings and at using these funds to provide them with credit. Also, the credit union was a useful source of capital to support the economic development of Ghana Cooperative Pharmaceuticals Ltd.

- **Wider range of products and services.** The implementation of structural adjustment policies and the liberalization of the market in the 1980s increased competition and made it necessary to supply members with a wider variety of pharmaceutical products. Thus, the cooperative expanded the range of products it offered by importing and purchasing a wider range of pharmaceutical products from local producers. At the same time, the cooperative developed a new range of services such as sales on credit, discounts on purchases and a new communication network designed to continuously inform its members, by telephone or fax, of the products available in the shops.

- **Expanded distribution network.** In 1985, the cooperative started to stock products from other manufacturers in addition to its own products, in accordance with the 'one-stop shop' concept. Several warehouses were opened in different regions to ensure that members had access to the products. In addition to the 'one-stop shop' concept, the cooperative also offered door-to-door delivery to its members. In 1998, a first retail pharmacy was opened. The opening of this first pharmacy symbolized the first step in a long-term plan aimed at opening several outlets throughout the country.

- **New target markets and marketing approaches.** Traditionally, the cooperative's members were its only clients. However, the cooperative changed its marketing strategy and decided to offer its products and services to non-members, such as non-member pharmacies and public or private hospitals or clinics. As a result of this initiative, the membership doubled (from 100 to 200 members) between 1990 and 2000. A further initiative aimed at overcoming marketing weaknesses was the hiring of a new marketing manager.

- **Personalized collection method.** Another new managerial strategy developed by the cooperative consisted of collecting members' payments by visiting the members in their pharmacies rather than waiting for them to...
8.3.3 Cooperative principles

The development of Ghana Cooperative Pharmaceuticals Ltd was based on cooperative principles in accordance with the new Cooperative Law in Ghana. Thus, the cooperative respects such principles as democratic and free participation of the members, delivery of services to the community and surplus sharing.

8.3.4 Cooperative legislation and support from the Government

Since 1968, Ghanaian cooperatives have been legally managed under the cooperative organization decree and regulations. The decree should soon be replaced by a new cooperative law, which will recognize Ghanaian cooperatives as autonomous entities. However, even though the new cooperative law has not been promulgated yet, it should be pointed out that the recent development of genuine, democratic cooperative organizations would not have been possible without Government support. Thus, in the 1980s, the Ghanaian government began to withdraw from several sectors that should have been left to the private sector, such as cooperative organizations.
8.4 THE RESULTS

For the most part, the results of the initiatives implemented for the development of Ghana Cooperative Pharmaceuticals Ltd were positive.

8.4.1 Financial results

During the last decade, the cooperative's sales increased significantly. However, due to the devaluation of the Ghanaian currency that started in 1996 and the subsequently higher exchange rate, the sales when calculated in American dollars appear to have declined over the past five years. In spite of these difficulties, the cooperative has remained profitable and has maintained a positive surplus over the past ten years. However, it has not been able to maintain year after year the same growth pattern and its results have fluctuated.

8.4.2 Job creation

Between 1996 and 2000, the cooperative itself created 14 new jobs. However, the cooperative's job creation results are more substantial if one considers job creation at the pharmacy level. Pharmacists have created 25 jobs in the last five years, which, in fact, raises the total number of new jobs to 39.

8.4.3 Social results

In the last decade, the cooperative invested money in many initiatives devoted to the community. For example, annual donations were made to the Ghana National Trust Fund to help poverty-stricken people as well as to the Pharmaceutical Students' Association to support their annual drug safety campaign. Also, every year since 1990, the cooperative has given a special award to a pharmaceutical chemistry student who has achieved excellent academic results. The pharmacy outlets that the cooperative opened in disadvantaged areas also demonstrate Ghana Cooperative Pharmaceuticals Ltd's commitment to the community.
UGANDA: UGANDA SHOE-SHINERS INDUSTRIAL COOPERATIVE SOCIETY (USSICS)
by Cornelius Kazoora

Type of cooperative: Service cooperative
Created: 1975
Registered: 1989
Membership: 370
Employees: 4
Assets: US$ 8,300
Turnover: US$ 12,825

9.1 INTRODUCTION

The Uganda Shoe-Shiners Industrial Cooperative Society Limited (USSICS) is a positive example of a small cooperative, which in spite of its limited means, has contributed positively to the development of its community. Kampala life is not always easy for young people who do not have the possibility to pursue their studies. Therefore, shoe-shining may sometimes seem a good if not only way to earn a living. For 25 years, the mission of the cooperative has been to support these workers. The implementation of structural adjustment policies and the political changes that led to legal reforms in favour of genuine, democratic and autonomous cooperative development, gave the cooperative the chance to be registered. However, apart from this positive aspect, economic and political changes in Uganda also brought about problems. The USSICS wanted to diversify its activities but found out that this was easier said than done, and the lack of financial resources hindered its development. This case shows that in spite of all the difficulties, a cooperative may contribute to the well-being of its members, if it offers them a chance to express their needs and to democratically manage their cooperative.
9.2 HISTORICAL BACKGROUND

The origin of the Ugandan cooperative movement dates back to 1913. Traditionally mainly agricultural, cooperatives also emerged in various non-traditional spheres of activity. The relationship between cooperatives and the Government varied according to who was in power and what the Government's attitude towards cooperatives was. From the beginning of the century to the early 1950s, all cooperatives remained unofficial. The Cooperative Act of 1952 gave cooperatives enough autonomy to enable them to register but many refused. In 1962, Uganda gained independence. During the following years, cooperatives were generally subjected to State control. From 1970 to 1986, cooperatives were managed under the Cooperative Society Act, which gave the Government direct control over registered cooperatives. However, the coming to power of a new government in 1986, in addition to the implementation of Structural Adjustment Programmes (SAPs), led to legislative reform in 1991 in favour of genuine, democratic and autonomous cooperative development.

In 1975, five people working as shoe shiners in the capital, Kampala, decided to create the Kampala Shoe Shiners Cooperative Savings and Credit Society Ltd. (KSSCSCS). At the time, a military Government controlled the country, goods and services were very scarce and the idea of getting together in a cooperative association appeared to the founders to be a possible solution to their economic difficulties. Moreover, their initiative was aimed at creating jobs and defending the members' interests against Government authorities. Due to the legal and political context, the cooperative remained an unofficial entity until 1989. The political and economic changes that occurred at the end of the 1980s encouraged the cooperative to register. This decision was also justified by the fact that the Kampala City Council was then trying to restrict informal trading activities that were becoming increasingly commonplace. In 1999, the cooperative changed its name to the Uganda Shoe Shiners Industrial Cooperative Society Ltd. (USSICS).

Nowadays, the USSICS has more than 370 members divided into two categories: 124 'full-time' members and 246 'part-time' members. The former category includes members who have paid their membership share in full and are thus allowed to participate in every aspect of their cooperative's activities. The latter category includes people who contribute to the operation of the cooperative in exchange for being allowed to operate under the USSICS name.

9.3 KEY FACTORS OF THE USSICS'S DEVELOPMENT

As a consequence of the informal development of the cooperative, little information on the USSICS's growth before 1989 is available today. For instance, the financial results of the cooperative were not formally recorded and annual
reports were not produced. However, since its formal registration and the enactment of the new Cooperative Act in 1991, things have changed. It is now possible to analyse the key factors of the USSICS’s development during the last decade and to understand how the cooperative managed to cope with the changes.

9.3.1 New managerial and entrepreneurial strategies

During the last decade, the USSICS adopted several managerial and entrepreneurial strategies designed to improve its socio-economic situation as well as guarantee its development in the new market economy context. These included:

- **A new management structure:** In 1994, a new organizational structure was approved by the General Assembly. This new structure was aimed at improving management efficiency and increasing the members’ control over the cooperative’s activities. Thus, the Executive Committee, which is subordinate to the General Assembly, supervises three sub-committees, namely the education, finance and project committees. Because of the Cooperative Act of 1991, the USSICS has to hold an Annual General Assembly where the results of the cooperative, the annual budget and the work plans are presented to the members and approved. In 2000, new directors were elected.

- **Registration:** One of the reasons for the USSICS’s registration in 1989 was the need to finally distance itself from informal organizations. Informal networks have always existed in Uganda but they are not looked at very positively by the Government or by the population in general, who often consider informal organization members to be thieves. The USSICS was affected by this reputation and, in an effort to rebuild its image, decided to become formally registered in 1989.

- **Expansion of services.** To develop its business activities and increase its income, the USSICS tried hard to expand its range of services. In addition to the traditional shoe shining and savings and credit services, the USSICS attempted to penetrate new markets such as shoe polish marketing, shoe brush sale, shining kit renting, etc. Moreover, the USSICS also tried to invest in new activities that were not related to the ‘shoe industry,’ such as public transportation and real estate. Unfortunately, the majority of these projects failed due to the lack of financial resources.

- **Financial investments.** In spite of its low profitability, the USSICS attempted to include strategic investment as part of its entrepreneurial practices. For instance, the USSICS invested money in both the ‘Uganda Cooperative Alliance’ and the ‘Uganda Savings and Credit Union’. These investments, although they did not yield substantial interest, allowed the USSICS’s members to participate in training programmes.
9.3.2 Cooperative principles

While establishing its new structure, the USSICS made considerable effort to reaffirm that it is essential to respect the cooperative principles. Democratic management and free and universal admission remain among the most important cooperative principles promoted by the USSICS.

9.3.3 Cooperative legislation

The enactment of the Cooperative Act of 1991 was one of the most important factors, if not the most important factor, which supported the USSICS development during the last decade and enabled the cooperative to cope with the new economic situation. This Act not only allowed cooperatives to manage their own affairs but also instituted many rules such as the obligation of holding an Annual General Assembly where the financial results must be presented to the members to be approved. As a consequence of these regulations, the USSICS’s bookkeeping was improved.

9.4 RESULTS

In spite of the various problems faced by the USSICS, this small cooperative reached positive socio-economic results and contributed to the development of its city.

9.4.1 Financial results

In terms of financial results, the USSICS has only been able to declare dividends twice since 1991, namely in 1994 and 1995. However, even if profitability still represents a major challenge for the cooperative, its achievements over the past 25 years have nevertheless contributed significantly to improving the quality of life of its members.

9.4.2 Job creation

One of the most important achievements of the USSICS since 1975 has been its contribution to creating jobs for a large number of young people. About 70 per cent of the USSICS members did not complete their primary education and chose shoe shining as a first job opportunity. The support offered by the USSICS to these young people prevented them from joining the ranks of the unemployed. Generally, the average annual increment in membership is around
15 per cent. Since 1996 women have also become members of the USSICS, however, they only represent 5 per cent of the current membership.

9.4.3 Efficient cooperative management

Thanks to the new structure and the strict control that has been implemented, management of the cooperative has been considerably improved. The risk of embezzlement and mismanagement has been avoided and a sound democratic management system is now in place.
While there are many differences between the eight case studies, they underline a number of similar attempts by cooperatives to adapt themselves to the new challenges of the market economy. This chapter is aimed at identifying and explaining the success factors in cooperative development.

To structure this analysis, the key factors driving cooperative development have been divided into four categories: social and human aspects, financial and economic aspects, cooperative principles and governance, and legal, policy and institutional environment. These four categories have been considered as the most appropriate in order to gather and present the key factors identified from the eight case studies. As shown in the diagram below, each factor individually influences cooperative development. However, these factors must also be understood as a whole of interrelated and complementary factors, which are all required in order to create a favourable climate for successful cooperative development.
Under these four factors, the following aspects are included:

- Human and social aspects: new cooperative leadership, human resource development, job creation and the cooperative attitude of the community;
- Financial and economic aspects: diversification and expansion of business activities, financial management improvement, investment policies, medium and long-term planning;
- Cooperative principles and governance: governance structure and member re-registration, election of new Board of Directors, application of cooperative principles, surplus sharing and concern for community;
- Legal, policy and institutional environment: legal framework, support from government authorities and support by cooperative organizations.

The first four parts of this chapter start with a summarized table of the initiatives undertaken by each cooperative concerning each of the four factors. Also, each part ends with a short listing of the key findings.

Before moving on to the key factors, the main characteristics of the eight studies will be summarized.

10.1 SUMMARY OF THE CASE STUDIES

As shown by Table 10.1, the eight cooperatives studied are quite different from each other. Membership ranges from less than 200 to some 60,000, while the number of employees varies between 6 and more than 1000. The members/employees ratio also differs, varying for instance from about 10 members per employee in the Russian, Vietnamese and Ghanaian cases, to about 100 members per employee in the Chinese case. The cooperatives have all been founded since the beginning of the 20th Century, but most of them were re-launched in the second half of the 1990s. A calculation of the members/turnover ratio reveals significant differences between these cooperatives. This ratio varies between about US$ 35 per member in the Ethiopian case to US$ 70 per member in the Ethiopian case, US$ 111 per member in the Chinese case, to US$ 666 and US$ 1,040 per member in the Klinski and Stupinski cooperatives respectively, and finally US$ 1,760 in the Ghanaian case.

However, as the results presented at the end of each country chapter indicate, these cooperatives managed to successfully adapt themselves to the changing political and economic environments.
### Table 10.1 Case studies

<table>
<thead>
<tr>
<th>Name</th>
<th>Type of cooperative</th>
<th>Year of creation or re-launching</th>
<th>Current membership</th>
<th>Employees</th>
<th>Assets/turnover (in US$, in 2000)</th>
<th>Entry requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Armenia</strong></td>
<td>Consumer Multipurpose</td>
<td>Created: beginning of 20th Century</td>
<td>24,300</td>
<td>1,320</td>
<td>Assets: N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Armenia</td>
<td></td>
<td>Re-launched: late 1990s</td>
<td></td>
<td></td>
<td>Turnover: about 990,000</td>
<td></td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td>Credit Union</td>
<td>Created: 1993</td>
<td>60,000</td>
<td>340 staff members and about 1,300 agents</td>
<td>Assets: about 36 million</td>
<td>Turnover: N/A</td>
</tr>
<tr>
<td><strong>Poland</strong></td>
<td></td>
<td>Last merger: 1999</td>
<td></td>
<td></td>
<td></td>
<td>1-Becoming a member of the Association for Dissemination of Financial Knowledge</td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td>Consumer Multipurpose</td>
<td>Klinski: created 1925</td>
<td>14,730</td>
<td>About 150</td>
<td>Assets: about 1.19 million</td>
<td>Registration fee (amount N/A)</td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td>Klinski: re-launched: 1996</td>
<td></td>
<td></td>
<td>Turnover: about 1.63 million</td>
<td></td>
</tr>
<tr>
<td><strong>Russia</strong></td>
<td></td>
<td>Stupinski: re-launched: 1995</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>Supply and Marketing (mainly agricultural)</td>
<td>Created: early 50's</td>
<td>3,200</td>
<td>About 300 (31% women)</td>
<td>Assets: about 151,550</td>
<td>Open</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
<td>Re-launched: late 90's</td>
<td></td>
<td></td>
<td>Turnover: about 39,400</td>
<td></td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td>Agricultural supplies</td>
<td>Created: 1983</td>
<td>889</td>
<td>6, all men</td>
<td>Assets: about 76,500</td>
<td>Registration fee (U$ 1.35) Buying at least one share (U$ 7.45)</td>
</tr>
<tr>
<td><strong>Vietnam</strong></td>
<td></td>
<td>Re-launched: 1992</td>
<td></td>
<td></td>
<td>Turnover: about 62,000</td>
<td></td>
</tr>
<tr>
<td><strong>Ethiopia</strong></td>
<td>Multipurpose agricultural cooperative</td>
<td>Created: 1979</td>
<td>370 (5 per cent women)</td>
<td>4 staff members</td>
<td>Assets: about 8,300</td>
<td>Registration fee (U$ 5.90)</td>
</tr>
<tr>
<td><strong>Ethiopia</strong></td>
<td></td>
<td>Re-launched: 1992</td>
<td></td>
<td></td>
<td>Turnover: about 12,825</td>
<td></td>
</tr>
<tr>
<td><strong>Ghana</strong></td>
<td>Service</td>
<td>Created: 1974</td>
<td>185 (about 45 per cent women)</td>
<td>21</td>
<td>Assets: bout 200,000</td>
<td>Qualified pharmacist owning a pharmacy and contributing to share capital (U$ 300)</td>
</tr>
<tr>
<td><strong>Ghana</strong></td>
<td></td>
<td>Not formally re-launched</td>
<td></td>
<td></td>
<td>Turnover: about 340,000</td>
<td></td>
</tr>
<tr>
<td><strong>Uganda</strong></td>
<td>Service</td>
<td>Created: 1975 Registered: 1989</td>
<td>370 (5 per cent women)</td>
<td>4 staff members</td>
<td>Assets: about 8,300</td>
<td>Registration fee (U$ 5.90)</td>
</tr>
<tr>
<td><strong>Uganda</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Turnover: about 12,825</td>
<td></td>
</tr>
</tbody>
</table>
10.2 SOCIAL AND HUMAN ASPECTS

Table 10.2 below summarizes and compares the key social and human factors that have contributed to successful development of the eight cases introduced in previous chapters.

Table 10.2 Human and social aspects

<table>
<thead>
<tr>
<th></th>
<th>New cooperative leadership</th>
<th>Human resource development</th>
<th>Cooperative attitude of community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five Armenian cooperatives</td>
<td>Yes, elected to the Board of Directors</td>
<td>Training offered by first level cooperatives (committee members) and HAY COOP Job creation: 990</td>
<td>Improving to positive rather than negative</td>
</tr>
<tr>
<td>Stefczyk (Poland)</td>
<td>Yes, the ‘founding fathers’ of the Polish credit unions</td>
<td>Training offered by the HRD division of the Stefczyk and by the NACS CU Members education on financial topics Job creation: number is not known</td>
<td>Favourable environment</td>
</tr>
<tr>
<td>Klinski and Stupinski (Russia)</td>
<td>Yes, elected to the Board of Directors</td>
<td>Training offered by the cooperative training centre in Moscow Job creation: Klinski, 676 between 1996-2000 Stupinski, 130 in 1999-2000</td>
<td>Favourable environment</td>
</tr>
<tr>
<td>Xiangcheng (China)</td>
<td>Yes, elected to the Board of Directors</td>
<td>Training: offered to the staff (technical and financial topics) and to the members in order to favour re-registration Job creation: 60 since 1997</td>
<td>N/A</td>
</tr>
<tr>
<td>Hop Tien (Vietnam)</td>
<td>Yes, two leaders nominated by the members to develop a re-launching strategy. Elected to the Board of Directors afterwards</td>
<td>Training offered to employees and members by the Hop Tien Job creation: about 300 since 1996</td>
<td>Favourable, training offered by the Government to all farmers of the Hop Tien village based on the new cooperative law in 1996</td>
</tr>
<tr>
<td>Amecha Ltd. (Ethiopia)</td>
<td>Yes, re-established the cooperative in 1992</td>
<td>Training: offered by the Oromia Cooperative Promotion Bureau Job creation: 6 since 1996</td>
<td>Improved</td>
</tr>
<tr>
<td>Ghana Cooperative Pharmaceuticals Ltd.</td>
<td>N/A</td>
<td>Training offered selectively by external organizations Job creation: 14 since 1996</td>
<td>N/A</td>
</tr>
<tr>
<td>The USSICS (Uganda)</td>
<td>N/A</td>
<td>Training: N/A - Job creation: from 40 members in 1999 to 124 (full-time) in 2000</td>
<td>‘Official’ organizations (as cooperatives) preferred to informal ones by the population in general</td>
</tr>
</tbody>
</table>
Emergence of new cooperative leadership: As indicated in Table 10.2, successful cooperative creation or re-launching often depends on the commitment and support of leaders who are actively engaged in cooperative development projects. While the personality, education and management experience of these leaders may differ, they have commitment, vision and determination in common. For example, as regards education, one of the leaders and the current president of the Stefczyk credit union in Poland holds a Master’s Degree in economics and has been involved in credit union development since the 1980s while, on the other hand, the Amecha cooperative in Ethiopia was re-established by a group of ordinary farmers who used to be members of the ‘old’ Amecha. Whoever they are, the leaders of successful cooperatives demonstrate a capacity to raise the interest and commitment of the different categories of members and stakeholders involved in cooperative development, from local populations to government authorities. The leaders are often deeply involved in the development of the cooperative before it is officially launched and they are usually elected to the Board of Directors once the cooperative is formally re-established.

Human resource development: The majority of the eight cooperatives have expressed an awareness of the need to ensure human resources development at all levels ranging from the elected Board of Directors, management and staff to the general membership of the cooperative. As Table 10.2 indicates, many cooperatives fortunately do provide for training.

HRD and elected Directors
As may be observed in the case studies, human resource development at the directors’ level is aimed at improving leadership skills and basic entrepreneurial and business skills and attitudes, as well as at raising the understanding of cooperative values and principles. Financial skills are considered of particular importance in cooperatives as they are required to keep detailed accounting records.

Unlike the former boards of directors, which were often passive and whose activities were often limited to mere attendance at meetings, the newly elected directors are expected to be dynamic and able to initiate changes. Directors can gain the required skills by participating in training programmes that may be offered by either the cooperative itself, or by the cooperative federation, a cooperative organization or perhaps a Department of Cooperatives of the government. For instance, management training in the Polish Credit Union is offered by the National Association of Cooperative Savings and Credit Union (NACSCU), while cooperative management training in Russian cooperatives is provided by the cooperative training centres in Moscow. In Ghana, managers were offered the chance to participate in workshops and seminars. Thus, depending on the country, the training structures are quite different and sometimes they are still administered by the government.
HRD and employees
At the staff level, training is aimed at changing the attitude of managers and employees towards the cooperative as well as enabling them to cope with new entrepreneurial changes. Management training is designed to develop the managers' entrepreneurial attitudes in order to foster a dynamic and innovative management style. Thus, cooperatives provide managers with the necessary skills and competencies, such as business knowledge and technical managerial skills in order to perform in an increasingly competitive environment.

Most of the time, staff/employee training is more concrete and related to the day-to-day activities of the cooperative, as in the case of the Hop Tien cooperative in Vietnam, where each service offered by the cooperative is delivered by a team of employees specifically trained to meet the needs of the members.

Staff/employee training, just like management training, is in many cases offered by the cooperatives themselves, the cooperative federation, umbrella organizations or other quasi-governmental cooperative services. Managers and employees may also receive cooperative training on the fundamental beliefs underlying cooperatives: i.e. the cooperative principles and values.

Staff recruitment is as essential as staff training. Thus, many successful cooperatives pay more and more attention to the hiring of competent and motivated staff, who show commitment and demonstrate ability and potential. For instance, the Stefczyk Credit Union of Poland implemented an eight-day training session ending with an exam that candidates must first pass before they are hired. However, attracting and especially retaining competent and talented staff members remains an important issue for cooperatives, as they are often financially unable to offer attractive salaries.

HRD and members
Many initiatives were undertaken by the cooperatives to raise the awareness, commitment and sense of ownership of members towards the cooperative. Education and training is an important tool to bring this about and it is seen as a continuous process rather than a one-time training activity. After all, the market orientation of the cooperative rests on its members' ability to develop a viable commercial strategy. Successful cooperatives understand this challenge very well and therefore provide their members with cooperative, entrepreneurial and technical training. This training is based on the understanding that the cooperative principles and values together form the basis for true commitment and ownership as well as an appreciation of the rights and obligations of members.

Job creation
A direct result of successful cooperative development is job creation. As indicated in Tables 10.1 and 10.2, every cooperative contributed, albeit at varying degrees, to job creation as well as job maintenance. Altogether, the eight cooperatives - representing a total of some 89,200 members - currently provide
direct employment to about 3,300 persons. One can assume that indirectly they provide employment to many thousands more.

Cooperative attitude of local and regional communities
The long period during which cooperatives were controlled by the State explains the lack of confidence in them and the misunderstanding of their roles and functions. This distrust, which hindered cooperative development in many countries for many years, is only slowly being restored through confidence building efforts by cooperatives and governments. This represents a huge challenge for new genuine, member-controlled, democratically managed cooperatives. However, some cooperatives, like the Polish credit union and the Vietnamese agricultural cooperative had the opportunity to grow in a favourable environment, where local communities and regional organizations, were willing to support cooperative development. It should be realized that a positive attitude towards cooperatives is imperative, in combination with upholding cultural values shared among community members. A cooperative that has the chance to develop itself in such an environment, together with enabling policies by government, may greatly benefit from this.

Key findings
- The presence of leaders who will arouse the interest of members and the population at large and who show true commitment towards cooperatives is essential. These leaders do not have to be highly educated, but education and experience (management and organizational skills, financial knowledge, etc.) clearly enhance cooperative development.
- Education and training of directors, staff and members are a priority. Each category needs appropriate training in order to obtain specific skills related to their responsibilities. Managerial, entrepreneurial and cooperative training programmes should be offered among a range of other topics. Training programmes should be created and offered by local cooperatives themselves, cooperative organizations or other training organizations.
- The implementation of an effective staff recruitment process is necessary in order to employ and retain competent and committed persons.
- Spontaneous support from communities seems to be rare as people have lost confidence in cooperatives in many transition countries. However, when a positive attitude towards cooperatives exists in the community, this greatly benefits cooperative development. The community’s positive attitude towards cooperatives could be promoted via information and training programmes as well as through the awareness of good examples and practices.
10.3 FINANCIAL AND ECONOMIC ASPECTS

Table 10.3 presents a summary of the main characteristics of the eight cases with respect to a number of financial and economic aspects. As has already been referred to in Chapter 1, financial difficulties are often the main problem faced by cooperatives in transition and developing economies. The transition from a State-controlled economy to a competitive market economy often requires a complete overhaul of the financial and economic management methods of the cooperative as well as the adoption of innovative strategies.

Diversification and expansion of business activities

Under State control, cooperatives were often forced to offer a limited range of products and services within a restricted area. Such a way of conducting business cannot be maintained in a free and competitive market. As illustrated in Table 10.3, many successful cooperatives invested money, time and energy, to increase their range of products and services; expand and improve their distribution network; focus on a particular target market, and position themselves favourably against their competitors. These initiatives differed amongst cooperatives, depending on the type, their mission, the needs of their members and the specific context.

Remarkable in this respect is the creativity demonstrated by the cooperatives in setting up these initiatives, which they did in spite of the limited means available. For example, the Xiangcheng Supply and Marketing Cooperative (China) decided to establish service outlets in as many villages as possible and focus on the farming inputs and consumer goods markets. It also developed a ‘five-operations centralized policy’ and transformed its one-shop-many-line system into a one-shop-one-line system. The Hop Tien Agricultural Cooperative (Vietnam) set up a diversified range of services, each of which was managed by a specialized team. The Klinski consumer cooperative (Russia) developed a new concept of retail trade and refocused on urban areas. Ghana Cooperative Pharmaceuticals Limited created a credit union and expanded its product range and its distribution network and so forth. Each cooperative, in its own way, diversified and expanded its business activities in order to increase its sources of income and attain profitability. Indeed, most of the time, these initiatives were profitable and made it possible for the cooperatives to survive and grow.

Financial management improvement: The majority of the re-launched cooperatives presented in the previous chapters, were close to bankruptcy when they started undertaking initiatives to cope with the necessary changes. Financial management improvement was a priority and several means were used to improve it in the short-term. By obligation or by choice many cooperatives improved their bookkeeping and accounting methods and started to carry out regular financial audits which gave members the possibility to maintain control.
### Table 10.3 Financial and economic aspects

<table>
<thead>
<tr>
<th></th>
<th>Diversification and expansion of business activities</th>
<th>Financial management improvement</th>
<th>Investment policies</th>
<th>Medium and long-term planning</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Five Armenian cooperatives</strong></td>
<td>Yes, various new products and services, development of small industries, etc</td>
<td>Yes, some improvements in bookkeeping and accounting</td>
<td>Yes, partly thanks to an investment fund of HAY COOP</td>
<td>Yes, prognostics are made in terms of production, sales, etc. (until 2005)</td>
</tr>
<tr>
<td><strong>Stefczyk (Poland)</strong></td>
<td>Yes, offer of new financial products and services</td>
<td>Yes, strict financial management to face the consequences of the 1999’s merger</td>
<td>Yes, in accordance with the Credit Union Act and NACSU regulations</td>
<td>Yes, financial provisions are made and projects are planned, for instance to provide counselling on personal finance</td>
</tr>
<tr>
<td><strong>Klinski and Stupinski (Russia)</strong></td>
<td>Yes, Klinski: four new types of retail stores, return to urban area. Stupinski: new retail network</td>
<td>Yes, considerable improvements in accounting, computerization of accounting</td>
<td>Yes, thanks to a development fund granted by the Government, Klinski: development of a capital construction programmes</td>
<td>Yes, development plans are elaborated and approved by the Board</td>
</tr>
<tr>
<td><strong>Xiangcheng (China)</strong></td>
<td>Yes, new outlets network in rural area, new target market, new range of consumer goods</td>
<td>Yes, introduction of modern accounting system and computerization</td>
<td>Yes, purchase of technological instruments and investment in a market information centre</td>
<td>Yes, development of long-term relations with rural produce processors</td>
</tr>
<tr>
<td><strong>Hop Tien (Vietnam)</strong></td>
<td>Yes, many new services offered at lower prices than competitors</td>
<td>Yes, financial management based on the governmental system</td>
<td>No</td>
<td>Yes, members agreed on a development plan for the 2001-2005 period</td>
</tr>
<tr>
<td><strong>Amecha Ltd. (Ethiopia)</strong></td>
<td>Yes, new stores</td>
<td>Yes, improved accounting and bookkeeping, improved credit management</td>
<td>According to the by-laws: 30% of the net benefit should be invested, but this measure has not been implemented yet</td>
<td>No financial and strategic planning but some projects e.g. tractor purchase</td>
</tr>
<tr>
<td><strong>Ghana Cooperative Pharmaceutical Ltd.</strong></td>
<td>Yes, creation of a credit union, wider range of products and services, new distribution network, new target market (non-members)</td>
<td>Yes, improved capital share collection method</td>
<td>Yes, in form of land purchase</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>The U.S.S.I.C. (Uganda)</strong></td>
<td>Yes, new services related or not to the ‘shoe industry’</td>
<td>Yes, improved accounting and bookkeeping</td>
<td>Yes, money invested in the Uganda Cooperative Alliance and the Uganda Savings and Credit Union</td>
<td>N/A</td>
</tr>
</tbody>
</table>
of their cooperative. Appropriate training of the Board of Directors and managers was, in many cases, an essential step to enable them to improve financial control.

Investment policies: In a free and competitive market, cooperatives need investment capital, while the members' equity is often not nearly enough to meet the cooperative's investment needs. In some cases, as in the Ghanaian case, members decide to raise the individual members' equity but, although this approach can solve financial problems on a short-term basis, other creative ways of obtaining capital, for instance through investments, may seem more effective and reliable in a long-term perspective. Some of the cooperatives studied here, for instance the Chinese, Ugandan, Russian and Armenian ones, adopted investment policies. In China, money was invested to purchase new technological instruments and to set up a market information centre. In Uganda, the USSICS invested money in both the Uganda Cooperative Alliance and the Uganda Savings and Credit Union. The Stupinski cooperative in Russia centred its investment policies on the development of a retail network. However, low investment capacity generally remains an important issue for cooperative development.

Other financial strategies: While many cooperatives are still unable to adopt formal investment policies, they demonstrate creativity in finding other financial strategies to solve their financial problems. For instance, to avoid losing more shops, the Klinski consumer cooperative (Russia) rented several shops to staff members for 6-month periods. This cooperative also managed to borrow money from its members on a permanent basis through the organization of deposit services. Borrowing money from the members helped the cooperative finance current needs.

In a different way, in order to increase sales volumes, the Xiangcheng cooperative in China elaborated a strategy aimed at linking the individual outlets' income with their turnover results. Thus the outlets were allowed to retain a certain percentage of their sales revenues. This strategy, in addition to raising financial results, motivated the staff members and increased their commitment.

Medium- and long-term planning: All cooperatives are basically aware of the need to initiate medium- and long-term financial and entrepreneurial planning. However, the clarity and the accuracy of this planning varies from one cooperative to another. In some cases, for instance, the Armenian and Russian ones, cooperatives evaluated precisely the profitability, sales volumes or growth that they expect for the following years. In other cases, such as the Vietnamese, the Chinese or the Ghanaian ones, cooperatives appeared to have a broader idea of future changes and strategies to be initiated, depending on the financial resources available and the economic and political context. As an example of concrete financial planning, the Klinski cooperative in Russia developed a capital construction programme, which is aimed at gradually building various factories and stores. Another example is the planning carried out by the Armenian cooperatives in order to predict their production and sales volumes up to the year 2005. In a different way, the Ghanaian cooperative purchased a 20 acre
plot of land with the aim of building a modern factory; and the members of the Vietnamese cooperative elaborated a 5-year plan. All these initiatives demonstrate that successful cooperatives do not limit themselves to the day-to-day management tasks but are also preoccupied with planning for the future.

Key findings

- A careful process of thinking about a cooperative’s short, medium and long-term business strategy and activities is a prerequisite for success. Cooperative directors and managers must take into consideration both the ‘traditional’ marketing approaches (e.g. approaches based on an evaluation of the cooperative strengths/weaknesses, opportunities/threats with regard to its products and services, prices, distribution network, promotion strategy and competitors) and the cooperative’s specific character (such as evaluation of members’ needs, appropriate incentive structures and efficient decision making). There is not such a thing as a ‘miracle formula’ or ‘quick fix’ that can apply to all cooperatives but among the main trends observed in the case studies are: product and service diversification, distribution network expansion, cost and price reduction and overall repositioning in relation to competitors.

- Financial management and recovery is necessary to support successful cooperative development. Improved accounting and bookkeeping are key elements of a successful recovery strategy.

- Medium and long-term financial planning is not yet general practice but many cooperatives are aware of its importance. Planning tends to be developed in some cooperatives in the form of 5-year plans.

- Members equity does not satisfy cooperatives’ capital needs. Successful cooperatives tend to diversify their capital sources but lack of financial resources limits cooperatives’ investment capacity.

- Some cooperatives are still financially supported by government subsidies, which could favour cooperative development within a limited time period, but which could also hinder autonomous cooperative development in the longer term.
10.4 COOPERATIVE PRINCIPLES AND GOVERNANCE

Turning next to some typical 'cooperative' issues, Table 10.4 summarizes the eight cases as far as their membership conditions, services and other benefits, external profile and cooperative network are concerned.

As was mentioned in the individual country studies, genuine, democratic cooperatives hardly ever existed in any of the eight countries. Consequently, the creation or re-launching of 'real' cooperatives required a lot of effort.

Governance structures and members re-registration: As Table 10.4 indicates, one of the first initiatives undertaken by the cooperatives to re-launch their organizations consisted of changing the governance structures and conducting member re-registration campaigns. In a majority of the cooperatives, such as in China, Vietnam, Armenia and Russia, new by-laws were adopted, which among others, provided for an increased role for the cooperatives' self-managing committees and aimed at strengthening member participation and commitment. Annual general assemblies or representative assemblies were held, and the members' opinions were solicited. Management committees were created and used as actual democratic decision-making tools. In some cases, structural changes were quite radical and led to mergers or changes in the very nature of the cooperatives. For example, the Klinski cooperative in Russia merged and changed from a union into a district cooperative.

Moreover, many cooperatives decided to launch re-registration campaigns aimed at explaining the real purposes of the cooperative to the members and to the population in general. The results of these campaigns were positive and, although the 'new' membership of some cooperatives is now less than during the State-controlled period when registration was compulsory, member participation and commitment to the cooperatives is considerably higher. The Xiangcheng cooperative in China undertook a particularly interesting initiative. The managers of this cooperative decided to create a new primary cooperative within the re-launched cooperative. The new primary cooperative had its own by-laws and registration was organized on a voluntary basis. This solution was perceived as an excellent way to restore people's confidence in the cooperative. In some African countries, where cooperatives remained informal for many years, re-launching went hand in hand with formal registration. Registration, which occurred for example in Uganda, had important consequences because it allowed the Uganda shoe-shiners cooperative to dissociate itself from informal organizations, which are often perceived negatively by the population.

Board of Directors: The election of a new Board of Directors took place in every cooperative studied and thus appears as an important initiative in ensuring the successful development of the cooperative and restoring members' confidence. The involvement of young people bringing new ideas is seen as a way of getting rid of the old management methods used in a State-controlled economy and to create a youthful image of energy and revival.

Management: Some cooperatives, such as the Polish case, looked for experienced and highly educated managers who could defend the cooperative's inter-
### Table 10.4 Cooperative principles and governance

<table>
<thead>
<tr>
<th>Cooperative and member re-registration</th>
<th>Election of new Board of Directors</th>
<th>Application of cooperative principles</th>
<th>Concern for community</th>
<th>Surplus sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Armenian Cooperatives</strong></td>
<td>Yes, new by-laws, creation of new committees and member re-registration</td>
<td>Yes</td>
<td>Yes, as stated in the new by-laws</td>
<td>No</td>
</tr>
<tr>
<td><strong>Stefczyk (Poland)</strong></td>
<td>New structure due to the 1999's merger. Experienced president who used to manage the two merged cooperatives. Mix between 'old' and 'new' directors</td>
<td>Yes, after the 1999's merger. Experienced president who used to manage the two merged cooperatives. Mix between 'old' and 'new' directors</td>
<td>Yes, purchase of computers for schools, support for local events by sponsoring prizes, supplying equipment, etc., assisting in renovating public buildings</td>
<td>No, by law, all the surpluses must be allocated to the reserve fund</td>
</tr>
<tr>
<td><strong>Klinski and Stupinski (Russia)</strong></td>
<td>Yes, members re-registration campaign. Structural changes and new by-laws</td>
<td>Yes, mix between 'old' and 'new' directors</td>
<td>Yes, as stated in the new by-laws</td>
<td>Klinski: yes, purchase of an ambulance for a hospital and purchase of computers for schools</td>
</tr>
<tr>
<td><strong>Xiangcheng (China)</strong></td>
<td>Yes, creation of a new primary cooperative</td>
<td>Yes, after 1997</td>
<td>Yes, within the new cooperative's structure</td>
<td>No</td>
</tr>
<tr>
<td><strong>Hop Tien (Vietnam)</strong></td>
<td>Yes, new by-laws, new committees, members re-registration</td>
<td>Yes, in 1996. Also elected: supervisory committee and accounting division members</td>
<td>Yes, as stated in the Cooperative Law of 1996</td>
<td>Yes, financial participation in various local projects</td>
</tr>
<tr>
<td><strong>Amecha Ltd. (Ethiopia)</strong></td>
<td>Yes, re-establishment</td>
<td>Yes, in 1996 and 1998</td>
<td>Yes, the re-launching process was conducted in accordance with the cooperative principles</td>
<td>Yes, community access to flour mill services</td>
</tr>
<tr>
<td><strong>Ghana Cooperative Pharmaceuticals Ltd.</strong></td>
<td>N/A</td>
<td>Yes, mix between 'old' and 'new' and young directors</td>
<td>Yes, as stated in the new cooperative law</td>
<td>Yes, financial support to students and poor people</td>
</tr>
<tr>
<td><strong>The USSICS (Uganda)</strong></td>
<td>Yes, new structure, new committees and cooperative registration</td>
<td>Yes, in 2000</td>
<td>Yes, democratic management and open admission</td>
<td>N/A</td>
</tr>
</tbody>
</table>
ests and work as skilled senior staff capable of planning, budgeting, guiding, controlling and evaluating the performance of the cooperative. A mix between young and experienced managers exists in the majority of the eight cooperatives studies and, in these cases, has led to positive results. However, managers’ lack of education remains one of the most important issues faced by cooperatives. The Ethiopian, Ugandan and Chinese cases, for instance, underline this issue. In many cases, cooperative managers have received only basic education, which considerably restricts their capacity for financial management as required by the cooperatives in order to survive in the context of a new market economy. To overcome this problem, cooperatives must focus on human resource development.

Application of cooperative principles: Modern cooperative organizational principles are an essential aspect of genuine, democratic cooperative development. Thus, new or re-launched cooperatives included these principles in their by-laws. However, beyond this theoretical adoption of cooperative principles, most of the cooperatives also found ways to implement them as part of their day-to-day activities. For instance, the principle of ‘democratic member control’ is, in all cooperatives, concretely translated into the holding of an Annual General Assembly, the election of a Board of Directors and the election of committee members. The principle of ‘concern for community’ led, in some cases such as the Russian, Vietnamese and Ghanaian cooperatives, to the support of local projects.

Concern for community: As illustrated in Table 10.4, the cooperative principle of ‘concern for community’ is well respected by the cooperatives studied. The majority are strongly committed to the development of their community and actively engaged in improving the quality of life of their members and employees. In the past years, many cooperatives have contributed to the development of their community by offering financial support to various local projects such as schools, hospitals and road construction or providing scholarships. Moreover, these cooperatives helped to improve the quality of life of their members and their families. In Vietnam, for example, the Hop Tien cooperative helped eliminate extreme poverty and hunger among its members and made it possible for them to send their children to school. In China, the Xiangcheng cooperative offered technical and financial support to 92 farmers through its programme for poor farmers. In addition, cooperative staff members generally benefit from work conditions that are equal to, or better than, those offered by competitors. These initiatives, apart from improving the quality of life of members, employees and the population in general, also serve the cooperative’s interests by developing a positive attitude in the community towards cooperatives. Consideration for the members’ and community’s interests thus creates a basis on which can be built a solid reciprocal relationship, a ‘win-win’ relationship, between cooperatives and their communities.

Surplus sharing: The cooperatives studied, despite their positive financial results, are not necessarily in a consistently healthy financial shape and most of them are not able to regularly distribute surpluses to their members. The K lin-
ski cooperative in Russia has, however, succeeded in paying an annual bonus to every member. In 1999, this bonus amounted to about US$170 per member. Surplus sharing, as one of the cooperative principles, is included in the cooperative by-laws and is therefore part of the financial structure of cooperatives.

Obviously, a crucial factor to any cooperative's success is the incentives it provides to its members to engage in an active relationship with their cooperative. The different types of relationship are categorized below, however, with limited case data available it was difficult to arrive at any definite conclusions.

- The transaction relationship: The exchange of goods or services between member and cooperative. Are prices attractive?
- The investment relationship: Do members receive additional benefits when the cooperative has had a good year? Is it attractive to invest in the cooperative because there is some remuneration on capital investment?
- The governance or control relationship: Does the vote of an individual count or is a small group of forward-looking members easily overruled by a larger number of more conservative members, or is the whole process just too politicized and inefficient?

**Key findings**

- The adoption of a new cooperative governance structure is a precondition for successful cooperative development. This structure is quite simple, based on a General Assembly of members, or on an Assembly of Representatives. The members elect a Board of Directors, which may work with or in several committees. The Board of Directors recruits the management; and management is responsible to the Board of Directors.

- Re-registration campaigns are a positive way to restore people's confidence and to arouse the interest of active and committed members. Voluntary members' re-registration goes hand in hand with members' information and training on both cooperative and entrepreneurial topics.

- The election of a new Board of Directors, or at least the election of some new directors, who will govern the cooperative together with previously elected directors, appears vital.

- Cooperatives endeavour to develop in accordance with the cooperative principles formulated by the International Cooperative Alliance in 1995.

- Despite their limited means, cooperatives are deeply involved in the development of their communities. According to the case studies, some cooperatives appear to invest their surpluses in their communities, rather than distributing them to members. This may be an issue of concern in the longer term, although these positive gestures to the community actually contribute to restore people's confidence in cooperatives.
10.5 LEGAL, POLICY AND INSTITUTIONAL ENVIRONMENT

Table 10.5 presents a brief summary of the legal, policy and institutional environment of cooperatives in the eight cases. As shown in the Table, it becomes clear that the role of government is still very important to cooperative development, although traditional support by means of subsidies and preferential treatment has largely been eliminated.

Legal recognition and legislation for cooperatives: The legal recognition of cooperatives through appropriate legislation is an important factor in the development of cooperatives.

In African countries, colonial domination followed by a period of State control, has greatly influenced cooperative legislation. Surprisingly perhaps, colonizing countries did not usually use their domestic cooperative legislation and policies as a blueprint to foster cooperative development in their colonies. Under colonial domination, cooperatives were rather used as tools serving the colonizing countries' interests and hence cooperative legislation was not conducive to autonomous cooperative development.

During the period of State control, the socialist legislative model was often adopted. Nowadays, cooperative legislation has undergone many reforms, as shown in Table 10.5. In Ethiopia and in Uganda, recent cooperative laws have been enacted and in Ghana, a new cooperative law is soon to be promulgated. New liberalized legislation has had positive effects on cooperative development in Africa. For instance, it has prompted many cooperatives to formally register instead of remaining informal, as the latter generated problems such as lack of internal control, risk of embezzlement or corruption and difficulty to gain the population's and potential members' confidence. Also, it has forced cooperatives to improve their bookkeeping and accounting methods, to hold Annual General Assemblies and to create new governance structures facilitating democratic participation of members. Also, reformed cooperative legislation has offered cooperatives, in many cases for the first time, the possibility of developing as autonomous and private organizations.

In many Asian and Eastern European countries, reformed cooperative laws have been promulgated or are about to be implemented. In Vietnam, for example, the new Cooperative Law was ratified in 1996. In Poland, the Credit Union Act was passed in 1995.

Cooperative legislation, in the form of special laws, creates conditions that help cooperatives in their development, especially in those cases, where such laws were not designed to foster genuine, democratic cooperatives. In 2000, in preparation for the 89th Session of the International Labour Conference in Geneva in 2001, the ILO produced Report V(1) on the Promotion of Cooperatives. This report identifies several key issues that ought to be included in or covered by a 'cooperative law'. Some of the key issues are:

- A definition of a cooperative, which makes clear its special character and lays down the principles on which it operates (many new cooperative laws
### Table 10.5 Legal, policy and institutional environment

<table>
<thead>
<tr>
<th>Legal framework</th>
<th>Governmental support</th>
<th>Support by cooperative organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Five Armenian cooperatives</strong></td>
<td>Legally recognized but still under the Armenian Law on Consumers’ Co-operation of 1993</td>
<td>No</td>
</tr>
<tr>
<td><strong>Stęczyk (Poland)</strong></td>
<td>Credit Union Act in 1995</td>
<td>In the form of support towards the creation and development of the credit union system</td>
</tr>
<tr>
<td><strong>Klinski and Stupinski (Russia)</strong></td>
<td>Legally recognized but still under the Law on Consumers’ Co-operation in the Russian Federation of 1997 (amended in 1999 and in 2000)</td>
<td>Development fund created in 1994, agreement with local authorities for electricity and heating costs diminution</td>
</tr>
<tr>
<td><strong>Xiangcheng (China)</strong></td>
<td>Not specified</td>
<td>Recognition as the major dealer of farming material, favourable tax policy, financial support</td>
</tr>
<tr>
<td><strong>Hop Tien (Vietnam)</strong></td>
<td>Cooperative Law in 1996 and ‘basic principles of agricultural cooperatives in 1998</td>
<td>Recognition of the private sector, commitment of local authorities towards the relaunching process</td>
</tr>
<tr>
<td><strong>Amecha Ltd. (Ethiopia)</strong></td>
<td>Managed under the Agricultural Cooperative Society Proclamation of 1994 and the Cooperative Society Proclamation of 1998</td>
<td>Several measures to improve loan repayment</td>
</tr>
<tr>
<td><strong>Ghana Cooperative Pharmaceuticals Ltd.</strong></td>
<td>Still managed under the 1968’s decree on cooperative organization</td>
<td>Not specified</td>
</tr>
<tr>
<td><strong>The USSICS (Uganda)</strong></td>
<td>Registered in 1989, managed under the Cooperative Act of 1991</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

have adopted the definition and the principles as formulated by the International Co-operative Alliance in 1995).

- Regulations on the formation and registration of cooperatives, and on the administration, resignation and exclusion of cooperative members. This includes the conditions of membership.
- Provisions regarding the rights and obligations of cooperative members.
Provisions regarding the mode and period of election, composition, functions, rights and duties of the management organs of the cooperative (General Assembly, Board of Directors, Supervisory Committee).

Rules governing capital formation in the cooperative, the accounting system, the annual external audit and the distribution of the society's surplus.

Depending on the requirements of each country, a cooperative law might be introduced by a preamble that clarifies the relation between a cooperative and the State, that situates the cooperative movement in civil society and the national economy and defines the broad objectives of cooperative development.

Support from government authorities: During the period of State-control, cooperatives were essentially dependent on government subsidies and subjected to government influence. Today, while they are struggling for autonomy, cooperatives still need some support from government authorities. The transition from a subordinated position to a well-balanced relationship with the local, regional and national authorities is a challenge for cooperatives. As Table 10.5 shows, governmental support is still offered to a majority of cooperatives. However, while the cases studied have argued that governmental support is important to ensure cooperative development, it has also been shown that governments still tend to exercise some control over cooperatives through the support that they give.

To what extent governments should support cooperative development is not easy to define. As has already been mentioned, governments play a crucial role in terms of providing a proper legal framework, a reliable macro-economic environment and provisions with respect to among others competition, taxation, market information and market access. It appears, however, that governmental financial support to cooperatives, if requested, may be important for cooperatives to successfully overcome the transition period. Such support could encompass relieving the debt burdens of the cooperative’s predecessor, which may otherwise imperil any positive future development. It should be clear though, that such support should be for well defined and specific reasons and for a limited duration only. Long-term subsidized credit and favourable tax regulations would thus not be included. Moreover, such support should be related to long-term economic and social considerations, not to political motives. The institution of a governmental cooperative service, common to many countries, providing generic market information and analysis, legal advice and so forth, is recommended.

Looking at the cases more specifically, it may be noted that the promulgation of specific fiscal measures, including tax exemptions or other types of financial support, is certainly one of the most frequent means of government support. For example, in China, the regional Government submitted the Xiangcheng cooperative to a favourable tax policy. Also, the township Government provided this cooperative with financial, entrepreneurial and educational support. In Russia, some cooperatives benefited from an agreement with their local authorities to pay reduced electricity and heating bills.
Apart from fiscal measures, policies have also been promulgated. In Vietnam, the recognition of the private sector's role in the national economy and the new rights given to the farmers to use the land on a permanent basis and to sell their products on the competitive market considerably helped the Hop Tien cooperative. In China, the township government of the Xiangcheng cooperative promulgated a measure recognizing that the cooperative was the major dealer in farming materials.

Finally, the 'moral’ support offered by the local, regional and national governments to genuine, democratic cooperative development, has shown to be of great value for the sustainability of cooperatives. Such support has often been expressed through positive attitudes towards new cooperative projects and initiatives, evident commitment to cooperative development, acceptance of the autonomy of cooperative managers, non-interference in the decisions made by members and so forth.

Support by cooperative organizations: Also significant to note is the support provided by cooperative organizations. This support is an important factor in ensuring successful cooperative development. Local, regional or national cooperative federations or unions and cooperative councils are examples of institutions supporting cooperative development.

The role of these institutions varies from financial and technical help to training or advisory support. For instance, Armenian cooperatives strongly benefited from the support of HAYCOOP. This central union promotes its affiliated members' entrepreneurial activities, provides a special investment fund for financial and technical assistance to promising projects and is developing training programmes for cooperative entrepreneurship. In China, the Xiangcheng cooperative also benefited from the support of its federation, which supports the primary cooperative in its business operations as well as in technical matters. The Polish credit union has also been well supported by the NACSCU, its national association and other associations such as the Credit Union College, which offers training to both employees and managers.

Support from international development organizations. Among the cases studied, only the Polish and Armenia cases underlined the influence of international support on cooperative development. In these cases, international development organizations, namely the International Co-operative Alliance (ICA), the World Council of Credit Unions (WOCCU), the Olof Palme International Centre and USAID, had contributed to the development of cooperatives. International support has in many countries been a key factor in the development of democratic and autonomous cooperatives. International support can take many shapes or forms, from direct assistance to local or regional cooperatives to support of general cooperative development in a country. The former type can for example, take the form of financial support (loans) or advisory support (training, exchange of technical, legal or cooperative expertise, etc.). The latter type is however the most important, since it contributes to set up and/or improve the preconditions for reliable and lasting cooperative development. During the past decades, international organizations have contributed,
Transition to Cooperative Entrepreneurship

for example, to reform the legal and policy environment in which cooperatives operate, to improve cooperative education and training and broadly to promote genuine, democratic and autonomous cooperative development.

As mentioned in Report V(1) published by the ILO in 2000, international organizations which deal with cooperatives worldwide can be grouped into five main categories: international structures created by cooperatives (the ICA and WOCCU belong to this category); international bodies promoting cooperative development (including, for example, the United Nations and its specialized agencies such as the ILO and FAO); national organizations promoting cooperatives internationally (including for instance development agencies such as the USAID and the Olof Palme Centre; national level organizations or institutions established by cooperative movements in industrialized countries, and international networks servicing cooperatives (for example, the International Centre of Research and Information on the Public and Cooperative Economy – CIRIEC).

Key findings

● Specific legislation for cooperatives is essential in ensuring long-term cooperative development.

● Support from governmental authorities has proven to be an important factor in facilitating the re-launching of cooperatives in a transition economy context. However, this governmental support needs to be offered for specific transitional reasons and for a limited duration, without harming autonomous cooperative development.

● The support from international or regional cooperative institutions has been important to cooperative development.

● Support from international organizations is an important factor promoting cooperative development especially at the national level. This support is positive as long as it is in accordance with the real needs of the countries and organizations to which this support is destined.
KEY MESSAGES

An international workshop on “Cooperative Entrepreneurship in Transition and Developing Economies” was held at the Netherlands Institute for Cooperative Entrepreneurship (NICE) at Nyenrode University from 9 to 11 July 2001. The 14 participants included the authors of the studies, a representative of the International Co-operative Alliance and representatives of NICE and ILO’s Cooperative Branch. The key findings drawn from the eight cases, together with the trends and issues underlined in Chapter 10, were thoroughly discussed during the workshop and a number of useful recommendations were made. These are highlighted below as a set of Key Messages, or core issues, to be considered by cooperative leaders, managers, members and promoters as they guide cooperatives in transition towards becoming truly member-controlled, democratically managed and economically viable cooperative enterprises.

HUMAN AND SOCIAL ASPECTS

New cooperative leadership

- The role of leaders is crucial in the cooperative development process, especially at the initial stages of development (creation, re-launching) and during other critical phases (repositioning, restructuring), when members’ interest in their cooperative needs to be actively stimulated.

- Leaders need to be charismatic and to have the ability to shape opinion, to share their vision with cooperative members and with the wider community, to listen and to be guided by their members.

- It is vital to ensure that there are competent and committed board members. They need to possess specific skills, such as the capacity to communicate with members, as well as the required managerial and entrepreneurial competencies.
Human resource development

- Recruitment and retention of competent employees poses a serious problem for many cooperatives. Cooperatives should offer attractive working conditions, including competitive salaries, career prospects and a motivating working environment. Cooperative employees are expected to demonstrate a high degree of responsibility and to be committed to the cooperative project.

- Education and training is always of crucial importance. As a priority, education and training programmes should be offered to the Board of Directors, taking into account their critical role and responsibilities during the transition period.

- Education and training programmes should cover aspects of the cooperative identity, including its principles and values, as well as technical skills.

- As far as possible, cooperative organizations themselves should provide education and training programmes. Collaboration with other institutions, including governmental organizations, can however be valuable and necessary.

Cooperative attitude of the community

- The importance of community support for cooperatives cannot be underestimated, particularly in transition situations. Therefore, restoring people's confidence in cooperatives is a priority.

- Cooperatives should play a constructive role in their communities. More than other types of enterprise, cooperatives have, because of their special character, an obligation to maintain honest, ethical and transparent business practices.

FINANCIAL AND ECONOMIC ASPECTS

Financial management

- Among the financial problems faced by cooperatives, the difficulty to raise capital and a lack of competent financial management are the most crucial ones. Cooperatives must find innovative ways of generating capital resources that do not harm the cooperative's autonomous development.

- There is a strong relationship between a member's ownership of capital and his or her interest in the cooperative's financial management and in cooperative affairs in general. In broad terms, the greater the individual's stake in the cooperative, the greater the member's interest.
Strengthening managerial transparency, implementing regular internal and external audits and improving bookkeeping practices, can alleviate problems of financial management. Appropriate education and training of directors, managers and members can play a vital role in this regard.

External audit

- External audit can positively contribute to cooperative governance and to maintaining high ethical and financial standards.
- Regular external audits protect members' interests and, as a consequence, contribute to increasing members' commitment, involvement and confidence in their cooperative.

COOPERATIVE PRINCIPLES AND GOVERNANCE

Governance

- While respect for cooperative principles is, in principle, accepted and practiced by all cooperatives, there are still gaps between theory and practice, particularly in establishing sustainable cooperative governance structures that are truly responsive to members' wishes.
- Deficiencies in governance structure are harmful to cooperative development. These deficiencies can be detected by a variety of symptoms, such as a lack of transparency, information and members' involvement in decision-making organs. These deficiencies cause members, employees and the community at large to lack confidence in cooperatives.
- Education and training of members and elected directors as well as the development and use of democratic management tools are a precondition for creating suitable governance structures and restoring people's confidence in cooperatives.

Members' involvement

- A pre-requisite for members' involvement is an operational democratic governance structure. A cooperative must belong to its members, not simply in theory, but in practice as well.
- Members' involvement is essential at all levels of the cooperative's functions - entrepreneurial, financial, managerial and social. Members' participation can be generated by means of education and training programmes, regular information and effective communication.
LEGAL, POLICY AND INSTITUTIONAL ENVIRONMENT

Legal and policy reforms

- Enactment of suitable cooperative legislation remains a critical issue in many countries. Such legislation should protect the cooperatives’ interests and create favourable conditions, or an “enabling environment” for cooperative development. The principle of maintaining a “level playing field”, or non-discrimination, between different types of enterprises should be upheld.

- Cooperative legislation should be based on a widely accepted cooperative development policy that is consistent with the internationally recognized cooperative principles and values.

- In formulating cooperative and legislation a participatory process involving the cooperative movement is a prerequisite for ensuring the acceptance and therefore the successful implementation of the law’s provisions.

External support

- External support may be essential for many cooperatives as they make the transition from state-control to autonomy. However, it can present risks that should be evaluated and taken into consideration before deciding to accept support.

- External support can take a wide range of forms – institutional support, financial, developmental and so on – and can be offered by different types of organizations – governments, cooperative apex organizations, international agencies, donors and others. To accept support or not will depend on the type of support offered, the intentions of the organization providing it and the way it is implemented.

- In broad terms, external support offered by cooperative organizations that share a concern for cooperative identity is welcome. Technical, material or moral support (including know-how transfer) is generally preferred to direct financial assistance, because of the risks involved in creating dependence on outside funding.

- International support plays an important role at many levels, especially regarding legal and policy reforms and capacity building. In common with other types of external support, it is to be welcomed as long as it does not harm autonomous and independent cooperative development.


ILO: Creating a favourable climate and conditions for cooperative development in Central and Eastern Europe, Cooperative Branch (Geneva, 1996).


ILO: Managing the Cooperative Difference. A survey of the application of modern management practices in the cooperative context, Dr. P. Davis (Cooperative Branch, Geneva, 1999).


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Websites

ILO Cooperative Branch: www.ilo.org/employment/coop
Coopnet Update (electronic bulletin of ILO Cooperative Branch):
  www.coopnetupdate.org
The Netherlands Institute for Cooperative Entrepreneurship (NICE),
  Nyenrode University: www.nyenrode.nl/nice
International Co-operative Alliance: www.coop.org