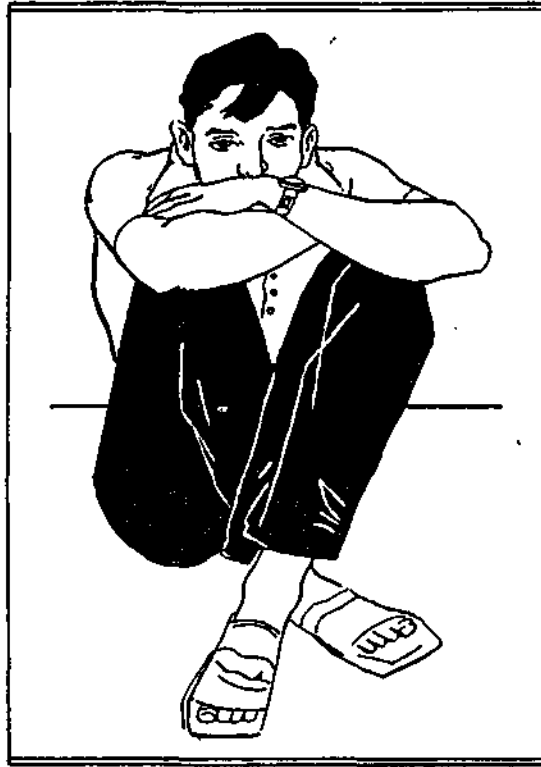


ICA 02423

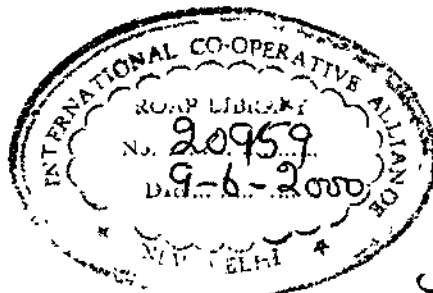


## GOVERNANCE AND COOPERATIVES

Daman Prakash  
Director  
ICA-Japan Agricooops Management Training Project for Asia

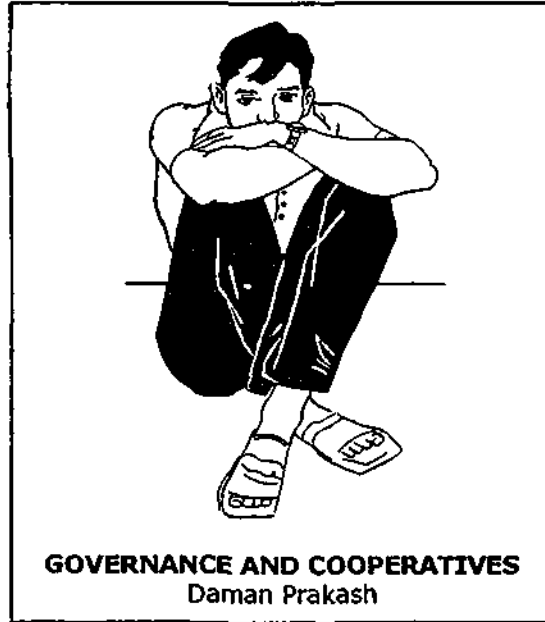


**International Cooperative Alliance**  
Regional Office for Asia and the Pacific  
Bonow House, 43 Friends' Colony-East, New Delhi 110065. India



334.350  
DAM






---

**CONTENTS**

---

|   |     |     |     |     |     |           |
|---|-----|-----|-----|-----|-----|-----------|
| Introducing Governance                      | ... | ... | ... | ... | ... | <b>01</b> |
| Four Pillars of governance                  | ... | ... | ... | ... | ... | <b>01</b> |
| Governance and Corruption                   | ... | ... | ... | ... | ... | <b>02</b> |
| Some Reflections on 'Governance'            | ... | ... | ... | ... | ... | <b>03</b> |
| Cooperatives and the International Platform | ... | ... | ... | ... | ... | <b>05</b> |
| Conclusion                                  | ... | ... | ... | ... | ... | <b>06</b> |

---

International Cooperative Alliance  
Regional Office for Asia and the Pacific  
Bonow House, 43 Friends' Colony-East, New Delhi 110065. India

June 1999

## **GOVERNANCE AND COOPERATIVES**

---

Daman Prakash

Director, ICA-Japan Agricoops Management Training Project for Asia  
International Cooperative Alliance ROAP, New Delhi

*The four key components of governance are accountability, transparency, predictability and participation. Governance is not government as such. Governance is one of the characteristics of any institution which is concerned with governance, or management of governance. Governance is the reflection of the quality of management. Governance means the way those with power use that power. A contributory factor to bad governance is corruption – political, economic and social. Cooperative institutions operate within the four walls of the universally-accepted Principles of Cooperation. Cooperatives are little democracies operating at the doorstep of basic members enabling the members to make use of their cooperatives to satisfy their economic and social needs through benefits and services. Good governance emerges through honest application of prevailing laws and by respecting the spirit behind these prevailing laws. Circumventing the cooperative laws for self-interest does not qualify to be called as good governance in cooperatives. People look for a 'role model', people look for good governance, and people generally respect and abide by the 'rule of law'. It is for the national apex unions and federations to get together in the name of their constituents and the Cooperative Movement, as a whole, and unitedly prevail upon the government to review and revise the existing cooperative legislation to make it more member-friendly.*

### **Introducing governance**

Governance is not government as such. Governance is one of the characteristic of any institution that is concerned with governance, or management of governance. Governance is the reflection of the quality of management. Each nation's path to good governance is different, depending on culture, geography, political and administrative traditions, economic conditions, and many others.

Governance is a simple concept at heart: *good governance is good government*. The concept relates to the quality of the relationship between government and the citizens for whom it exists to serve and protect. To put in more precisely and simply, governance means *the way those with power use that power*. The concept therefore has political and economic dimensions. Issues of political governance include the mechanism by which the public's political preferences are ascertained and leaders chosen. These are the fundamental governance concerns.

The instrumental nature of governance implies that the four governance pillars are universally applicable regardless of the economic orientation, strategic priorities, or policy choice of the government in question.

### **Four Pillars of Governance\***

The four key components of governance are accountability, transparency, predictability and participation.

*Accountability* is the capacity to call officials to account for their actions. Effective accountability has two components: "answerability" and "consequences". "Answerability" is the requirement to respond periodically to questions concerning one's official actions. There is also a need for predictable and meaningful consequences, without which accountability is only a time-consuming formality. In addition, both internal (administrative) and external accountability are needed. Particularly with the dramatic improvements in information and communication technology, external accountability through feedback from service-users and the citizenry can now be obtained at low cost and for a greater variety of government activities, and is an essential adjunct to improving efficiency and effectiveness of public service delivery.

*Transparency* entails low-cost access to relevant information. Reliable and timely economic and financial information is a must for the public (normally through the filter of responsible media). It is essential not only that information be provided, but also that it be relevant and understandable. (Dumping on the private sector vast amounts of raw economic information does not improve transparency).

*Predictability* results primarily from laws and regulations that are clear, known in advance and uniformly and effectively enforced. Lack of predictability makes it difficult for public officials to plan for the provision of services (and is an excellent alibi for non-performance). Predictability of government economic actions is also needed as an indicator on which the private sector can rely to make its own production, marketing, and investment decisions. Most importantly, to be predictable, the application of economic regulations must be effective, fair and uniform.

*Participation* is needed to obtain reliable information and to serve as a reality check and watchdog for government action. Among other things, participation by external entities is needed as a spur to government operational efficiency, and feedback by users of public services is necessary for monitoring access to and quality of the services.

Empirical evidence suggests that a strong "civil society" plays a critical role in advancing good governance. Improving formal rules and organisations without any change in informal customs and ways of doing business avails little; importing procedures and mechanisms without reference to the incentive and local capacity framework is likely to be fruitless; interacting only with central government or indeed, only with government, is not conducive to good implementation of reforms. Above all, governance intervention should encourage the formation of social capital i.e., the stock of trust and information exchange at the base of civil society.

### **Governance and Corruption**

It is interesting to notice that the menace of corruption is now faced not only by the large business corporations or business houses, but also by respected international organisations including the large financing agencies. All of them are concerned with this evil and keenly wish to get rid of it. We have been hearing of kickbacks in contracts and other business operations. These are, of course, not unusual but the tendencies of getting richer fastest are rapidly spreading. The Asian Development Bank in its latest report has spoken at length of this phenomenon. Corruption, which is a strong contributory factor to bad governance, can be defined briefly as the use of public or private office for personal gain.

Samples of corrupt activities of greatest interest to the Bank (Asian Development Bank) include:

- Design or selection of uneconomical projects because of opportunities for kickbacks and patronage;
- Procurement fraud;
- Illicit payments to government officials to facilitate access to goods, services, or information to which the public is not entitled, to deny the public access to goods and services to which it is legally entitled, or to prevent the application of rules and regulations in a fair and consistent manner;
- Misappropriation of confidential information for personal gain, such as using knowledge about public, transportation routings to invest in real estate that is likely to appreciate;
- Deliberate disclosure of false or misleading information on the financial status of corporations;
- Theft or embezzlement of public property and monies;
- Sale of official posts or promotion, or nepotism; and
- Extortion and the abuse of public office, such as using the threat of a tax audit or legal sanctions to extract personal favours.

#### **Some Reflections on "Governance"**

When we discuss about governance we cannot remain ignorant of the role of the government in the promotion and development of cooperatives. Governance emanates from the guiding principles (which have been established by the International Cooperative Alliance in the form of Principles of Cooperation and which are universally-accepted for the last 105 years) and the legal framework (which has been provided by the State through the Cooperative legislation and Cooperative policies). We are always and already conscious of the rights and duties of members of cooperatives and member-cooperatives. We should also take note of the rights and duties of the State vis-à-vis the Cooperative Movement.

In the past, we have been hearing of the golden phrase directed at the Registrar of Cooperative Societies as "*friend, philosopher and guide*" of the Cooperative Movement. In the present-day context, this phrase has neutralized to the extent that the original phrase is now sadly a part of history. A large number of cooperative institutions in India, for instance, especially the most lucrative ones e.g., the cooperative banks, marketing federations, sugar cooperatives, dairy federations, housing federation are all headed now by the government officers or government nominees. It is assumed that there are no qualified, well-trained and competent managers within the Cooperative Movement. Two premises are cited for such nominations: first, a lot of government money is involved in such cooperatives, and secondly, the interests of poor members have to be safeguarded. On both counts, the logic does not hold water. Such nominations are also highly politically-oriented and politically-motivated – the ruling parties through their governments have, of course, also to safeguard their own interests! Interestingly every party when not in power swears that such things would not happen when they ascend the throne. But the game remains the same, only the faces change.

In the past, a number of high-profile studies were conducted, at least in India, which with all seriousness and a great amount of honesty had suggested a thorough review and revision of cooperative legislation in the country, making it more member-oriented, member-driven, member-friendly and business-oriented. So far, only very meek efforts have been made to really do something constructive. Only the promises were religiously made and that too in loud voices. The Cooperative Law still remains the same except for some cosmetic touches here and there. In the name of reducing the powers of the Registrar and loosening government controls, more bureaucratic hurdles have been established thereby smothering the initiatives of grass-roots level members. Governance should, in fact, be with the consent of the people and in the interest of the people. Governance should be based on some ethics, principles, values and norms.

Creating parallel and the so-called "autonomous cooperative laws" are no solution – cooperatives having government financial stake are governed by one law and the cooperatives where there are no government stakes are governed by another law. These are mere academic exercises in futility and only for the elite. Such so-called 'progressive and democratic' initiatives tend to add to the confusion and misery of ordinary members and solve no problems. Such efforts are the indicators of frustration and are only an interim measure. These measures, however, provide some solace to honest cooperators to temporarily escape from the bureaucratic wrangles of cooperative departmental officials and politicians.

In having a more member-driven cooperative law, the national federations have to play an important role. The role of the national apex unions and federations which are supposed to represent the Movement as its spokesman at various national and international fora becomes more pronounced. These institutions, through their ethical governance, set an example for others to follow and thwart the anxious designs of the government to make inroads into the management of their affairs directly or indirectly – to satisfy the wishes of politicians and the bureaucrats. The situation gets worse when the national leadership, in order to satisfy their self-interests e.g., overshooting the mandate of term of their office etc., succumb to external directives and ambitions. Consequently, the leadership is tempted to temper with the sanctity and ethical values of the charter and manipulate the well-established norms, precedents and practices. The governance thus is eclipsed with methods which run contrary to the spirit of the Principles and Values of Cooperation. The national apex institutions and naturally their affiliates then rapidly slide into the arms of government and cannot provide a 'role model'. Frustration then sets in and the constituents begin to ask: 'what is the use of these national apex institutions if they cannot secure the freedom of action for them', 'whose interests are they safeguarding anyway', 'then why should we have general meetings and elect office-bearers if they have to serve the interests of the government' etc. etc.

Good governance emerges through honest application of prevailing laws and respecting the spirit behind these prevailing laws. Circumventing the cooperative laws for self-interest does not qualify to be called as good governance in cooperatives. People look for a role model, people look for good governance, people respect and abide by the "rule of law" in which they lay their faith and trust. It is for the national unions and federations to get together in the name of their constituents and the Cooperative Movement and unitedly prevail upon the government to review and revise the existing cooperative legislation and make it more member-friendly.

## **Cooperatives and the International Platform**

Cooperative institutions are people's organisations which are formed by the members (voluntarily), owned by them (by purchasing shares and on payment of prescribed admission fee and by agreeing to abide by the bylaws, rules and policies of the cooperative), and run by them (democratically and in accordance with the universally-accepted Principles of Cooperation and through the management organs - elected or employed), to satisfy their social and economic needs (through active participation and mutual help). Cooperative institutions throughout the world have carved out a place for themselves and have rightfully established themselves in the form of an independent sector - the cooperative sector - along with the other two sectors, the private and public sectors. Examples of success are available in many countries where cooperative institutions have not only met the economic needs of their members but have also played a significant role in the social development of their members and the human community in general.

Contrary to the common belief that cooperative institutions do not deliver social goods, some of the recent studies strengthen the argument that cooperatives are indeed people's organisations which can respond effectively to the felt-needs of their members. A closer social audit of such institutions would reveal that leaders with vision in collaboration with the enlightened membership and with the cooperation of dedicated and devoted management can transform our 'civil society' into a place of security and satisfaction.

Cooperatives also have all the basic ingredients which constitute a State i.e., territory, government, population and sovereignty. The State is superior to the cooperative institution in the sense that sovereignty is absolute in the case of the State, while the cooperatives have to operate within the sovereignty framework of the State. So cooperatives have the following components i.e., Territory (it is called the area of operation of a cooperative - a village, a town, a province or the entire country), Government (it is the democratic control exercised by the members on the affairs of the institution through the general body, managing committee and sub-committees etc.), Population (this means the membership which have formed the cooperative through a legal process of payment of admission fee and purchase of shares and subscribing to abide by the bylaws), and Sovereignty (in the case of cooperatives it is the general meeting of the members which enjoys the powers of creating bylaws and enacting various rules and policies which are binding on all the members). The law within which the cooperative operates is enacted by the sovereign State. The limitations for the two are drawn naturally. The flashpoint comes when crossing the limits comes into play. The question of rights and responsibilities thus becomes supreme. The State has obligations towards the community and the cooperative also has obligations towards its members and towards the State.

Cooperatives are now faced with new challenges in the context of open market economy and the pressures of competition. A large number of multi-million dollar worth business houses across the world have collapsed. It is interesting to note that not a single cooperative - primary or national - has folded up even in the developing countries. There must be some reason behind their strength! Many of the cooperative institutions in the developing countries still prefer to follow traditional methods and techniques of doing business. They do not grasp the gravity of situation easily and their reactions to market manipulations are rather low. They need to learn

to live in the new environs to be able to safeguard the interests of their members and, of course, of their own. These institutions have to do a very critical scan of their methods and improve their services and business practices. Their greatest strength is the unity of their basic members who have exhibited enormous faith and trust in the objectives of their cooperatives which they themselves have created and managed. It is, however, a different question – how well-managed, but they have continued to perform their functions and serve their members.

From an international stand point, it is worthwhile to make a mention of the *guidelines aimed at creating a supporting environment for the development of cooperatives*, which have recently been suggested to the UN Secretary-General for securing the approval of the United Nations General Assembly. After nearly 30 years of substantial changes in global economic and social conditions in the Cooperative Movement and in the relations between it and the governments, there was a need to change the tone and emphasis to reassess the underlying concepts of aid to cooperatives and to include matters not addressed by it.

There was an urgent need for guidance to many governments on policy regarding cooperatives and the Cooperative Movement in view of the importance of the Movement. The International Cooperative Movement itself had comprehensively reviewed its values and principles and the nature of its proper relationship with other sections of the society, including government, and adopted a new Statement on the Cooperative Identity at the centennial Congress of the ICA in 1995.

The objectives of such guidelines are expected to be as follows:

- Government to recognise the Cooperative Movement as a distinct and major stakeholder in both national and international affairs;
- Governments recognise that the Cooperative Movement is highly democratic, locally autonomous but internationally integrated, and a form of organisation of associations and enterprises whereby citizens themselves rely on self-help and their own responsibility to meet goals that include not only economic but social and environmental objectives;
- Governments seek to support the Cooperative Movement and to work closely with it to develop an effective partnership to achieve their respective goals;
- Government to take into account the special character of cooperatives and the Cooperative Movement, which differs significantly from that of associations and enterprises not organised according to cooperative values and principles.

Governance, and for that matter, good governance, is not the game of singles. In this case, the governments and the Cooperative Movement have to join forces to bring about positive changes in favour of the ultimate basic members.

## **Conclusion**

The four key components of governance are accountability, transparency, predictability and participation. Governance is not government as such. Governance is one of the characteristics of any institution which is concerned with governance, or management of governance. Governance is the reflection of the quality of management. Governance means the way those with power use that power. A contributory factor to bad governance is corruption – political (manipulations,



blackmailing, creating political constituencies through vote banks), economic (financial irregularities, kickbacks), and social (hoodwinking of the community, through fear and threats, disruption of peace). Cooperative institutions operate within the four walls of the universally-accepted Principles and Values of Cooperation. Cooperatives are little democracies operating at the doorstep of basic members enabling them to make use of their cooperatives to derive social and economic services in the best interests of the community as a whole. Good governance emerges through honest application of prevailing laws and respecting the spirit behind these prevailing laws. Circumventing the cooperative laws for self-interest does not qualify to be called as good governance in cooperatives. People look for a 'role model', people look for good governance and people generally respect and abide by the 'rule of law' in which they lay their faith and trust.

It is for the national unions and federations to get together in the name of their constituents and the Cooperative Movement, as a whole, and unitedly prevail upon the government to review and revise the existing cooperative legislation and related policies to make them more member-friendly.

Cooperatives are not and need not to be completely under the shadow of the government. They are recognised by the State and hence a legal identity has been accorded to them through the instruments and functionaries of the government. Both of them are concerned with the well-being of the people. They are not the rivals to each other. They are the equal partners in the process of social and economic development. The point of conflict arises when the people's organisations are controlled, manipulated and managed by the government leaving the owners high and dry, and, when their rights and initiatives are encroached upon. There is a need for instituting the feelings of harmony rather than perpetuating conflicts. When the government begins to understand its parental role towards cooperatives, that is the beginning of a good governance. Cooperatives, on their own part, have also the obligation to strengthen good governance within their own methods and systems.

-----

*\*Source: Annual Report-1998 of the Asian Development Bank, Manila*

[Opinions and views expressed in this paper are those of the author and do not reflect the views and opinions of the International Cooperative Alliance with which the author is presently working.]

GOVERNANCE AND COOPERATIVES  
MSW/dp.June15,99.