

Roadmap to Doing Co-operative Business Reports: Framework for assessing the enabling environment for co- operatives

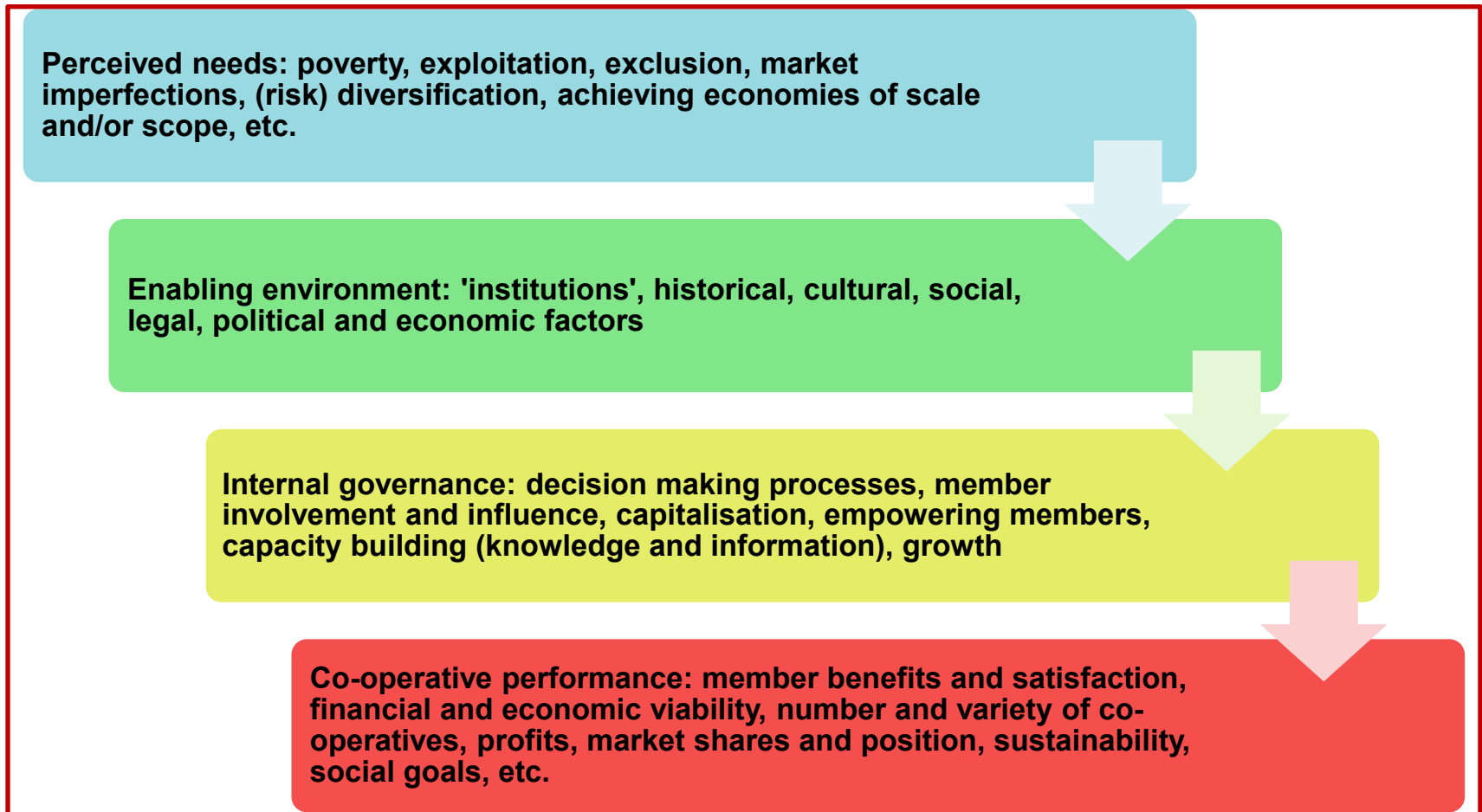
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Determinants of co-operative performance



Features of co-operative dimensions in 33 countries

- Salient aspects of co-operative law
- Selected membership features
- Tentative assessment of tax treatment
- Various contemporary governance aspects
- Qualitative Assessment of Cooperation among Cooperatives
- Current issues

Brazil



Salient features of co-operative law

- First legislative act on coops originated in 1890, included some features of Rochdale Society, but did not recognize coops as distinct form of company
- Law of 1971 saw coops as additional legal type of entity. Brazilian coops need to be registered with Brazilian Cooperative Organization, managed by its own co-operatives.
- Brazilian coop law strictly protects coop principles and defines coops as a contract establishing a society in which certain persons contribute goods or services in a reciprocal manner for the pursuit of economic activity and for common benefit that is not-for-profit
- Additional laws in 2002/2009/2012
- Different requirements for worker coops and credit cooperatives

Selected Membership Features

- Free admission, except where cooperative is technically hindered from providing services that constitute its purpose. Technical hindrance has been referred to a lack of possibility to create reciprocal relationship. Admission of legal person to membership is allowed but only as exception (to prevent misuse)
- Minimum number of members for constitution of a coop is 20 and for worker coops 7
- In single cooperatives: one member one vote, no matter how many shares he holds. In second degree coops: voting rights can be based on proportionality principle
- Coops are allowed to serve non-members (labeled as 'non-cooperative acts' and taxed as entrepreneurial activities)

Tentative assessment of Tax Treatment

- Incongruities between constitution and reality (taxation practices). Infra-constitutional view states that 'cooperative act' does not represent income, revenue or profit to coop, but for members. Hence, coops should be sheltered from certain taxes and cooperators should be taxed. As certain taxes or contributions are only applicable to corporate entities, cooperatives in the practice of cooperative acts, fall entirely outside these tax obligations, which seem to disturb tax authorities

Various Contemporary Governance Aspects

- Coops are societies with variable capital represented by shares, yielding interest payments of maximum 12% per year
- In statutes, cooperators can adopt either limited or unlimited responsibility. Coops can be converted into another legal entity type
- Coops must allocate 10% and 5% of net income to Reserve Fund (destined to restore losses and to fund development) and Fund for Technical, Educational and Social Assistance, respectively. Remaining surplus is divided on basis of volume of operations of each member (not on number of shares, which does not spur members to provide more cooperative capital and this makes cooperative less creditworthy for outside creditors)
- When the number of members in single cooperatives (first degree cooperatives) exceeds 3,000, the social statue 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.

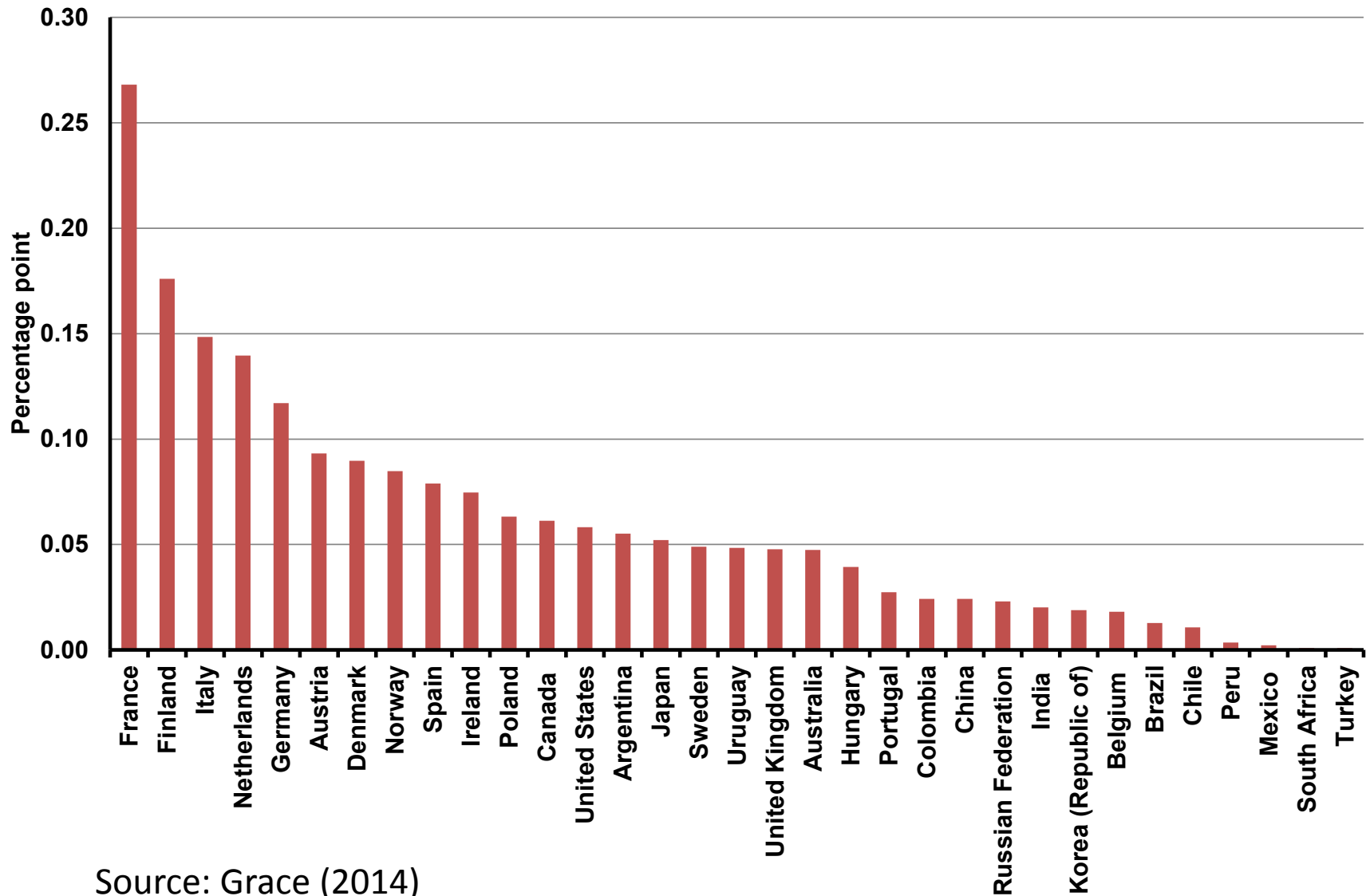
Qualitative Assessment of Cooperation among Cooperatives

- Cooperation among cooperatives assumes, in Brazil, many forms (Central Cooperatives, Federations, Confederations).
- Some types of cooperation are based on legislation that standardizes agricultural consortium. The reason for the formation of such cooperation between cooperatives 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 the simple cooperative structures.

Current Issues

- Government's limited understanding of cooperative's mutualistic approach when determining applicable tax structure
- Too little attention in coop law for governance model and opening up of possibilities for financing by third parties

Co-operative Economy Index

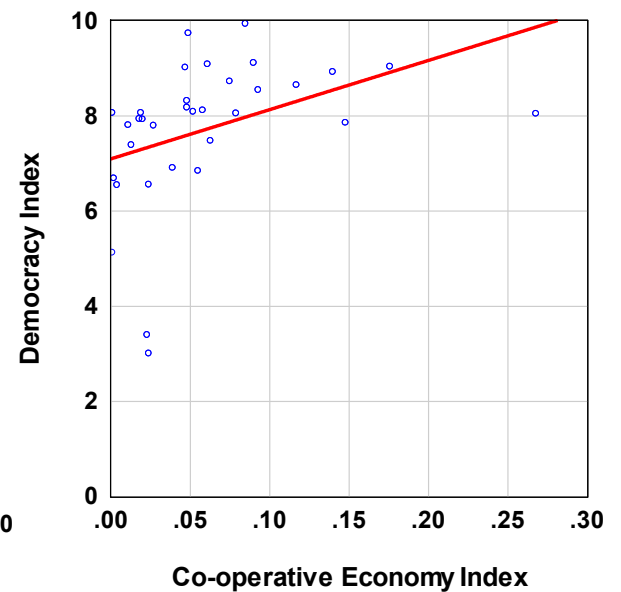
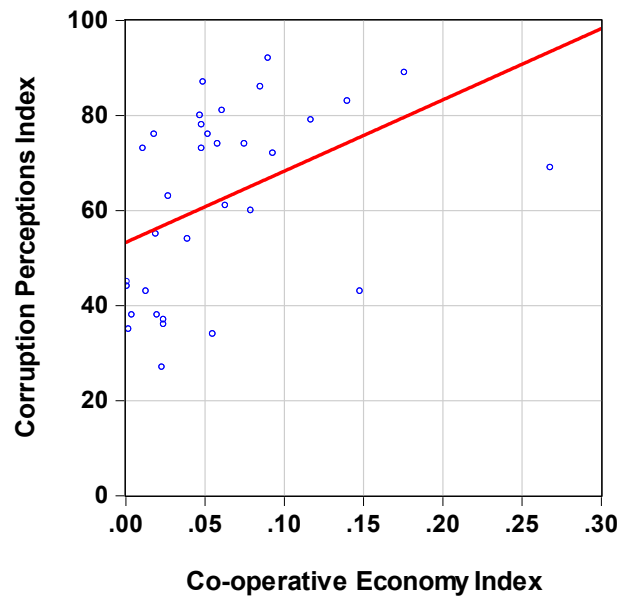
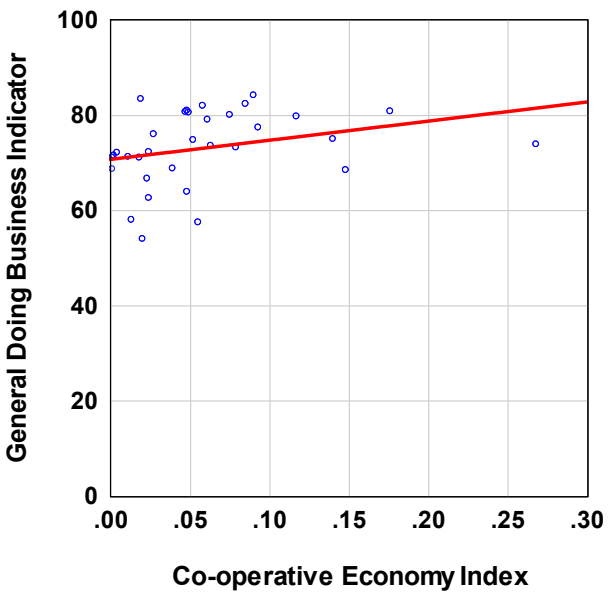


Source: Grace (2014)

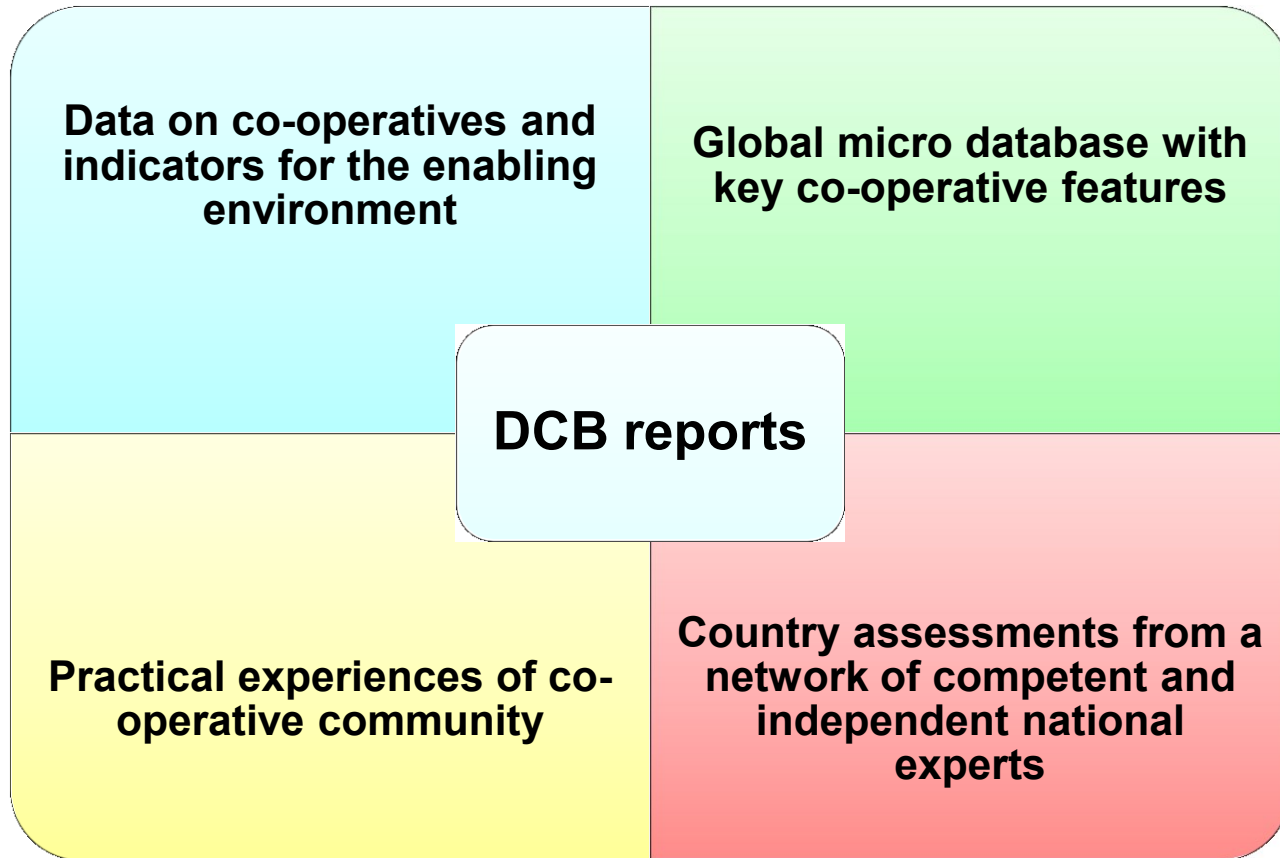
Indicators of enabling environment

- Hofstede indicators
- Doing business indicator
- Worldwide governance indicators
- Corruption Perception Index
- Gini Coefficient
- Democracy index

Correlations with co-operative economy index



Necessary input sources for credible and balanced DCB Reports



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