Creating Factory Cooperatives
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Foreword

Global Alliance for Workers and Communities (Global Alliance) is an initiative of the International Youth Foundation working in a multi-sector partnership with global companies and institutions to provide support and development opportunities for workers involved in the global supply chain.

The production of these guidelines for establishing factory-based worker cooperatives was undertaken at the request of the adidas Group. Numerous individuals and organizations have contributed and our appreciation goes to them all.

In particular, we thank the staff of the World Council of Credit Unions (WOCCU) who contributed freely and generously of their time, efforts and expertise. Mr Robert F. Lestina, Chief Executive Officer of Heritage Credit Union (USA), traveled to Asia as WOCCU’s representative to visit factory-based worker cooperatives, learn from the rich experience of board members, managers and ordinary staff, and distilled his findings in field reports and in the final drafting of these guidelines. John Ikeda, an MBA intern with WOCCU, undertook substantial literature research and editing of the guidelines with the support of Ellen Ferch, Program Specialist of WOCCU. We also thank Brian Branch, Vice President of WOCCU, for his guidance in establishing the partnership with Global Alliance to develop these guidelines.

We are extremely grateful to the representatives of worker cooperatives in Asia who received our visits and openly discussed the challenges and opportunities involved in establishing factory based coops. These included RSI Savings & Credit Cooperative of Chonburi, Thailand; Union Bangpoo Savings & Credit Cooperative of Samutprakarn Province, Thailand; PIN Cooperative of Tangerang, Indonesia; and Melati Cooperative of Bandung, Indonesia.

In Thailand the team received significant guidance and support from the Cooperative Promotion Department of the Ministry of Agriculture and Cooperatives. The Federation of Savings and Credit Cooperatives of Thailand facilitated the visit to Union Bangpoo and gave generously of their time. Special thanks also goes to the Cooperative Auditing Department in Thailand, also GA’s Personal Finance program partner.
In Indonesia, similar guidance and support was provided by the Cooperative and Small and Medium Enterprises Department. We thank the officers of both these departments of Government for their assistance, advice and wise counsel based on many years of experience.

From within Global Alliance we recognize and thank staff in Thailand and Indonesia for their participation, organization, and support of the development of the guidelines. In particular Ms Krittika Wongklom in Thailand who coordinated the regional effort and Ms Magdalena Pasaribu in Indonesia who arranged, managed and participated in briefings and visits there.

Finally, on behalf of Global Alliance, we thank the representatives of adidas who share the knowledge that workers involved in production within the global supply chain are human beings with a range of needs and aspirations. The vision of adidas in initiating the development of these guidelines is that they be freely shared as one contribution to the support and development of workers everywhere. That is a vision Global Alliance fully shares.
Cooperatives are businesses that are owned by their customers. The customers join the cooperative and become official ‘members’ by purchasing a share in the business. Each member has the same number of shares as every other member, so all are equal. Profits from the cooperative are distributed to its members or put back into the operation of the cooperative. In most countries any group of people can get together and form a cooperative as long as they follow local laws.

There are many kinds of cooperatives which can be beneficial to factory workers. Child care cooperatives can let parents work while their children are properly cared for. Health care cooperatives can provide low-cost medical care. A shop can be established as a cooperative to provide workers with convenient access to shopping for food or other goods. The most common type of cooperatives in factories however is a credit union, which is like a bank, but one owned by the members. Establishing a cooperative can have benefits for factory workers, managers and owners.

In Thailand the Government recognizes six main types of cooperatives:

**Consumer Cooperatives**
which help members obtain various goods at reasonable prices and at an agreed quality. They sometimes operate as a shop or supermarket.

**Savings and Credit Cooperatives**
which enable members to easily access a scheme for securely saving some of their income and also for obtaining loans for agreed purposes.

**Service Cooperatives**
in which people who do similar work (such as taxi drivers or craft producers) or have a common need (such as obtaining clean water or housing) work together to deal with their common needs and concerns.

**Agricultural Cooperatives**
which enable farmers to engage in business together, share equipment, manage resources such as irrigation systems, make loans to members, learn new farming techniques and market farm produce.

**Land Settlement Cooperatives**
in which the members are poor farmers who share land which they come together to purchase or rent.

**Fisheries Cooperatives**
which assist members involved in the fishing industry to market and sell their products, provide savings and loans, purchase equipment and learn new skills such as fish farming.
Cooperatives around the world operate on a basic set of generally accepted principles that serve as the foundation for all cooperative businesses:

- **Open and voluntary membership** – Membership is voluntary and is available to all within a common group (such as workers in a factory) who meet the criteria of the cooperative.

- **Democratic control** – Cooperative members enjoy equal rights to vote (one member, one vote) and participate in decisions affecting the cooperative, without regard to individual levels of participation in the cooperative. The cooperative is independent from any other body and is led by volunteer members.

- **Non-Discrimination** – Cooperatives are non-discriminatory in relation to race, nationality, sex, religion, politics and social standing.

- **Service to members** – A cooperative’s purpose is to improve the economic and social well-being of all members.

- **Members’ economic participation** – Members receive, in some form, all profits not needed for the cooperative to continue growing or meet its obligations.

- **Building financial sustainability** – A cooperative’s duty is to build and uphold financial strength by building reserves and maintaining strong internal controls within the organization.

- **On-going Education** – Cooperatives actively promote education for their members, officers, and employees and the general public on the economic, social, democratic and mutual self-help principles of cooperatives.

- **Cooperation among cooperatives** – Whenever possible, cooperatives cooperate with and support other cooperatives.

- **Social responsibility** – Cooperatives promote positive environmental and social goals wherever possible.

### A Savings and Credit Cooperative in Thailand

Workers and Managers at a shoe factory in Thailand established a Savings and Credit Cooperative in 2003. It is a single purpose cooperative offering savings accounts and emergency and general loans to its members. Members are required to regularly purchase new shares at a very small cost.

This ensures the cooperative always has ‘capital’ to ensure its operations. The share costs will be refunded when the member leaves the cooperative. Regular savings can be withdrawn by members at any time. Emergency loans are short term - usually 2 months and may be given immediately. General loans may be repaid over a 24-month term and are approved by the Board of Directors, which meets monthly. Loans are charged at the rate of 10% per annum and require two guarantors. The most common reason that members borrow is to repay black market debt. Regular, mandatory share deposits are made by members and may not be withdrawn unless the member severs his/her affiliation with the coop. Savings earn a rate of 2.5% and may be withdrawn at anytime.

### How Do Workers Benefit From a Cooperative?

**There are many benefits for workers who establish a Cooperative:**

**Real needs are met:**
Because the members are also the owners they set the goals for the business and determine how it will operate. They can choose the most convenient hours for the cooperative to operate, the type of staff it should employ, the types of goods or services it will offer. So the cooperative is able to respond to the needs of its members.

**Value for money:**
Workers can purchase basic goods and services at a consumer cooperative. In some cases the costs might be lower than what they would be elsewhere.
Convenience:
The cooperative can be located in or near the factory so that the workers do not have to travel far to do their shopping or get access to the services. This set-up also gives them more free time.

Education and experience:
By owning and managing a cooperative, workers learn new skills such as making business decisions, negotiating, working together, choosing leaders and running a business. These skills are the same types of skills needed by most companies in the modern workplace - effective decision making, team work, problem-solving, etc. Cooperatives also encourage education programs for members.

Increased financial security:
Credit and savings cooperatives help members achieve their financial goals by providing access to savings schemes and loans.

How Does the Factory Benefit From a Cooperative?
Assisting workers to establish a cooperative can have many benefits for factory managers and owners:

1. Productivity:
Like all people, workers have many needs and concerns. Establishing a cooperative can help meet some of these needs and concerns so employees will have fewer distractions and can focus on their work.

2. Trust:
By supporting the cooperative, factory management can show workers that the factory cares about them. This promotes trust and a better working relationship between managers and workers.

3. Reduced turnover:
Some factories suffer from high turnover of staff which means continuous loss of skills and increased costs of recruitment and training new employees. Forming a cooperative is frequently viewed by workers as a significant benefit of working for a specific factory. Managers in Asia said factory turnover rates decreased once a cooperative was in place.

4. Reduced absenteeism:
Since a cooperative in or near the factory can provide products and services that workers need, there is less reason to be absent from work. The services offered by a cooperative can also reduce stress which is a common cause of absenteeism in Asia.

5. Better business:
Global buyers are looking for factories that provide high quality products at a competitive price. They are also looking for factories that meet agreed-upon standards of conduct in their treatment of workers. Supporting a worker cooperative shows global buyers that the factory is committed to its workers and their livelihood both in and out of the factory. This, in the long run, can mean more business for the factory.
Getting Started

To establish a cooperative there must be a core group of factory workers interested in starting the process. These volunteers will talk with other workers and, after an assessment of workers’ needs, will choose the best type of cooperative to meet their needs. The volunteers can function as a committee to control the organizational steps to form the cooperative.

Establishing a cooperative is often difficult for people who have never done it before. In most countries the Government has a Department which can meet with and assist people wanting to start a new cooperative. This department is a good place to start.

The Steps In Setting Up A Cooperative Business

The picture above shows a diagram of the main steps for starting the cooperative business and a suggested timeline for completing important tasks. Once the Organizing Committee has been established it should consider revising this schedule to fit the factory’s requirements and the workers’ needs.

The timetable begins six to twelve months before the cooperative business is launched.
Preparation: The Early Stages
The initiative to start a factory cooperative can come from owners, managers or workers themselves. Who initiates the idea is not as important as allowing all workers to participate in the process once it has begun.

Identify a small group of people who are interested in working as an Organizing Committee to look at options for establishing a cooperative. This group must have representatives from all levels of the factory staff and a good mix of skills and experience.

The Organizing Committee can then:
- Survey all levels of workers in the factory to determine their needs
- Hold meetings of groups of workers to discuss the idea of a cooperative and obtain opinions
- Organize formal training sessions so members of the Organizing Committee and other workers can learn about the operations of a cooperative
- Based on the needs and ideas of all levels of workers in the factory, propose the type of cooperative business to be established
- Visit active cooperatives in other factories to learn from their experiences and avoid common pitfalls

Preparation: Six Months Before Opening
Based on the needs expressed by the workers the Organizing Committee should:
- Draft and agree on the cooperative’s mission statement. This should be openly shared with the workers to ensure they agree with and support the reason for establishing the cooperative.
- Develop the cooperative’s business plan. The business plan should provide a clear map of how the cooperative will achieve its mission and also become financially sustainable.
- Develop the cooperatives rules. These are called the by-laws. Obtain and study the model cooperative by-laws provided by the Government Cooperative Department. Seek professional help to modify the document to fit the workers’ special needs. The revised cooperative by-laws and other registration papers will need to be submitted to the Cooperative Department for approval.
- Make sure there is an ongoing program to educate the workers about cooperatives and how they work.

Preparation: Three Months Before Opening
- A formation meeting is held to adopt the by-laws, agree the membership or share fee and sign up the initial members, and to choose a Board of Directors. The cooperative by-laws will talk about how to choose or elect the Board which is usually made up of 7 to 11 people.
- Officers of the Board (Chairperson, Treasurer, Secretary) are appointed or elected as specified in the cooperative’s by-laws. The new Board might choose to set up some other small committees to help it with particular pieces of work such as overseeing the cooperative registration process, preparing the offices and work area of the new cooperative, training workers about cooperatives, reviewing the business plan, etc.
- The newly elected Board selects the Manager for the business it will operate. The Board may choose to also appoint other staff, but this should be done together with the Manager to make sure there is a strong team.
- Board members read and understand the following to learn more about the cooperative and their specific duties and responsibilities:
  - The Cooperative Act and Rules
  - The cooperative’s business plan
  - The cooperative by-laws
  - Board and staff job descriptions
  - All cooperative policies, procedures, and internal controls
  - Other training materials that will be used to educate the Board and members about cooperatives and how they work.
- Finalize plans for the cooperative’s business location, equipment and facilities.

Preparation: Less than Three Months to Opening
- The Manager and Board Executive committee members open bank accounts. The Board authorizes particular people who can sign on behalf of the cooperative - for example the Board Chairperson, the Board Secretary and the Manager.
- The Manager and Board plan the grand opening of the cooperative’s business. Remember that the launch will be a good time to encourage more workers to join as members of the cooperative.
- The Manager and Board obtain any insurance coverage needed to protect the cooperative and its staff.
• The cooperative staff purchase furniture and equipment and prepare the office and working area of the new cooperative.

After the Cooperative’s Business Opens
• Board members and staff engage in cooperative promotion throughout the factory and encourage all workers to join as members.
• The Board of Directors meets at least monthly to guide the work and development of the cooperative. Additional special meetings can be called as needed. One week before the monthly meeting the agenda is to be sent by the Board Secretary to all Board members along with any new information that will be discussed. The cooperative Manager assists the Secretary with preparing information that will be sent with the agenda. All items discussed at the meeting(s) are to be noted in the Board minutes.

For the first 12 months of operation the Board closely monitors the actual results and measures them against the business plan. The results are discussed at the monthly Board meetings. The Board must pay particular attention to the financial performance of the cooperative.
• Board members should visit the cooperative weekly and at different times to observe and understand the operations and assist the Manager and staff when needed.

After the first 12 Months of Operations
• The Board appraises the Manager’s performance based on the achievement of the goals and objectives set out in the business plan.
• The Board and Manager compare first year actual results to the budgeted numbers and with new goals established by the Board, use this information to develop next year’s budget.

• The Board calls a General Meeting of all cooperative members to review the performance of the cooperative, set new goals and choose new Board members as set out in the by-laws.

Then the yearly cycle begins again.

Choosing The Type Of Cooperative

There are three types of cooperatives which are most commonly suitable for workers:

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Cooperatives that offer financial assistance, loans, savings schemes, investment and insurance services to members</td>
<td>Credit unions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Savings &amp; credit cooperatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insurance cooperatives</td>
</tr>
<tr>
<td>Service</td>
<td>Cooperatives that provide specific services to its members or the factory. These can range in size from small day care centers to a large housing cooperative.</td>
<td>Water supply. Housing. Day care and nursing. Health care. Funeral services. Transportation and communication services.</td>
</tr>
</tbody>
</table>
Two main factors to consider in choosing the type of cooperative:

- **Workers’ needs:** Workers’ participation in joining and supporting the cooperative will be highest if the cooperative is meeting a genuine need. If more workers join the cooperative, it is more likely to succeed.

  Different factory staff profiles will indicate needs for different types of cooperatives. For example, a factory that employs many young married women may have a need for a child care facility. An older workforce may have more of a need for a health care cooperative. Some cooperative types appeal to all ages and genders – such as a savings and credit cooperative.

- **Financial sustainability:** The cooperative is a business and needs a well developed business plan. The cooperative should aim to be able to financially support its own activities in a reasonable period of time. The period of time will be different for each cooperative but should rarely be longer than three years.

  The cooperative will have more chances of success if the factory agrees to support it by providing start-up subsidies in the form of premises, staff, equipment and expert advice.

Below is an example of a table one factory used to help indicate the type of cooperative that would be most useful to the workers. They were considering whether to establish a health care cooperative, a childcare cooperative, a retail cooperative or a credit and savings cooperative.

### Cooperative Selection Guide

Demographics of factory workforce: Mix of young, fairly uneducated men and women with majority being women. Many women have children. Most workers are healthy. Nearly all workers have modest incomes and have relatively low standards of living.

<table>
<thead>
<tr>
<th>Sample Cooperative Types</th>
<th>Health care</th>
<th>Child care</th>
<th>Retail Store</th>
<th>Savings &amp; Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Considerations</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Choices (do workers have existing choices to access the products or services?)</td>
<td>Many providers. Wide choices.</td>
<td>Limited number – family or child care provides.</td>
<td>Many available</td>
<td>Few – mostly black market.</td>
</tr>
<tr>
<td>Pricing (are prices of the products or services affordable for workers?)</td>
<td>Moderate to high in relation to income.</td>
<td>Low to moderate – depending on provider.</td>
<td>Competitive pricing. Affordable at many locations</td>
<td>High prices – not affordable.</td>
</tr>
<tr>
<td>Convenience (is it convenient for workers to access products or services?)</td>
<td>Limited. Travel is required.</td>
<td>No. Because there are few providers, workers must travel to access service.</td>
<td>Yes – many stores, kiosks.</td>
<td>Yes – money lender comes to factory.</td>
</tr>
<tr>
<td>Workers’ needs (how important is it to workers to access these products or services?)</td>
<td>Moderate to high if pricing is affordable. Very high if family members are allowed access.</td>
<td>High if cost is affordable. Very convenient to have service at factory.</td>
<td>Moderate to low. Have many choices with competitive pricing.</td>
<td>Moderate to high. Coop is place to save and borrow at market rates.</td>
</tr>
<tr>
<td>Sustainability (what is the likelihood that the coop will be financially viable?)</td>
<td>Probably low unless subsidized by factory.</td>
<td>Probably low unless subsidized by factory.</td>
<td>Questionable due to competitive pricing.</td>
<td>High. Business model suggests that coop is sustainable.</td>
</tr>
</tbody>
</table>
Multi-purpose cooperatives deliver several services or products at the same time. These may include related businesses or unrelated businesses. For example, one cooperative may offer savings and credit services, a retail store and a health care clinic. In the table above the activities are mostly unrelated.

If the workers suggest a multi-purpose cooperative, it is important to note that they are more complex and challenging to manage. International experience has shown that multi-purpose cooperatives are also more likely to fail.

Starting a Cooperative – Some helpful Hints

In preparing this booklet to guide your efforts in setting up a factory cooperative, a team of local and international researchers looked at factory cooperatives in Thailand and Indonesia, as well as reviewing literature from around the world. Here are some common points they found that help ensure the factory cooperative is successfully established:

Factories with a large number of employees have a better chance of establishing a successful cooperative. Different cooperative types need different size of membership, but bigger is almost always better. As an example, a savings and credit cooperative should have a minimum of 500 members in order to effectively handle funds.

Setting up and running a successful cooperative requires active factory owner and management support and commitment. The owner and senior managers should become members of the cooperative; should periodically visit the cooperative and meet with the Board to understand how the cooperative is progressing; should demonstrate their support of the cooperative in front of the workers; and should provide the cooperative with opportunities to promote its services.

At the same time, owners and senior managers need to recognize that the cooperative is an independent organization with its own mission, Board of Directors and staff. The factory needs to respect the independence of the cooperative and should not interfere or attempt to unduly influence the cooperative in any way. The balance between support and interference is sometimes delicate and requires care.

A LESSON FROM AN AUTO WORKERS’ CREDIT UNION IN MONGOLIA

A strong member base is critical to sustainable growth

AUTO Credit Union was established in Mongolia as a cooperative of auto repair employees who wanted to provide themselves with savings and credit services. At the time of the founding of this cooperative, credit union law in Mongolia stated that as few as 5-10 members were needed to establish a cooperative structure. When the founders of ABC started the organization there were only 15 total members. The organization grew slowly, but expansion of services outpaced member growth and the financial health of the cooperative suffered.

In most countries the absolute minimum number of members for a successful credit and savings cooperative is considered to be 500 people.
Educating workers about the structure and role of the cooperative vital for its success.

The cooperative is a business and its members are its owners. To run a successful business the owners must understand how it works. Before opening the cooperative, hold a series of meetings with workers over a period of at least a few months. Educate workers on the planned operations of the cooperative and give them information on what they can expect. The more the workers know and understand about the cooperative, the more they will be willing to join and support it.

Providing skills training will assist members to participate.

Once a cooperative is established, workers may also require training in basic skills such as organizing a meeting, how to participate in a democratic process, team decisions, how to deal with conflict and others. Without such skills, the workers may not be able to fully participate in and support the cooperative.

Carefully select the committee of people who will work to establish the cooperative.

It is vital that the committee has people who are able to genuinely represent the workers and ensure their real needs are to be addressed by the cooperative. The committee should also have people with business skills and experience. All the committee members should have or receive appropriate education and training on cooperatives and have a commitment to the success of the factory cooperative. It is very likely this group will become the first Board of Directors of the new cooperative, so it is important to make sure the committee has good decision makers who are respected by the workers.

The cooperative is a business and it needs a clear business plan.

A successful business needs to know its market and meet real needs. The cooperative’s market is the worker population in the factory and their needs should be professionally surveyed and identified. Meeting these needs will then provide the basis of the business plan. Factory owners and managers will be able to give experienced support to the development of the plan. If possible some professional assistance can be sought in developing the cooperative’s business plan. The business plan will determine its goals, how it will be structured, how it will operate and how it will be financially sustainable.

Use the professional support and guidance available from the Government Cooperative Department and Cooperative Support Organizations such as those listed in Appendix A

Always seek professional help when drafting the initial set of by-laws and board policies and putting together a well-rounded program that includes worker and factory supervisor education and training.

Successful factory cooperatives almost always receive some financial subsidy from the factory during the cooperative startup phase and this continues for an agreed period of time.

For example, in setting up a savings and credit cooperative, the factory should consider providing:

- Free office space
- Office improvements such as counters and shelves
- Office furniture such as desks, chairs and filing cabinets
- Office equipment, such as computers, printers, a safe, telephone system
- Financial subsidy to pay the salary and benefits for a well qualified and experienced cooperative manager and assistants
- Initial purchase of office supplies
- Payroll deduction services

In the beginning, the new cooperative has no income and no assets. It needs help to get started. Experience in Asia shows that successful factory cooperatives require some subsidy for approximately three years.

Many factory cooperatives in Asia receive continuing support from factory owners and managers because they see the benefits for their workers.

After three years some factories continue to provide free office space, utilities, payroll deduction services and provide professional advice to the cooperative.

Consider establishing a credit union or savings and credit cooperative.

This type of cooperative has enjoyed success in many countries. There are a lot of good models on which to base your efforts and many resources available to support you. Experience in Asia has also shown credit unions are very popular with workers as they provide direct assistance in personal financial management, extend loans to meet workers needs, and provide a secure means of saving money.

The Manager of the new cooperative is the most important staff appointment.

The Manager will direct the business of the cooperative on behalf of the members. This person needs to show experience as a successful manager, have a good knowledge of cooperatives and how they function, and display a competitive spirit to grow a strong, financially sustainable enterprise.
The following points are suggestions based on the lessons learned by factory cooperatives in Asia and throughout the world.

**Do not rush.**
Take time to educate workers and thoroughly prepare for the first day of business. The more the workers understand the operations of the cooperative, the easier it will be for the cooperative to attract their membership and grow into a successful business.

Conduct a feasibility study before launching the cooperative. It is recommended that before beginning the coop a survey should be conducted among workers to confirm their interest/willingness to join. A feasibility study should also be conducted to determine the viability of such an effort.

Remember that the cooperative is a business. Even though a cooperative has a unique way of operating and seeks to meet the real needs of the workers, do not forget that it is a business and that it needs to be operated like one.

Do not accept financial subsidies without a specific ending date. If the factory is providing a financial subsidy to help establish the cooperative, be clear on when this assistance will end. This should be based on the projections made in the initial business plan and will ensure the cooperative members are realistic in their expectations.

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**A LESSON FROM A WORKER COOPERATIVE IN ASIA**

When the Board of a cooperative was asked what mistakes have been made so far, they listed the following:

a) Did not critically study the by-laws enough before proposing and adopting them. As a result some rules worked against the development of the cooperative.

b) Not enough education was provided to the members regarding the “growing pains” of a new cooperative and the need for members to be patient. The coop received complaints from members who did not understand the difference between a new, developing business and a more established cooperative.

**ADVICE FROM THE COOPERATIVE DEPARTMENT IN THAILAND**

The Cooperative Department in Thailand has supported the development of many successful cooperatives. When people come to them suggesting they want to set up a consumer cooperative, the Department advises them to look carefully at existing shops and retail outlets. They advise that consumer cooperatives find it very difficult to compete against existing commercial suppliers and warn people to be very careful.
A LESSON FROM A PHILIPPINES COOPERATIVE
Offering more than one service increases risks

The Ban Cooperative Society is a credit union of over 8,000 members in the Philippines. It was operating successfully, so the members requested that the cooperative expand into grocery stores and other services. The Board and Manager found the operations of the different types of businesses very complex and costly. The cooperative was only marginally profitable during the entire time it operated the non-financial services. The Board decided to stop the non-financial services and profits soon returned.

A LESSON FROM A HEALTH COOPERATIVE IN UGANDA
Keep the activities simple and the operating costs low

A Health Clinic Cooperative in Uganda was established to provide services to farmers. Instead of trying to run a hospital the cooperative agreed to provide only a limited number of services to treat the most common complaints. More complex or unusual cases are referred to the Government Hospital which is harder for the farmers to get to but is subsidized by the Government. Farmers are thus able to obtain assistance for their most common illnesses and injuries but the cooperative is able to keep its costs down.

A LESSON FROM TWO CHILDCARE COOPERATIVES IN ETHIOPIA
Don’t depend on external subsidies

In the mid-1980s, as part of a program to promote worker childcare, UNICEF helped establish several childcare cooperatives in Ethiopia.

The YY Childcare Cooperative was established to support subsistence farmers, many of whom were women struggling to balance childcare and farm work. A manager was hired to run the center and local villagers were trained by UNICEF to watch children. Although UNICEF funds helped build the facility, the cooperative quickly became self-sustaining through member fees. Services were first limited to simple, half-day sessions, but expanded gradually as demand from members increased. Since its establishment, the cooperative has been widely considered a success and used as a model for creating childcare cooperative throughout Africa. Productivity among female workers has increased significantly and the cooperative has contributed positively to the quality of life of its members.

The MO Childcare Cooperative, on the other hand, accepted the financial assistance of UNICEF but members failed to work together to develop a plan for the service to become sustainable. An appropriate fee structure was not put in place and the center has remained highly dependent upon external funding. It is experiencing significant operational difficulties and is in danger of closing down.

Do not begin with a multi-purpose cooperative. The risk of managing multiple businesses has proved too much for many cooperatives in the past – particularly at the start. Concentrate on ensuring the success of one type of activity before considering others. Some of the greatest pitfalls or challenges for cooperatives include:

- Conflict of priorities where obligations to the cooperative conflict with other work obligations and members see their engagement in the cooperative as being a burden
- Corrupt and incompetent leadership which leaves the members disillusioned
- Emphasis on the social rather than the business outcomes which results in an enterprise that is not financially viable
- False expectations about the costs and benefits
- Lack of growth of membership and thus the business
- Lack of understanding and control of workers over the cooperative.

Before establishing a cooperative, the founders must closely consider all these aspects as well as other alternatives. Workers and factory managers must agree on roles, responsibilities and expectations. Together they must invest in the necessary studies to determine the focus and feasibility of the effort and then support the education of potential members to ensure that there is common understanding about the venture. If proper preparatory work is conducted and the cooperative is determined as the best organizational structure to meet real needs, then there is a very good chance the cooperative will be a success.
The Cooperative Department established by most governments is the body which regulates cooperatives. A meeting with the Cooperative Department will help you to learn about the process of establishing the cooperative, the laws and regulations that must be followed, and the assistance the Department can provide.

The Cooperative Department may also be able to put factory staff in contact with other successful cooperatives which can provide useful advice.

Factory owners and managers may also be able to provide advice based on their own business experience.

In addition, there are a number of international Cooperative Support Organizations that are able to provide additional information or technical assistance upon request. Some of these organizations are listed in this booklet.

In some countries, non-governmental organizations (NGOs) or community organizations may also be able to assist. NGOs will often be ready to assist workers develop their ideas for a cooperative. They can sometimes also provide training, undertake research, and be a source of advice on operating small scale savings and loan schemes.

**Conclusion**

Cooperatives are a form of organization where people come together to set up a legally recognized business structure to achieve common goals. While a cooperative has to be financially sustainable, its primary purpose is to serve the members rather than generating huge profits.

Establishing a factory cooperative can offer factory owners, managers and workers exciting opportunities to meet their needs, learn new skills, and provide benefits for the factory and all who work in it. Yet cooperatives might not work for everyone. They require commitment, time and hard work.
APPENDIX A  
Cooperative Departments & Support Organizations

Thailand  
Cooperative Promotion Department  
Ministry of Agriculture and  
Cooperative  
12 Krungkasem Road  
Tawes Sub-District  
Phra Nakorn District  
Bangkok, Thailand  
Tel: +66 2-2811900, 02-2813095, 02-2822922  
Fax: +66 2-2826078  
http://www.cpd.go.th (Thai language)  
http://www.cpd.go.th/eng/index.htm (English language)

Cooperative League of Thailand  
No.4 Phichat Road, Dusit District,  
Bangkok 10330  
Phone: +66 2 3254-62  
Fax: +66 2 241 1013  
Email: clt@clt.or.th  
http://www.clt.or.th/main.html

Vietnam  
Vietnam Cooperative Alliance  
77 Nguyen Thai Hoc Street  
Ba Dinh District, Ha Noi, Viet Nam  
Tel: (84-4) 8431689 -7330774  
Fax: (84-4) 8431883  
Email: info@vietnamcoop.org  
http://www.vietnamcoop.org/template_tintuc.htm (Vietnamese language)  
http://www.vietnamcoop.org/english/index.html (English language)

Indonesia  
Cooperative and Small and Medium  
Enterprises Department  
Jl. H.R. Rasuna Said Kav. 3-5  
Kuningan - Jakarta 12940  
Phone: (+62-21) 52992983, 52992885, 5204366-74, 52992777  
Fax: +62-21-5204378, 5272742  
Email: dalin@depkop.go.id  
http://www.depkop.go.id

Cambodia  
Ministry of Agriculture, Forestry and  
Fisheries.  
#200 Norodom Blvd, Sangkat Tonle  
Basak,  
Khan Chamkarmorn, Phnom Penh  
12301, Cambodia.  
Tel: (855) 23 211 351, 23 211 352  
Fax: (855) 23 217 320  
E-mail: icomaff@camnet.com.kh  
http://www.maff.gov.kh

NB: The Ministry of Agriculture, Forestry and Fisheries (MAFF) is  
beginning to support the revival of cooperatives in Cambodia. There is no  
specific department under the Ministry assigned to take care of this  
issue. The Ministry plans to enact a Cooperative Law in 2005.

World Council of Credit Unions  
http://www.woccu.org

The World Council of Credit Unions (WCCU) is the lead organization for  
the advocacy and development of credit unions throughout the world.  
The organization represents credit unions from 81 countries with over 100  
million individual members on six continents.

Canadian Cooperative Association  
http://www.cooperativecca.com/  
cooperativedevelopment/  
internationaldev/

The CCA is an umbrella organization representing cooperative businesses  
throughout Canada. The international development arm of the organization  
promotes the creation of various types of cooperatives in the developing  
world.

ACDI/VOCA  
http://www.acdivoca.org

ACDI/VOCA is the international development arm of the United States  
Farmers Cooperative Association. The organization promotes the  
development of farmer cooperatives, with an emphasis on agricultural  
production.

Land O’Lakes International  
Development  
http://www.idd.landolakes.com/

Land O’Lakes, one of the largest producer cooperatives in the United  
States, provides technical assistance to producer cooperatives in the  
developing world through its international development division. The  
focus of the organization is on dairy cooperatives.
ICA is the worldwide member organization for cooperatives in several sectors, including health, housing and producer and consumer organizations. The organization has several regional offices that focus on the development and promotion of various types of cooperatives.

National Cooperative Business Association, CLUSA International
http://www.ncba.org/clusa.cfm

CLUSA International is the international development arm of the National Cooperative Business Association, which represents cooperative businesses in several non-financial sectors. The organization currently has 25 active projects in 11 countries.
In many countries there is a formal legal framework that helps define the cooperative’s purpose, its powers and provides the workings for on-going operations. You should check with local authorities for the laws relevant to your country. A typical framework includes:

1. The Cooperative Act –
The Cooperative Act or law is the broad supreme directive that permits cooperatives to operate and helps to define their structures. It is approved by the Government, depending on the constitution within the country. As such, changes to the Act usually come about slowly. The Act is customarily administered by a national regulator charged with overseeing the healthy development of the cooperative movement. The regulator, frequently referred to as the Cooperative Department, has several functions but mostly is involved in promoting cooperatives; providing limited technical assistance; auditing (examining) operations; and overseeing the Act with relatively broad enforcement powers. The Cooperative Department is interested in the safety and soundness of cooperatives.

Typically, the Act will cover such items as:
- The cooperative’s powers
- Members’ rights and responsibilities
- Membership meetings
- Investments and borrowing
- Member expulsion
- Dividends and reserves
- Powers of the Cooperative Department
- Mergers

In many parts of the world today, cooperatives are set up as limited liability companies. The non-legal definition of this designation is that members of the cooperative have no financial liability to the cooperative’s creditors beyond the value of their shares. This is the more desirable set up and the common structure used today.

An older model, the unlimited liability company, implies that members are liable for the debts of the cooperative – even beyond the level of their shares.

In either setup, most countries do not have share or savings guarantee insurance systems in place to protect members’ investments in the cooperative should the cooperative fail and it has insufficient reserves to pay members.

2. Cooperative Department Rules –
From time to time, the Cooperative Department may issue regulations dealing with specific cooperative issues. Normally, these less formal rules do not require approval by Government because the Act generally grants the Cooperative Department the power to issue rules. The process used by the Cooperative Department may vary from country to country, but generally the Cooperative Department publishes intended rules and distributes copies to cooperatives for feedback. A formal hearing then takes place before the rule is put in effect.

Cooperative Department rules may cover such items as:
- Retention of records
- Sale of certain products
- Miscellaneous investments
- Branching - additional locations
- Non-preferential treatment

3. The Cooperative’s By-laws –
The by-laws are like a government’s constitution. They define the rights and obligations of each member of the cooperative and constitute a legal document. Typically by-laws cover such items as:
- The cooperative’s mission and fields of activities
- Requirements for becoming a member and terminating membership
- The procedure for calling the annual general meeting, special meetings, and meetings of the Board of Directors
- The powers and responsibilities of the Board of Directors and committees appointed by the Board
- The powers and responsibilities of the chief executive officer (Manager) of the cooperative
- The par value of shares

The initial set of by-laws is usually drafted by an Organizing Committee made up of potential cooperative members (to be discussed later). Once approved by the regulator, subsequent changes to the by-laws require a membership vote. Because of this, by-laws should be written in general terms so changes are seldom needed, but they should be comprehensive enough to deal with important issues pertinent to the cooperative’s workings. The reason for
this approach is because it is somewhat cumbersome (and potentially expensive) to arrange for special membership meetings every time a cooperative wants to amend its by-laws.

By-law content could very well differ between cooperatives—not only because the cooperatives are of different types, but because a particular cooperative chooses to operate in a unique manner to meet the special needs of its members. Drafting the initial by-laws should not be taken lightly. Although most Cooperative Departments have a model set of by-laws that it freely shares with groups interested in starting a cooperative, frequently cooperatives should seek professional help in drafting the initial set of by-laws. Model by-laws provided by the regulator tend to follow a pattern, which may or may not provide the powers needed to run an effective cooperative today. They also tend to be too general—a sort of “one size fits all” approach. Remember, there are many types of cooperatives today, with very different functions. Drafting one set of by-laws to fit the needs of these diverse enterprises is impractical. Finally, model by-laws provided by the regulator tend to be somewhat dated—not necessarily keeping pace with modern business practices. So by-laws need careful consideration by the Board of Directors acting on behalf of the members.

4. The Cooperative’s Policies—

Policies are decided upon by the cooperative’s Board of Directors and can be altered from time to time to meet the cooperative’s changing needs. Policies are individual cooperative rules designed to further define how the cooperative is to operate. They are used by the cooperative Manager and staff to run the day-to-day operations. Policies can cover a number of subjects but usually deal with subjects such as:

- Financial management
- Reserves and earnings
- Risk management
- Administration
- Personnel issues
- Pricing of services and products

Where the Act is quite general, the cooperative’s by-laws are more specific but not so specific as to make it difficult for the cooperative to operate effectively.

Policies are even more specific and provide the “customization” of the cooperative based on the wishes of the Board of Directors and members. They are easy to change—usually by a majority vote at the monthly Board of Directors meeting and are important rules and guidelines to be used by the manager and staff.

These subject areas can easily be expanded to fit the needs of a particular cooperative. As the cooperative grows, the need for well written policies grows.
Typically, a cooperative is made up of members, a Board of Directors, committees, a Manager, and a staff.

**Members**
Members are the owners (and customers) of the cooperative. In the context of a factory, the owners are the workers who choose to join the cooperative. As members, they have certain rights. These include: the right to vote; the right to serve on the Board of Directors; the right to decide on certain matters affecting the cooperative; and the right to use the services of the cooperative as long as the policies and practices of the cooperative are adhered to.

Members usually come together once a year at the Annual General Meeting (AGM), where Board members are elected; new business is conducted; policies are discussed; and members voice their opinions about the running of the cooperative. In addition to the AGM, special membership meetings may be called from time to time to deal with a specific issue facing the cooperative that requires membership consideration.

**Board of Directors**
A Board of Directors is usually made up of an odd number of elected volunteer directors, typically 7 or 9 members. If there are fewer than seven members, the make up of the Board may not represent a fair sampling of members. If greater than nine members, the size of the group makes it more difficult to make decisions and deal with issues efficiently. The Board usually adopts staggered terms to ensure that there are always experienced individuals overseeing the cooperative. New members are usually elected for three year terms. The Board is accountable to the members.

The Board meets at least monthly and deals with issues facing the cooperative. Examples of board agenda items include the following:
- Policies – establishing guidelines for the manager and staff that may deal with (1) internal controls, (2) financial management, (3) pricing, (4) personnel issues, (5) administration, etc.
- Pricing decisions – how much to charge for a product or service.
- Services & products – deciding on what services and products to offer members.
- Goals – dealing with strategic issues to continually improve the cooperative.
- Monitoring – receiving tracking reports to ensure that the cooperative is being run in the manner prescribed by the Board.

**Committees**
The Board of Directors generally has the power to appoint one or more committees to carry out specific assignments. These assignments may have a limited life – for example, six months, or possess an unlimited life. Committees may be made up of Board members, members who are not on the Board, or non-members who are asked to participate because they have specific expertise. Generally, committees are made up of a mix of Board members and regular members and number from 3 to 5 people. They are usually appointed when a subject needs special attention and it is not efficient for the entire Board to deal with the subject at its regular monthly meetings. Appointed committees are accountable to the Board.

As an exception to committees being appointed by the Board, the supervisory or audit committee is commonly elected by the members at the AGM. The purpose of this committee is to act as the “members’ watchdog” to ensure that the cooperative is operating according to the rules. Elected committees are accountable to the members and report directly to them at the AGM. This may be the only committee that is required under law. Normally, three to five members with finance or accounting backgrounds who serve on the supervisory committee.

Other committees, which may be appointed by the Board, include the following:
- Credit committee – charged with acting on members’ requests for credit
- AGM committee – charged with planning the members’ annual event
- Pricing committee – charged with setting prices for certain products; interest rates on loans and deposits; fees for specific services, etc.
- Personnel committee – charged with conducting performance appraisals of the Manager and recommending compensation issues to the Board
- Executive committee – usually consisting of a few senior members of the Board, the executive committee is able to meet more often than the Board and is empowered to act on its behalf between regularly scheduled board meetings.
**Manager**
The cooperative Manager is normally a full time professional and is a key individual charged with running the day-to-day activities of the cooperative. S/he hires and supervises staff; ensures that services and products are delivered to members according to the policies and standards set by the Board; and reports to the Board on the condition and issues facing the cooperative. The manager is hired by the Board and reports to them.

**Staff**
The cooperative staff is hired by the Manager and is charged with specific duties. In the beginning, common staff positions include accountants or bookkeepers and member service representatives. As the cooperative grows, other positions may be added, such as information technology (IT) specialists, human resource (HR) experts, and marketing professionals. Staff is accountable to the cooperative manager.
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