

A high-speed photograph of a water droplet falling into a pool of water. The droplet is suspended in mid-air above the surface, which is creating a circular ripple. The water is a vibrant green color, and the droplet is clear and spherical. The background is a soft, out-of-focus green.

**TIAS**

SCHOOL FOR  
BUSINESS AND SOCIETY

**Doing Co-operative Business Report**  
Methodology and exploratory application for 33 countries  
Hans Groeneveld

**COOP**  
International  
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Alliance

TILBURG UNIVERSITY  
EINDHOVEN UNIVERSITY  
OF TECHNOLOGY

# Doing Co-operative Business Report

Methodology and exploratory application for 33 countries

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## Preface



This report by TIAS School for Business and Society (henceforth TIAS) at Tilburg University in The Netherlands is commissioned by the International Co-operative Alliance ('the Alliance') and develops a methodological skeleton for the Doing Co-operative Business Report (DCB Report). The making of this document was a journey into unexplored territory in many respects. Methodological issues had to be tackled and practical and empirical obstacles had to be surmounted. Among other things, the notion of 'the enabling environment for co-operatives worldwide' had to be defined and subsequently operationalized. The enabling environment is a highly complex and multifaceted phenomenon and appears to be surrounded by academic, political and practical misconceptions and normative value judgements.

TIAS is indebted to the consulted country experts and staff members of the Alliance for their valuable input and constructive feedback during different phases in the drafting process of this report. Obviously, TIAS is fully responsible for the entire content of this document. We have strived for an objective analysis that is free from value judgements. The quoted practical cases, formulated statements and conclusions are accordingly based on verifiable and reliable references and/or quantitative data. Moreover, we imposed on ourselves the requirement that our (research) endeavour should yield relevant outcomes, and be practically applicable and informative.

Our discussions and consultations pointed unambiguously to the huge potential of DCB Reports to provide co-operators and policymakers with concrete examples and measurable changes in co-operative performance and co-operatives' enabling environment over time. In addition, the recommended data and information-driven approach could assist the co-operative community in proposing and possibly enforcing measures that can be expected to have beneficial effects for the co-operative landscape, or will signal when changes are needed. In summary, we are convinced that DCB Reports will satisfy the widely felt need to capture countries' progress towards enabling co-operative development.

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# 1. Executive summary

## 1.1 Background and scope

This publication develops a methodological framework to achieve the Alliance's ambition to disclose Doing Co-operative Business (DCB) Reports on a regular basis. The study centres around the concept of the enabling environment for co-operatives across nations. It must be noted that 'the enabling environment' is a highly complex, multifaceted and multidimensional phenomenon. The first methodological question was how to define this concept. We have formulated the following definition:

*“the enabling environment for various types of co-operatives is the degree to which nations, governments and/or societies support and foster co-operative firms in their establishment and subsequent development in accordance with the seven universal Co-operative Principles.”*

In other words: if there is a potential need for co-operatives, is it feasible to set up and develop co-operatives in a particular country? In essence, it comes down to an objective assessment as to whether Co-operative Principles are applied or can be adhered to in practice. Defining the enabling environment is one thing, but to operationalize this concept is an even greater challenge. Drawing on practical examples, a review of the relevant literature, and consultations with a number of (inter)national co-operative experts, this study paints a detailed picture of the constituent elements of the enabling environment for co-operatives. It establishes an applicable baseline for recording and measuring changes in important dimensions of the enabling environment for co-operatives and the co-operative landscape per country or economic sector.

Needless to say that this enabling environment can differ widely across different types of co-operatives and/or countries. Here, the diversity and continuous evolution of co-operative forms must be duly taken into account. There is constant experimentation around key issues such as the nature of membership, interest in community benefit and new models of financing. Besides, there is no shared and settled test for how to comply with aspects such as Education, Training, and Information (Co-operative Principle #5), Concern for Community (Co-operative Principle #7) (Atherton *et al.*, 2012).

“the enabling environment for various types of co-operatives is the degree to which nations, governments and/or societies support and foster co-operative firms in their establishment and subsequent development in accordance with the seven universal Co-operative Principles.”

## 1.2 Summary and main findings

This section presents a short summary of each subsequent chapter. Chapter 2 sets out the factors that ultimately explain the size of the co-operative sector in a country or, equivalently, determine co-operative performance and proliferation. Times of rapid change and/or socio-economic hardship are generally fertile ground for co-operative self-help organisations to emerge and flourish. Some population groups may have difficulties to cope with certain changes or find themselves excluded in certain territories. Then, the alternative to form or join co-operatives may be rather appealing. A credible and realistic assessment of people with common interests that their collective welfare and wellbeing would be enhanced by the creation and subsequent growth of a co-operative enterprise is required, but the existence of such an aspiration is not a sufficient condition for setting up and maintaining a viable co-operative.

“Times of rapid change and/or socio-economic hardship are generally fertile ground for co-operative self-help organisations to emerge and flourish.”

The availability or eligibility of the co-operative model to potential members depends on the entire spectrum of ‘institutions’ (norms, values, attitudes) as well as the institutional environment in a country. Regarding the first category, nations for instance differ regarding co-operative attitudes and trust (Lissowska, 2012). Collectively, the dimensions of both key elements define the enabling or disabling environment for co-operatives. Countries diverge with respect to past and current institutions (values, norms, attitudes, rules, habits and routines) as well as interlinked historical, cultural, social, legal, policy, political and economic characteristics which mostly have their origins in the remote past. If unmet needs exist and the entire institutional setting allows new and incumbent co-operatives to operate according to the seven Co-operative Principles and the six Co-operative Values, the preconditions for a potentially well-functioning internal governance are satisfied. In a supportive environment, co-operatives grow because people are attracted to join and shrink if membership does not entail advantages exceeding (im)material contributions. In formal terms, the actual market position, performance, and size of a co-operative firm – or the entire co-operative sector in a country – are ultimately functions of all institutions, the entire institutional environment, and the actual functioning of the internal co-operative governance.

“the actual market position, performance, and size of a co-operative firm are ultimately functions of all institutions, the entire institutional environment, and the actual functioning of the internal co-operative governance.”

Chapter 3 discusses these interconnected categories of the enabling environment in detail. The review of the historical, cultural and social environment demonstrates that many countries have a long co-operative

history, but with differences in origin. Literature points to the fact that past experiences with co-operatives can have an impact on the generation of trust and social capital today. For the creation and subsequent prosperity of co-operatives, trust and social capital are indispensable. Trust in any organizational form is closely related to the quality and functioning of regulatory mechanisms. Social capital generally refers to anything that facilitates individual or collective action, generated by networks of relationships, reciprocity, trust, and social norms (Coleman, 1988). Institutional factors like the national character and democratic standards are crucial and long standing elements of the enabling environment, too (Hofstede, 1991).

Contemporary legal frameworks and tax regimes for co-operatives are mostly reflections of intertwined historical, cultural, political and societal characteristics of individual countries (Van der Sangen, 2015). Consequently, there is an enormous diversity in legal regulations of co-operatives. It is difficult to pinpoint particular elements of legal frameworks that stimulate or hinder the creation or functioning of co-operatives. Each element of co-operative law (if any) can have either a positive or negative effect on co-operative development across countries. This finding may sound unsatisfactory, but the impact of each legal aspect is simply dependent on many other aspects of the institutional environment. To end with a positive note: legal experts seem to agree that a flexible co-operative law is helpful to develop a sound internal governance within co-operatives. Moreover, it is frequently argued that legal and tax systems do not have to favour co-operatives, but they can be problematic if they do not take into consideration the specific nature of co-operatives (Brusselaers et al., 2012).

A similar conclusion can be drawn regarding the political or policy constellation in which co-operatives are created and have to act. Scarce and partial studies do not find unambiguous links between policy measures and co-operative performance across countries. Policy measures in one country could boost a healthy co-operative development, whereas identical policy support could damage the entire co-operative sector in another country. Therefore, a robust conclusion from the literature review and consultations with experts is that the effects of policy measures and (new or existing) co-operative law on co-operatives must be assessed on a case-by-case and country-by-country basis. It is about specific stories and backgrounds of all types of co-operatives. Only detailed analyses will yield useful and relevant insights and could signal potential policy recommendations.

“effects of policy measures and co-operative law on co-operatives must be assessed on a case-by-case and country-by-country basis.”



The analysis presented in Chapter 3 also shows the limits of creating a supportive environment for co-operative development. If co-operatives are given preferential treatments such as free support services, exemptions from competition, labour, and competition law, tax benefits or other advantages, such incentives may lead to distortions instead of rectifications in market conditions and could encourage misuse by pseudo co-operatives that are founded for the purpose of qualifying for these privileges or subsidies (Münkner, 2002).

Based on the insights from the two previous chapters, Chapter 4 explains why it is impossible to construct a meaningful and comparable enabling environment indicator per country. Our arguments are substantiated with concrete examples. Even if full information and all data concerning the institutional environment would exist, this conclusion would not change.

Following a trial and error process, we have opted for a combination of a micro and macro approach to shed light on the connection between co-operative performance and proliferation and individual elements of the enabling environment in Chapter 5. For the practical implementation of the developed methodology, we looked for pre-existing, readily available data. The collection or compilation of new data was beyond the scope of this endeavour. It soon appeared that we could not rely on a ready-to-use global database on – dimensions of – the institutional context for co-operatives. No comparable information is available about legislature, fiscal arrangements, and/or historical and socio-cultural factors all of which shape the setting of co-operatives.

Hence, we had no alternative but to design a conceptual framework for a database encompassing specific features of co-operatives across nations ourselves. As a start, we have assessed a number of general co-operative dimensions for the same 33 countries included and analysed in the Handbook of Co-operative Law (Cracogna, Fici and Henry, 2013) as a pilot<sup>1</sup>. We have summarized the main country characteristics regarding membership, tax treatment, co-operation among co-operatives, and governance aspects in Annexes I-IV. Obviously, this analysis could be expanded and refined in the future. We could not discover a common thread, except that countless differences in co-operative legal features between countries prevail. We also encountered a considerable gap between our *de jure* judgement and *de facto* situation in discussion with national experts. What seems right and good on paper (e.g. co-operative law) may not be what works in practice and vice versa. However, this exploratory exercise provides a basis for DCB Reports to build on and provides fruitful input for further conversations.

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<sup>1</sup> The countries are Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, China, Colombia, Denmark, Finland, France, Germany, Hungary, India, Ireland, Italy, Japan, Korea (Republic of), Mexico, The Netherlands, Norway, Peru, Poland, Portugal, Russian Federation, South Africa, Spain, Sweden, Turkey, United Kingdom, United States and Uruguay.

Since we feel that the usefulness of DCB Reports would be very limited without verifiable and reliable data, the next step entailed a thorough search for ‘hard’ data on co-operatives on the one hand, and for quantitative proxies of elements of the enabling environment for co-operatives on the other. Data allow for statistical investigations of possible relationships between co-operative performance and a wide range of enabling aspects (in our sample of 33 countries). Such an empirical exercise would signal which enabling factors are significantly correlated with overall co-operative performance in a negative or positive way. Regarding data on co-operatives, the Global Consensus on Co-operatives (UNDESA, 2014) proved to be the most complete database to-date, despite some flaws. From this data source, we have selected the so-called Co-operative Economy Index as a rough approximation for the overall co-operative performance in an individual country.<sup>2</sup>

“countless differences in co-operative legal features between countries prevail”

Concerning data on the enabling environment, we identified potentially useful and internationally respected data sources via desk research, academic references and suggestions from national experts. We gathered quantitative proxies for ‘institutions’ and institutional factors that contain ‘hard’ information of mostly ‘soft’ elements of the enabling environment for co-operatives. The following data sources were used in this report: (i) Hofstede Cultural Indicators, (ii) General Doing Business Indicator, (iii) Worldwide Governance Indicators, (iv) Corruption Perception Index, (v) Gini Coefficient and (vi) Democracy Index. These global databases are readily available and updated on a regular basis. All in all, we collected 26 different indicators for the countries in our sample. In separate sections, we briefly explain the meaning of these indicators and discuss the expected relationship between these indices and our proxy for co-operative performance.

To verify whether the assumed connections are present or absent, we have calculated correlation coefficients. These show that quite a few indicators of the enabling environment are either positively or negatively linked to co-operative performance in a particular country. Correlations do not contain information about the direction of causality between variables.

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<sup>2</sup> This index is based on a weighted average of three ratios: (i) membership penetration of all included co-operatives relative to total population, (ii) co-operative employment divided by total population, and (iii) annual gross revenue of all co-operatives in a country relative to the country’s GDP.

“quite a few indicators of the enabling environment are either positively or negatively linked to co-operative performance in a particular country,”

In other words, we cannot conclude whether an improving institutional environment leads to better/worse co-operative results or whether better co-operative performance results in improvements/deteriorations of the institutional environment. It is true, though, that co-operatives are influenced by the external environment and that existing and active co-operatives influence the external environment, i.e. co-operatives usually have a ‘presence value’. Consequently, it is fairly certain that alterations in particular enabling indicators will go hand-in-hand with changes in co-operative performance (and/or vice versa). This reflection calls for close monitoring of these variables from now on and for inclusion of these indicators in every DCB Report.

Some salient conclusions from our empirical analysis include the following:

- The co-operative sector is generally smaller in societies characterised by large inequalities and where power is captured in the hands of just a few people (e.g. a low Power Distance Indicator in terms of Hofstede). We feel confident to argue that an increase in the Power Distance Indicator signals a worsening climate for co-operatives, i.e. a feeling of loss of general safety. In turn, it is also quite conceivable that a healthy national co-operative economy could improve performance on the Power Distance Indicator;
- A favourable general business environment (e.g. a higher General Doing Business Indicator according to the World Bank) is associated with better co-operative performance. If a country exhibits an improvement in the former indicator, this can be interpreted as a sign that the conditions for co-operatives have ameliorated as well. In turn, it cannot be excluded that an increased diversity of organisational models in all economic sectors, including a robust co-operative movement, could have a positive impact on the general environment for doing business in a country;
- Good governance conditions (reflected in high scores for Governance Indicators composed by the World Bank) are positively correlated with co-operative performance. If a country improves its governance characteristics, the general setting for co-operatives can be expected to enhance as well. Or vice versa – where co-operative economy is healthy, good governance practices can spill over into the general national context;
- The perceived level of corruption (e.g. a low value of the Corruption Perceptions Index of Transparency International) is negatively correlated

with co-operative performance. A rise in perceived corruption presumably marks a deteriorating constellation for co-operatives. Vice versa, a more robust co-operative economy could be conducive to decrease the level of corruption in a country;

- Income inequality (according to the Gini Coefficient) is significantly and negatively correlated with co-operative performance. Rising income inequality hints at a decline in co-operative conditions. A stronger co-operative economy that is able to enact all seven Co-operative Principles could lead to a decrease in inequality and greater equity in a country;
- A positive relationship exists between the overall state of democracy (according to the overall Democracy Index of the Economist Intelligence Unit) and co-operative performance in individual countries. In other words, it seems that the more democratic a society, the more fertile the situation for co-operatives will be. It could also be the other way round: a larger co-operative sector could exert a positive impact on the democracy level of a country.

### **1.3 Qualifications**

Some limitations of this report deserve attention. First, the quantitative analysis in this report has been performed on an aggregate, country level. This means that individual and sectoral differences between co-operative firms are not visible and investigated. We have also used an aggregate Co-operative Economy Index as a proxy for the co-operative performance, assimilating information from all types of co-operatives and sectors into one index. This index is based upon information from a highly diverse quality, but according to our knowledge this is the most comprehensive dataset of all co-operatives worldwide to-date. Of course, more accurate and adequate measurements of co-operative performance and proliferation would make our analysis more robust. Furthermore, co-operative performance consists of many dimensions that are not embedded in the Co-operative Economy Index, such as member benefits and the quality of products of co-operatives. Also with respect to all other proxies used for the institutional environment, the analysis is done at a country level, not taking fully into account possible differences between groups in the population of each country, or between regions.

The second qualification concerns the lack of historical and regularly updated data; no time series data is available. This report focuses primarily on the current size of the co-operative economy. The Co-operative Economy Index utilised incorporates the most actual data, but it would be highly relevant to look for possible trends over the last decades and to monitor the evolution and challenges of co-operatives from now on. As an illustration, European experts claim that there has been a remarkable surge in new 'social' co-operatives in the areas of energy, health, care giving, education, employment, and housing in recent years. They ascribe this to drastic cost-cutting by many governments and high unemployment

“It would be highly relevant to look for possible trends over the last decades and to monitor the evolution and challenges of co-operatives from now on.”

levels in some European countries, whereas the demand for social services shows a continuous and even explosive increase, also because of demographic developments (an ageing population). This proclaimed development is hardly visible in macro data because the scale and size of these co-operatives are still relatively limited and/or this type of co-operative is considered to be too marginal to keep statistics on as yet. The general point is that co-operatives of a country might be considered as weak performing while in reality their market position and added value for members are increasing considerably. Or it could be exactly the other way around, of course (Brusselaers *et al.*, 2014).

## 2. Building blocks of co-operative performance

We have developed an analytical framework for factors that enable or disable the establishment and functioning of the co-operative as an organization (Scheme 1). This framework is actually a variant of Williamson's 'Economics of Institutions' (Williamson, 2000). We acknowledge that it all starts with the basic question: is there a need for – a particular type of – co-operatives in individual countries? A fundamental reason for co-operation lies in the existence of unmet needs in the eyes of members, and also in a certain level of cohesion and/or homogeneity between these members. Shareholder value driven firms will generally be reluctant to supply products and services with limited returns or serve less profitable customer segments. These aspects are generally considered to be necessary conditions for the establishment and continued existence of a co-operative (Defourny and Develtere, 2009). The level of cohesion between members indicates to which extent they are motivated to do extra efforts even when co-operating does not result in (immediate) benefits. This facet directly refers to macro-social and macro-economic variables; but also, historical, social, and cultural aspects influence the inclination of people to establish a co-operative.

“it all starts with the basic question: is there a need for – a particular type of – co-operatives in individual countries?”

*Scheme 1 Cascade of elements explaining co-operative performance*



Source: TIAS

“a perceived need is a necessary condition for the propensity to set-up a co-operative and to become and stay a member,”

In other words, a perceived need is a necessary – but not a sufficient– condition for the propensity to set-up a co-operative and to become and stay a member. Here, we should add that ‘unmet’ needs – or equivalently market failures and/or exclusion – vary considerable across population groups, economic sectors, countries, as well as over time.

“‘institutions’, historical, social and cultural factors could make the co-operative model not available or eligible to members,”

If there is a societal need and/or the economic situation would justify the presence of co-operatives in a country, ‘institutions’, historical, social and cultural factors could make the co-operative model not available or eligible to members (Groeneveld, 2012). Here, we touch upon elements of a more diffuse nature that may find their origin in recent times or in the remote past. It concerns values, norms, attitudes, rules, habits and routines, i.e. ‘institutions’ in brief (Gijssels and Bussels, 2012a). So, in countries where co-operatives hardly exist, the population might well reject the co-operative model, but not the principle or value of cooperation (Lissowska, 2012). They may well collaborate in organizations labelled as social enterprises or community companies, which remain beyond the scope of this report. These organizations may actually follow Co-operative Principles in their structure and operations, but are not co-operatives as defined by national co-operative legislation or are not registered as co-operatives in national registries. For instance, we have detected countries where one particular co-operative form (e.g. agricultural co-operatives) dominates (e.g. China) and where co-operatives are hardly found in other economic sectors. However, it cannot be ‘automatically’ concluded that the enabling environment in the country in question is hostile to other types of co-operatives. Perhaps, there is no economic rationale or social need for non-agricultural co-operatives or enterprises with different organizational forms, which actually could operate in the spirit of the Co-operative Principles.

Apart from these ‘institutions’, the degree of success or failure of co-operatives also heavily depends on interacting historical, social, cultural, legal, political and economic elements of the institutional environment. Every single dimension is equally important and may support or impede the set-up and/or growth of the co-operative. The elements forming the institutional environment should be considered in an overall context, since each dimension operates (or not) in connection with all other institutional aspects. The dimensions of the institutional environment for co-operatives in each country generally change very slowly over time and their roots mostly lie in the distant past (Hofstede, Hofstede and Minkov, 2010).

However, they all shape the attitude and perception of the public and governments regarding the co-operative organizational form.

If there is a need for co-operatives and the whole institutional environment is conducive for their establishment and future growth, the preconditions for a well-functioning internal governance are met; this is the third element in the cascade. The internal governance of co-operatives refers to decision-making processes, the role of the different governing bodies, the tasks and responsibilities of higher tier levels in the organization, the capitalization policy, the attitude, involvement and commitment of members, and the allocation of control rights to the management (and the agency problems that go with delegation of decision rights). The quality and functioning of the internal governance of co-operatives are beyond the scope of this report, since this would require extensive micro studies of numerous co-operatives in different sectors and countries (see Carr et al., 2008). However, it is clear that an important success factor for co-operatives is that members are compelled to acquire and build-up the knowledge and expertise required to ensure sustainable business and the efficient exercise of self-governance and self-control (Co-operative Principle #5), apart from having adequate – regulatory room for their – capitalization policies (in connection with Co-operative Principle #3).<sup>3</sup> This can initially be accomplished through a learning-by-doing process, but soon enough the need will arise for systematic and continuing education for members, as well as their representatives and officials/managers (Kappes, 2015).

The number, market position, performance, and types of co-operatives are determined by the long-standing institutional environment in combination with the functioning of their internal governance and the quality of the products and services and level of satisfaction of their members. The ultimate co-operative performance is therefore situated at the bottom of Scheme 1. The position and performance of the co-operative refers to the competitiveness of the co-operative vis-à-vis its competitors and its added value for its members. Here, it must be emphasized that co-operatives are businesses that have to be profitable and innovative and should be able to stand on their own two feet, i.e. operate as independently as possible from the government and do not receive excessive financial aid. As Raiffeisen pointed out more than 150 years ago, if co-operatives fail to abide by economic principles, they will neither be viable as enterprises, nor be able to support their members (Raiffeisen, 1866).

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<sup>3</sup> Andrews has surveyed the issue of capital in co-operatives around the world in the Alliance's Survey of Co-operative Capital (2014). A major finding is that genuine co-operatives are initially funded with withdrawable share capital provided by members and retained earnings. The bottom line for a sound capitalization policy is that co-operatives must be profitable and should not pay out all annual profits as dividends to members. Nevertheless, capitalization via these two basic sources is sometimes insufficient to finance the growth (ambitions) of co-operatives.



Prior work assessing co-operative performance looked predominantly at scarcely available economic output indicators of turnover, profit, growth or market share. Other scarce studies focused on available financial accounting measures commonly used to evaluate investor-owned firms (Franken and Cook, 2015). But the performance of co-operatives cannot be assessed by looking solely at financial or economic indicators, because they pursue dual objectives, i.e. securing viability (via profitable operations) and member benefits. Co-operative performance consists of multiple dimensions (Soboh et al., 2009).

## 3. The enabling environment for co-operatives

This chapter identifies factors that constitute the enabling or, equivalently, the institutional environment for co-operatives. This environment is composed of many dimensions as displayed in Scheme 2. Some factors are of a less palpable, more diffuse nature. This holds for factors related to historical evolutions, or factors that are formed by culture and social processes. Another category of institutional dimensions results from these evolutions, i.e. the legal framework and policy measures. These elements will be discussed separately in the subsections below.

### 3.1 Historical, cultural and social environment

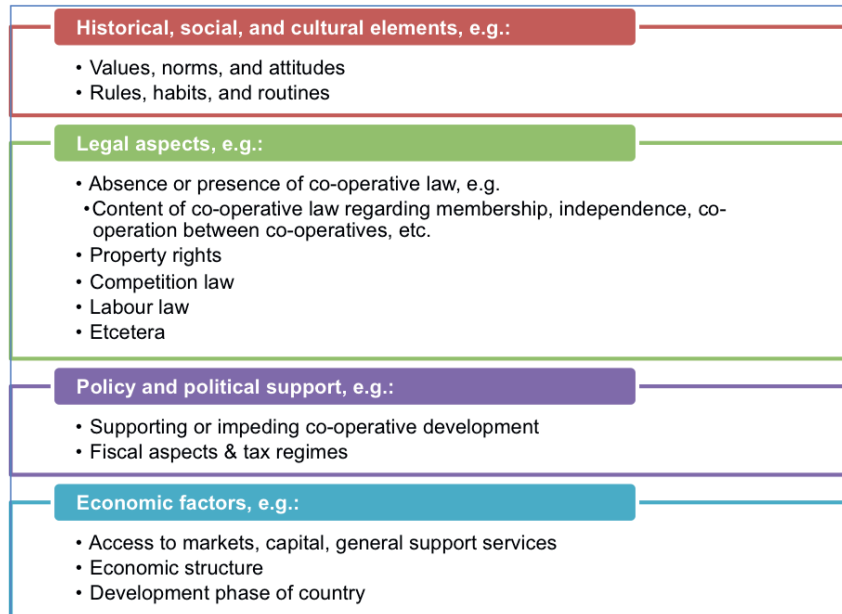
History is an important ingredient of the current institutional environment for co-operative enterprises (Bijman et al. 2012).<sup>4</sup> On the one hand, countries exist where historical social factors still contribute to a sustained positive collective attitude towards co-operatives to-date, i.e. a favourable popular conception regarding the co-operative organizational form.<sup>5</sup> At the other end of the spectrum, one can find countries where negative past experiences with co-operatives are still not conducive to the generation of trust and social capital. Both aspects are indispensable for the establishment and subsequent prosperity of co-operative enterprises. For instance, past political actions can have a long-lasting negative impact on the institutional environment and/or popular attitude towards co-operatives. Furthermore, in some Central and Eastern European countries, co-operative firms were generally not based on self-organization principles, i.e. non-voluntary membership, some decades ago, but were used by governments for political reasons under the motto '*what we cannot nationalize, we co-operatize*' (Münkner, 2002). In these countries, self-organization is still hindered by a lack of social and human capital, even though legal and taxation frameworks as well as the political environment may have become more supportive for co-operatives in recent years.

“History is an important ingredient of the current institutional environment for co-operative enterprises.”

<sup>4</sup> The extensive study 'Support for Farmers' Co-operatives' (SFC) was financed by the European Commission and consists of many different sub-reports. Some of its background documents contain valuable insights and practical examples for this study.

<sup>5</sup> For instance, Western Europe is considered to be the birthplace of the co-operative as an economic concept and business form. Many European countries have a long co-operative history, but with differences of origin. The divergent roots include labour movements, different religions, important transitions, crisis and hardship, or the struggle for independence.

Scheme 2 Interrelated Elements of the Enabling Environment for Co-operatives



Source: TIAS

“Hofstede’s research encapsulates important cultural and social factors for the institutional environment in which co-operatives in different countries operate.”

Cultural aspects are linked to historical and social factors and shape the enabling environment as well. In some societies, solidarity – the natural inclination to join forces and/or long-standing democratic history – was beneficial for the development of co-operatives. Hofstede has conducted ground-breaking research on the analysis of cultural differences among national and organisational structures. The Hofstede indicators on ‘*the software of the mind*’ embody patterns of thinking, feeling and acting that are found to be different among national cultures (Hofstede, 1991 and 2001; Hofstede, Hofstede and Minkov, 2010). He finds that national and regional cultures influence the behaviour of societies and organisations and that these effects are long-lasting. We come back to these indicators later on, because Hofstede’s research encapsulates important cultural and social factors for the institutional environment in which co-operatives in different countries operate. These are also associated with the absence or presence of ideological motives of people to collaborate as members in a co-operative.

### 3.2 Legal environment

This section has to start with an important element in the legal history of co-operatives that still has an impact on the popular or state conception regarding co-operatives in some countries to-date. A report commissioned by the United States Agency for International Development (USAID, 2006) asserts that over much of the last century, co-operatives in many developing and post-command economies – despite very different ideological, political, and colonial backgrounds – were subjected to a similar legal framework through which management was accountable to the state rather than to membership. Within this setting, the role of members in the governing of co-operative businesses was minimized and government or party officials were parachuted to control co-operatives. By the 1970s, the state-dominated co-operative development model reached its peak. Co-operative laws around the developing world empowered government representatives to determine many aspects of the co-operative, e.g. appoint and lay off managers and directors, direct basic business decisions, dissolve co-operatives performing below expectations, and prescribe membership requirements. Hence, the Co-operative Principle of Democratic Member Control was violated. Co-operatives under these state-dominated frameworks often lacked the legal rights to sue or be sued, make contracts, or enter a new line of business without government permission. However, it is quite likely that firms with other organisational forms were confronted with similar impediments and obstacles in the countries in question.

“Co-operatives under state-dominated frameworks often lacked the legal rights to sue or be sued, make contracts, or enter a new line of business without government permission.”

The tide has turned in many of the countries in question since then. The US Overseas Cooperative Development Council (OCDC) (commissioned by USAID) has formulated a detailed set of principles and analytical tools for evaluating co-operative laws and regulations, under the name ‘Co-operative Law and Regulation Initiative’ (CLARITY). The ‘new consensus’ particularly emphasizes autonomy from governments and advocates the removal of barriers to co-operative enterprise in all sectors of the economy. The more generally accepted view today is that government control of co-operatives does more harm than good and that all co-operatives, regardless of their level of development or country of origin, should enjoy the same right to democratically and autonomously govern their businesses.

The previous paragraph exemplifies that contemporary legal frameworks for co-operatives are reflections of historical, cultural and societal characteristics and the political history of a country in the distant or remote past. Van der Sangen

“As a corollary, a top-down approach of law-making by national governments to foster the general development of co-operatives is hardly a feasible option.”

(2015) has shown that the evolution of the legal context for co-operatives is indeed highly path dependent. As a corollary, a top-down approach of law-making by national governments to foster the general development of co-operatives is hardly a feasible option. There appears to be an enormous diversity in legal regulations of co-operatives that is precisely related to the diversity of their historic, cultural and social origins discussed earlier.<sup>6</sup> For instance, Cracogna (2002) finds that legislation may adopt the form of a single general law applicable to all classes of co-operatives or else, separate laws regulating each specific class of co-operative. Japan is an example of the latter category. In Japan, there is no general law on co-operatives, while more than ten special laws regulate single types of co-operatives (Kurimoto, 2013).

With respect to the legislative environment, there is also the issue of ambiguity towards the objective of the historical concept of the co-operative and its legal construct. Basically, there are two approaches. The economic perspective looks at co-operatives as enterprises that meet the universally accepted characteristics of user-ownership, user-control and user-benefit (Dunn, 1988). In this view, a co-operative is a legal entity for a joint economic activity of its members. The second approach considers co-operatives to encapsulate ideology and social norms. Both approaches are reflected in legal definitions of the co-operative worldwide and also determine the tax treatment in different countries.<sup>7</sup> The different approaches to legislation governing co-operatives can be categorized into three types (see Council Regulation, 2003):

1. Countries where there is one general co-operative law;
2. Countries where co-operative legislation is divided according to the sector and social purpose of the co-operative;
3. Countries where there is no co-operative law and where the co-operative nature of a company is solely derived from its internal articles of association or rules.

<sup>6</sup> Via the Statute for a European Co-operative Society (SCE statute; Council Regulation, 2003), the European Commission has indirectly attempted to approximate the law on co-operatives of the member states, but apparently little-to-no progress has been made on that front (Euricse et al., 2010).

<sup>7</sup> In practice, the economic perspective is dominant and the proclaimed social, ideological, and cultural objectives are rarely reflected in existing legal definitions of co-operatives worldwide. In most countries, no reference is made to another goal than to the economic objective of the co-operative. Belgium is an exception. This country has regulated two types of co-operatives. One with a social and ideological objective granting members certain tax facilities: the so-called accredited co-operatives. The second one with a purely economic objective (Gijssels and Bussels, 2015b).

Anyway, initial ownership structures of co-operatives (consumer-, producer- or worker-oriented) exert a predominant influence on the type of laws and norms applied to this type of company, i.e. the path dependency is mainly structure driven. For instance, in some jurisdictions of the EU, the co-operative is viewed as an association, in others as a society or as part of contract law, while in some other EU member states co-operatives have no special legal statute, like in Denmark (Pyykkönen *et al.*, 2012) and the United Kingdom (Spear *et al.*, 2012). This does not mean that co-operatives with an economic objective cannot include societal effects of solidarity, network building, trust and education of members, capacity building and a sustainable development of local communities or regions.

“initial ownership structures of co-operatives exert a predominant influence on the type of laws and norms applied to this type of company,”

Van der Sangen (2012) argues that the body of knowledge promulgated by legal research on the actual functioning of co-operatives does not contain conclusive factual data on the driving forces that promote or impede the creation or functioning of co-operatives in the European Union. Legal studies hardly provide information about the actual impact of regulations and statutes in the empirical sense of the word, since they do not assess the question whether regulations and specific rules have a positive or negative impact on the efficiency of co-operatives vis-à-vis investor-owned firms in reality. In our extensive literature research, we did not come across such studies for other parts of the world either, but we found earlier support for this conclusion (Hoyt, 1989).

“Legal studies do not assess the question whether regulations and specific rules have a positive or negative impact on the efficiency of co-operatives,”

Moreover, co-operative enterprises are not only shaped by ‘co-operative law’, but also by labour law, competition law, accounting/prudential standards, book-keeping rules, auditing and bankruptcy rules, and other legally relevant acts, like for example administrative acts, court decisions, jurisprudence, co-operative bylaws/statutes. Indeed, taxation and competition laws and market regulation can either foster or hamper co-operative development. Furthermore, legal policy issues, as well as law-making and implementation procedures are to be considered. This broad notion of co-operative law makes it impossible to describe and ascertain the co-operative law in a single country, let alone in all or the majority of the countries around the world. It is also about the general legal and political environment in a country, e.g. the state of democracy, political stability, absence of corruption, sound and enforceable ownership rights.

### 3.3 Policy and political support

The creation and functioning of co-operatives are influenced by the political environment as well as policy measures, which are part of the broader institutional environment. Policy initiatives are generally taken by governments to improve and/or influence the general welfare and wellbeing of a region or country or to create a better distribution of welfare. Some countries have specific ministries or departments for co-operative affairs or development, e.g. India, Kenya, the Philippines, and South Africa. In the United Kingdom, the co-operative party has 24 seats in parliament and aims at safeguarding the interests of the co-operative sector.

The relationship between co-operatives and the state is sometimes controversial. Basically, the question is whether the state has the duty to provide support for the development of co-operatives. Based on co-operative history and anecdotal evidence, we conclude that such support is acceptable only if it does not result in distortion of competition. As a rule, co-operative enterprises should not receive preferential treatment on account of their legal form, but should be treated in the same way as other types of companies under the government aid programmes (Kappes, 2015). Only if co-operative organisations are still growing up and underdeveloped, some forms of support like access to advice/consultancy and training, and tax benefits are considered to be quite acceptable by many consulted experts. In the latter cases, it is in the interest of the state to eliminate market imperfections in the long run and its support is generally justifiable.<sup>8</sup>

When co-operatives grow larger, and even internationalise, the consensus is that there is less need for any form of support measures. However, the state is continuously responsible for creating adequate legal basic conditions for co-operatives in order to ensure compliance, and, by extension, guarantee a level playing field with firms with other legal forms. In other words, the state should – indirectly – support the underlying self-help ethos of co-operatives and provide them with equal competitive opportunities.<sup>9</sup> As described before, policy ‘support’ has sometimes been synonym with inappropriate government interference and influence in co-operatives. The point is that top-down established co-operatives generally do not lead to a sense of ownership and self-responsibility among members. Sometimes the design of co-operatives did not meet the interests and actual needs of the target population. Or members were hardly involved in the design at all and democratic decision-making was *de facto* non-existent. In countries where this has

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<sup>8</sup> Perhaps contrary to common belief, many credit co-operatives in Europe also received government support in their early days to speed up their development and dispersion.

<sup>9</sup> This corresponds to the main objectives of the Co-operative Party in the UK: (i) to create a level playing field for co-operatives including promoting the growth of a new generation of community- and worker-owned co-operatives, and (ii) to promote co-operative solutions across politics in areas including community ownership and reforming our public services.

happened in recent history, co-operatives may still have a negative image and are faced with prejudices. This holds particularly for the co-operative organisational form in transition economies (Gijssels and Bussels, 2012a).

“top-down established co-operatives generally do not lead to a sense of ownership and self-responsibility among members”

There are no global and/or national overviews of policy measures taken vis-à-vis all types of co-operatives in the remote or recent past. Hence, qualitative and/or empirical studies on the positive or negative impact of these measures for co-operatives are non-existent. We only came across one thorough study that has attempted to systematically investigate the link between support measures and the performance of just one type of co-operative in one part of the world. This research focused on farmers' co-operatives in the European Union and was commissioned and funded by the European Commission, DG Agriculture and Rural Development. Brusselaers *et al.* (2012) list around 300 policy measures in the period 2000-2010 affecting farmers' co-operatives across the European Member States which were identified by national experts. These measures were classified into four policy types (i.e. Mandate, Inducement, Capacity Building, and System Changing). The report also succeeded in distinguishing between the purposes of these policy measures across countries. 60 percent of the policy actions tried to correct market and regulatory failures, and 34 percent of the measures were solely aimed at the obtainment of equity and social goals. The remaining 16 percent of all measures tried to achieve both goals simultaneously.

The authors admit in all fairness the conceptual drawbacks and limitations of their analysis. Nevertheless, the overall conclusion is robust. There is no very clear and unambiguous link between the (current) support measures for farmers' co-operatives in the European Union and their performance in terms of market share. Government policies can yield positive or negative effects for co-operatives, which was already discovered and documented a long time ago (Hoyt, 1989). It is also about the interaction and interconnection with many other elements shaping the institutional environment. For other OECD countries, Iliopoulos *et al.* (2012) also did not find an unequivocal connection between policy measures and co-operative performance. The absence of policies that support agricultural co-operatives can have positive as well as negative implications.

“Government policies can yield positive or negative effects for co-operatives”



Taxation rules for co-operatives deserve separate attention as one of the policy measures, because they regularly raise concerns. Particularly in countries where co-operatives are seen as ways to achieve societal goals, they may receive financial inducements in the form of subsidies, tax facilities, or other provisions. Such arrangements could in turn conflict with state aid rules in some economic areas of the world. An especially important aspect regarding co-operatives is the tax treatment of the distribution of net profits to members. The main issue is whether tax laws avoid double taxation of the profits of co-operatives or not. Three global categories of co-operatives can be discerned. Co-operatives that:

1. are exempted from corporate income tax;
2. are subject to the same corporate income regime as investor-owned firms, but have several facilities for the deduction of patronage dividends paid to members related to the economic transactions between the co-operative and its members. In general, these techniques result in the possibility to deduct these patronage dividends from the taxable profits in the corporate income tax;
3. do not have special tax facilities or have neutral tax facilities.

It must also be noted that not all organizations that are incorporated in the legal business form of a co-operative in practice operate – in the economic sense – as a co-operative. For example, in The Netherlands, a large number of co-operatives registered in the Commercial Register act as (sub)holding co-operatives in private equity structures for tax purposes.

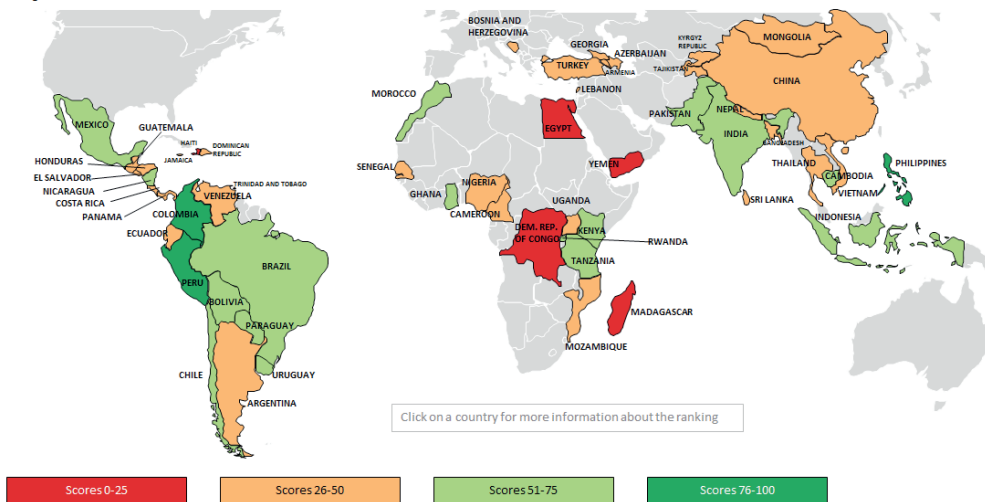
### **3.4 Economic factors**

Economic factors partly relate to the (unmet) needs or exclusion of population groups which trigger(ed) collaboration via co-operatives. Many co-operatives were and are established to rectify market imperfections or to erase some form of exclusion for their members. Indeed, co-operatives have existed in some form or another throughout history, born from the notion that individual human beings lack the power to always being able to successfully overcome life's adversities.

Figure 1 Regulatory landscape for financial inclusion

**OVERALL SCORE**

Weighted sum of all indicator scores



Source: Economist Intelligence Unit (2014)

Note: the *Global Microscope* measures the national environment for financial inclusion by using the following criteria: the range of financial products and services offered, the diversity of institutions offering them, the array of delivery methods, and the institutional support that ensures the safe provision of services to low-income populations.

Some scarce global data sources provide clues for areas where unmet needs may prevail and hence where co-operatives could probably provide a solution for reducing exclusion and/or mitigating market distortions. A specific example is the *Global Microscope* of The Economist Intelligence Unit (EIU, 2014). This publication assesses the regulatory environment for financial inclusion across 12 indicators and 55 developing and emerging countries. The *Microscope* is directed towards practitioners, policymakers and investors, to help evaluate countries' progress in achieving financial inclusion, and to determine where further efforts should focus in order to yield additional benefits. Figure 1 below shows where access to financial services is a small or large issue to-date.

Important elements of a supportive economic environment for co-operatives are free access to markets, capital, general support services, training programs, information and public tenders. Like other organizational forms, co-operatives should have opportunities for vertical and horizontal integration and networking at all levels. It is important that co-operatives have the freedom to market their products and services and are permitted to

“the co-operative organizational form is suitable for virtually all economic sectors,”

obtain a critical mass to realize economies of scale and scope (Groeneveld, 2012). Co-operatives should also be allowed to pursue both economic and social objectives, e.g. providing information and education to members and contributing to a sustainable development of communities.

In principle, the co-operative organizational form is suitable for virtually all economic sectors. Arguably, the industrial sector could be an exception. This sector requires relatively high initial capital for investment purposes, which is not always easily mobilized through members (the Alliance Survey of Co-operative Capital, 2014). Obviously, the economic structures and development phases of countries also differ widely. This implies that the potential for various types of co-operatives varies across countries and continents, too. Some countries are primarily oriented towards the agricultural sector, whereas others are more industrialized or have a large service sector.

## 4. The enabling indicator: methodological and practical issues

This chapter answers the following question: is it possible to develop an overall enabling indicator for co-operatives that amalgamates all institutions and all facets of the institutional environment in individual countries into one figure? From the literature on the construction of indicators, it follows that the ‘enabling indicator’ can be considered as a latent variable (Diamantopoulos and Winklhofer, 2001). The proxy for this enabling environment is caused by informative indicators, i.e. institutions and the elements of the institutional environment as discussed in the previous section. Informative indicators are observed variables that are assumed to cause a latent variable, in our case the enabling variable. It is not the other way round; the proxy is not causing observed variables or indicators. For a long time, most researchers in social sciences have assumed that indicators were effect or reflective indicators. Cause indicators were neglected despite their appropriateness in many instances.

Informative indicators are not indicators in the conventional sense as defined in factor analysis or covariance structure modelling. Rather, they are exogenous measured variables that influence the composite defined as a causally indicated variable. Theoretically, the enabling concept ( $\eta$ ) in country  $q$  is a function of various observed or manifest variables ( $x$ ):

$$\eta_{q,TC} = \gamma_{q1,TC} X_{q1,TC,t-n} + \gamma_{q2,TC} X_{q2,TC,t-n} + \gamma_{q3,TC} X_{q3,TC,t-n} + \dots + \gamma_{qm,TC} X_{qm,TC,t-n} + \zeta$$

where  $\gamma_i$  is a parameter reflecting the contribution of informative indicator  $x_i$  to the latent variable for the enabling environment ( $\eta$ ) and  $\zeta$  is a disturbance term. As explained in the previous section, the current enabling environment is largely the result of factors from the recent or remote past, like historical evolutions or cultural elements. That is why the time dimension has been added as subscript to elements of the institutional environment ( $x_{t-n}$ ). In non-technical words, positive or negative experiences dating back 20 years ( $t-20$ ) can still dominate the enabling environment to-date ( $t$ ), even if a supportive co-operative law has been put in place 2 years ago ( $x_{\text{co-operative law}, t-2}$ ) and the fiscal treatment of co-operatives has become friendlier five years ago ( $x_{\text{fiscal treatment}, t-5}$ ). To bring it more in line with reality, one should also discriminate between the enabling environments of different types of co-operatives. For instance, the enabling environment for agricultural

“the current enabling environment is largely the result of factors from the recent or remote past, like historical evolutions or cultural elements,”

co-operative enterprises could diverge greatly from that for financial co-operatives in a particular country. The subscript  $TC$  represents the different types of co-operatives.

Formative indicators have several properties that distinguish them from reflective indicators (Diamantopoulos and Winklhofer, 2001, p. 271). Whereas reflective indicators are essentially interchangeable, with formative indicators, “*omitting an indicator is omitting a part of the construct*” (Bollen and Lennox, 1981). It is also true that formative indicators are exogenously determined, which makes it more difficult to test their validity. An informative indicator  $x_i$  may have a positive or negative impact on  $\eta$  and the impact of every  $x_i$  on  $\eta$  may differ as well (i.e. high, medium or low). These reflections indicate that it is difficult to determine the usefulness of the informative indicator to define the enabling construct; internal consistency is of minimal importance, because two informative variables that may be negatively correlated can both serve as meaningful indicators of the enabling construct.

In an ideal world, all potential informative indicators for the composition of the unobservable enabling indicator are available and quantified, e.g. qualitative insights regarding the effectiveness of policy measures for different types of co-operatives are objectively translated into quantitative measures. Even in this case, the composition of an enabling indicator will be surrounded by methodological issues. Indeed, the enabling construct  $\eta$  would be the result of subjectively determined weights ( $\gamma$ 's) of a number of informative indicators ( $x$ ) that are supposed to contain useful information and are readily available.

Apart from these unavoidable subjective elements in the construction of the ‘hypothetical’ enabling indicator, another concern was raised in discussions with experts. They argued that the relevance and importance of the underlying ‘ideal’ informative indicators  $x$  differ across countries; the sign and magnitude of  $\gamma$ 's will surely vary across countries. Hence, the enabling indicator  $\eta$  cannot be based on a uniform calculation method for all countries. It is also possible that a particular informative indicator  $x_{j,a}$  exerts a positive impact on the enabling environment in country A, whereas the same informative indicator  $x_{j,b}$  is detrimental for the enabling environment in country B. This means that  $x_j$  can exert a negative or positive impact on the enabling indicator of a particular country. To make this argument less abstract, the Greek example is a case in point (Iliopoulos, 2012). In Greece, many legislative efforts in the 1980s and 1990s were supposed to help agricultural co-operatives improve their position vis-à-vis investor owned firms. However, many Greek co-operatives operate on the periphery of the economy, because several intervening factors resulted in extremely negative outcomes. The most easily observed is the continuous state intervention into co-operatives’ affairs, particularly in the election of board members.

Suppose we would be able to construct an enabling indicator per country for all types of co-operatives. Whatever the value of these indicators, it cannot be concluded that co-operatives are better or worse off than other organizational forms. Indeed, it is possible that governments or the public are even more or less in favour of other organizational forms. Theoretically, it may also be the other way round. A very low enabling indicator for co-operatives may go hand-in-hand with an even greater dislike of countries, governments and the public regarding other organizational forms. This remark underscores the fact that every dimension of the institutional environment of co-operatives should be assessed in relative terms. For instance, the tax regime of co-operatives should be contrasted with the tax regime of firms with other organizational structures.

Even if an overall enabling indicator could be constructed, this measure would mask the different issues facing different types of co-operatives in a country. For instance, the enabling environment for agricultural co-operatives may be in order, whereas no other types of co-operatives are supported or allowed. An example is Kazakhstan, where only consumer co-operatives can be established. Or China, where co-operative law is predominantly geared towards Farmer Specialised Co-operatives (Ren and Yuan, 2013).

In conclusion, the hurdles associated with the actual operationalization of the conceptually elegant notion of an indicator of the enabling environment for different types of co-operatives in different economic sectors and in different countries are insurmountable.

“the hurdles associated with the actual operationalization of the conceptually elegant notion of an indicator of the enabling environment for different types of co-operatives in different economic sectors and in different countries are insurmountable,”

## 5. The enabling environment and co-operative performance

As argued in the previous section, it is impossible to construct an overall enabling indicator for co-operatives in a country. Its interpretation as well as an eventual country-by-country comparison would be severely hindered by methodological and practical limitations. One also has to take into consideration divergent historical, legal, cultural, economic and social backgrounds for co-operatives across countries and continents (e.g. different social welfare systems). Moreover, the dimensions of the enabling environment of co-operatives (legislation, taxation, competition law) should be compared and contrasted with those of other types of firms, which is a very difficult task. The issue at stake is whether co-operatives are viewed and treated differently than other market participants.

We also encountered many interpretation issues among national experts regarding numerous elements of co-operative laws, tax laws, etcetera, and the impact of public support measures on different kinds of co-operatives. Each expert has his/her interpretations about and experiences with history, culture, law, policy and co-operatives. One cannot assume that everybody evaluates the effect of institutional elements on co-operative performance in the same way across countries. Even among national experts, divergent opinions about the impact of various dimensions of the institutional environment on co-operatives prevailed. There can easily be a bias due to, for instance, somebody with a legal background looking differently at an institutional dimension than somebody with an economic background.

“No comparable information is available about legislature, fiscal regulation and/or relevant historical and socio-cultural factors for co-operative firms,”

Not surprisingly, a global database on – dimensions of – the institutional context for co-operatives does not exist. No comparable information is available about legislature, fiscal regulation and/or relevant historical and socio-cultural factors for co-operative firms. The practical impact of financial, tax and legal aspects and policy measures on co-operative firms has never been systemically studied and compared. And probably for a good reason: it would be necessary to account for a huge variety in the issues related to different types of co-operatives across and within countries. One has to discriminate between start-ups and mature co-operatives;

consumer, producer, and worker co-operatives; financial<sup>10</sup>, agricultural<sup>11</sup>, or health co-operatives; small, medium, or large co-operatives; local, regional or global co-operatives; multi-purpose co-operatives; etcetera; etcetera. For instance, 'sophisticated' co-operatives – large transnational and international co-operatives as included in the World Co-operative Monitor (2015) – or co-operatives acting as a holding company are obviously confronted with different issues and have different institutional needs than small, start-up and/or regional co-operatives.

In this report, we have opted for a combination of a micro and macro approach. We first present the summary findings of an own assessment of important elements in co-operative laws in 33 countries.<sup>12</sup> Thereafter, we present a rough indicator for co-operative performance or the market position of co-operatives in these 33 countries. Subsequently, we investigate whether the proxy for co-operative performance is statistically correlated with globally available indicators for the institutional environment. Plausible explanations will be discussed for the recorded (absence of a) relationship between institutional indicators and co-operative performance. This approach is based on the logical assumption that the overall institutional environment affects – the performance of – co-operatives as well. Like all other firms, co-operative firms cannot be established or thrive in an unfavourable institutional setting.

“we investigate whether the proxy for co-operative performance is statistically correlated with globally available indicators for the institutional environment,”

### **5.1 Tentative assessment of the institutional environment**

Since no assessment of the impact of the institutional environment on the actual performance of co-operatives is available and taking note of the remarks by experts, we decided to conduct our own desk research for a number of general co-operative dimensions as a pilot project. A useful source was the International Handbook of Co-operative Law (Cracogna,

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<sup>10</sup> Groeneveld (2015) presents a detailed overview of the history, market position, and challenges of financial co-operatives around the globe.

<sup>11</sup> Actually, agricultural co-operatives can be further subdivided into supply or purchasing co-operatives, marketing co-operatives, bargaining co-operatives, and service co-operatives (Carr *et al.*, 2008).

<sup>12</sup> The Handbook of Co-operative Law (Cracogna, Fici and Henry, 2013) contains a description of co-operative law in 33 countries. The countries are Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, China, Colombia, Denmark, Finland, France, Germany, Hungary, India, Ireland, Italy, Japan, Korea (Republic of), Mexico, The Netherlands, Norway, Peru, Poland, Portugal, Russian Federation, South Africa, Spain, Sweden, Turkey, United Kingdom, United States and Uruguay.



Fici and Henry, 2013). This book contains extensive descriptions of co-operative laws in 33 countries on different continents (see footnote 12). We have scrutinized all chapters on national co-operative laws focusing on four specific co-operative dimensions (see Annexes I-IV):

- a. Membership
- b. Tax treatment
- c. Co-operation among co-operatives
- d. Governance aspects

“laws are written broadly or narrowly, permissively or prohibitively, via prescriptions or through principles to be applied in a discretionary manner,”

We have tried to condense the main features of these four dimensions for each country into one cell of a table. Though this exercise was surely useful and interesting, we instantaneously realized that this approach would not even yield a tiny common thread, except that countless differences exist between countries. Just one illustration: the minimum number of members required to establish a co-operative varies between 2 and 50 for the 33 countries under investigation. Does this single feature in isolation hinder or stimulate co-operative development? The only correct, but perhaps unsatisfactory reply would be that this largely depends on all other elements of the enabling environment. This answer holds for almost every co-operative element in the Annexes. The reader can observe many other distinctions across countries and items: co-operative laws differ in many respects. Not just the historical context varies a great deal, but the laws are written broadly or narrowly, permissively or prohibitively, via prescriptions or through principles to be applied in a discretionary manner. For instance, Dutch experts state that the co-operative law in The Netherlands is very flexible, so that co-operatives can adapt. Spanish and Italian experts assert that the opposite holds for their countries. France seems to have a co-operative law that is in between these extremes: not too flexible, but changing quite often in the past 20 years to adapt to changing needs of the co-operative movement.

These examples illustrate that our summary in the Appendices is far from complete. Each cell in the tables actually requires an extensive footnote to detail the exceptions and/or amendments to the general picture. The qualitative findings are difficult to assess and offer no scope for cross country comparisons or classifications. Hence, we did not try to award each country on each dimension with a score. The ‘translation’ of the descriptions into quantitative scores to assess whether an individual element of co-operative law is beneficial, neutral, or detrimental for the

enabling environment of co-operatives does not make sense. The scoring would be a highly subjective matter. Even more problematic, this exercise would surely not respond to the reality. We have read a lot of pretty words on paper, but that does not necessarily tell us something about the effects in reality. Another reason is that the notion of 'co-operative law' in the Handbook on Co-operative Law is just restricted to organisational law (and tax law). One should consider all other elements of the legal framework in countries as well. Nevertheless, our analysis offers a good starting point for conversations between the Alliance; national level co-operative organisations, federations, and apexes; and policy makers and regulators in the respective countries.

The previous remarks refer to the gap between our *de jure* judgement and the situation that prevails *de facto*. What seems right and good on paper may not be what works in practice and vice versa. One could also assert that the presence of co-operative law and regulation is no guarantee to promote the creation and/or growth of co-operatives (and its absence does not automatically obstruct the emergence and further development of co-operatives). Many examples come to mind that support this statement. Van Dijk (2009) asserts that in South Africa, two laws were developed for financial co-operatives with international support, but still there does not exist a co-operative bank. Not one financial co-operative created with substantial political, financial and technical support was able to develop into a sustainable financial institution in this context. Apparently, one or more – unknown – factors prevented them from being successful and viable. An opposite example is Denmark, which has a very long co-operative history. Danish agricultural co-operatives have a high market share of around 65 percent, but Denmark has no co-operative law (Pyykkönen *et al.*, 2012). The third example is China. The Chinese co-operative law looks very friendly for the almost 1 million agricultural co-operatives the country boasts. However, Xiaoshan (2013) warns that data relating to the development of farmers' specialized co-operatives in China should be analysed and judged realistically, as it is important not to overestimate the true driving force these co-operatives provide to farmers. Consulted experts stated that only forty to fifty percent of these co-operatives are really active as businesses. In some provinces, the performance of local civil servants is assessed on the basis of the number of newly established agricultural co-operatives in their territories. Moreover, the democratic rights of members are generally rather limited and a distinction is made between 'core' and 'common'

“What seems right and good on paper may not be what works in practice and vice versa”

members. Spain is also worth mentioning. We noticed that each region in Spain has its own co-operative legislation and co-operatives are not allowed to operate in neighbouring regions.

## 5.2 Global databases on co-operatives

### 5.2.1 Global Census on Co-operatives

For this preparatory study, we have performed extensive desk research to find already existing, readily available data. We refrained from the composition of new data bases. In this respect, we have identified The Global Census on Co-operatives (UNDESA, 2014) as the most comprehensive database on co-operatives to-date. The Census has collected data that is available in national statistical agencies, chambers of commerce, government ministries and departments, United Nations agencies, global statistical research databases, etc. This database is a count of as many co-operatives, in as many countries as possible regardless of their sector or membership in regional/global associations. The Census covers 145 countries with 2.6 million co-operatives. The data collection encountered large quality differences in national information sources on co-operatives.

Despite the efforts to gather comparable data of adequate quality, this database has some methodological shortcomings, e.g.:

- A quick inspection shows that the database is not exhaustive, due to lack of publicly available data;
- It could not be verified whether all included co-operatives are formed voluntarily by members;
- The database also includes economically inactive co-operatives;
- Some estimated data are based on figures from government ministries and/or national co-operative associations;
- There likely is some double counting in various sectors;
- Data on annual cross revenue is incomplete;
- The Census appears to mix members and clients in some instances;
- Members of mutual insurers were not included;
- Mutuals are not included for all countries (due to differences in national definitions)<sup>13</sup>;
- The Census leaves out member-workers classified in many countries as self-employed and does not consider member-producers in producer co-operatives.

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<sup>13</sup> We do not want to enter into the debate on whether mutuals should be regarded as co-operatives or not (Atherton *et al.*, 2012).

Acknowledging these flaws, this large scale inventory entails the most complete database on co-operatives so far. It estimates that over 1 billion people are members and clients of co-operatives. Additional calculations imply that one sixth of the world population has membership or is a client of a co-operative. The Census computes that all co-operatives around the world generated at least US\$ 3 trillion in annual revenue during the most recent year for which data was available. It must be noted that this is a highly conservative estimation due to the absence of revenue data for many co-operatives.

“calculations imply that one sixth of the world population has membership or is a client of a co-operative,”

The collected data regarding the number and diversity of co-operatives are not very informative as such; it is the relative position of co-operatives in the economy/country that matters. To assess the impact and size of the co-operative sector in individual countries, three meaningful ratios can be derived from the Census. First, the membership penetration of all included co-operatives relative to total population is computed. This ratio can be interpreted as a very tentative indicator of the perceived added value of co-operatives for members (or the general popularity of co-operatives). It is actually a proxy for national membership intensity. The second ratio is co-operative employment divided by total population. The third ratio denotes annual gross revenue of all co-operatives in a country relative to the country's GDP; this can be interpreted as a rough proxy for the overall economic performance – or general market share – of co-operatives in a country.

In our empirical analysis, we shall use the Co-operative Economy Index (henceforth *CEI*) as a rough approximation for the overall co-operative performance and proliferation per country.<sup>14</sup> The index is based on a weighted average of the three mentioned ratios from the Census. We realize that this approach does not do justice to many other aspects of the overall co-operative performance (see Scheme 1). Our choice is, however, based on the arguments put forward by Soboh *et al.* (2009) and follows the approach of Brusselaers *et al.* (2014). One reason why we refrain from trying to measure co-operatives' performance on multiple objectives is that this approach can only be deployed when one individual co-operative is analysed. However, this methodological study develops a framework

“we shall use the Co-operative Economy Index as a rough approximation for the overall co-operative performance and proliferation per country,”

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<sup>14</sup>Gijssels and Bussels (2012a) have operationalized the issue of co-operative performance as the propensity to cooperate, measured in terms of the intensity of membership of farmer's co-operatives and producer organisations.

that should be applicable to numerous co-operatives in different sectors and countries simultaneously. The second reason is that the multiple objective approach is problematic in terms of performance measurement at the micro-level. That is why this report only takes one dimension for co-operative performance into account.

Although the *CEI* reflects the *current* situation, one has to realize that it is the result of numerous developments and institutions from the recent or distant past. However, the same holds for most dimensions of the *current* enabling environment for co-operatives; they are also formed over a long period of time. Another common characteristic is that the *CEI* and the factors of the enabling environment tend to change very slowly over time.

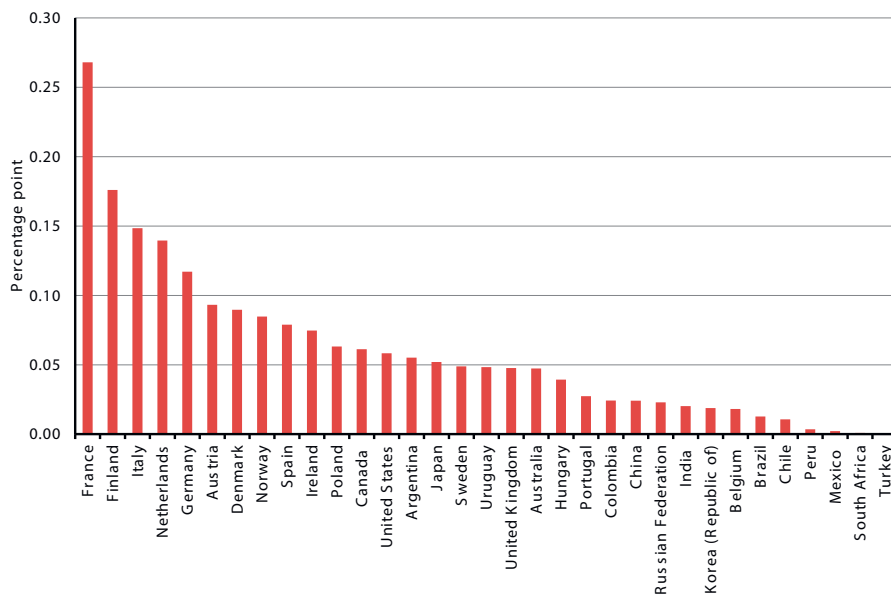
Figure 2 displays the *CEI* for 33 countries on different continents. France clearly stands out with a value of almost 0.3, followed at a distance by Finland, Italy, and The Netherlands. In our sample, South Africa and Turkey have the lowest *CEI* (0.001). The Figure further shows that European countries dominate in the top ten of most co-operative economies in our sample. This largely mirrors the fact that Europe has been the birthplace of modern co-operatives. It would be wrong to conclude, however, that the significance of co-operatives in countries with a low *CEI* is very limited. Many small co-operatives could be much more significant than a low *CEI* seems to suggest, because they could in fact reach down to some of the poorest and remotely living people in various countries and have a substantial economic impact for their members. This holds in any case for credit unions in Latin America.<sup>15</sup> A low *CEI* does not mean that there is no room for co-operatives either. On the contrary, a low *CEI* could signal a great potential for co-operatives, or equivalently, large unmet needs in society. Further research is, therefore, needed to uncover the reasons for a low *CEI* in particular countries. Suppose that the government does not really support the co-operative sector in country XYZ with a low *CEI*. It can be expected that no strong lobby in favour of co-operatives exists in country XYZ. Thus, the pressure upon government to design effective policy measures in favour of co-operatives will be limited as well. To break out of this vicious circle, open dialogues and the political willingness to

“a low *CEI* could signal a great potential for co-operatives, or equivalently, large unmet needs in society”

<sup>15</sup> Credit unions in Latin America tend, for example, to be smaller and even more locally oriented than in North America. They also place a greater emphasis on their social mission and have been very instrumental in expanding available access to previously unbanked or under-banked populations (Oliver Wyman, 2014).

create legal space for co-operatives are needed. Otherwise, this chicken-and-egg problem will never be solved and some population groups might be refused to find a possible solution for their social or economic adversaries.

Figure 2 Co-operative Economy Index for 33 countries



Source: UNDESA (2014)

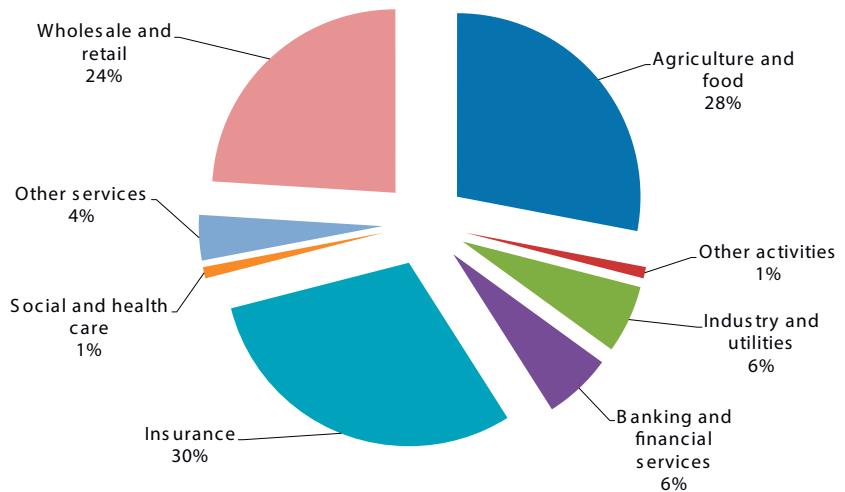
### 5.2.2 World Co-operative Monitor

Another global data source for co-operative enterprises is the World Co-operative Monitor (WCM, 2015) which contains data of 1,658 co-operative firms across 76 countries with a turnover of more than US\$ 100 million from various sources.<sup>16</sup> The WCM is an Alliance initiative with the scientific support of the European Research Institute on Co-operative and Social Enterprises (Euricse). Compared to the Census, the quality and comparability of the WCM data are better, but it mainly covers large co-operatives and the rankings presented are merely economic in nature. Hence, the WCM is less suited for our purposes. Mutual insurers are by far the largest category in the WCM (30 percent), followed by large agriculture and food co-operatives and wholesale co-operatives (28 and 24 percent,

<sup>16</sup> Size is proxied by turnover, which is defined as the income generated by the business activities conducted by a co-operative firm. For mutual and co-operative insurance organizations, the turnover is represented by their income of premiums. For co-operative banks, turnover is approximated by net interest income, i.e. the difference between interest income and interest expenses.

respectively). Industrial co-operatives represent 6 percent of co-operative enterprises in the WCM. The complete distribution of large co-operatives across economic sectors is displayed in Figure 3.

Figure 3 Large co-operatives by sector of activity

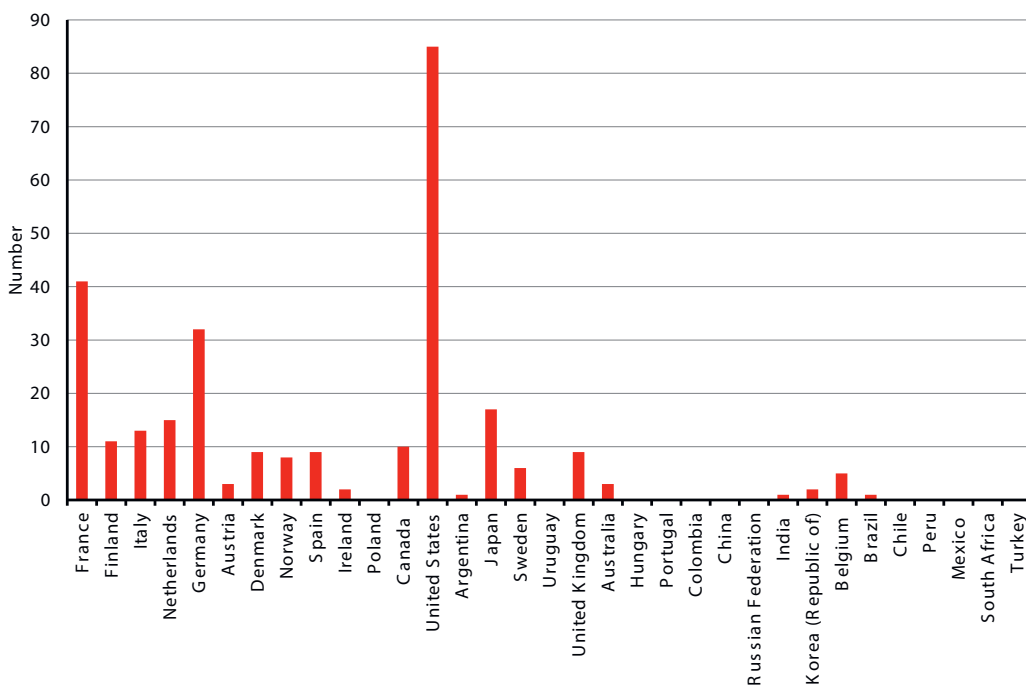


Source: World Co-operative Monitor (2015). The data pertain to co-operatives with a turnover of more than 100 million US dollars.

Figure 4 shows the number of large co-operatives in the 33 countries under review. One can observe a highly skewed distribution; there are no large co-operatives in many countries in our sample. This confirms that comparisons between co-operatives in different countries calls for great caution. Of course, the size of co-operatives does not in itself comprise information about their added value and/or importance for their members, since many of them also serve non-members. Moreover, the issues of large co-operatives obviously differ from those of small, more locally oriented co-operatives. For instance, as co-operatives become large, the chance to actually participate actively in its governance is limited for members and the majority of members may feel disenfranchised (Masuda *et al.*, 2015). This corroborates our earlier point that one cannot tar every type of co-operative and country with the same brush.

“one cannot tar every type of co-operative and country with the same brush”

Figure 4 Number of co-operatives belonging to the top 300 co-operatives in the WCM



Source: the data were provided by Euricse and pertain to 2012. The red bars indicate the number of co-operative firms with a turnover of more than US\$ 100 million that are included in the database of the WCM.

### 5.3 Worldwide databases on the institutional environment

We have found various international data sources that contain information about institutions (e.g. norms and values) and institutional factors that shape the enabling or disabling environment for co-operatives:

- Hofstede Cultural Indicators;
- Doing Business Indicator;
- The Worldwide Governance Indicators;
- The Corruption Perception Index;
- The Gini Coefficient;
- The Democracy Index.

All these data sources are the result of meticulous efforts and surveys conducted by dozens of experts worldwide. It is important to note that these databases complement each other. Collectively, they paint a complete and reliable picture of the overall institutional



environment in which co-operatives in different countries – have to – operate. For instance, the Doing Business indicator of the World Bank does not capture aspects such as security, macroeconomic stability, and the prevalence of bribery and corruption. Indicators for the latter elements are however found in the other databases mentioned above. An advantage of these global databases is that they are readily available and updated on a regularly basis.

We have retrieved numerous indicators for the 33 countries under review from these databases. The collected indicators will be described in the following sections which have a similar structure. They start with a brief explanation of each indicator in the context of its hypothesized relationship to the enabling environment for co-operatives. If deemed relevant, the summary statistics are presented. Every section highlights the expected relationship between the indicator and co-operative performance. To verify whether these assumed connections are present or absent, we have calculated the correlation coefficients between the Co-operative Economy Indices and the collected indicators for the countries in the sample. Research findings reveal that changes in some indicators will exert a positive or negative influence on the enabling environment for co-operatives and consequently on co-operative performance. As exploring causality is not within the scope of this endeavour, the direction of causality between each pair of variables could run in both ways for each of these correlations.

“changes in some indicators will exert a positive or negative influence on the enabling environment for co-operatives”

### 5.3.1 Hofstede indicators and the Co-operative Economy Index

Hofstede et al. (2010) distinguish six national cultural dimensions. These indicators are readily available and downloadable from [www.geerthofstede.nl](http://www.geerthofstede.nl).

1. **Power Distance:** “the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally”;
2. **Uncertainty Avoidance:** “the extent to which the members of a culture feel threatened by uncertain or unknown situations”;
3. **Individualism** (versus Collectivism): “Individualism stands for a society in which the ties between individuals are loose: everyone is expected to look after him/herself and her/his immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people’s lifetime

continue to protect them in exchange for unquestioning loyalty”;

4. **Masculinity** (versus Femininity): “Masculinity stands for a society in which social gender roles are clearly distinct: men are supposed to be assertive, tough, and focused on material success; women are supposed to be more modest, tender, and concerned with the quality of life. Femininity stands for a society in which social gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life”;
5. **Long Term Orientation** (versus Short Term Orientation): “Long Term Orientation stands for the fostering of virtues oriented towards future rewards, in particular, perseverance and thrift. Its opposite pole, Short Term Orientation, stands for the fostering of virtues related to the past and present, in particular, respect for tradition, preservation of ‘face’ and fulfilling social obligations”;
6. **Indulgence** (versus Restraint): “Indulgence stands for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms.”

Table 1 explains and summarizes the expected impact of each individual Hofstede indicator on the CEI in a country. Here, we abstract from other institutional factors that influence the co-operative performance in a country, of course. In other words, we are not sketching an all-encompassing picture, but only present partial analyses.

Table 1 Hofstede indicators and expected correlation with co-operative performance

Indicator	Assumed impact on the co-operative performance	Expected correlation
Power Distance	A low <i>PDI</i> will lead to less hierarchical organizations, more public involvement in politics, organizational performance will be higher when leadership is embedded in a culture of consultancy with others. As the core property of co-operatives is the democratic decision making structure and actual involvement of members in decisions about which course to steer, it is likely that in countries with a low <i>PDI</i> the co-operative model will be more readily embraced than in countries with a high <i>PDI</i> .	Negative
Uncertainty Avoidance	<i>UAI</i> bears on the citizens' likelihood to organize themselves for their own or their society's benefit or a greater willingness to venture into unknown territories (if <i>UAI</i> is low). Since co-operatives are economic self-help organizations, demanding a high personal responsibility and engagement, it is likely that a relatively large co-operative sector will be found in countries with a low <i>UAI</i> than in countries with a high <i>UAI</i> . On the contrary, it may as well be argued that in countries with a high <i>UAI</i> a higher inclination toward co-operatives may be found, since co-operatives intend to decrease risks and provide members with greater security of sale and less volatile income through market activities.	Negative
Individualism versus Collectivism	Low <i>IDV</i> implies a higher in-group solidarity, while a high score correlates with pluralist societies with atomized individuals. Since in-group solidarity is a prerequisite for co-operatives, it is likely that a low <i>IDV</i> is positive for the size of the co-operative sector.	Negative
Masculinity versus Femininity	A low <i>MAS</i> implies that solidarity, care for the quality of life and participation in voluntary organizations are equally shared by men and women. In a high <i>MAS</i> society, these are typically important roles for women, men being more focused on material success. One could argue that since co-operatives are based upon solidarity and voluntary involvement, they are more likely to attract more (persistent) members in societies with a low <i>MAS</i> . Co-operatives may be highly attractive in societies with a high <i>MAS</i> as long as they realize indisputable benefits, but in times where the co-operative benefit is not that clear, membership may more easily fall in societies with a high <i>MAS</i> than in societies with a low <i>MAS</i> .	Negative
Long term Orientation versus Short Term Orientation	The orientation on future rewards in high <i>LTO</i> societies may foster the enabling environment, since co-operatives are inherently striving for future rewards rather than short term profits. However, a high <i>LTO</i> score also seems to imply that citizens are less likely to be mobilized for social issues and invest in real estate sooner than mutual funds. This seems to counteract co-operative behaviour.	Indeterminate
Indulgence versus Restraint	In high <i>IvR</i> countries citizens seem to be more confident of their own competences, and perceive they are in control of their life, and the nation's institutional fabric is looser. These kinds of citizens are more likely to turn to co-operative entrepreneurship as a form of self-help, self-responsibility, self-control. Moreover, they may feel supported by a more liberal, less strict and restricting legal framework for self-organization and co-operative entrepreneurship.	Positive

Source: Gijssels and Bussels (2012a), edited.

Note: the qualification 'Negative' or 'Positive' in the third column indicates that a high (low) value of the variable is expected to be negatively (positively) correlated with co-operative performance. The correlation between *LTO* and the co-operative performance can be expected to be either positive or negative, and is hence labelled as 'Indeterminate'.

Table 2 presents the summary statistics of these cultural indicators which can vary between 0-100.<sup>17</sup> The distribution of 32 countries differs across these dimensions. Relatively large discrepancies exist between country indicators for Masculinity, Indulgence and Long Term Orientation. The last column reports the correlation coefficient between each indicator and the Co-operative Economy Index.

*Table 2 Summary statistics of Hofstede's indicators for 33 countries*

Indicator	Mean	Medium	Maximum	Minimum	Correlation with CEI
Power Distance	52	52	93 (Russian Fed.)	11 (Austria)	-0.37*
Uncertainty Avoidance	68	76	99 (Portugal, Uruguay)	23 (Denmark)	-0.09
Individualism	56	61	91 (United States)	13 (Colombia)	0.45*
Masculinity	51	55	95 (Japan)	5 (Sweden)	-0.17
Long term orientation	46	41	88 (Japan)	13 (Colombia)	0.22
Indulgence	54	57	97 (Mexico)	20(Russian Fed.)	-0.07

Source: TIAS calculations based on data obtained from [www.geerthofstede.nl](http://www.geerthofstede.nl) and UNDESA (2014).

Note: *Hofstede indicators* do not exist for South Korea. The final column presents the correlation coefficient between the *Hofstede indicator* and the Co-operative Economy Index (CEI). An asterisk denotes significance at the five percent confidence level.

A significant negative correlation is found between *PDI* and *CEI* within our sample of countries. In countries with a low *PDI*, a larger co-operative sector is present. If societies accept inequality and power in the hands of just a few people, they are apparently neither really motivated nor show initiative to collaborate voluntarily. The direction of causality could also run the other way. If people are able to undertake more initiatives to collaborate voluntarily and form co-operatives, this could tip the balance of inequality of power and render it more equal. Surprisingly, the data show a strong positive correlation between *IDV* and *CEI*. A high level of individuality is

“If societies accept inequality and power in the hands of just a few people, they are apparently neither really motivated nor show initiative to collaborate voluntarily,”

<sup>17</sup> The country scores on all dimensions are relative – societies are compared to all other societies, and their meaning stems from comparison to other societies.

associated with large co-operative sector. This seems counter-intuitive, but it could be that people in societies characterized by individualism are aware of the fact that they can only achieve more welfare or wellbeing individually if they cooperate with like-minded people with similar needs. *UAI*, *MAS*, *LTO* and *lvR* do not correlate with *CEI*, however. To check the robustness of these calculations, we have performed correlations without ‘outlier’ observations for all variables, but that did not change the overall picture.

### 5.3.2 Doing Business Indicator and the Co-operative Economy Index

According to this index of the World Bank (2014), economies are scored on their ease of doing business. A high value means that the regulatory environment is more conducive to the set-up and operation of a local firm. The indicators lie in the range from 0 to 100, where 0 represents the worst performance. The indices are computed for many dimensions, i.e. resolving insolvency, starting a business, enforcing contracts, paying taxes, getting credit, etcetera. The World Bank also calculates a general doing business indicator, based on a weighted average of all these individual indices. It is assumed that a low overall doing business indicator will constrain co-operatives, whereas a high indicator will encourage co-operative business.

“ a better general business environment goes hand-in-hand with a better co-operative performance,”

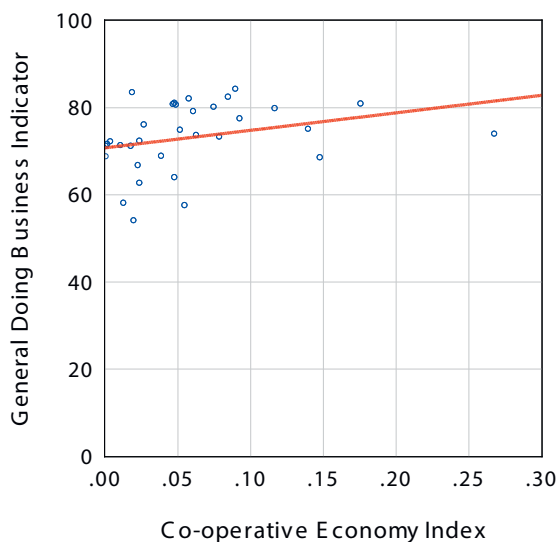
A significant positive relation exists between the general doing business indicator (*GDBI*) and *CEI* (0.30), meaning that a better general business environment goes hand-in-hand with a better co-operative performance. As stated before, correlations are unsuited to disentangle the direction of causality between two variables. However, it is fairly logical to assume that co-operatives are influenced by all kinds of external factors, whereas the presence of co-operatives has one way or the other an impact on the general external environment, i.e. co-operatives will have a so-called presence value. Regarding the latter direction of causality, we feel comfortable to assume that a co-operative sector exceeding a critical mass could have a positive impact on the general environment for doing business, as the diversification of actors in the economy may lead to stronger and healthier market conditions.

This expectation is visible in Figure 5. It just confirms the importance of a good legal environment and efficiency for the thriving of co-operatives. We have checked for the robustness of this result by removing outlier countries from our sample, i.e. India (*GDBI*: 54), Denmark (*GDBI*: 84), France (*CEI*:

0.268), Turkey and South Africa (*CEI*: 0.001). In this case, the correlation coefficient and its significance remained the same.

Calculating the correlation between individual doing business indicators and *CEI*, we found that especially ‘trading across borders’, ‘resolving insolvency’ and ‘enforcing contracts’ are highly correlated with co-operative performance. The strong correlation between ‘trading across borders’ and *CEI* hints at the importance of unobstructed trade for larger exporting producer co-operatives (in the agricultural sector), which are particularly present in Western economies in our sample as shown in Figure 4. Some individual indicators were not significantly correlated with *CEI*, e.g. ‘getting electricity’. However, we take the position that it is the relationship between *GDBI* and *CEI* that really matters.

Figure 5 General Doing Business Indicator versus the Co-operative Economy Index



Source: TIAS calculations based on data from The World Bank and UNDESA (2014)

### 5.3.3 Governance Indicators and the Co-operative Economy Index

This project of the World Bank reports aggregate and individual governance indicators for 215 economies along six dimensions of governance.<sup>18</sup> The six governance indicators are briefly explained in Table 3. The aggregate indicators combine the views of a large number of enterprises, citizens, and expert survey respondents in industrial and developing countries.

<sup>18</sup> See Kaufman *et al.* (2009) for a detailed explanation of the indicators and the applied methodology.

Actually, these indicators are not only scores for governance aspects, but also comprise information about the perceived degree of social capital in a country: general trust, trust in political and important societal institutions (Chloupkova, Svendsen and Svendsen, 2003).

*Table 3 Governance indicators and expected correlation with co-operative performance*

<b>Governance Indicator</b>	<b>Probable impact on co-operative performance</b>	<b>Expected correlation</b>
Voice and Accountability	<i>V@A</i> captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Freedom of association is one of the prerequisites for co-operatives, so a positive relationship is expected.	<b>Positive</b>
Political Stability and Absence of Violence/ Terrorism	<i>PSAVT</i> measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. For any type of business, it is important to have a high value for this indicator.	<b>Positive</b>
Government Effectiveness	<i>GE</i> captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Co-operatives should be able to operate independently from government interference.	<b>Positive</b>
Regulatory Quality	<i>RQ</i> captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. If this facet prevails, co-operatives will have it easier.	<b>Positive</b>
Rule of Law	<i>RoL</i> captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Co-operatives must be sure that the contracts among members and with third parties are enforceable. Otherwise, it will be extremely difficult to do co-operative business.	<b>Positive</b>
Control of Corruption	<i>CoC</i> captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Large scale corruption has a negative impact on economic activity and will obstruct the formation and functioning of co-operatives.	<b>Positive</b>

Source: World Bank and own analysis

As discussed earlier, the internal governance of a co-operative can only function properly – and in accordance with the Co-operative Principles – if the external governance structure in a country is in adequate shape. Therefore, it is hypothesized that countries scoring high on governance indicators constitute a better institutional climate for co-operatives to prosper than countries with lower governance indicators and vice versa. Theoretically, a positive

correlation can be expected between every national governance indicator and *CEI*. Table 4 records summary statistics of the governance indicators and their correlation with *CEI*.

*Table 4 Summary statistics of Governance Indicators for 33 countries*

Indicator	Mean	Medium	Maximum	Minimum	Correlation with CEI
Voice & Accountability	0.84	1.01	1.76 (Norway)	-1.58 (China)	0.47*
Political Stability etc.	0.37	0.61	1.36 (Finland)	-1.27 (Colombia)	0.48*
Government Effectiveness	0.98	1.23	2.17 (Finland)	-0.36 (Russian Fed.)	0.48*
Regulatory Quality	0.94	1.05	1.89 (Sweden)	-0.99 (Argentina)	0.41*
Rule of Law	0.86	1.03	1.97 (Norway)	-0.78 (Russian Fed.)	0.48*
Control of Corruption	0.89	1.28	2.41 (Denmark)	-0.99 (Russian Fed.)	0.45*

Source: TIAS calculations based on data obtained from the World Bank and UNDESA (2014).

The World Bank indicators vary between -2.5 and +2.5.

Note: The final column presents the correlation coefficient between the *Governance indicator* and the Co-operative Economy Index (*CEI*). An asterisk denotes significance at the five percent confidence level.

For every governance indicator, a highly significant correlation with *CEI* was detected (ranging between 0.41-0.48). Statistically, the *Governance Indicators* are significantly positively correlated with each other and if one *Indicator* is significantly correlated with *CEI* they all probably are. Another way of putting it is that individual countries generally score high or low on all individual indicators. This is evidenced by the high ranking of Northern European countries on all governance dimensions and the lowest ranking of the Russian Federation regarding three out of the six indicators. Another explanation for the strong correlation between Governance Indicators and *CEI* can be found in the literature on social capital. This literature demonstrates that trust, which is implicitly embedded in these governance indicators, is both a condition for and a consequence of co-operation and involvement in networks. Our empirical findings support this theoretical hypothesis.

“For every governance indicator, a highly significant correlation with *CEI* was detected,”



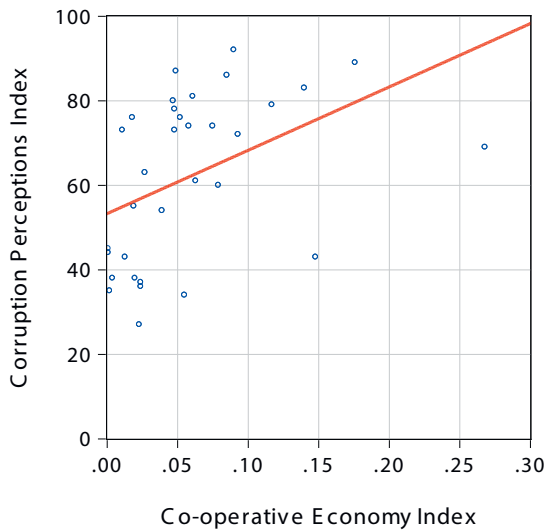
#### 5.3.4 Corruption Indicator and Co-operative Economy Index

The Corruption Perceptions Index (*CPI*) of Transparency International (2014) ranks countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). A country or territory's rank indicates its position relative to the other countries and territories in the index. *A priori*, it is expected that it is difficult to do any kind of business in a highly corrupt country. Transparency International observes that the value of this index is quite stable over time. A high level of corruption is usually difficult to eradicate at short notice.

“A high level of corruption apparently demotivates people to work together in co-operatives and vice versa,”

The correlation between the *CPI* and the size of the co-operative sector is visible in Figure 6. Formal tests confirm that there is a significant positive relationship (0.44) between the two indices. A high level of corruption (low value of the corruption index) apparently demotivates people to work together in co-operatives and vice versa. A high co-operative performance may contribute to decreased levels of corruption in a country over time. To test whether this result is dominated by outlier observations for *CEI* and *CPI*, we have recalculated the correlation without France (*CEI*: .268), South Africa and Turkey (*CEI*: .001), Denmark (*CPI*: 92) and Russian Federation (*CPI*: 27). This resulted in a somewhat higher overall correlation (0.47).

Figure 6 Corruption Perceptions Index versus Co-operative Economy Index



Source: TIAS calculations based on data from Transparency International (2014) and UNDESA (2014).

### 5.3.5 Gini Coefficient and the Co-operative Economy Index

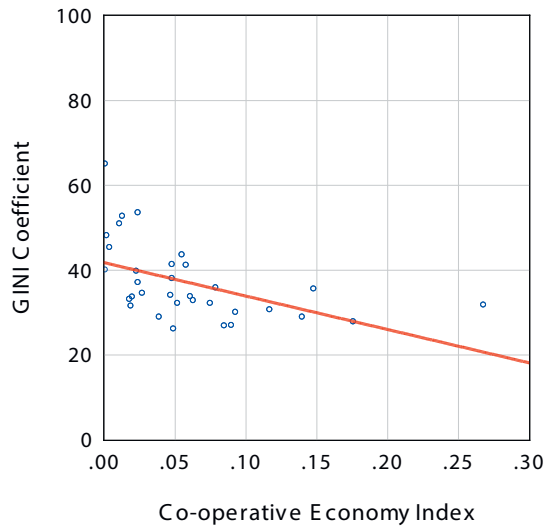
The Gini Coefficient measures the inequality among values of a frequency distribution (for example, levels of income). A Gini Coefficient of 0 represents perfect equality, i.e. everyone has the same income. A Gini Coefficient of 100 implies perfect inequality, i.e. only one person earns all the income, and all others do not earn anything.

A significant correlation (-0.50) was discovered, i.e. a more equal national income distribution is associated with a large co-operative sector in a country. This seems to be a plausible outcome. People earning a great part of national income are presumably not very keen to set up or join a co-operative where they have to share economic power. Where co-operative performance is strong, 'capture' of economic wealth is less likely. This facet must be taken into account when assessing the chances for success of co-operatives across nations. Income (in)equality is also a persistent factor. If we omit the outliers, i.e. France (CEI: .268) and South Africa (CEI: .001 and Gini Coefficient: 65), the correlation between the two variables becomes somewhat stronger (-0.56) and even more significant. As for the issue of causality, we feel that income inequality (the Gini coefficient) and

“ a more equal national income distribution is associated with a large co-operative sector in a country,”

CEI are likely to influence each other. A better score on the Gini Coefficient may give a positive impetus to the co-operative economy in a country. Likewise, a healthy and expanding co-operative economy may eventually raise the value of the Gini Coefficient – or reduce income inequality in a national context.

Figure 7 Gini Coefficient versus Co-operative Economy Index



Source: TIAS calculations. The Gini coefficients were collected for individual countries from various websites, among which the World Bank. We have used the most recently available data. For some countries, the Gini coefficient reflects the situation in 2005. The Co-operative Economy Index is from UNDESA (2014).

### 5.3.6 Democracy Index and the Co-operative Economy Index

“Democracy is one of the values underlying co-operative enterprises,”

Genuine co-operative firms are economic democracy in action and based on business and economic principles (Nadeau, 2012). Democracy is also one of the values underlying co-operative enterprises as stated by the Co-operative Principles. Hence, it is interesting to investigate whether a relationship between the overall state of democracy and co-operative performance in individual countries exists. This link can be explored by using the overall Democracy Index (ODI) from EIU (2015). This report provides a snapshot of the state of democracy worldwide for many independent states at the end of 2014. ODI is based on five categories: electoral process and pluralism, civil liberties, the functioning of government, political participation, and political culture. ODI ranges between 0 (totally authoritarian regime)

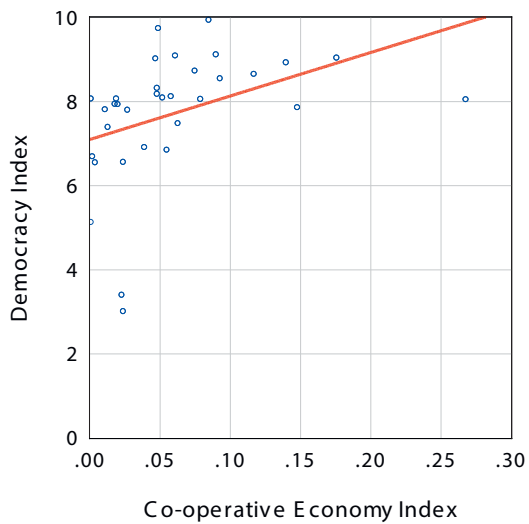
and 10 (perfect democracy). EIU (2015) notes that the composition of the country clusters has not changed much over the years.

*A priori*, we expect to find a positive correlation between *ODI* and *CEI*. The more democratic the country, the more positive the climate for co-operatives will be and vice versa. Experience teaches that co-operative success is largely dependent on Democratic Member Control (i.e. being Co-operative Principle #2). This assumption is in line with the earlier quoted report by USAID (2006). This document pointed out that authoritarian regimes are generally more inclined to interfere in the daily operations and governance of co-operatives. History has shown that politically motivated influence and control generally leaves a negative mark on the overall performance and viability of all co-operatives (Groeneveld, 2012).

Our presumption is confirmed by the data (Figure 8). *ODI* and *CEI* are strongly positively correlated (0.40). A high level of democracy is associated with a larger co-operative economy and vice versa. Like all previous correlations, this result does not prove a causal relationship. Nevertheless, this strong correlation is an indication that fierce government interference in societies puts pressure on co-operative performance. This observation implies that changes in *ODI* flag improvements or deteriorations in one of the elements shaping the overall enabling environment for co-operatives. Removing the outliers from our country sample, i.e. France (*CEI*: 0.268), Turkey and South Africa (*CEI*: 0.001), Norway (*ODI*: 9.93), China (*ODI*: 3.0) and Russian Federation (*ODI*: 3.4), resulted in a substantially higher correlation (0.53).

“fierce government interference in societies puts pressure on co-operative performance,”

Figure 8 Overall Democracy Index versus Co-operative Economy Index



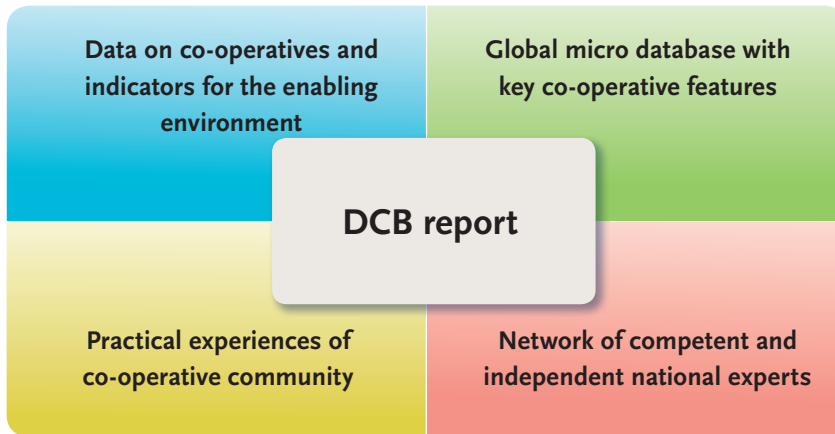
Source: TIAS calculations based on data from EIU (2015) and UNDESA (2014).

## 6. Concluding considerations

In this study, we aimed to design a workable methodological foundation for regular DCB Reports by the Alliance. In parallel, we have formulated concrete ideas for the structure and qualitative and empirical content of these reports. During the drafting process, we started to envision that DCB Reports should be ideally based on four building blocks as drawn in Scheme 3. Indeed, the Alliance has expressed its ambition to use DCB Reports predominantly for monitoring the evolution of co-operative firms and assessing their societal and economic significance on a regular basis. The feasibility of this goal mainly depends on the availability of objective and reliable data and information on co-operatives worldwide. Given the large number of co-operatives in the food and agriculture sector, as shown by the World Co-operative Monitor (2015) and UNDESA (2014), the partnership between the Alliance and the FAO and the relatively easy access to data from the FAO and also the World Bank, we suggest to focus on the improvement and expansion of the database related to the latter sector during the next steps of the DCB Report as a starting point.

“DCB Reports should be ideally based on four building blocks,”

*Scheme 3 Stylized Building Blocks of DCB Reports*



Source: TIAS

Our exploratory research for 33 countries around the globe shows that the exactitude of the assessment of data on co-operatives will be enhanced greatly if they are interpreted alongside indicators for the enabling environment derived from existing global sources as discussed in Chapter 5. We refer to a key finding that co-operative vibrancy is significantly

correlated with various aspects of the enabling environment. It can be safely assumed that an interdependent relationship exists between co-operative performance on the one hand and 'institutions' and the entire institutional environment on the other. The health and size of the co-operative sector are certainly largely shaped by the enabling environment. At the same time, the presence of a thriving co-operative sector (with a critical mass) will inevitably impact on many dimensions of the enabling environment.

“We advocate to set up a micro database with key legal features,”

We also advocate to set up a micro database with key legal features. Dissemination of legal aspects could boost the interest in the co-operative model and help to identify possible flaws or impediments in national legal frameworks related to co-operative enterprises. Moreover, we have the impression that the establishment of an intricate network of competent and independent national experts would advance the global co-operative movement. Finally, we believe that input from co-operative practitioners would be highly useful and valuable for future DCB Reports. Indeed, they are physically confronted with encouraging or discouraging elements of the institutional environment for their co-operatives in their respective countries every day.

“input from co-operative practitioners would be highly useful and valuable for future DCB Reports,”

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## Annex I Selected membership features

Countries	Descriptive analysis
<b>Argentina</b>	No differentiation between natural and legal persons; No fees; Reimbursement of withdrawing members equal to 5% of the capital annually (avoid capital decrease); State/governments can be members; one member one vote.
<b>Australia</b>	Active membership: cancel inactive (more than 3 years) members; \$2,000 fine for failure to cancel inactive members; one member one vote; obligation to purchase a certain amount of goods and services from the co-operative within a specified period of time; minimum 5 active user members
<b>Austria</b>	Minimum number members (2); Membership requirements; Application with minimal requirements; membership is a bilateral legal transaction; admission fee; investor members allowed
<b>Belgium</b>	Membership and admission requirements are not stipulated by law, but determined by the articles of the association; membership works through the acquisition of shares; member can leave the company only during the first six months of the financial year, in order to avoid hasty exits; shares can be transferred to other members or third parties, if member exits; entry must be free; no bias or discrimination allowed; board of directors can restrict admitting new members.
<b>Brazil</b>	Free admission but technical hindrance (lack of possibilities to create reciprocal relationship); minimum number of members variable.
<b>Canada</b>	Withdrawal of member implies redeem of the money belonging to the member within one year; bylaws of the co-operative govern membership; membership can be terminated if the member fails to transact with the co-operative for a period of two years; members have an exclusive right to vote and influence decision making; investment shares (one vote per share in the election of directors); two different jurisdictions: CCA - Co-operative Associations Act, and QCA - Québec's Co-operatives Act.
<b>Chile</b>	two minimum conditions for membership: ability to use the services, willingness to accept the obligations and responsibilities; co-operatives may temporarily suspend the admission of new members when their resources are insufficient to meet their needs; 30 days to answer request of resignation; incorporation fee; either persons or legal entities.
<b>China</b>	80% of the member should be farmers; less than 20 members: only one company can become member.
<b>Colombia</b>	Variable minimum members; profit entities cannot become member, unless special conditions are met.
<b>Denmark</b>	Fundamental right to membership when of major economic importance to applicant only; Contractual freedom for transaction; investor members with no particular legal status; preventing a profit-maximizing enterprise from being a co-operative; no personal responsibility for co-operative debts in all Scandinavian countries; contractual freedom; resigning member has a right to his share of net capital.

<b>Finland</b>	One-member co-operatives; Minimum period of membership (3 years); Transferable shares; member register open for consultation by any legally interested person; someone can hold financial instruments (shares) without being a member.
<b>France</b>	Diversity and member dismissal; membership through subscription of shares; investor members (not collaborators); shares with peculiar advantages or not (two types of shares: in one members are paid interest before any other shareholder but have no voting right).
<b>Germany</b>	No discrimination in terms of membership; 7 to 3 founder members; promoting members (eligible as office-members); passive members (no use of the services); investing members (cannot outvote user members); various ways to acquire membership (founding member; application; inheritance); give notice of terminated membership three months in advance.
<b>Hungary</b>	One member, one vote; division of economic gains; not all type of co-operatives can admit investor members; specific rights and obligations for investor members.
<b>India</b>	Multi-state co-operative society requires at least 50 persons from each of the states concerned; maximum 4 months to make the admission decision; disqualification criteria rewards active members; one member, one vote irrespective of capital contribution.
<b>Ireland</b>	Minimum number of members (7); Age restriction; terms of admission and withdraw determined by the co-operative; amount of interest in the shares of the society that any member may hold.
<b>Italy</b>	Investor members (particular legal status: no power over co-operative); and co-operative members; minimum number of members is three; answer for eligibility should be given within 60 day from application.
<b>Japan</b>	Minimum of 15 members; Member can hold several shares but only has right to one vote; Qualifications for membership vary according with type of co-operative; regular and associate (no voting and surplus claims) member; specific rules for consumer/primary co-operatives (minimum of 300 members; only user members).
<b>Korea (Republic of)</b>	principle of “open membership” (no restrictions); number of members varies according with type of co-operative; “investor members” (only invest money and get return; not part of business activities); member obligations.
<b>Mexico</b>	only physical members; no investors; member obligations and exclusion criteria.
<b>Netherlands</b>	Law with no membership requirements; minimum 2 members; no obligation to enter transactions; investor/non-user members voting rights restricted to one half of all the voting rights.
<b>Norway</b>	Fundamental right to membership; obligation to transact with co-operative (members); members can resign at any time.
<b>Peru</b>	Minimum 11 members; national federations (20% of primary co-operatives of the same type; workers of a user co-operative not allowed to be members/consumers (for conflict avoidance); member liability depends on the amount of contributions.

<b>Poland</b>	Minimum number of members varies according with type of co-operative; One month decision admission; both natural and legal person allowed to have membership; 50% of the members should be unemployed of disabled who require social assistance; no investor members allowed; one month for admission decision; any type of membership discrimination is unconstitutional.
<b>Portugal</b>	Number of members is variable and unlimited (not less than 5); no investment members.
<b>Russian Federation</b>	Minimum 5 members; minimum age 16; foreign nationals allowed; only up to 25% of members are allowed not to work in the co-operative; free withdrawal; all members need to make contributions (cash or in kind).
<b>South Africa</b>	only “natural persons” membership (legal entities excluded); rights and obligations of members determined by co-operatives individually; associate membership (support for co-operative without being members); transfer of membership.
<b>Spain</b>	Only natural persons can be members; Minimum 3 members to set a co-operative; Membership requirements; Expulsion with financial consequences; cooperating, employee, and investor members; extensive rights to information from the members; unjustified withdrawal with financial consequences.
<b>Sweden</b>	Fundamental right to membership; obligation to transact with co-operative (members); specific regulation regarding investor or capital members; no personal responsibility for co-operative debt (all Scandinavian countries).
<b>Turkey</b>	Minimum number of members is 7; natural and legal persons allowed; to become member one has to be in a position to benefit from the services of the co-operative; free withdraw but when withdrawal endangers the existence of a co-operative a just compensation needs to be paid; membership expulsion.
<b>United Kingdom</b>	No minimum age; Minimum 3 members; other rules determined by society (society’s own registered rules); non-user investor members (restricted voting rights).
<b>United States</b>	Co-operative members with responsibility towards co-operatives; one vote each member, or vote proportional to the amount of business conducted with the co-operative; losses and gains are shared by the members; they also evaluate their performance.
<b>Uruguay</b>	Legal entities of public of private status may be accepted as members (up to 20% of the social capital); Complex legal act (resignation of membership); either legal and natural persons can be members.

Source: Handbook of Co-operative Law (2013).

## Annex II Tax treatment in 33 countries

Countries	Descriptive analysis
<b>Argentina</b>	There are national and provincial taxes. Regarding income tax, co-operatives are exempted because they distribute their surplus among members. Cooperation Education Promotion Fund: co-operatives must pay 2% on the difference between certain assets and liabilities. This contribution is divided between the Nation and its provinces, and its intended to support actions in favour of co-operatives. In some provinces, co-operatives are exempted from certain taxes.
<b>Australia</b>	Ultimately, the primary distinction in the tax treatment of co-operatives and traditional forms of cooperation is the tax free status of their dividends. Apart from the status of dividends, co-operatives also have some preferential treatment under the ITA in terms of deductions relating to capital equipment. Section 120 of the ITA allows co-operatives to deduct the principle of loans for capital equipment.
<b>Austria</b>	No specific tax treatment of co-operatives. A specific tax problem for co-operatives in Austria is the fact that it is impossible for a co-operative to be recognized as being non-profit within the meaning of the Austrian Federal Tax Code, and limited-liability companies as well as registered associations are able to obtain a “non-profit” status and, as a consequence, get an exemption from paying corporation tax.
<b>Belgium</b>	Accredited companies receive certain specific advantages depending on fiscal and social legislation.
<b>Brazil</b>	Incongruities between constitution and reality (taxation practices). There are federal taxes for which co-operatives are responsible due to misunderstanding of their reality.
<b>Canada</b>	Same tax laws for co-operatives and corporations. Income-earning vs. non-income earning co-operative (according with the relationship that exists between a co-operative and its members). Non-income earning if the members have a right to the surplus and the co-operative does not.
<b>Chile</b>	Co-operatives are subject to a more favourable tax system. This is embodied in several tax benefits and other features related to the payment of taxes.
<b>China</b>	Farmer Specialized Co-operatives (FSC's) qualify for tax breaks. Nevertheless, there are several challenges to qualify for tax breaks that, in the absence of sound supervision, have serious negative influence on the healthy development of FSCs.
<b>Colombia</b>	Co-operatives have benefits regarding income and supplementary taxes (national order), and regarding industry and commerce (which belong to the municipality order).

<b>Denmark</b>	Under Danish and Swedish law, the co-operatives are separate tax subjects that generally are taxed under the same rules as companies. Co-operatives that meet specific requirements are, however, subject to a special co-operative taxation regime that at certain points are more favourable than the general rules of company taxation. Danish law only applies the special co-operative tax rules to co-operatives having at least ten members, and where transactions with non-members do not exceed 25% and the profits are distributed according to transactions between the members and the co-operative. Thus, the tax provisions require a stricter adherence to the co-operative principles than what is the case under co-operative law.
<b>Finland</b>	Corporate income tax is in principle levied on co-operative income in the same way as it is in the income of stock companies. Co-operatives are classified as societies, and the generation of “profit” on transactions with members is not calculated differently than that on non-members business and it is held to belong to the co-operative.
<b>France</b>	Qualification of co-operatives as companies, and their taxation as such. Most co-operatives are completely or partly exonerated from the municipal business tax
<b>Germany</b>	German co-operatives are taxed as any other enterprise, with one exception: surplus distributed among the members at the end of the financial year is recognized as a tax-deductible operation cost of the co-operative enterprise.
<b>Hungary</b>	Tax on co-operative and co-operative member (double taxation). For some co-operative types (e.g., agricultural co-operatives, school co-operatives and social co-operatives, special tax laws apply).
<b>India</b>	Various types of exemptions and deductions available to co-operative societies. These provisions are with the intention of promoting co-operative societies in India. There is no wealth tax for co-operative societies. Nevertheless, there is lobbying by the other types of business firms for equal treatment and termination of special treatment of co-operative societies.
<b>Ireland</b>	There is no longer specific tax treatment for co-operative societies in Ireland. Credit unions are exempt from VAT (a tax on consumption of certain goods and services) because of their non-for-profit mandate (which is deemed in the public interest).
<b>Italy</b>	Prevalently mutual co-operative (PMC) and other co-operative (OC) is a distinction that serves to differentiate the tax treatment of co-operatives. Tax supportive measures, apply only to prevalently mutual co-operatives. This is justified on the grounds of their being (at least) prevalently mutual, subject to a partial profit non-distribution constraint, and thus closer to the constitutional model of cooperation. Several tax measures that only apply to particular types of co-operatives/very diversified tax regimes.
<b>Japan</b>	Corporation Tax Act: difference in rates for conventional corporations and co-operatives is 6.5% less.



<b>Korea (Republic of)</b>	no references
<b>Mexico</b>	Although the LGSC establishes that all acts relative to the constitution and registration of co-operatives are excepted from taxes and fiscal obligations of a federal character, they must however, according with the type of co-operative, pay the different taxes.
<b>Netherlands</b>	Co-operatives are treated as private companies limited by shares. Co-operatives can distribute profits to investors without paying any taxes on dividends. This granted fiscal leeway accounted for the recent increase of the establishment of holding and sub-holding co-operatives, notable in private equity financial arrangements.
<b>Norway</b>	In recent years, the tax advantages granted to co-operatives have been reduced. The main rule is that a co-operative is taxed in the same way as others enterprises and subject to the normal corporate tax rate of 28% of net profits. Pay back to members of a co-operative will not be subject to income taxation unless the member has been acting in his capacity as a taxable business.
<b>Peru</b>	Besides these special tax rules, co-operatives are subject different taxes that are part of the “National Tax System” (excise tax, tax on financial transactions, corporate contributions, tariffs, property tax, real estate transfer tax, vehicle fleet tax)
<b>Poland</b>	Co-operatives are not subject to any specific tax treatment, and particularly in the opinions of many co-operative activists, co-operatives are subject to disadvantageous treatment resulting from “double taxation”. This does not foster accumulation of the co-operative’s capital nor encourage people to join co-operatives.
<b>Portugal</b>	Not only have some of the benefits previously enjoyed by co-operatives been removed, their fiscal particularities have been reduced to a single article that merely lists a range of exemptions. This is clearly an enormous step backwards, a symbolic regression, which nevertheless has negative material consequences. Nevertheless, one of the co-operatives benefit is the exemption from Corporation Tax for certain types of co-operatives and exemption from council tax on real estate transfers.
<b>Russian Federation</b>	Only agricultural co-operatives receive a preferential tax treatment.
<b>South Africa</b>	Co-operatives are, in terms of the act, obliged to set aside 5% of any surplus in an indivisible reserve fund, the tax deductibility of such expenditure is as yet uncertain. Conduit principle: any profit from member business is taxed only to the extend retained within the entity after declaring bonuses. Such residual profits, together with profits from other sources, are subject to the same rate of tax as is applicable to other corporate entities, notably companies.

<b>Spain</b>	Co-operatives are subjected to specific tax treatment. Protected and Specially Protected Co-operatives (members possess little financial strength and which are closer to the mutual principle: worker co-operatives, farmer co-operatives, community land exploitation co-operatives and consumer and user co-operatives)
<b>Sweden</b>	Under Danish and Swedish law, the co-operatives are separate tax subjects that generally are taxed under the same rules as companies. Co-operatives that meet specific requirements are, however, subject to a special co-operative taxation regime that at certain points are more favourable than the general rules of company taxation. Under Swedish law, these special tax rules only apply to economic associations applying the principles of open membership and equal voting rights.
<b>Turkey</b>	The CL provides certain tax incentives to co-operatives, co-operative associations, central associations of co-operatives, and the Turkish National Co-operatives Association, in accordance with the constitutional provision requiring State encouragement and support for the co-operative movement. If the co-operatives, co-operative associations, and the central associations of co-operatives do not join the superior organizations, they cannot benefit from the exemptions mentioned above. This can be interpreted as an incentive to encourage co-operatives to come together under the umbrella of a superior institution. However, over recent years these tax incentives provided by the CL have been removed.
<b>United Kingdom</b>	The UK tax system acknowledges the particular nature of co-operatives in two ways. One focuses on the industrial and provident society legal structure. The other is concerned with the reality of fully mutual trading between the members, regardless of the precise legal structure involved.
<b>United States</b>	Business entities operated on a co-operative basis receive a favourable tax treatment under the federal Internal Revenue Code. Exempt farmer's co-operatives (which enjoy more tax benefits) vs. Non-exempt co-operatives.
<b>Uruguay</b>	Co-operatives in Uruguay do not enjoy a uniform tax regime structured strictly in terms of their peculiarities. On the contrary, a series of laws govern co-operative taxation, each of these laws governs a different taxation issue, and primarily provides exemptions to the general tax regime.

Source: Handbook of Co-operative Law (2013).

## Annex III Various contemporary governance aspects

Countries	Descriptive analysis
<b>Argentina</b>	<p>The organizational structure of co-operatives includes three organs; each fulfils a specific duty: (1) the general meeting or assembly (asamblea), which is the governance body; (2) the board of directors (consejo de administración), in charge of managing the co-operative; and (3) the supervisors (síndicos), in charge of making sure the co-operative is managed in compliance with the law and by-laws. All the organs are exclusively composed of members of the co-operative. The ‘one member, one vote’ rule is mandatory in all cases. All co-operatives are required to have a permanent external audit from the moment of their incorporation until their liquidation. The audit must be conducted by a chartered public accountant or provided by a federation or specialized institution.</p>
<b>Australia</b>	<p>Australian co-operatives have upheld the general principle of “one member - one vote” rather than one vote for each share issued within a co-operative, which is more in accordance with shareholder principles relating to traditional corporate forms. The Australian Stock Exchange (ASE) Corporate Governance Council released a set of guidelines and principles relating to Good Corporate Governance and Best Practice Recommendations. Transparency of dealings is also promoted by the requirement to hold at least one general meeting annually. At this meeting, directors are required to be available for questions by members as well as present a number of financial reports and audits relating to the co-operative and its activities.</p>
<b>Austria</b>	<p>As a co-operative as a separate legal personality, it needs its own bodies for legal transactions. Obligatory bodies are the general meeting and the management board. In addition, a supervisory board has to be elected if the co-operative has at least 40 employees. This governance structure corresponds to the so called dualistic system (two-tier system).</p>
<b>Belgium</b>	<p>Contrary to other company models, the co-operative is mainly characterized by a large statutory freedom to organize the board. If nothing is stipulated in the articles of association, a board of directors is not even compulsory and a single director, who does not need to be a member of the co-operative may govern the organization. Most co-operatives however do provide for a board of directors in their articles of association, next to the general assembly. Electronic voting is possible. The electronic voting tool has made it possible for the partner, regardless of or according to limitations stipulated by law, to be able, directly, simultaneously and uninterruptedly to take official note of the discussions during the assembly, and to exert his voting rights with respect to all the items on which the assembly has to make a decision.</p>

<b>Brazil</b>	The amount of shares held by each member cannot be taken as a basis for the proportionality of votes not even in second degree co-operatives. When the number of members in single co-operatives (first degree co-operatives) exceeds 3,000, the social statute can order them to be represented in general meetings by delegates elected by the members that fully enjoy their social rights, but who do not exercise elective posts in the society. The social statute must determine the amount of delegates, the time and form of their election by sectional member groups, and the period of delegation.
<b>Canada</b>	A Canadian co-operative's governance program is premised on the execution of its bylaws. The bylaws constitute the internal rules which a co-operative must abide by in all of its activities. The wide latitude afforded to co-operative members in creating bylaws reflects the bottom-up, democratic control that is central to co-operative governance.
<b>Chile</b>	The following organs are in charge of the management, administration, operation and supervision of co-operatives: (a) the general assembly, (b) the board of directors, (c ) the manager and (d) the supervisory board (up to five members designated by the board of directors)
<b>China</b>	In the current development of FSCs in China, farmers join a co-operative as natural persons, thus their democratic rights and economic interests in the co-operative are always restricted by non-farmer members who have a stronger economic position. It is, therefore, important for legislation to give priority to the individual farmer members in order to ensure that the farmer members' position in the co-operative remains dominant. To this end, the Law establishes a series of legal protections of farmer's members' democratic and economic rights in an FSC. More than two-thirds of the total members should attend the general assembly; and, election and resolution shall be made and approved by half or more of all votes cast at a general assembly, while amendments to the by-laws or amalgamation, split, and dissolution shall be approved by two-thirds of the votes cast, or a higher percentage, if otherwise stipulated in the by-laws.
<b>Colombia</b>	The administrative bodies that any co-operative shall have are the general assembly (asamblea general), the board of directors (consejo de administración), and the manager (gerente) and additionally, a body or committee in charge of co-operative education. Board of directors is the permanent administrative body of the co-operative.
<b>Denmark</b>	Danish laws allow the co-operatives to deviate from the principle of one member-one vote. Danish law requires a simple majority vote for all decisions in the general assembly, unless otherwise provided in the by-laws. For Danish co-operatives, the requirements to have financial accounts and auditors depend upon the balance or sales exceeding certain thresholds, or the enterprise having at least 10 employees.

<b>Finland</b>	The by-laws may grant more than one vote per member, but any member may have more than 10 times the number of votes of another member only where the by-laws provide that the majority of members must be co-operatives or other legal persons. Characteristics vary according with the by-laws.
<b>France</b>	Company type: private or public. Private company managed by one or several directors. Public companies have a more complex structure. Democratic principle: one person, one vote. The use of surplus: payment of interests to shareholders; possible distribution of a patronage refund; obligation to establish reserves.
<b>Germany</b>	Deviations are admitted from the originally strictly applied democratic principle of "one member-one vote." However, weighed voting is restricted to a maximum of three votes per member. Unlike in companies, the audit by co-operative auditing federations includes assessment of the performance of directors with regard to fulfilling their task of member-promotion (performance audit combined with advice). Strengthened by efforts of the EU to harmonize the provisions of national commercial codes, there is a trend to approximate co-operative audits to company audits.
<b>Hungary</b>	The most important governing body is the general meeting, which shall be convened as is deemed necessary, or at least once a year (ordinary general meeting). Any member who did not provide the capital contribution provided for in the statues may not exercise his voting right. The administrative body performs the operating activity of the co-operative. The supervisory body has the task to supervise the performance of the co-operative.
<b>India</b>	The Indian co-operative movement adopts a tripartite structure in co-operative management. The general body is the supreme authority of the co-operative society. The general body elects the board of directors and they appoint the chief executive. The board of every multi-state co-operative shall, within such period as may be prescribed, and no later than six months after the close of the corresponding year, call the annual general meeting.
<b>Ireland</b>	Rules of societies: mode of holding meetings; scale and right of voting; mode of making, altering or rescinding rules; the mode of appointment and removal of the committee of management.
<b>Italy</b>	Each co-operative member has a vote, whatever the value of the share or the number of the stocks hold. Co-operative statutes may, in some circumstances and within certain limits, derogate from this rule. By these provisions Italian co-operative law aims to provide co-operatives with suitable instruments to deal with potential member heterogeneity. The current regulation enables co-operative statutes to choose among three different systems of administration and control. Three different systems of governance.

<b>Japan</b>	Governance system is composed of the general assembly, the board of directors and auditors. General assembly is the supreme decision making organ in which members have equal voting rights (“one member, one vote”). A co-operative shall have a minimum of five directors and two auditors. Minority members’ rights are provided for in some cases.
<b>Korea (Republic of)</b>	South Korean co-operatives have adopted the dualistic system, as most legal entities do. Their two-tier system encompasses the member assembly and the board of directors. Under this system, independent auditors on behalf of the members are required. A co-operative may have a general assembly of representatives as a substitute for the general assembly if the number of members of the co-operative exceeds 200. A co-operative shall have at least three directors, including one president, and one or more auditors as its executives. A director of a company shall not concurrently work for the co-operative as its employee and the president of a co-operative shall not concurrently hold the office of president of another co-operative. A co-operative shall have one or more auditors to assess its current business status, and its accounting books and documents, and report the results to the general assembly.
<b>Mexico</b>	Governance structure consists of the general assembly, the board of directors, the surveillance council, the co-operative education commission, and other commissions or committees, as determined by the general assembly. The general assembly is the highest authority of co-operatives and comprises all members. Directors are elected by the general assembly and may remain as such for up to five years, if the assembly so decides. Surveillance council is the organ in charge of the supervision of all the co-operative activities, and it has the right of veto.
<b>Netherlands</b>	The Netherlands regulation on the internal governance structure of co-operatives is very flexible and contains only two statutory organs to be created in the articles of association: the general meeting and the management organ (the board). However, large co-operatives must include in their articles of association, a mandatory supervisory organ with special powers, notably the power to veto board decisions on major transactions and the obligation to sign for the annual final accounts. Although all members are entitled to vote on the basis of the “one man, one vote” principle by default, the articles of association may allow a differentiation of voting rights, e.g. related to the value or number of economic transactions for each individual member with the co-operative over a certain period of time. The articles of association may introduce voting rights for non-members.
<b>Norway</b>	One member one vote (contrary to Swedish and Danish). Decisions in the general assembly may be made by simple majority, unless otherwise required by the by-laws or legal provisions. Worker participation has been an important part of the Norwegian company legislation.

<b>Peru</b>	Five basic bodies: general assembly, board of directors, board of supervisors (“control of legality”), electoral committee (permanent body in charge of conducting all the electoral processes), and education committee (implementing the principle of “co-operative education” by disseminating the most suitable information among members and training them to make decisions to achieve co-operative effectiveness).
<b>Poland</b>	One member one vote principle. Governance system of Polish co-operatives is based on a two-tier structure: 1) general assembly; 2) supervisory council.
<b>Portugal</b>	Co-operatives are generally structured around a general assembly (GA), with a board of directors (BD) and a supervisory board (SB). The members of a co-operative’s governing bodies are elected for a period of four years, although the statutes may establish a shorter period and restrict the number of consecutive mandates. In terms of incompatibilities, no member may belong to the board of the GA and to another body simultaneously, and in co-operatives with more than 20 members, this incompatibility also extends to spouses and partners. There are different governance rules for co-operatives with more or less than 20 members.
<b>Russian Federation</b>	The supreme governing body of the co-operative is the general meeting of its members. The executive bodies of the co-operative include the board and (or) the chairman of the co-operative. Only members of the co-operative may act as members of the supervisory board and of the board of directors, or as chairman of the co-operative. A co-operative having more than 50 members may elect a supervisory board. With the supervisory board, lies the burden to control the activities of the executive bodies of the co-operative and to solve other issues concerning the charter of the co-operative being entrusted to the supervisory board. Also the supervisory board of the co-operative shall include only members of the co-operative. Members of the audit commission (or auditors) of the co-operative may not be members of the supervisory board and/or executive bodies of the co-operative.
<b>South Africa</b>	the highest decision making body is a general meeting of members. Only members may be appointed as directors of the co-operative.
<b>Spain</b>	All co-operatives are subject to the same auditing obligations as other companies. In principle each member has one vote, although the legislation allows many exceptions. No one member can ever cast more than one-third of the total votes of a co-operative. Some laws continue to require a supervisory body of “internal auditors” or a “surveillance council”.
<b>Sweden</b>	General assembly is the highest authority of the co-operative. Co-operatives are allowed to deviate from the principle of one member, one vote. The general assembly has to elect an auditor.

<b>Turkey</b>	The General Assembly is the co-operative organ with the greatest authority and it represents the entire community of members. At the GA, each member has a single vote. For decisions to increase the personal responsibilities of members or to impose additional member obligations, consent of three-fourths of the members is required. The second important body in charge of the management of co-operative activities is the BD. It is the executive organ of the co-operative, managing the activities of the co-operative in accordance with the provisions of the law and internal rules, as well as representing the co-operative.
<b>United Kingdom</b>	In deciding whether a society is and remains a co-operative, the FCA (Financial Conduct Authority) will consider whether its governance system meets the requirement of democratic control by the members sometimes referred to as “one member one vote”. The flexibility of the UK system allows the use for a wide range of governance arrangements according to the needs of the co-operative. The rules of a society may, at common law, provide for meetings to take place through electronic communication.
<b>United States</b>	One member, one vote rule, or voting on the basis of the amount of business done with the co-operative (patronage-based voting). Other than the fundamentally different principle of democratic control of co-operatives, the day-to-day governance of a co-operative is similar to that of a business corporation. An important difference between the governance mechanisms of co-operatives and investor-owned entities is that co-operatives are much more closely controlled by their member-owners than are investor-owned entities.
<b>Uruguay</b>	At the beginning of each period in their position, the directors must submit a statement declaring whether they exercise “any personal or business activity that may compete with the activities of the co-operative.” It is clear its intention to avoid any possible conflict of interest between the directors and the co-operative and to promote transparency in the management of co-operative affairs.

Source: Handbook of Co-operative Law (2013).



## Annex IV Cooperation among co-operatives

Countries	Descriptive analysis
<b>Argentina</b>	Long tradition because the first federation was founded in 1922; merger is a form of integration that can be developed through 1) incorporation; 2) merger procedure. “Confederations” of agricultural and non-agricultural federations, respectively.
<b>Australia</b>	Constitutional limitation of being able to operate at a national level; Limitations on the capacity of foreign co-operatives to approach the members of other distributing co-operatives with the intention of offering shares or raising capital: these requirements are designed as a safeguard against contestation of membership in similar co-operatives operating in different states; The utilization of such interstate provisions often favours larger co-operatives at the expense of smaller ones who do not have the resources or capacity to make the same type of transition into different states.
<b>Austria</b>	The law contains hardly provisions dealing with these issues and, as a result, does not foster cooperation in a specific way.
<b>Belgium</b>	Cooperation among co-operatives is not explicitly mentioned in Belgian law.
<b>Brazil</b>	Cooperation among co-operatives assumes, in Brazil, many forms. The reason for the formation of such cooperation between co-operatives lies in the fact that there are more government programs that encourage this type of corporate structure, making it easier to access the international market when compared to simple tier 1 co-operative structures.
<b>Canada</b>	Co-operative basis for operation: educating the public about co-operative enterprise and for surplus to be allocated towards the propagation of co-operative enterprise; Canadian Co-operative Association and CCCM; Québec’s system of promoting cooperation among co-operatives is truly exemplary.
<b>Chile</b>	Co-operative Business Forum (Foro Empresarial Cooperativo), which brings together the top ten co-operatives in the country. They represent approximately 600,000 members, provide more than 1.13% of GDP and its assets amount to USD 2,900 million, besides creating a workforce of around 5,000 workers.
<b>China</b>	Due to legal restrictions, co-operative are confronted with registration barriers in most regions of rural China. Cooperation among co-operatives is based on a contractual relationship. Social organizations: loose affiliation of co-operatives.
<b>Colombia</b>	Within the 32 departments in which the country, there are 17 with a regional association of co-operatives. These associations are integrated in turn, within the Confederation of Co-operatives of Colombia (CONFECOOP). Percentage of co-operatives organized within departments is continuously low. Economic integration has likewise been weak.
<b>Denmark</b>	No comments
<b>Finland</b>	No articles on cooperation among co-operatives

<b>France</b>	Several co-operatives can create a new co-operative (in the law): democratic principle: co-operative voting power is proportionate to the number of its co-operators; inter-cooperation encouraged through financing: limit of investor members is less rigorous: 49% instead of 33%); most numerous firms in social and solidarity economy are not co-operatives, but associations (about three quarters);most powerful co-operatives create capitalistic subsidiaries.
<b>Germany</b>	No comments
<b>Hungary</b>	Representative organizations of co-operatives: description of the scope of activities.
<b>India</b>	A multi-co-operative society shall credit 1% to co-operative education fund maintained by the National Co-operative Union of India. The National Co-operative Union of India utilizes the money for the purpose of organization and promotion of co-operatives, education and training to the stakeholders and representing the Indian co-operative movement.
<b>Ireland</b>	Society consisting solely of two or more registered societies to be registered
<b>Italy</b>	Legal concept of “consortium of co-operatives” (minimum number of three members and a minimum capital of 516eur.; “co-operative joint group” (more flexible form of economic cooperation); “federations of co-operatives”: political integration of co-operatives: 1) co-operatives obligated to allocate 3% of their total annual profits to the co-operative movement; 2) in case of dissolution, its residual assets are devolved to mutual funds; 3) federations of co-operatives the control of their members, while the control is exercised by the State with regard to co-operatives not associated with any co-operative federation (incentives for co-operations to federate).
<b>Japan</b>	Two kinds of federal bodies for agricultural co-operatives: co-operative federation, and central union; JCCU (Japanese Consumers' Co-operative Union); National Consumers' Co-operative Union (NCCU)
<b>Korea (Republic of)</b>	Cooperation among co-operatives is encouraged by South Korean laws. When it's necessary to achieve cooperation among co-operatives, a co-operative, a federation of co-operatives, a social co-operative, or a federation of social co-operatives may organize and operate a council with other co-operatives or co-operatives or federations established under other acts.
<b>Mexico</b>	General Law of Co-operative Societies (LGSC).Basic functions of integrating organisms: producing goods and/or services; coordination and defence of their members interests; serving as conciliators or referees in conflicts among members; promotion and execution of economic and social plans; support and conduction of co-operative-education courses at all levels; and the procuring of solidarity among its members. More than 50% of Mexican co-operatives are not integrated, a fact that makes evident the exhaustion or insufficiency of the current system of integration and interest representation.

<b>Netherlands</b>	no legal mandates to foster cooperation between co-operatives. The National Co-operative Council (NCR) acts as expertise centre and represent the co-operative society vis-à-vis the general public and policy makers.
<b>Norway</b>	Norwegian Co-operatives Act attempts to facilitate cooperation and federative co-operatives.
<b>Peru</b>	Co-operative integration organizations recognized by the law are: co-operative headquarters, national federations of co-operatives, and the national confederation of co-operatives of Peru. The activities conducted by co-operative headquarters are, among others to supply machinery, equipment, tools, construction materials, and other goods; to market and/or industrialize particularly the products of the organizations; to apply for and/or grant loans; to establish guarantees; and to conduct other credit or funding operations, and give advice.
<b>Poland</b>	Co-operative integration organizations recognized by the law are: co-operative headquarters, national federations of co-operatives, and the national confederation of co-operatives of Peru. The activities conducted by co-operative headquarters are, among others to supply machinery, equipment, tools, construction materials, and other goods; to market and/or industrialize particularly the products of the organizations; to apply for and/or grant loans; to establish guarantees; and to conduct other credit or funding operations, and give advice.
<b>Portugal</b>	The whole co-operative sector is organized through co-operative structures; Federations and Confederations; Representatives of the co-operative sector: those that prove that they include at least fifty per cent of the federations definitely registered in the branch or branches corresponding to the objects of the confederation are considered representatives of the co-operative sector.
<b>Russian Federation</b>	No chapter or references to cooperation among co-operatives.
<b>South Africa</b>	No relevant information included.
<b>Spain</b>	Right of association in the Spanish constitution; Powers attributed to these associative organizations by the law.
<b>Sweden</b>	No comments.
<b>Turkey</b>	Seven or more co-operatives in a field of operation that is either the same or similar may associate, according to specifications in their rules. Such associations assume the legal form of co-operative. It is generally believed that unification or association among all kinds of organizations, including co-operatives, increases the strength of the members striving to achieve certain economic and social ends.
<b>United Kingdom</b>	Subscriptions to Co-operatives UK and payments to education funds are deductible: encouragement to societies to cooperate with other co-operatives and to pursue the co-operative principle of promoting education and training among their members.

<b>United States</b>	Cooperation is formed in response to the needs of the business rather than statutory requirements.
<b>Uruguay</b>	No obligation on co-operatives to form or participate in federations; Federations with advocacy role, technical assistance, other types of support; incentive to membership of federations through a system of deduction of fees; legal tools for inter-cooperation.

*Source:* Handbook of Co-operative Law (2013).





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