

The study of cooperatives in the Netherlands and Bangladesh



COOPERATIVE ENTERPRISES BUILD A BETTER WORLD

Colofon

Twynstra Gudde

Prof. dr. J.M. (Jaap) de Heer

+31(0)6 53576867

jhr@tg.nl

Twynstra Gudde

E. (Ellen) Smit MSc.

+31(0)6 22548585

esi@tg.nl

Euroconsult Mott MacDonald

Dr. H. (Hero) Heering

+31 (26) 3577254

Hero.Heering@mottmac.nl



Euroconsult Mott MacDonald

T. (Tahmina) Shafique MSc

+880 (2) 9861194

tahmina.shafique@mottmac-bd.com

List of figures and abbreviations

Figures

Figure 1: Three levels of WMO's	18
Figure 2: Analytical Framework Management & Organisation	25
Figure 3: Factors determining the form of the cooperative.....	26
Figure 4: Alternative cooperative models: an ownership rights perspective.....	28
Figure 5: Value chain analysis framework (Trienekens, 2011, p.60)	34
Figure 6: Conceptual model.....	40
Figure 7: Capital flow Oikocredit.....	48
Figure 8: Graphic display cashflow Oikocredit.....	48
Figure 9: Cooperative dairy model Milk Vita.....	57
Figure 10: Milk Vita Value Chain	60

Tables

Table 1: Contrasting the paradigms (p.633).....	31
Table 2: Cooperative Societies in Bangladesh.....	42
Table 3: Key figures social performance Oikocredit	45
Table 4: Key figures Oikocredit	47
Table 5: forms of funds set up by Deedar with their description.....	54
Table 6: Financial status Deedar	56
Table 7: Fund Status of Milk Vita as of 2009.....	59

Abbreviations

AI	Artificial Insemination
BA	Beperkte aansprakelijkheid – limited liability
BARD	Bangladesh Academy for Rural Development
BB	Bangladesh Bank
BGWMF	Blue Gold Water Management Fund
BMPCUL	Bangladesh Milk Producers Co-operative Union Ltd.
BTD	Working Capital
BWDB	Bangladesh Water Development Board
CDSP	Char Development and Settlement Project
CVDP	Comprehensive Village Development Programme
DANIDA	Danish International Development Agency
DoC	Department of Cooperatives
EMPCUL	Eastern Milk Producers Co-operative Union Ltd.

FAO	Food and Agricultural Organisation
FCD	Flood Control Drainage
FCDI	Flood Control Drainage and Irrigation
FTE	Fulltime-equivalent
GoB	Government of Bangladesh
GPWM	Guidelines for Participatory Water Management
IMF	International Monetary Fund
IPSWAM	Integrated Planning for Sustainable Water Management
KTCCA	Kotwali Thana (District) Central Cooperative Association
KvK	Kamer van Koophandel – Dutch company register
LGED	Local Government Engineering Department
LGI	Local Government Institution
MOU	Memorandum of Understanding
NCR	National Cooperative Council
NWPo	National Water Policy
PSSWRSP	Participatory Small Scale Water Resources Sector Project
REC	Rural Electrification Cooperatives
SA	Support Associations
SME	Small-to-medium sized enterprise
SSWRDSP	Second Small Scale Water Resources Development Sector Project
SWAIWRPMP	Southwest Area Integrated Water Resources Planning and Management Projects
TVDP	Total Village Development Programme
UA	Uitgesloten aansprakelijkheid – excluded liability
UNDP	United Nations Development Programme
VPMCS	Village Primary Milk Cooperative Societies
WA	Wettelijke aansprakelijkheid – civil liability
WMA	Water Management Association
WMCA	Water Management Cooperative Associations
WMF	Water Management Federation
WMG	Water Management Group
WMO	Water Management Organization
WRMU	Water Resources Management Unit

Summary

Bangladesh is characterised by an extensive network of rivers which constitute about four-fifths of the country. Water is deeply embedded with the life and well-being of the population. Monsoon brings floods, while water is scarce in the dry season. Potential for greatest improvement in agricultural and economic productivity of agriculture depends largely on improved irrigation during dry season and improved flood management and drainage during monsoon season. The Bangladesh Water Development Board (BWDB) is responsible for developing and improving the water resources sector. In 2013, the Blue Gold program of the Bangladesh Water Development Board became operational. The two pillars of the Blue Gold program - organizing Water Management Organisations and the formation of cooperatives – aim to realize water safety and socio-economic development in the targeted regions. This study provides an exploration of the field of cooperatives in the Netherlands and Bangladesh, with the aim to gather knowledge about cooperatives and to make use of best practices and lessons learned. Attention is paid to their governance principles, organizational and institutional arrangements. The results will be utilized by the Blue Gold program for the development of Water Management Organizations and cooperatives.

The Department of Cooperatives in Bangladesh facilitates registration of cooperatives locally, promotes the formation of cooperatives, providing facilities, research and training for cooperatives and developing legislation and policies. However, there are certain challenges for the department, including the lack of skills, human resources, poor monitoring and absence of knowledge. The government has always been protective and paternalistic towards cooperatives, keeping them under firm and close administrative control and strict targets, which prevented the natural upcoming of cooperatives. Nowadays, the total number of cooperatives in Bangladesh is close to 165.000. The government of Bangladesh is hoping to increase this number and make the cooperatives the drivers for economic development and empowerment of women. However, there are a few challenges that cooperatives face, such as difficulties in the registration process, audits needed for registration, lack of transparency on the review process on the renewal of a registration and the charges for registration.

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. They are either formed to correct market failures, access economies of scale, change economies or societies, get access to markets or create (inter)national competition. Common characteristics are having a member focus, with collaboration and participation, and a long time horizon. The cooperatives can differ through various factors, including organisational form and governance, the financial and legal framework, the network and value chain, the identity and the entrepreneurship of the cooperative.

The different factors include:

Organisational and governance	The distribution of votes, the organisational structure, interaction between members and the cooperative model.
Legal and financial	Membership fees, national legislation which can support or block the cooperative and legal commitment about division of profits, entering or exiting the cooperative and other relevant topics.
Entrepreneurship	The need of an entrepreneur and someone to make the ideas work practical.
Identity	Establishment of core values, creating a business identity based on the combined factors, a cooperative culture.
Network and value chain	Direct involvement of members in the cooperative, dependence of the members, based on a value chain collaboration.

In order to verify the common characteristics, gain insights in the various ways of organizing and establishing a cooperative and in the ways cooperatives in Bangladesh could be encouraged, four different cooperatives were researched and members of the cooperatives interviewed. In total, 13 interviews were conducted in the first quarter of 2014. The research cooperatives in the Netherlands were DeltaMilk and Oikocredit. In Bangladesh, the cooperatives Deedar and MilkVita have been researched. DeltaMilk is a Dutch cooperative formed by farmers after the farmer field school. The cooperative started with shared purchasing of food for their cows, but has grown to be a cooperative that uses the milk of its members to produce high quality cheese. Oikocredit is a Dutch based by international cooperative, giving out loans and microcredits to entrepreneurs in third world countries. Deedar has separate cooperatives in Bangladesh for groups of people discussing business operations. The membership funds are provided as loans to members for agricultural and non agricultural activities. MilkVita collects milk from its members and provides quality milk to the country, as well as animal healthcare and other support to the members.

Results of the interviews and desk study showed that all four cooperatives have arranged their cooperative according to the wished of the members and the possibilities to choose the form closest to the goal of the cooperative. Trust between the members is of great importance, since the members usually have an equal share in the votes and are dependant on the cooperative. This is why it is important to put down financial and legal structures in writing, so there is only regularly a discussion about the way profits etc. are divided. The main principles for cooperatives as organizational form include organizing the financial, organizational legal structure as well as the governance (such as the voting systems), control system, place in the value chain and network for the cooperative.

The cooperative should have an own identity and strategy in place. The members should be the ones starting the cooperative and discussing the right form with the goals of the cooperative in mind. For a cooperative to be really successful, it is important that members have something to lose when they leave the cooperative, because then they will be motivated to make the cooperative work. With the right principles in order, a cooperative can be highly successful in either correcting market failures, stimulating innovative solutions for welfare needs, access economies of scale, change current economies or societies and create more (inter)national competition.

Cooperatives can strengthen the separate members, the community and economic status of the country. For example, more economic welfare of the population in rural areas can ensure more income taxes which can be put back into water management projects. However, these effects can be blocked or decreased by unsupportive legislation or the wrong facilitation. The government of Bangladesh can better facilitate and support the cooperatives, and members will form them themselves. They need to have a business approach for setting up a cooperative and this is where the government can support. Cooperatives should not only be approached with a legal and financial dimension in mind, but also with a relational, institutional and contextual dimension.

Contents

Colofon	2
List of figures and abbreviations	3
Summary	5
1. Background	10
1.1 Research focus	13
1.2 Relevance	13
1.3 Structure	14
2. Towards deeper understanding and a clear perspective on cooperatives	15
2.1 Cooperatives related to Water Management	16
2.1.1 Registration of Water Management Organisations	18
2.1.2 Blue Gold – Taking Cooperatives to a next level	21
2.1.3 Lessons learned	22
2.1.4 Recent Developments	22
3. Different factors of cooperatives	24
3.1 Governance and organization	26
3.2 Entrepreneurship	29
3.3 Identity	30
3.4 Network and Value chain	32
3.5 Legal framework	35
3.6 Capital	37
4. Methods	40
4.1 Conceptual model	40
4.2 Selection of cases	40
4.2.1 Cooperatives in the Netherlands	40

4.2.2. Cooperatives in Bangladesh.....	41
4.3 Research Methods.....	42
5. Case study: cooperatives in the Netherlands and Bangladesh.....	44
5.1 Oikocredit, Ecumenical Development Co-operative Society U.A.....	44
5.2 Dairy Cooperative DeltaMilk U.A.	49
5.3 Deedar Comprehensive Village Cooperative Society.....	53
5.4 Bangladesh Milk producers' Co-operative Union Limited.....	56
6. Findings.....	61
6.1 Oikocredit.....	61
6.2 DeltaMilk.....	62
6.3 Deedar	62
6.4 Milk Vita.....	64
6.5 Cooperatives in Bangladesh	65
7. Outcomes	67
7.1 Basic principles of cooperatives	67
7.2 Lessons learned from WMO's	68
7.3 Lessons learned from cooperatives.....	68
7.4 Lessons learned for Blue Gold.....	69
7.5 Conclusion.....	70
8. Final Remarks.....	72
References	73

1. Background

One of the pillars under the Blue Gold program is organizing Water Management Organizations (WMO's) for proper integrated water resources management. In connection to that, a second pillar is the formation of cooperatives with their own value chains in the productive sectors which are dependent of water resources. Both pillars support the aim to realize water safety and socio-economic development in the targeted regions.

The combination of WMO's with the idea and principles of a cooperative may be seen as an institutional innovation in Bangladesh, especially regarding the specific role of a cooperative and value chain expectations expressed in the Blue Gold program¹. For this reason, it is important to gather knowledge about cooperatives in Bangladesh and the Netherlands to make use of best practices and lessons learned. The institutional innovation as indicated serves the development and long term perspectives of WMO's and supports sustainable water management by offering new ways of collaboration and investment. In this respect this research will be funded by the Blue Gold Water Management Fund (BGWMF). The central purpose is studying cooperatives to gain more insight and understanding of cooperatives in the Netherlands and in Bangladesh with attention for their governance principles, organizational and institutional arrangements as well as their performance and success or fail factors. The study is a first assessment, an exploration of this field which may be deepened later on if new challenges or specific questions arise. The results of the study of cooperatives will be utilized by the Blue Gold Program for the development of WMO's as cooperatives or for the development of WMO related cooperatives.

The Department of Cooperatives (DoC) in Bangladesh has been the principal government organization responsible for facilitating economic growth and poverty reduction efforts of the government. It is an attached department under the Ministry of Local Government, Rural Development & Cooperatives. Currently, the total man power of the department is reportedly 4891, although the capacity and human resource quality requires significant upgrading.

The head of the department is the Registrar, an Additional Secretary to the government. The administrative set-up of DoC is extended up to upazilla (sub-district) level. The officers-in-charge at the divisions, districts and upazilla levels have been delegated almost all the powers of the Registrar except for the affairs of national level cooperatives. This facilitates registration of cooperatives locally. Most of the legal mores that a legally incorporated enterprise usually requires can be locally performed. Divisional Joint Registrars, District Cooperative Officers and Upazilla Cooperative Officers are the respective heads of the division, district and upazilla level cooperative offices.

¹ | Blue Gold Program Document, August 30th 2012

Responsibilities of DoC, in this respect, include the mobilisation of communities to form cooperatives through awareness campaigns; registration of cooperatives; development of appropriate legislation and policy for cooperatives; conducting research; developing information management systems; designing training programme for cooperatives; fostering co-operation among cooperatives and building the cooperatives movement, which is still young and weak; settling disputes among cooperative members; auditing the accounts of co-operative members; and providing facilities for entrepreneurship development, promotion of cooperative business activities, management skills development and extension of technical assistance.

While the department has been entrusted with the above roles and responsibilities, there are numerous challenges that act as a barrier in the proper functioning of cooperatives. These include the following:

- Lack of human resources;
- Lack of appropriate skills and capacity to carry out the tasks;
- Absence of efficient information management system, resulting in poor monitoring and auditing system;
- Absence of promotional activities and knowledge on facilitating further development of cooperatives;
- Governance issues within the auditing and operational processes.

Historical Dimension of Cooperatives in Bangladesh

The development of cooperatives, particularly in Bangladesh over the years, has been a function of national policy: cooperatives are considered as a means of national level planning. In the pre-Independence days, the colonial rulers had promoted cooperatives for a very limited and specific purpose, namely, to buy peace in the periodically disturbed rural areas. The peace was disturbed by riots and violence by the indebted and exploited farmers. Rural cooperatives were then created, supported and administered to provide agricultural loans at reasonable rates of interest to farmers. With due course and time, other forms of cooperatives emerged in Bangladesh but it is important to note that basic approach of the government towards the development of cooperatives has always remained the same: protective and paternalistic, permitting limited role and activities, and keeping them under firm and close administrative control through an official machinery especially created for the purpose, the Department of Cooperatives headed by the Registrar of Cooperative Societies.

In the colonial era, it was the fear of these cooperatives becoming rallying points for Independence-seeking political elements that effectively prevented the colonial rulers to let cooperatives slip from their tight control. During the post-independence period, therefore, the cooperative was used as an instrument for state planning and later as a political instrument to win more votes. In the post-independence era, chiefly following 1971, the expectations and perceptions on the role of cooperatives evolved significantly. While the environment for cooperatives has become much more enabling, and as a result there has been an increase in the number of cooperatives in Bangladesh, in numerous cases they remain to appendage of the vast administrative apparatus.

Following independence of Bangladesh and with the realization of the fact of rural cooperatives met no more than a fraction of the total credit needs of the cultivators, large scale restricting of rural credit cooperatives including a “state-partnership” cooperative was designed and carried out. It was here that rural cooperative expansion kicked off and in cases such as Comilla, the concept of comprehensive village development cooperative (CVD) came about. These coupled with numerous instrumental roles of cooperatives demanded and built the expectation for a larger political purpose in promoting and supporting them in the socio-economic development in the post-independence era in Bangladesh.

A few historical aspects are important to note here to understand cooperative operation in Bangladesh. These include the progression to make development of cooperative as a matter of national policy and amendment made within the constitution. While this did bring cooperatives under the lime light, in some sense it also limited the prospects of emergence of genuine member driven cooperative. The government made specific targets for a number of cooperatives along with imposing structure, pattern, type, regulatory structure, supervision, and inspection, among others. Therefore, at the very outset, any room for manoeuvre or genuine cooperative emergence was sealed off. This approach was followed by financial support provided to the cooperatives. These also include subsidies, concessions and guarantees. This also meant the government also owned significant portion of the cooperatives. Here the government took on a selective approach to selection of cooperatives, setting up of priority cooperatives which in some cases emerged in the form of unfair competition or monopoly practices.

The aspects mentioned above placed the cooperatives in state-created superficially conducive environments. This caused a lack of real competition, market stability, access to capital and a reasonable margin of profits. With time, these environments bred a high degree of complacency among the cooperatives and created a culture of indifference towards the market. The protective environments also limited the skills and capabilities of cooperative leaders and managers to effectively lead and manage. Above all, cooperative leaders and managers gradually became oblivious of their obligations to the cooperative members and understand their role and place in the governance, management and working of the cooperatives all together².

In the initial stages, the spirit behind the state policy on cooperative development was primarily ideological. It reflected the widely-held political belief that a poor country should strive to create a socialistic pattern of society. As can be traced from history, cooperatives were seen as ideal institutions which could and would bring about a socialistic patterned society. But as years passed by, the concept faded away and was not taken forward by the successors.³

² | Agricultural Credit Report, USAID Project No. 3880037, Robert R Nathan Inc. 1986

³ | Challenges before cooperatives in South Asia: Building a comparative advantage. <http://www.fao.org/sd/rodirect/roan0013.htm>

1.1 Research focus

The research focus of this paper is developing knowledge based on experiences, lessons learned and best practices in the Netherlands and Bangladesh, to create a promising and realistic perspective on the formation and performance of cooperatives. Attention needs to be paid to the combination of two basic developments: cooperative development based on integrative principles regarding water resources management as well as business development based on principles of a market system with already present actors and value chains.

This line of action is meant to develop new or additional insights, knowledge and innovation. The cooperative development based on integrative principles regarding water resources management will be elaborated separately with Water Boards in the Netherlands. This will be focused on long term perspectives as local water authorities. Cooperative development as business development based on principles of a market system with already present actors and value chains is the main subject in this research. The following research question has been formulated:

What are the main principles and promises of a cooperative as organizational and institutional form and how can be dealt with competing values within a cooperative and or with the setting surrounding it?

We elaborate this in four sub questions:

1. What are the main or basic principles of a cooperative related with expectations, promises or perspectives for participants?
2. What can be learned from the present WMOs with respect to their becoming of and acting as cooperatives?
3. How are cooperatives dealing with business development and participation in broader value chains or market systems and which role competing values play in their business approach?
4. Which lessons can be learned for the Blue Gold Program when the findings of 1, 2 and 3 are applied to the situation in Bangladesh?

1.2 Relevance

Discussions about and elaboration of cooperatives in the water sector in Bangladesh seem to be dominated by confusion and practical problems. Furthermore, there is the challenge for WMO's registered as cooperatives to develop business with their own value chains and organize themselves as business enterprises or to embed themselves in broader value chains as part of larger cooperative and or market systems. The Blue Gold program places attention on cooperatives as driver for economic development, and argues that these can be introduced as an answer to many challenges in the water and productive sectors. The cooperatives will have to become

organised and managed as private sector enterprises in order to create the maximum benefit for their members, being higher household income.⁴

This research helps gaining new or additional insights and knowledge about cooperatives, changing the discussions about cooperatives and the practical problems. Moreover, this research can shed light on pre-assumptions and ways of organizing cooperatives in order to grow as business enterprises or embed in value chains.

1.3 Structure

In the first chapter, the context and background of the research question(s) is elaborated upon. Following this, the background is explored in more detail, with a description of cooperatives related to water management. In the third chapter, a more broad insight in cooperatives and different factors that can be expected within setting up a cooperative is given. The research method chapter displays the methods used and conceptual model which has guided the research. In chapters five and six, respectively the case studies and findings are elaborated upon. In the case studies chapter, the four researched cooperatives are presented with facts and figures. The findings of the interviews are presented in chapter six. In chapter seven, answers to the research question(s) can be found.

⁴ | Blue Gold Program Document, 30 August 2012

2. Towards deeper understanding and a clear perspective on cooperatives

In the Netherlands, the law for cooperatives was established in 1876, but forms of cooperatives already existed before this. Cooperatives were organized in order to “have a countervailing power, gain access to industrially produced goods and services, realize economies of scale, manage their risk, and improve their own income” (p. 144)⁵. Last years, apparently in reaction to the economic crisis, a significant increase of cooperatives in the Netherlands can be noticed: in 2009 about 5.300 cooperatives were registered in the Netherlands, in 2011 this number was about 7.500⁶. The economic impact of the agricultural cooperatives in the Netherlands in 2010-2011 was 32 billion Euros revenue with 50.000 FTE and 140,000 members⁷.

In Bangladesh, while cooperatives came into being as a natural system of risk-averse business model decades ago, there was a clear absence of any formal institutionalized structure. In the 1970s, Bangladesh cooperatives faced many challenges in the form of lack of understanding on: cooperatives and their operation, managerial capabilities, education among cooperative members and access to capital. Furthermore, the cooperatives also faced challenges of presence of ‘living-dead’ cooperatives and failure to repay loans by members of credit unions. The Bangladesh government responded to this crisis by instituting several measures, which led to an increase in the number of cooperatives from around 5000 to over 145 000 of different sizes, values and comprising various sectors. Nowadays, according to the records of Department of Cooperatives, as of 2013 there are a total of 164.536 cooperatives in Bangladesh with almost 9 million members and a working capital (BDT) of almost 2000 Crore (€ 189 million).

Model: Comprehensive Village Development Programme (CVDP)

Bangladesh Academy for Rural Development (BARD) was the first to introduce two tier cooperatives to cater to the needs to farmers in general in the 1960s. These two tier cooperatives were replicated throughout the country as a national programme after the liberation war. There were however several flaws in the system. Around 40 percent of households were covered by the cooperatives where the landless were not included. Non-farm sectors were not achieved as a result several programmes were being constructed targeting different sectors of people which caused overlapping and wastage of resources. All these criticisms demanded a more balanced and comprehensive approach.

Bangladesh Academy for Rural Development (BARD) has developed a ‘one institution one village’ concept in order to solve the emerging problems of rural societies which is known as Comprehensive Village Development Programme (CVDP), previously known as Total Village Development Programme (TVDP). BARD is a pioneering organization in bringing the issue of involving women in the development

⁵| Soboh, R., Oude Lansink, A., & Van Dijk, G. (2012).

⁶| Coöperatie is bezig aan opmerkelijke opmars, Jan Verbeek, Het Financieele Dagblad, May 16th 2011

⁷| De economische betekenis van de coöperatie, Nationale Coöperatieve raad voor land- en tuinbouw, May 2012

process. Under the CVDP, women are encouraged to participate and reap their socio economic benefits and they are also being involved in the development decisions. It is an institutional approach to solve any problems related to village development and to channel all sorts of services and facilities to the villagers. It attempts to bring each and every family of a village under the umbrella of a single organization or institution. The CVDP includes males, females, children, the landowners and the landless as well as entrepreneurs.

The main objective of the CVDP is to alleviate poverty and they aim to achieve this through a number of methods. They plan to increase production and employment in different sectors to increase productivity and income. The villagers are given the opportunity to own assets under a joint ownership so as to reduce the income gap. Children are given the opportunity to gain education so as to lower the illiteracy rate in the long run. Annual plans are set through mutual discussion with the cooperation of members on a regular basis. Health and nutrition plans are devised and overall socio-economic development of villagers are ensured through maximum utilization of all resources.

The CVDP cooperatives were found to increase income of the rural people and also create a savings habit amongst them. They were successful in maintaining harmony amongst the rural community since the members seemed to be doing well. The managing committee members were also selected following proper democracy practices making it a fair election. CVDP's also gave women a chance to solve their problems and gave them the capacity to safeguard their interests further.

There are however, shortages of studies on the comprehensive assessment of the poverty situation in the rural communities. Assessments also need to be done on the comparison between the two tiered cooperatives and the CVDP's which would make the effects of CVDP's more pronounced.⁸

2.1 Cooperatives related to Water Management

Bangladesh is characterised by an extensive network consisting of over 250 rivers, which drain huge quantities of water to the Bay of Bengal. Floodplains of the major rivers Ganges, Brahmaputra and Megna and their tributaries constitute about four-fifths of the country. The flat topography, high intensity rainfall and inadequate conveyance capacity of the rivers cause drainage congestion, resulting in extensive flooding during the monsoon. Water is thus deeply embedded with the life and well-being of the people of the country.

⁸ | A Comprehensive Study of Comprehensive Village Development Cooperative Societies and Traditional Cooperatives on Socio-economic Development, Kashem, M et al, BARD, 2011

Each year, about 20-30 percent of the country is inundated, flooding over 6 million hectares. This situation creates both opportunities and risks; opportunities for highly productive farming and fishing systems, but considerable risks from deep flooding, erosion and drainage problems. By contrast, the availability of surface water during the dry season is significantly reduced and lack of pre-monsoon rainfall can cause serious soil-moisture deficits. Potential for greatest improvement in agricultural and economic productivity of agriculture depends largely on improved irrigation during dry season and improved flood management and drainage during monsoon season. Like floods, drought also brings into focus the inherent discord among different uses of water. In the post-monsoon period, soil-moisture content declines rapidly and the water deficit needs to be compensated by irrigation. Agriculture gets the largest share of the available water and this in turn affects navigation, drinking water supply, environment, rural health and sanitation.

The agriculture sector has been playing a key role in the economic development of the country. Agricultural development is directly linked to poverty alleviation. Since three-quarters of the country's total population and 85 percent of the total number of the poor live and earn their livelihood in the rural areas, the Government has identified agriculture and rural development as the priority sectors for rapid poverty reduction. Water resources management has thus played a major role in the growth of agriculture and consequently in poverty alleviation in the country. Structural interventions in the coastal areas and the floodplains in the country have over the past decades significantly reduced the vulnerability to natural disasters of the poor and have created economic opportunities for them by ensuring increased agricultural production.

The Bangladesh Water Development Board (BWDB) is responsible for developing and improving the water resources sector. It has been working to attain this objective since its establishment in 1959, through the formulation and implementation of various water development projects. For the implementation of water development projects the Government of Bangladesh (GoB) has been receiving support and cooperation from various donors since a long time. The focus of these projects has changed over the years, based on the lessons learned. Initially the focus was only on construction and engineering, but the projects' objectives and field of attention have gradually broadened to include specific topics such as:

- Operation and maintenance;
- Stakeholders' participation;
- Local level water management;
- Multi-disciplinary participatory planning and appraisal of projects.

Since the late 1980s, there has been growing awareness of the need for a more integrated, multi-sector approach to surface water management. Most importantly, participation of all stakeholders from the outset is crucial in order to promote sustainability and to ensure the long-term integration of social and environmental

considerations. The emphasis therefore shifted from flood control to water management; from purely structural (engineering) solutions to combinations of structural and non-structural measures, designed to meet a broader range of water management needs; and from project development purely by technicians to stakeholder participation in all stages of the project development cycle.

The realisation of the essence of peoples' participation in water development projects led to the development of the National Water Policy (NWPo) and Guidelines for Participatory Water Management (GPWM). These two important documents provide the present policy framework in relation to water resources management. In the NWPo, which was formulated in 1999, the Government of Bangladesh expresses its intention to take all necessary means and measures to manage the water resources of the country in a comprehensive, integrated and equitable manner.

The GPWM were developed and introduced in 2001. These guidelines are in particular applicable to BWDB and the Local Government Engineering Department (LGED), the agencies most involved in water management projects. But the GPWM obviously apply to all other stakeholders such as WMO's, other community based organizations, Local Government Institutions (LGI's) and others. The GPWM identify three levels of WMO's - Water Management Group (WMG) at the lowest level for each smallest hydrological unit or social unit (para or village). Water Management Association (WMA) at the mid level for each project or system and Water Management Federation (WMF) at the apex level of the project/scheme. Depending on the size of the scheme or polder at least the first two or all three levels should be represented.

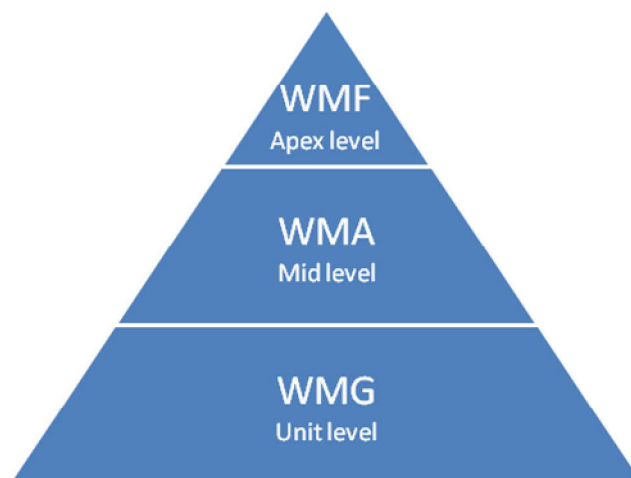


Figure 1: Three levels of WMO's

2.1.1 Registration of Water Management Organisations

Prior to the GPWM, the various water development projects established loose WMO's, basically on the principles of the Comilla cooperatives described earlier, that were occasionally registered under the cooperative law, but mostly not registered at all and only operating under the Department that had established the organisation (mainly LGED and BWDB). As mentioned the GPWM gave directives regarding the levels of the water management organisations, but did not provide clear guidance in relation to the registration of these organisations. This became a major point of discussion when LGED implemented the Second Small Scale Water Resources Development Sector Project (SSWRDSP-2) from 2002 onwards, funded by the ADB and the Government of the Netherlands and the BWDB started the implementation of the Integrated Planning for Sustainable Water Management (IPSWaM) program in 2003. The latter program, also funded by the Netherlands Government had as its mandate to make the principles laid down in NWPo and GPWM operational.

As a consequence a study team was set-up and fielded under SSWRDSP-2 to assess the legal framework of WMO's based on a field study of operational WMO's established under LGED and BWDB.

The starting point for the study team was that WMG's are the grass root people who are directly involved in water management, while the WMA will provide the necessary coordination at scheme level. The WMA was recognised as the point of formal interaction between a water sector agency or institution and a WMO. This is the level where formal agreements relating to the duties and obligations of the parties concerned will be signed. Therefore the WMA should definitely have a legal status, but the question is how registration should work.

The study concluded⁹ that, for LGED, the WMA should be registered within the framework of the cooperative law. For BWDB a dual system was recommended: for Flood Control Drainage and Irrigation (FCDI) projects the WMO's should be registered under the cooperative law, whereas for Flood Control and Drainage (FCD) projects the WMO's could either be registered under the cooperative law or with the BWDB itself.

Local Government Engineering Department

Numerous Water Management Cooperative Associations (WMCA's) were formed under SSWRDSP-1 and 2 with the support of and within the institutional and policy framework of the integrated Water Resources Management Unit (WRMU), a unit within LGED that was established in 2004. All these organisations are registered with DOC. However during the formulation of the Participatory Small Scale Water Resources Sector Project (PSSWRSP) as follow up to the SSWRDSP the relation between the WMCA's and DoC were reviewed and it was concluded that¹⁰: Key constraints in satisfactorily performing core areas of cooperation and strengthening WMCA's as multi faceted, self regulating entities capable of maximizing development potential include:

⁹| LGED 2006, Institutional Studies for Legal Framework of Water management Organizations

¹⁰| LGED 2011, TOR for the Invitation for submission of applications for Consultancy Services for the Water Cell in the Department of Cooperatives under the Participatory Small Scale Water Resources Sector Project (PSSWRSP): Loan No-2542-BAN(SF)

- i) lack of specialist knowledge and orientation of DOC headquarter and field personnel on specific support and strengthening requirements for water management cooperatives as opposed to conventional cooperative societies;
- ii) ii) absence of dedicated personnel and institutional arrangements to plan, supervise and monitor implementation of WMCA-specific statutory, regulatory and promotional activities;
- iii) iii) WMCA- specific training materials have not been developed for capacity development of DOC staff and WMCA's;
- iv) iv) MIS database sharing;
- v) v) link between DOC and LGED, knowledge sharing and mutual capacity building vi) lack of logistical support and limited field mobility.

It was therefore decided to enhance the institutional strength and enlarge the capacity of the DoC, through the establishment of a Water Cell, to improve the statutory, developmental and promotional functions for water management cooperative organizations and to provide operational support for increasing field staff outreach and mobility. The Water Cell was established in 2009 and technical support was provided from 2012 onwards and will conclude in December 2014.

Bangladesh Water Development Board

For BWDB this outcome of the study of 2006 was not specific enough as it felt that the WMG's, which after establishment started credit and saving activities and were also involved in the LCS formation and other water management activities, needed a legal status as well. Therefore a six member committee was established in the BWDB at the end of 2006 with the task to evaluate in how far the GPWM would have to be revised so that a two layer registration system could be incorporated. The outcome of the working group was that the registration of WMO's under the Cooperative Department could take place; it would not require changes to the GPWM. However, a Memorandum of Understanding (MOU) between the BWDB and the Cooperative Department would facilitate the registration process.

Since the drafting and approval of such a MOU would take considerable time, the IPSWAM project already moved ahead and started the registration of WMG's as a primary cooperative society. Before registration became effective, training was provided to the WMG's by resource persons from the Cooperative Department at district and Upazilla level on the registration process and the procedures and requirements to be followed once the organisation has been registered.

Prior to registration, the WMG's had to produce:

- (i) Registration book or note;

- (ii) Members book, including all the resolutions that have been discussed;
- (iii) A cash book, including an expenditure overview of the last two years;
- (iv) A savings register, containing the savings over the last two years;
- (v) A share register;
- (vi) Payment and receipt books/files;
- (vii) A copy of the by-laws. These documents were forwarded along with an application for registration, based on which an agreement with the Cooperative Department was signed and registration as a Water Management Cooperative Ltd. organisation became effective.

Simultaneously discussions were ongoing and preparations were made for the registration of WMA's as cooperative associations, but although this was incorporated in the IPSWAM Guidelines, the latter never materialised in the IPSWAM program.

2.1.2 Blue Gold – Taking Cooperatives to a next level

The Blue Gold program in Bangladesh has a focus on establishing 600 Water Management Groups (WMGs) with an average of 250 members which are effectively organized and managed next to the 250 WMGs already established under IPSWAM. The three appointed districts are Patuakhali, Khulna and Satkhira, with 11,643 km² and a population of 5.6 million. The trigger for starting the cooperatives is sustainability, especially for the water systems in Bangladesh. Furthermore, the Water Management Groups have to be supported by the cooperatives.

The project goals are:

- a) The establishment and/or strengthening of Water Management Groups (primary societies) in the selected polders.
- b) Create cooperative associations of the WMG whenever the private sector or Government cannot provide the services or in particular the inputs required such as for inputs supply, processing, marketing, credit, etc. The responsibilities of the Water Management Association (WMA) will be defined in more detail and these will be strengthened to fulfil these responsibilities.
- c) The WMG's and their associations have established effective partnerships with government institutions, knowledge centres, NGO's and the private sector whenever needed for sustainable socio-economic development in the polders.
- d) Stimulate and introduce professionalization of the WMG's and their associations.

The cooperatives are to become the drivers for economic development as well as empowerment of women, because the rural communities are encouraged to take up responsibilities by organizing the cooperatives and maintaining it. For this to happen, it is important that they will be organized and operated as private sector entities

with a business plan based on value chain analysis. The cooperatives can play various roles for their members, from the supplier of input and credit, processing and storage of products to the marketing of products

The basis of the process is the creation of WMG's and cooperative associations in the three appointed areas and ensure active participation. After this, the cooperatives can be further build and taken into production. Lastly, they will become developed and organized as private enterprises that create added value. The primary cooperative has been selected as most appropriate legal institutional basis for the organization of the producers from rural communities. Forming only these primary cooperatives is insufficient for the sustainability for the cooperative. Therefore, it was decided to involve WMG's (primary societies) to professionalize the cooperative and create conditions for higher incomes for the members, which could lead to an increase in membership fees.

2.1.3 Lessons learned

Recent studies on the Field Level Institutions in Char Development and Settlement Project (CDSP), Southwest Area Integrated Water Resources Planning and Management Projects (SWAIWRPMP) and IPSWAM¹¹ and the Functionality Assessment for Water Management Organizations in Blue Gold ¹² gave some inside in some of the challenges the WMO's are facing in relation to the registration process. A large number of the WMG's and WMA's complained about the numerous difficulties faced by them in registering as cooperatives under the Cooperative Act. Some of the WMA's (especially in the SWAIWRPMP) could not be registered for the reason that the Cooperative Departments refuses to register a WMA unless it has at least 10 WMG's as its constituents. The ground reality is that due to the hydrological and sociological reasons, it is not possible to organize 10 WMG's in one hydrological/ sociological sub-system.

The audits needed for continued registration are creating serious problems and WMG's hint at a non-transparent review process to obtain a renewal of the registration with DOC. The charges for registration and renewal are also quite high and in some cases beyond the capacity of these groups to pay (especially for WMA's that would need to be registered as second tier cooperative associations). Moreover, the Cooperative Department in various cases considers the capital accumulation as a result of the purchase of share and savings as income and charges income tax for these funds. This practise by the Department is creating serious bottlenecks in the operation of the WMO's and corrective measures would be needed to remedy the situation.

2.1.4 Recent Developments

On 11 February 2014 the Water Management Rules 2014 were published in the Bangladesh Gazette. These rules will be applicable to the projects under the Bangladesh Water Development Board. Although the full implications

¹¹ | CDSP IV 2013, Mission Report No 4 Field Level Institutions in CDSP

¹² | Blue Gold 2013, Technical Report No. 1: Outcome of Functionality Assessment for Water Management Organizations

of the Rules are not yet clear, the registration of the WMO's will be with the BWDB again as follows: the registration of the WMG will be carried out by the concerned Deputy Chief Extension officer of the Department of Water Management of the concerned project area, who will be the Registration officer in case of the Group; the registration of the WMA will be done by the concerned Chief Extension officer or by the Chief Extension Officer who will be the registration officer of the Association; and the registration of the Federation will be done by the Chief of the Water Management Department of the Board who will be the Registration officer of the Federation.

Any organisation that is engaged in participatory water management work should be registered as per these Rules which means that organisation that are already registered under the Department of Cooperatives or with some other office have to be registered under BWDB as well within 6 months from publication of the rules

3. Different factors of cooperatives

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise¹³. The core of the cooperative is the product or service. That is the central focus, the reason for existence of the organisation, or as Dunn¹⁴ states the basic philosophy underlying all cooperative action is that through joint effort and mutual self interest individuals may collectively achieve objectives unattainable by acting alone. An attribute of a cooperative is that not the shareholder is in charge, but the member-owners, which can be either customers, employees or residents. They do not have a supervising role, but also decide in what will be invested in. This organisation form is especially fit for organisations with a social or utility function that do not have to rely on their own equity or takeovers¹⁵.

Cooperatives are formed either to correct market failures, create innovative solutions for new welfare needs, to access economies of scale, to change current economies or society, or to get access to, or simplify access to, certain markets. However, a cooperative is not always the right organisation form. The cooperative has to be able to generate enough financing to continue with economic activity, there has to be a (transaction)relation between the membership and the use of the cooperation, and the value of the shares has to maintain stable enough to ensure gradual in- and outflow of members¹⁶. Common characteristics for cooperatives are (p. 3)¹⁷ having a strategic focus on the members, local rooting at the location the members are established, a relatively long time horizon, focused on collaboration, ownership and therefore funding primarily through members, the absence of an independent strive for profit, possibility of paying profits to members and limiting the accountabilities, a large degree of control of the members over the decision making, a relatively high percentage of participation by the members and preservation of the unique identity of the members outside the cooperative.

For research of the case studies, an analytical framework as indicated in figure 2 will be used, related with identity, network and value chain, governance and organization, legal framework and capital factors as displayed in figure 3. These are offering the items to elaborate on the basis of documents and interviews. In each case, the factors of success and failure will get attention. The results will be presented as brief case descriptions with fact sheets of the relevant figures. We will particularly focus on lessons learned and on best practices as well as success factors and possible innovations regarding the items in the analytical framework. The strategic position focuses attention to

¹³ | www.ica.coop, Website International Co-Operative Alliance (ICA), accessed November 28th 2013

¹⁴ | Dunn, J. R. (1988)

¹⁵ | Lang leve de coöperatie, Arjen Zweers. Management Team, February 16th 2009

¹⁶ | Van Opstal, W. (2010)

¹⁷ | De economische betekenis van de coöperatie, Nationale Coöperatieve raad voor land- en tuinbouw, May 2012

the position which has been chosen or achieved in the respective branch and this will be related to the vision, mission and strategy of the cooperation.

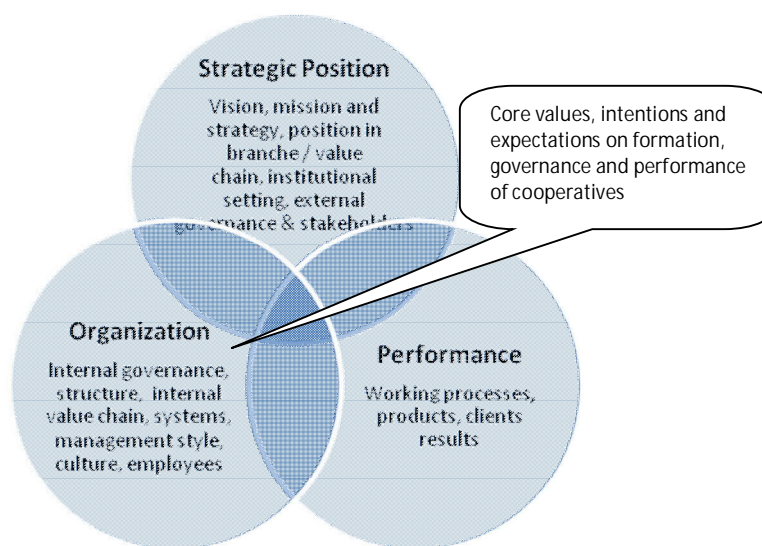


Figure 2: Analytical Framework Management & Organisation

A cooperative appears to offer an attractive form of organization and governance for many entrepreneurs. The overlapping area of the three circles in figure 1 indicates the core values, intentions and expectations on formation, governance and performance of cooperatives. The focus here is primarily on shared interests, being stronger together e.g. in relation with procurements and investments. A cooperative is striving for the best conditions and outcomes for its members by a long term orientation for stability and growth. Besides, solidarity, trust, accountable and sustainable entrepreneurship proved to be important values to build solid collaboration, organizations and businesses. This also means that members normally have a strong commitment to the cooperative and don't leave it easily like shareholders do in shifting between business enterprises.

Although cooperatives have a common organisation form, there are several factors that make the cooperatives distinct from another. In this research, we will focus on identity, network and value chain, governance and organization, entrepreneurship, legal framework and capital factors¹⁸. In Bangladesh, most cooperatives and organisations are entrepreneurial and consumer based and not governmental based as is the case in the Netherlands. This is why it is relevant to look at the network and the value chain of the cooperative and the

¹⁸ | Blueprint for a co-operative decade, International Co-operative Alliance, 2013

identity. Furthermore, the governance structures, legal framework and capital factors of the organisation determine the form of the cooperative. The literature is reviewed with these factors in mind.

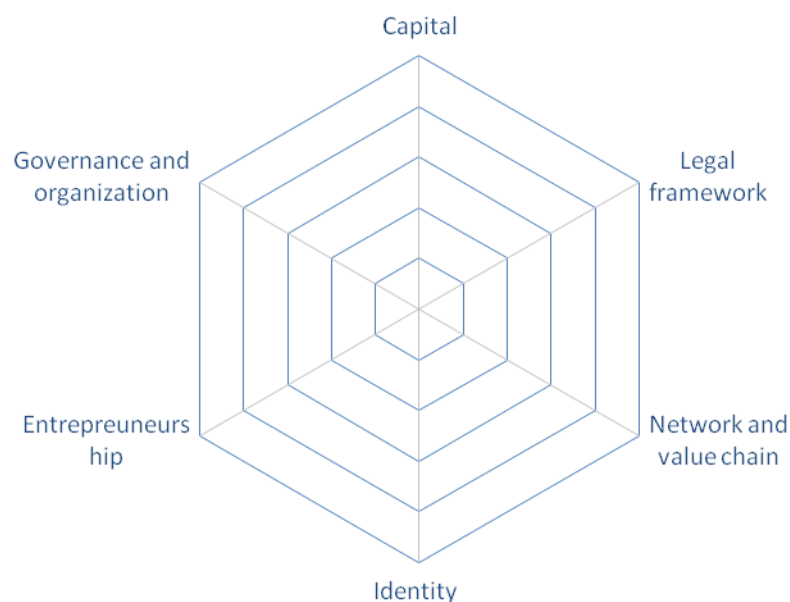


Figure 3: Factors determining the form of the cooperative

3.1 Governance and organization

Governance

According to Dunn, the starting point defining cooperatives is recognizing the four different types of interest represented in any business organization: user, ownership, controlling and employee interests. With respect to governance, we follow what Dunn¹⁹ has called the basic cooperative principles. The three principles are:

1. The User-Owner Principle: Those who own and finance the cooperative are those who use the cooperative;
2. The User-Control Principle: Those who control the cooperative are those who use the cooperative;
3. The User-Benefits Principle: The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

These are flexible principles, still encompassing various practices such as open or defined membership and one vote per member or proportional voting.

Furthermore, according to Dunn²⁰, the most democratic way of organizing the votes in a cooperative is through the one firm/one vote principle. However, he acknowledges that, usually, members have a vote in the cooperative according to their level of financial participation. This is a problem when large-volume financiers are aboard,

¹⁹ | Dunn, J. R. (1988)

²⁰ | Dunn, J. R. (1988)

because the volume may have a large influence on the votes of other members. The link of one share-one vote can be broken in a cooperative. Van Opstal²¹ argues this can vary from the principle one man = one vote to limiting the right to vote at a point where no member can have, for example, more than 10 percent of the votes. He notes that the organisation form cooperative is interesting because the statutes can make a difference between users and external investors, making it possible to build in extra guarantees for the members regarding control and decision making power.

Organization

One of the clear benefits of a cooperative is the closeness of the members to the board. The members do not only supervise, but also determine the investments and strategy of the cooperative. This is also known as one of the disadvantage of a cooperative, because this usually affects the ability of the cooperative to react fast to changes. However, this model stimulates a focus because the members also actively test the foundations of the cooperative²². The member autonomy of cooperatives can also result in more complex projects when the members are asked to give input. This is shown in, for example, the case of Oikocredit below. This example shows that an 'a la carte' approach to a project with autonomous members can lead to a 'toxic tandem', in which all the preferences of the member have to be taken into account. This is something to be aware of in the governance of the cooperative.

Oikocredit

In 2013, an evaluation of the Titan project in Oikocredit was done. In this project, the board of Oikocredit asked their members what needs/wishes they had regarding the functionalities of the project. Because the autonomy of the members the development of a shared system became more complex, and resulted in a more time and budget consuming project than expected.

The two sides of the cooperative are also known as the blue side, which is the side that is arranged in the law or the statutes, and the red side which is the way people interact with each other. Both are important to have, because you need a basis for guiding the interests and focus, and you need to be able to make business decisions. The cooperative is not set up for the benefit of one member, but is set up for the benefit of all members. You need to think both as a customer and a cooperative member if you are in the board. To be able to do this there has to be a trust between and strong commitment of the members. The commitment of the members and trust between them is the crucial precondition for a cooperative. The cooperative has to be entirely transparent and willing to listen to the members, and the members have to be willing to put the effort into the cooperative. This is the task

²¹ | van Opstal, W, (2010)

²² | Lang leve de coöperatie, Arjen Zweers, Management Team, February 16th 2009.

of the board. The board members have to make sure there is a trusting environment, but they also need to create their own opposition.

According to Cook, Chaddad and Iliopoulos²³, the traditional cooperative structure has certain “property rights attributes: ownership rights are restricted to member-patrons, residual return rights are non-transferable, nonappreciable and redeemable; and benefits are distributed among members in proportion to patronage” (p. 350). They have identified five non-traditional cooperative models with variation in ownership rights structure of the cooperatives. These are as shown in figure 3: Investor-Share, New Generation, Member-Investor and Proportional Investment cooperatives, and Cooperatives with Capital Seeking Entities. Also, Kalogeras, Pennings, van der Lans, Garcia and van Dijk²⁴ note that many cooperatives have relaxed the traditional ownership rights structure to adapt to market changes. This allows individualized equity shares. Choices in the ownership rights structure are based on the core characteristics of the marketing mix and positioning of the cooperative, for example its products, segmentation and strategy.

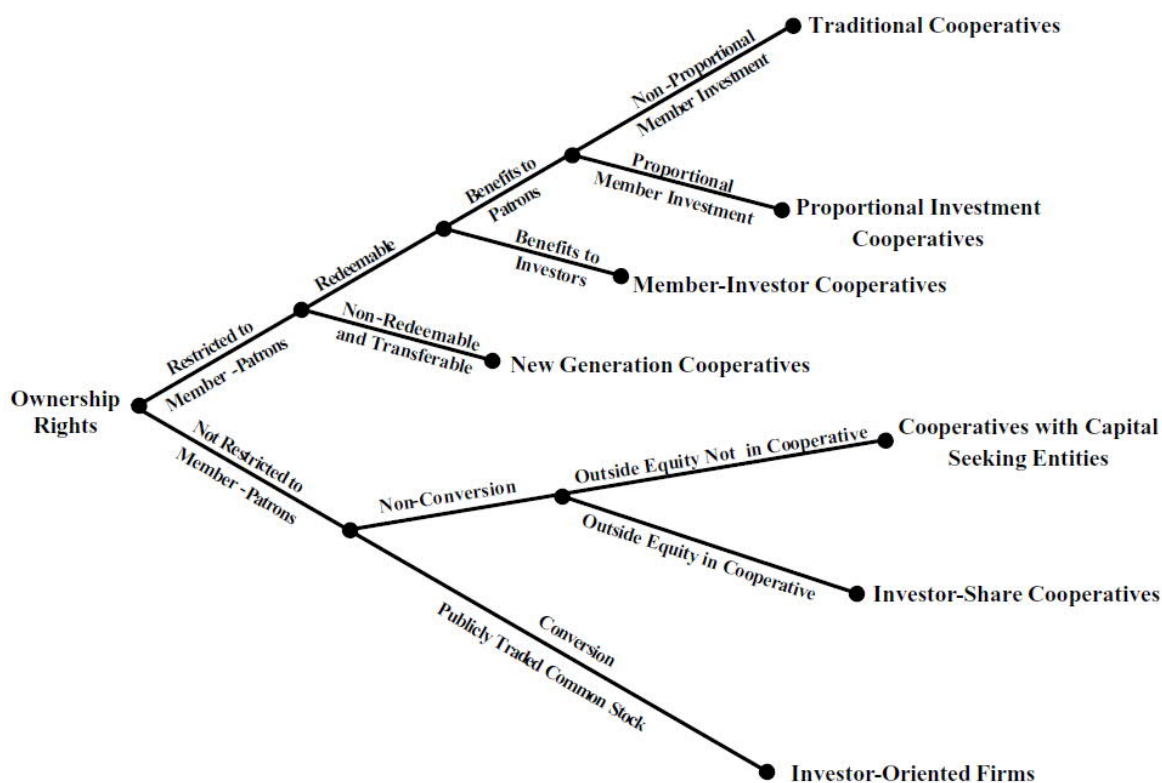


Figure 4: Alternative cooperative models: an ownership rights perspective

Cooperative 2.0

²³ | Cook, M.L., Chaddad, F.R. & Iliopoulos, C. (2004)

²⁴ | Kalogeras, N., Pennings, J. M. E., van der Lans, I. A., Garcia, P., & van Dijk, G. (2009)

The current movement for cooperatives is to put the social values central instead of the structure, fiscal benefits or juridical factors. New forms of cooperatives, such as collaboration with other cooperatives or co-creation with other stakeholders for generating an impact on the market are important motivational factors for this movement. This movement is called the cooperative model of the future, the cooperative 2.0²⁵.

3.2 Entrepreneurship

As McDonnell, Macknight and Donnelly state²⁶, cooperative entrepreneurs set up businesses that require much of the same characteristics as any other business. "Most entrepreneurs display determination, a capacity to innovate and 'think outside the box', a willingness to take risks, and good communication skills to promote their ideas to others" (p. 5). However, they also argue that entrepreneurs setting up cooperatives need to possess a few specific traits and attributes to establish a cooperative, such as a commitment towards democracy and collective gains, an understanding of the values and principles of the cooperatives, and the understanding of how cooperation helps the cooperative. Furthermore, entrepreneurs setting up a cooperative see the need to work together.

'To go fast, walk alone; to go far, walk together'

Not everyone involved at the start has to have a clear vision and an out of the box mindset. McDonnell, Macknight and Donnelly also argue that entrepreneurship becomes possible when there is a group of like-minded individuals that have a need which is not being met by other companies" (p. 5). But the cooperative can only become as good as the collective commitment of the members. "When members stop investing time and energy, cooperatives may witness a reduction in the benefits they provide to their members" (p. 10). Thus, cooperatives need both visionairs, but also the members to make it really happen: the pragmatists. Cooperatives need members who are committed, motivated, and flexible and who champion the idea.

BrightKidz

BrightKidz, a cooperative for a local walk to school scheme, was set up by a visionair. She always envisaged it growing and taking on employees who also owned and controlled the cooperative. Together, they decide on the strategic direction of BrightKidz. Members of worker cooperatives and employee-owned businesses are happier and feel stronger sense of commitment than employees of conventional businesses because their decisions directly affect the business and they receive a share of the profits.

²⁵ | <http://www.kamervancooperatie.nl/over-kvc>, accessed December 10th 2013

²⁶ | McDonnell, Macknight & Donnelly, 2012

3.3 Identity

According to the International Co-operative Alliance²⁷, the identity of an alliance is “is defined by the core values and principles of co-operation, and needs to be communicated through a powerful and distinctive message to ensure that co-operatives are seen and understood by everybody from policy-makers to the general public” (p. 4). This means that each cooperative needs to build a cooperative message to secure their identity, because cooperatives are fundamentally different and their values structure how they are owned, governed, managed and evaluated. One of the reasons for this difference is the difference in jurisdictions and legal systems the cooperatives are based upon.

The values of a cooperative are based on the seven principles for cooperatives. The values are “self-help, self-responsibility, democracy, equality, equity and solidarity” (p. 41). The seven distinguished principles that put the values into practice are:

- i) Voluntary and open membership
- ii) Democratic member control
- iii) Member economic participation
- iv) Autonomy and independence
- v) Education, Training and Information
- vi) Co-operation among cooperatives
- vii) Concern for community.

Cooperatives are open for everyone, without discrimination based on gender, social background, religion or political preferences. The members have a democratic vote and are the ones controlling the cooperative. Board members who are chosen amongst the members can make decisions, but the annual meeting of the members is the highest organ. Because the cooperatives are based on the member's interest, this creates the situation that the cooperative has to serve the best interests of the members and not those of outside shareholders. Information is shared amongst members to support and strengthen their independence, while also improving quality which is in favour of the cooperative²⁸. Furthermore, the strategy, annual equity balance, professional board and supervision are important for the identity of the cooperative²⁹. The ‘I want’ has to become an integral part of the ‘we want’. The members are using the cooperative mostly on a professional basis, and thus the cooperative has to add to the business goals of the members. This why the cooperative has to form a business identity.

²⁷ | ICA – blueprint for a co-operative decade. January 2013

²⁸ | Nationale Coöperatieve Raad voor land- en tuinbouw, Coöperatief ondernemen: van jou, voor jou.

²⁹ | Nationale Coöperatieve Raad voor land- en tuinbouw, Ruud Galle, Het coöperatieve antwoord op de NCR Coöperatiedag 22 november 2012

The direction of the values is also a guidance for the cooperative culture, which, according to Hogeland³⁰, typically includes being altruistic, valuing small and personal, emphasizing service over money making and a strong sense of family and unwillingness to let go of relationships, things or places. The focus on this sort of aspects influences the bonds and relationships between the members of the cooperative. In Oikocredit, for example, the culture was described to be altruistic, with small and personal bonds: a friendship existed between the members. This resulted in a lack of leadership and control, because the members were not able to give harsh measurements or comments when a member did not perform well or to make deals and arrangements.

Oikocredit

In 2013, an evaluation of the Titan project in Oikocredit was done. It was noticed that the wish to have equal shares in the process slowed it down and increased the costs. Furthermore, the organization was said to lack control because of the close intimate ties of the members. The members developed relationships in which they would give each other a lot of space to make mistakes, and not correct them as hard as might be needed.

Meyerson and Martin³¹ describe three paradigms concerning the identity of an organization: integration, differentiation and fragmentation (or ambiguity). Integration is what is shared by an organization or group, what is binding the group. For example: a common language, shared values or norms. Differentiation is culture with different perspectives or groups, for example different departments in an organization may share different values and have a different (group) culture. Fragmentation or ambiguity exists when an organization has more than one culture without a shared, integration set of values. In table 1 the differences between the three paradigms are displayed.

Table 1: Contrasting the paradigms (p.633)

Name	Paradigm 1: integration	Paradigm 2: differentiation	Paradigm 3: ambiguity
Degree of consistency among cultural manifestations	Consistency	Inconsistency and consistency	Lack of clarity (neither clearly consistent nor clearly inconsistent), and irreconcilable inconsistencies
Degree of consensus among members of culture	Organization-wide	Within, not between, subcultures	Issue-specific consensus, dissensus. and confusion among

³⁰ | J.A. Hogeland (2004)

³¹ | D. Meyerson, J. Martin (1987)

				individuals
Reaction to ambiguity	Denial		Channelling	Acceptance
Metaphor for paradigm	Hologram; jungle	Clearing in	Islands of clarity in sea of ambiguity	Web; jungle

When having a fragmented overall cooperative culture, this is called 'loose sand', in which it is very easy to 'sink down' in because there is no basis to stand on. The basis for trust is created when everyone has the same vision and goal, thus when the culture is integrated. However, different opinions about the way to manage a cooperative and different opinions heard in the annual meeting or in informal meetings are necessary to provide the board with challenges about their plans, goals and formulated strategies.

3.4 Network and Value chain

Cooperatives are more engaging with their network than most organizations because the members of the cooperative are directly involved with the cooperative. The individual members participate in the cooperative because each member has a role in the decision making and democratic arrangements and they have the right of representation. This relationship "goes beyond the basic economic relationship of customer, worker or producer" (p. 8)³². Furthermore, because individuals are involved more directly they have more real influence, which in turn legitimises their authority and commitment. According to Gijssels, Coates and Deneffe³³, the members have a relationship with the cooperative in four ways: a user relationship, a transaction relationship, a financial relationship and a controlling relationship. Together, the members of the cooperative collaborate to meet "both their individual and collective needs for access to goods and services, or to work" (p. 9)³⁴.

The relationship between the members is also of great importance to the cooperative, but they are not dependent on each other. The members usually are competitors on various levels, either at the regional level or in other ways. Each of the members has to ask the question whether they want to share chances and risks with each other. Usually, the answer is in favour of participating in the cooperative when there are multiple competitors in a sector or if the competition differs on various levels. When the common goal is bigger than the own regional goals, working together might prove fruitful.

According to McDonnell, Macknight and Donnelly³⁵, the process of cooperation does not end exclusively with the member cooperation within a cooperative. The cooperative must cooperate with other organisations to optimise

³² | ICA – blueprint for a co-operative decade. January 2013

³³ | Gijssels C., Coates, A. & Deneffe, P. (2011)

³⁴ | ICA – blueprint for a co-operative decade. January 2013

³⁵ | McDonnell, Macknight & Donnelly, 2012

its resources and achieve objects that are not in the reach of the cooperative operating on its own. The benefits they distinguish is the added strength that the cooperative will get from being part of a network.

Deltamilk

The initial starters of the cooperative have known each other from farmer school and started to share business stories and successes after obtaining their own companies. Later, they started to buy goods together for economies of scale. Only after this, the cooperative got bigger and started to focus also on selling the products made by the milk of the members. The members of Deltamilk are all farmers from the same area. When collaborating together in a cooperative, they ensure a more competitive position on a (inter)national level, although they are competitors at the local level.

Value chain

As seen in the example above, a cooperative can be used to take another position in the value chain. One that the members separated can not take due to their own bargaining power or low (social) capital. One of the expectations expressed in the Blue Gold Program³⁶ is the training of cooperatives for a business-like approach. This could enhance the economic development and could benefit the members. Value chain analysis is needed in order to provide the necessary information for creating a business-like approach. As Trienekens³⁷ notices, increasing the capabilities of suppliers of the value chain can “lead to more balanced power and bargaining relationships in these chains” (p. 67). Also, collaboration can lead to economies of scale and lower transaction costs. According to Trienekens, trust and the number and intensity of relationships play an important role in the horizontal and vertical collaborations, foremost in communities with strong social structures. Also, producers with “tighter social relationships with other economic actors in the value chain tend to be more successful” (p. 71).

³⁶ | Blue Gold Program Document, August 30th 2012

³⁷ | Trienekens, J.H. (2011).

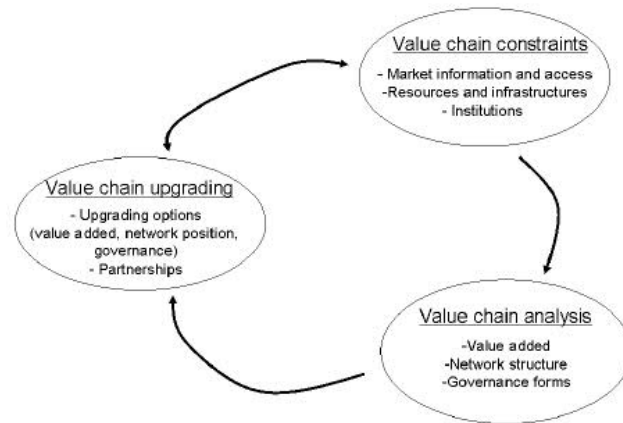


Figure 5: Value chain analysis framework (Trienekens, 2011, p.60)

Studies on the development of horizontal relationships mostly focus on the formation of cooperatives. Either members supply the raw materials for the cooperative, are involved in the production process or are the consumers of the products of the cooperative. According to Trienekens, the value chain analysis framework in figure 5 above can help with identifying the right value chain upgrade. First, there has to be an understanding of the value chain constraints. In the case of forming a cooperative, the members must see the benefits of working together in a cooperative. Next is the analysis of the value chain in terms of where value can be added and with what structure and governance form this can be done best. The upgrade options have to be reviewed consequently, but the form is already clear when choosing for a cooperative. Sapovadia³⁸ argues that a cooperative business sustains only if there is sufficient ‘value creation’ and ‘value addition’ as well as equitable ‘value distribution’ amongst the stakeholders.

“An interesting example of regional upgrading is given by Fisman and Khanna (2004), who describe how the establishment of business groups in underdeveloped regions in India may support the entire development of the region. Large business groups attract supporting industries that can stimulate economic development. They can spread the costs of infrastructure buildings over more assets than a single firm. These improvements at the same time make it more enjoyable for skilled workers to live in the area. Also rotation of skilled workers is commonly used by the groups. Group firms often have an extensive supplier network that also serves them in more remote locations and they have offices in cities where the financial sector is well developed. Additionally, these groups usually have good government contacts to facilitate landintensive projects. Establishment in less-developed regions is often supported by tax reductions” (p. 70).

³⁸ | Sapovadia, V. K. (2010).

3.5 Legal framework

Cooperatives law in the Netherlands

Legislation for cooperatives is different in every country and jurisdiction. In the Netherlands, the law of the cooperative was signed in 1925. In this law, the outlines of the legal grounds of the cooperative and a Dutch definition are specified. In the law, cooperatives are: 'the law defines cooperatives as an association of persons, in which the entering and resignation of members is permitted and have the goal to stimulate the interests of the members, with the means of their own profession in collaboration, through acquisition of appliances or credits they need'. (In Dutch: "Onder c.v.-en verstaat de wet verenigingen van personen, waarbij de in- en uittreding van leden is toegelaten en die bevordering van de stoffelijke belangen der leden ten doel hebben, als door middel van gemeenschappelijke uitoefening van hunne nering of hun ambacht, door aanschaffing van hunne benodigdheden of het hun verstrekken van voorschotten of krediet" ³⁹). The cooperative has to close certain contracts with her members and can close contracts with third parties under certain conditions. This has to be in the statutes of the cooperative, and can never be overruling the contracts signed with the members (art 2:53 Dutch civil law). The cooperative has to serve the members (economic) interests first.

Every cooperative has the word 'cooperative' in the name. Organizations with this word in the name that are not cooperatives are in violation of the law and have to remove this name, they also can be held accountable to pay a penalty for this according to art. 2.63 in the Dutch civil law. Besides this, the cooperative has to have either the letter WA, BA or UA behind the name. The members of the cooperative are collectively responsible for upholding the cooperative and possible debts in case of a bankruptcy of the cooperative, the so called 'civil liability' WA ('wettelijke aansprakelijkheid'). It is possible to exclude this collective liability, through the use of 'limited liability' BA ('beperkte aansprakelijkheid'), or 'excluded liability' UA ('uitgesloten aansprakelijkheid')⁴⁰. The form of liability is put behind the name of the cooperative as an indication. With WA, all members are responsible for equal parts of the losses. In case one of the members is not able to pay the amount, this will be divided equally amongst the members. With BA, all members are responsible to a certain – in their Statutes – set amount. With UA, the members of the cooperative are only responsible for the amount of their subscriptions⁴¹.

The highest voice in the cooperative is the general meeting of the members, which appoints the board. The meeting has to be at least once a year, convoked by the board, with a maximum of six months after closing the previous financial year. All members must have access to this meeting, and all have to have at least one vote. The members can also convoke a meeting with at least 1/5 of the members.

³⁹| Law of the cooperatives 1925 explained, from www.zuivelhistorienederland.nl, accessed December 10th 2013

⁴⁰| Website www.kvk.nl, accessed November 28th 2013

⁴¹| Grazell, J. (2010)

Cooperatives law in Bangladesh

In 2001, the National Parliament of Bangladesh passed the Cooperative Act, re-legitimizing the cooperative society's ordinance of 1984. Article 8 defines societies which could be registered as a society which has its object the promotion of the common interest of its members in accordance with cooperative principles or a society established with the object of facilitating the operation of such a society. But the cooperative principles are nowhere defined or mentioned in the law or rules under it. The act includes more operational aspects and covers specific areas such as registration details, legal status of cooperative society, management, audit, and investigation and the solution of disputes.

Similar to the Netherlands law, the Bangladesh Act allows the highest voice in the cooperative in the general meeting of the members, which appoints the board. The meeting must take place at least once in each calendar year. All members must have access to this meeting, and all have to have at least one vote. The members can also convoke a meeting with at least 1/5 of the members.

The Cooperative Societies Act of 2001 was further revised in 2012, to bring about changes in the method of operations by excluding cooperatives from using the word 'bank' to their names. According to the amendment, exceptions will be permitted to societies however, such as registered cooperative land development bank, central cooperative land development bank, central cooperative bank, and Bangladesh Cooperative Bank. The law directed essentially at restricting these societies from banking activities, specifies that no cooperative society can run banking activities or collect payments from any individual or institution without former approval from the central bank. Deposits should be kept in individual accounts but the money cannot be withdrawn without joint signatures of the registrar and the cooperative society in concern.

The amendment further stipulated "punishment for violation of the law would be seven years imprisonment and a fine of Tk. 1 million (approximately 9.500 euro's)".

One of the primary motives to bring these societies under close inspection is the serious lack of transparency. The central bank, too, has not been authorized with adequate controls to closely oversee and take corrective actions in case of misconducts. This has even been reflected in an International Monetary Fund (IMF) report where it states "the restricted powers of the central bank and lack of transparency fitting for the division of duties between the Bangladesh Bank (BB) and the office of the Registrar of Cooperative Societies about the matters as much as the operations of cooperative banks have made the central bank open to criticisms for not addressing an extensive range of concerns rising out of the banking activities of cooperative societies." ⁴²

⁴² The most exposed examples of malpractices highlighted in the media sometime back include gross swindling practices of people's money by societies such as Jubok, Unipay2u and Destiny Group.

While modifying the Cooperative Society's Act calls for effective attention and improvement, establishing the role of the Registrar of Cooperative Societies and implementing this new amendment entails extensive assessment and stringent monitoring system. Given that majority of the cooperatives do undertake banking activities (including model examples such as Comilla model), the transition to operations with no-banking activities needs extensive supervision and support.

3.6 Capital

According to the International Cooperative Alliance, cooperatives cannot, like any other business, function without capital. They need access to capital to secure their establishment and continuity. Generally, capital comes from the members or reserves. Therefore, Dunn⁴³ argues the member involvement of cooperatives is followed by two financing themes. The members “must have a financial stake in the cooperative”, which increases use and commitment to the cooperative, and “the cooperatives equity structure should reflect current patterns of use”, meaning the most active members contribute most to the cooperative. In this respect, the financial arrangement of the cooperatives should be within a certain timeframe.

The members of the cooperative bring in capital when entering or at other times if there is a need for capital within the cooperative. New members are only able to enter if they are also willing to invest in and have a connection with the cooperative either through trade, saving, credit or insurance relations. According to Grazell⁴⁴, this limits the possibility to attract external capital. Establishing a cooperative thus requires capital that usually comes from members. In Bangladesh, with the establishment of Rural Electrification Cooperatives (REC), the financing system was slightly different than usually is the case in the Netherlands. Because of the low equities of the members, the interested households needed to form a group and proven to show satisfactory behaviour in paying the small loans/microcredit they received to become full shareholder of the REC. The members thus initially did not invest their own money in the REC, but repaid a loaned amount and continued with the cooperative with the profits made⁴⁵.

⁴³ | Dunn, J. R. (1988)

⁴⁴ | Grazell, J. (2010)

⁴⁵ | Siddiqui, F.A. (2003)

Renewable Energy Cooperatives (REC)

In Bangladesh, the REC are formed with the help of microfinance institutes, lending a starting amount to the cooperative which the selected households have formed. This amount depends on the required technology system and the ability of the households to pay for the service they require. Furthermore, Siddiqui notes that the government also plays a role in facilitating the upcoming of cooperatives through “providing the necessary policy supports and offering physical and technical assistance to the programme. Financial and policy incentives, like low-interest loans, exemption of taxes/tariffs for the RECs will help encourage rural communities to stay in the business and accelerate other rural development programmes of the government” (p. 226).

Making profit is not a goal of the cooperative, since the cooperative is an organisation form where creating the right (economic) conditions for the members is the goal and profit is a means to realize this goal⁴⁶. Because of the profit being a means and not an end, the “cooperative capital does not offer to investors comparable economic benefits” (p.32)⁴⁷. De profits of the cooperative are levered with company taxes and members that are also employee of a cooperative need to pay payroll taxes. Dividing the profits of the cooperatives amongst members, however, is not levered with dividend taxes, unless there is a misuse of this rule⁴⁸. According to Grazell⁴⁹, the profits of the cooperative are usually not divided amongst members, but settled through decreasing the purchase prices or increasing selling prices of members. The profits are thus being divided in favour of the own equities of the members.

According to Kalogeras et al.⁵⁰, the ability of the cooperative to help their members manage the risks of the assets is subjected to the ‘portfolio problem’, an equity acquisition problem. Members with varying preferences for their risks might influence the governance policies in order to generate a better representation of their risk preferences, in a situation of absence of relevant secondary markets for “trading, liquidating and investing residual claims” (p. 93).

In Bangladesh, the basic units of the cooperative credit system are the primary credit societies, which provide credit tot members engaged in activities such as agriculture, etc. The members submit their application to these primary societies, which submit it to the central cooperative banks. The central cooperative banks then ask for

⁴⁶ | www.jaarvandecooperatie.nl, accessed November 28th 2013.

⁴⁷ | Blueprint for a co-operative decade. International Cooperative Alliance (ICA) –January 2013

⁴⁸ | Law of the cooperatives 1925 explained, from www.zuivelhistorienederland.nl, accessed December 10th 2013

⁴⁹ | Grazell, J. (2010)

⁵⁰ | Kalogeras, N., Pennings, J. M. E., van der Lans, I. A., Garcia, P., & van Dijk, G. (2009)

funding from the Bangladesh Samabaya Bank Ltd, who in turn applies for funds to the Bangladesh bank. The approved funds follow the same way back to the members of the cooperatives⁵¹.

⁵¹ | http://www.banglapedia.org/HT/C_0411.htm - accessed 30th April 2014

4. Methods

In this chapter, an overview is given of the conceptual model and methods used in the process of answering the main research question. Furthermore, the selection of the cases is presented.

4.1 Conceptual model

The conceptual model is displayed in the figure below. First, the literature on cooperatives is researched with an eye for the factors of cooperatives: legal, financing, governance, network, value chain and government. The literature is based on the overall concept of cooperatives, or based on cooperatives with a connection to the situation in Bangladesh. After the initial desk research, three Dutch and two Bangladesh cooperatives will be researched through interviews, in which the factors are guiding. Lastly, the results of the interviews can give more and deeper meaning to the found literature, and can form the basis for the lessons learned in practice that are relevant for cooperatives in Bangladesh.

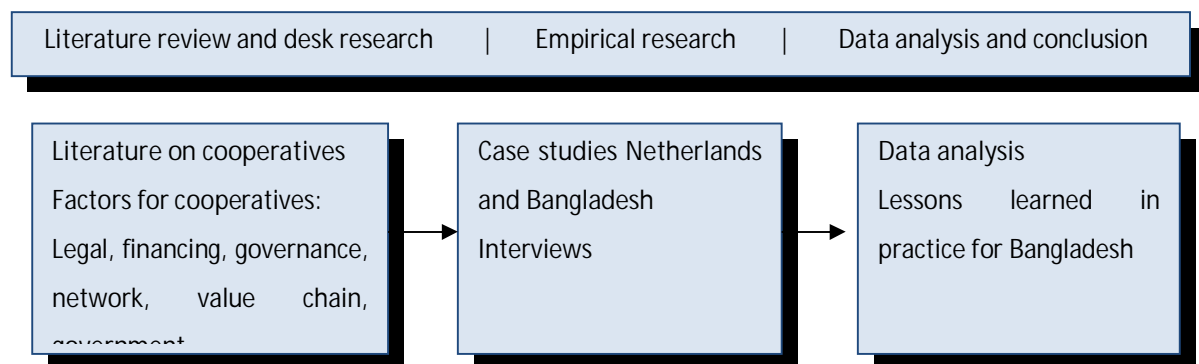


Figure 6: Conceptual model

4.2 Selection of cases

With a view on the aims of the Blue Gold Program, we have focused on the category of entrepreneurial and consumer cooperatives. We have carried out two case studies on interesting cooperatives in the Netherlands and two in Bangladesh. Selection criteria to be considered are: relevance for Blue Gold, current cooperative initiative, scale, business focus. These cooperatives have a long and successful history in the Netherlands because of their appealing principles.

4.2.1 Cooperatives in the Netherlands

As noted before, the number of cooperatives in the Netherlands is fast growing; from 5400 cooperatives end of 2009 to 7500 cooperatives may 2011⁵². The year before, cooperatives made 111 billion euro profit, with 166.000

⁵² | Coöperatie is bezig aan opmerkelijke opmars, Jan Verbeek, Het Financieele Dagblad, May 16th 2011

FTE and 24.500.000 members, from which 215 agricultural cooperatives with 32 billion euro profit, with 50.000 FTE and 140.000 members⁵³.

The cases studies in the Netherlands are Oikocredit and DeltaMilk. Oikocredit is an investor with a focus on micro credits which operates in different countries. DeltaMilk is a dairy cooperative for the supply of milk. We have chosen these cooperatives due to the size of the cooperatives and because of the clear initiation of starting the cooperative by the members who saw a clear benefit of working together in a cooperative.

4.2.2. Cooperatives in Bangladesh

In Bangladesh, while cooperatives came into being as a natural system of risk-averse business model decades ago, there was a clear absence of any formal institutionalized structure. In the 1970s, Bangladesh co-operatives faced many challenges in the form of lack of understanding on: cooperatives and their operation, managerial capabilities, education among cooperative members and access to capital. Furthermore, the cooperatives also faced challenges of presence of 'living-dead' cooperatives and failure to repay loans by members of credit unions.

The Bangladesh government responded to this crisis by instituting several measures, which led to an increase in the number of co-operatives from around 5000 to over 145 000 of different sizes, values and comprising various sectors. These amendments included:

- Amending the Constitution of Bangladesh to include co-operatives development and support as an obligation of government.
- Establishing a fully-fledged Department of Co-operatives, within the Ministry of Local Government, Rural Development and Co-operatives. The Department of Co-operatives then employed numerous civil servants in various districts and is now responsible for the overall function of co-operative registration and development.
- Establishment of a national Co-operative College, with Zonal Training Institutes in each province.
- Providing financial assistance, through the establishment of village banks, which are affiliated to the apex Co-operatives Bank. The Bangladesh Central Bank provides whole-sale loans to the apex Co-operative Bank, which are guaranteed by government. The apex Co-operative Bank then provides retail loans to member village banks.

According to the records of Department of Cooperatives, as of 2013 there are a total of 164.536 cooperatives in Bangladesh with almost 9 million members and a working capital (BDT) of almost 2000 Crore. The cooperative societies are registered under three levels: National, Central and Primary. The number within these tiers is:⁵⁴

⁵³| De economische betekenis van de coöperatie, Nationale Coöperatieve raad voor land- en tuinbouw, May 2012

Table 2: Cooperative Societies in Bangladesh

Type	Number	Number of Members	Working Capital (BDT)
National Cooperative Societies	21	Unknown	Unknown
Central Cooperative Societies	1.107	133.188	1026.80 Crore
Primary Cooperative Societies	163.408	8.505.738	1909.38 Crore

In Bangladesh we will focus on a case regarding a village development cooperative, Deedar Village Cooperative and a producer focused cooperative, Milk Vita Producers Cooperative. The two case studies reflect numerous stages where Bangladesh has achieved success but at the same time bring about some of the lessons that ought to be learnt in order to ensure cooperatives are a success in Bangladesh. It is important to note that the success of cooperatives in Bangladesh lies greatly in the hands of the Department of Cooperatives and its proper functioning. It is on this basis that we shed some light on the Department and also the law to understand the cases better.

4.3 Research Methods

The research methods used are qualitative methods. We conducted an initial literature review before selecting the cases studies. After this, the appointments for the interviews were made and interview lists were set up specific to the cooperative interviewed. After the interviews, the data was brought together and analysed in order to see recurring patterns and the lessons learned. Below, each step will be elaborated upon.

Literature review

Initially, a literature review was conducted by searching relevant articles, books and other data sources about cooperatives and the BLUE GOLD project. This initial search led to the understanding of the different factors that are being presented in this paper as key factors for the set up of a cooperative. A more in-depth search was conducted for the factors, which led to more concrete information and better insights for answering the first sub question. Furthermore, understanding of the factors relevant for cooperatives led to the insight in the needed information from the case studies, and thus a guideline for the desk research and the interview questions.

Desk research

After the initial literature review, the search for case studies was done. We have researched four different cooperatives, two in Bangladesh (Deedar and Milk Vita) and two in the Netherlands (Deltamilk and Oikocredit).

⁵⁴ | http://www.coop.gov.bd/Central_society.htm

With the factors in mind, information could be found of the selected cooperatives at internet and other data sources. This information helped prepare the interviews that were held.

Empirical research – interviews

13 interviews total were conducted. Below, an overview is displayed.

1. Deltamilk:
 - a. Director of the cooperative, Teunis Sterk, January 2014
 - b. Director of the factory, Henk van Bochove, April 2014.
2. Oikocredit:
 - a. Director investor relations, Ylse van der Schoot, March 2014
3. Deedar Village Cooperative Society
 - a. Manager, Deedar Cooperative Society, Comilla, January 2014
 - b. Abdul Kader, Director, Bangladesh Academy for Rural Development, January 2014
4. Milk Vita Producers Cooperative Ltd.
 - a. Shah Mohammad Mozadul Islam, Public Relations
 - b. Production Manager
 - c. Seconded Officer, Department of Cooperatives, Bangladesh
5. Others
 - a. Nitayananda Chakraborty, Consultant, Department of Cooperatives, December 2013
 - b. Kevin Thomas Kamp, Country Representative, World Fish, November 2013
 - c. Aowlad Hossain, Institutional Specialist, BLUE GOLD
 - d. Showkat Ara Begum, Cooperative Specialist, BLUE GOLD
 - e. Dirk Smits, Team Leader, BLUE GOLD

Before the interviews, an interview list with fully written interview questions was made in English, focused more on the Bangladesh cooperatives. For the interviews in the Netherlands, the questions were translated to the Dutch context.. The interviews were semi-structured, because the interview questions were a guideline throughout the interview but were not used in an exact order or in the same ways. The data from the interviews, combined with the data gathered in the desk research provided an answer on the third sub question.

Data analysis

After the interviews were conducted, the information on the factors found in each separate case study was written down. With this information the lessons learned could be extracted, providing an answer on the fourth sub question. All answers to the different sub questions together formed the basis for answering the main research question.

5. Case study: cooperatives in the Netherlands and Bangladesh

This chapter presents the cases based on an initial desk research and the interviews held. These cases include two Dutch cooperatives, Oikocredit and Deltamilk, and two Bangladeshi cooperatives, Deedar and Milk Vita.

5.1 Oikocredit, Ecumenical Development Co-operative Society U.A.

Introduction

OIKOCREDIT, Ecumenical Development Co-operative Society U.A., 'Oikocredit'⁵⁵, was established in Amersfoort, the Netherlands, in 1975. The cooperatives roots lie within the World Council of Churches, where young and political engaged church members wondered whether there was a better way to invest funds in a sustainable society during the 1968 General Assembly in Uppsala, Sweden. The name Oikocredit emphasizes their mission to promote global justice by challenging people, churches and others to share their resources through socially responsible investments and by empowering disadvantaged people with credit. "Oiko" refers to the ancient Greek word Oikos meaning "house, "community", "world"; where people live together. "Credit" refers to the fact Oikocredit provides loans for the poor, and to the Latin verb "credere", "to believe in the poor".

Oikocredit provides credit and equity to small businesses through microfinance institutions across the developing world and directly to trade cooperatives, fair-trade organizations and small-to-medium sized enterprises (SME's). Oikocredit provides financing in loans in hard and local currency, ranging from € 50.000 to € 10,- million, equity investments and credit lines to:

- Projects and small and medium sized enterprises that create jobs and income for disadvantaged people;
- Projects where woman are influential in management and/or implementation;
- Projects that are responsible in terms of their environmental impact;
- Projects that are financially sustainable, or can soon become so, and have suitable management in place.

Most of the development finance portfolio concerns microfinance. However, Oikocredit's objective is to expand its service further beyond microfinance. 20 percent of the funding is invested in agriculture, fair-trade, education and, for example, hospitals. They support organizations through a combination of medium and long term loans, credit lines, equity investments and capacity building. All applicants must meet Oikocredit's specific criteria based on internationally recognized standards. Furthermore, the objective is to reach the poor and help bring about positive change in the lives of individuals, families and the community.

⁵⁵ | www.oikocredit.coop, accessed December 10th 2013.

Table 3: Key figures social performance Oikocredit (date, Q3 2013)

Description	No.
Clients reached by Oikocredit's microfinance partners	28 million
● % female clients	84%
● % rural clients	56%
People employed by social enterprises	37,438
● of which permanent jobs	20,556

The vision of Oikocredit is that they will be a highly respected and leading provider of opportunities for socially responsible investments and credit for development. The values of Oikocredit supporting this vision are People, Sharing, Ecumenical spirit, Grassroots, Integrity and Creation: all people are created equal and an uneven distribution of resources, wealth and power leads to a world of conflict. People are willing to share their resources to prevent this. The strategy of Oikocredit is called FUTURA, and is focused on the long term. The strategic direction is:

- a) Develop Oikocredit into a strong and well known social investor, which provides expertise and instruments for socially oriented investors as well as financial services for disadvantaged people in developing counties.
- b) Constant, but controlled growth of portfolio by emphasizing quality development as well as social impact.

The performance and continuance of a cooperative is strongly dependent on the participation of the members. This can be obtained by having a mission and goals that are in the interest of the members. As board and management of the cooperative, you cannot just change the direction. You can steer the direction and guide it in a certain direction, but you have to stay close to the original route and have the support of the members. It is a challenge to keep everyone aligned; one aspect that plays a role is the different cultures represented amongst the members. They do not always agree with each other or have the opinion that certain members have more influence.

Legal registration

Oikocredit has seven different registrations in the Dutch company register 'KvK' (Kamer van Koophandel)⁵⁶:

- OIKOCREDIT, Ecumenical Development Co-operative Society U.A., the cooperative itself.
- Stichting Beheer Oikocredit Nederland Fonds, Dutch office for managing the Dutch Investments

⁵⁶ | www.kvk.nl, accessed December 10th 2013

- Stichting Oikocredit Provident Fund, Pension fund for employees in countries other than the Netherlands where pensions are not arranged properly.
- Stichting Oikocredit International Share Foundation, foundation that is a member of the cooperative. People who are not able to become a member can invest through this foundation.
- Stichting Bewaarder Oikocredit Nederland Fonds, Dutch office.
- Oikocredit ontwikkelingsvereniging Nederland, Dutch office.
- Stichting Oikocredit International Support Foundation, manages donations.

The cooperative is founded under Dutch laws, has an international board of directors and the office is located in the Netherlands. The reason of this division in legal registrations is unknown. However, the cooperative has the Netherlands as headquarters because of the supporting legislation towards cooperatives. Currently, the legislation is still supportive of cooperatives.

Members and investors

At the beginning of 2014, Oikocredit had 598 members of which 30 were support associations. Also, Oikocredit had 849 partners and 52.000 investors. Oikocredit distinguishes between her members:

- a) Churches and church-related organizations: churches, subdivision of churches, councils of churches, church-related organizations
- b) Support Associations (SA's)
- c) Oikocredit International Share Foundation
- d) Project partners: organizations who have met their loan obligations for five years and make an investment of at least € 200,- or one share.
- e) Other organizations: can only become members when invited by the board.

The individual investors in Oikocredit are not members at the moment, most individuals join the support associations, but Oikocredit is looking in to whether the cooperative wants to accept the individual investors as members or not. At the moment, the investors choose to invest and are more active than some of the actual members are. For example, some people have gained shares of the membership from their church, but they are not active members. In a cooperative, you would prefer to have active members who are working to reach the common goals.

Each member can influence the policies through the election of Board members and by using their votes in the general assembly, the highest ruling body of Oikocredit. Each member has one vote. The general assembly is once a year in a different country where Oikocredit is active. All members are invited, but usually the same select group of members (around 100 members) attend the meeting, mostly the members with the largest share of investment or the members with a great interest in the cooperative. The week before the actual meeting, there are several

preparation meetings with the board, the staff and the members in different compositions about various topics concerning the decision making in the general assembly.

"One of Oikocredit's members was in Costa Rica and participated in a risk assessment meeting with some partners, where a cooperative identified the AGM as their biggest risk. The Oikocredit member realized he could better discuss ideas in advance with management, so the idea could be optimized and non-realistic expectations could be tempered".

Key figures

Oikocredit is privately financed; individuals, companies, churches and church-related organizations invest in Oikocredit. All ecumenical bound societies can be a member of Oikocredit with a minimum investment of 200 euro. The cooperative was set up by churches. At the moment, the financing of the cooperative is done by the members, but also through investors.

The investors generate both a social and financial return. Oikocredit lends money to partners, but also invests in certain cases. The returns on the loan (profit) is being used to pay dividend and operational costs. The surplus is re-invested in the partners through capacity building and money can be added to the reserves. The investment options are not the same in every country. In the USA for instance, the members buy notes, and interest is fixed beforehand. The choice of payment construction is being defined by the legislation in specific countries.

Table 4: Key figures Oikocredit (date, Q3 2013)

Description	No.
● Total assets	€ 763 million ¹
● Total capital outstanding	€ 567 million
● Total number of partners	849
● Microfinance partners (of total number of partners)	586
● Average loan size total portfolio	€ 786,000 ²
● Average loan size to microfinance institutions	€ 890,000 ²

Below, the capital flow of Oikocredit is displayed. The capital flows both ways, meaning the amount lend to the partners is paid back to Oikocredit with interest. The investors agree with a return of 2% for decades now. They also get social returns through the work they see done through the loans and credits, and the members want a high as possible amount of money going towards the beneficiaries. Because the dividend percentage is relatively low, Oikocredit has been able to invest in the organization more and build reserves. This is why the cooperative is financially stable and healthy.

THE CAPITAL FLOW VIA OIKOCREDIT IS ORGANIZED AS FOLLOWS:

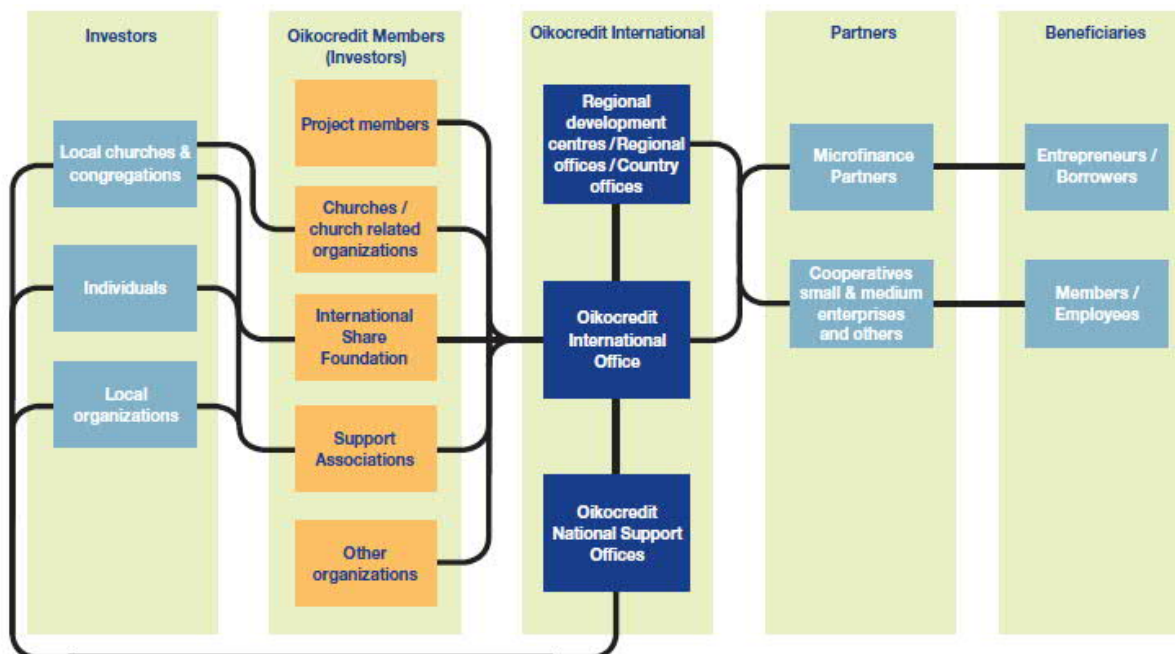


Figure 7: Capital flow Oikocredit

THIS GRAPH SHOWS THE JOURNEY OF MONEY INVESTED IN OIKOCREDIT:

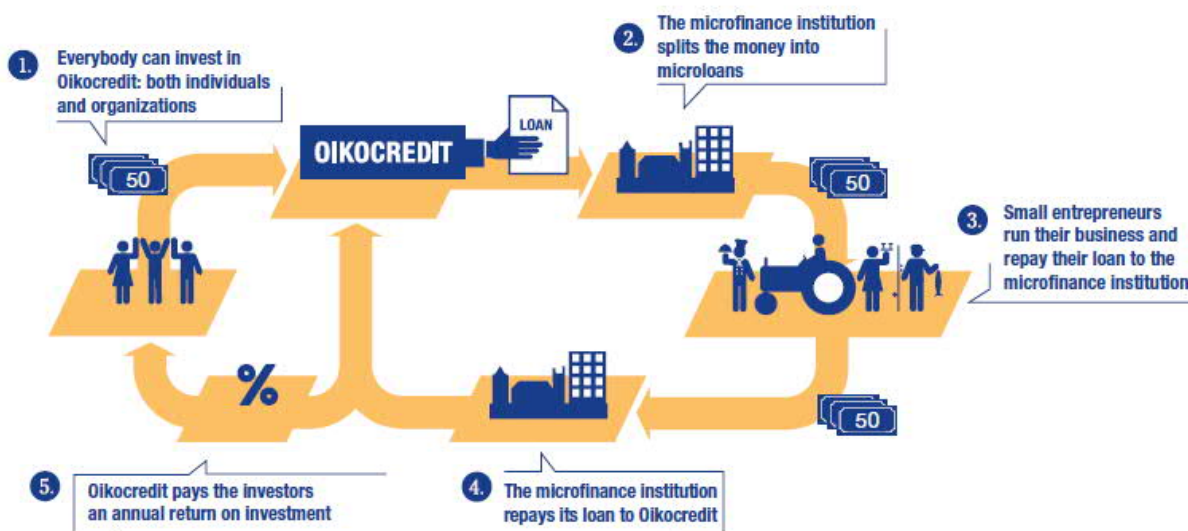


Figure 8: Graphic display Oikocredit

Performance

At the beginning of 2014 Oikocredit has 253 staff members (in FTEs) from 48 nationalities who are supported by a network of volunteers. There are 30 support associations raising investment, 6 national support offices, 28 country offices offering finance and 8 regional offices. In the Netherlands, the cooperative has 80 FTE. Furthermore, there are 854 partners in portfolio.

The investments are done after a thorough due diligence research of the possible partner. Oikocredit has regional offices around the world, and is able to assess the local situation. Furthermore, this enables the cooperative to have more control over the funds since they can access the beneficiaries directly. Oikocredit offers more than just financing to the beneficiaries. Management training, mentor programs and capacity building are common, so that the beneficiaries learn about entrepreneurship and how to grow their business.

Oikocredit is thinking about how to gain more participation from their members or taking in more members. Growing is not their goal per se, because this can never go at the costs of the quality delivered, the relations and monitoring of social impact. Also, Oikocredit is looking into new areas to set up business. In a few countries the market has grown and the need for investors such as Oikocredit is less. However, other countries are upcoming markets, not only for microfinancing, but also for agriculture and renewable energy investments.

5.2 Dairy Cooperative DeltaMilk U.A.

Introduction

The dairy cooperative Deltamilk U.A., 'DeltaMilk', was originally an autonomous dairy supplier association 'DeltaFeed'. After farmer school, a group of students continued to meet each other to discuss business, what went wrong and what went good. After a while, the study group paid attention to the way results were booked, and the question arose if economies of scale could be reached through combined purchasing of goods and a better negotiation position by expanding the export volume. At first, the group started to buy their foods together in an organization called DeltaFeed. By circulating the job to order the food the members of the group got more involved. The results showed that the strategy was a success, and from this moment more products were bought together. It was only when one of the members asked if the same collaboration could also be done with selling the milk that the cooperative DeltaMilk was set up as a sleeping cooperative in 2003.

Between 2003 and the more upscale activities of the cooperative, the members started doing research in the branch. In 2007, the market turned from a supply market to a demand market, demanding new players in the branch. This is when the cooperative started making deals about the purchase of their milk. In 2009, the former Friesland Foods and Campina merged into one company: Friesland Campina. This merger would mean a monopoly position for the company, so the European Commission and competition authority made the (political) decision that Friesland Campina needed to generate more competitors for themselves and had to let go of certain activities.

They sold a factory to Arla (MelkUnie) and put up their cheese factory for sale. DeltaMilk realized at that moment that this could be an opportunity to secure their production on the long term and with this the growth of DeltaMilk started.

Since December 2009, the members of DeltaMilk are owner of the dairy factory 'De Graafstroom' in Bleskensgraaf, the Netherlands⁵⁷. The process of purchasing the factory as a cooperative was done under confidentiality of the board towards the members. The board needed to hire advisors for guiding them through the purchase, but because of the great sum of process costs the board could not do this without consent of the members. In the general assembly the members all voted for of blank on the request of the board, without seeing any information beforehand. This is only possible when there is a strong member commitment. The advisors supported the board in making the leap 'from the ground floor to the attic'.

DeltaMilk acts out as intermediary between suppliers and buyers, and closes contracts for the supply of the milk for her members in the medium term. DeltaMilk also provides administrative support for the members and takes care of the negotiations, with the goal to establish an honest price for the milk of the members. They are continuously searching for initiating and optimizing relationships with suppliers in order to provide the best results to owners of milking farms and processors of milk. The power of DeltaMilk is the collaboration in which knowledge and producing milk are bundled, making DeltaMilk able to follow developments in the market.

Governance

The general assembly is the highest organ; there is where the decisions are being made. The board exists of 5 persons with varying characters to keep the balance in place. They have the rule that difference in opinions in the board results in a deepening of the subject. Regional and quality coordinators support the board and have an advisory role. The board members are chosen directly by the members, without mediation through a member's council. The factory is run by a management team of 4 persons, the general director, finances, production and sales. The board of the cooperative and the director and financial director regularly meet. The cooperative board controls the progress of the plans and the financial streams and revenues, but the daily operations and continuance of the factory is in the hands of the factory management team. Although the board is in the end responsible, this division of functions enables them to focus on their separate goals better.

Members are both owners of the factory, deliver the milk for the factory and are the once financing the cooperative. "The farmer is king in its own kingdom". They decide about the plans for the cooperative in the general assembly, which is organised 2 times a year. The members do not have direct contact with the management team of the factory, but can reach them through the region coordinators and the board of the

⁵⁷ | www.deltamilk.nl, accessed December 10th 2013

cooperative. This ensures a focus and division of the cooperative and factory. The members interact with the board and the management team at the general assembly.

The basic principle for setting up a cooperative is having mutual trust. Especially a smaller cooperative will function better if the members have trust in each other. Friendship or a mutual background could be a good start for this. When there is trust and this is stable enough, and the interests and goals are similar for members, a cooperative can be started. This is something to really think about.

Members

At the moment, DeltaMilk has 150 members and decided to keep this amount stable⁵⁸. There can be discussion every year whether to keep this amount stable or not. Profit needs to be shared with more members, but losses can be divided more. The members are very loyal and the percentage showing up at the general assembly is really high. The cooperative is their extra arm, and their earnings come through the cooperative for a great part. The principles for votes used is the one member-one vote principle. It does not matter that much how you arrange votes, as long as the members agree with it. The basis of the cooperative is 95% how everything is arranged legally. Member control is something that needs to be arranged legally in the cooperative, and must be communicated repeatedly.

The members have good connections, and there is a lot of trust between them. There are regular workshops to also ensure interaction between the members, for instance about new legislation, or through the sustainable innovations program. The key to keeping an active cooperative is to incorporate the cooperative in the social network of the members.

The cooperative itself is also part of a network. Next to the various connections and agreements with organizations up and down the value chain, the cooperative has recently joined the National Cooperative Council (NCR) for agriculture. With this, they have access to the member network and general assembly of the council.

Legal registration

DeltaMilk has two different registrations in the Dutch company register 'KvK' (Kamer van Koophandel)⁵⁹, Dairy Cooperative DeltaMilk B.A. and Cooperative DeltaMilk Finance U.A., and has her headquarters in Bleskengraaf. The legal form was chosen when the cooperative also bought the factory. The board gave the principles they were working with to the lawyers, and they recommended this form because it would work best with our principles and values.

⁵⁸ | DeltaMilk brengt obligaties onder de aandacht, www.boerenbusiness.nl, February 15th 2013

⁵⁹ | www.kvk.nl, accessed December 10th 2013

The legislation concerning cooperatives in the Netherlands is favourable, because the rules about payable taxes are different per branch. The starting point is that the results up to the benchmark level can be put into the costs, and the remaining result is subject to tax.

Key figures

Since 2011, DeltaMilk issues bonds with a return of 6 percent. The bonds can only be purchased by organizations in the sector and by family members and relatives of the members. However, there has to be a connection with the sector. The factory is financed through the issuing of stocks and the input of the money for milk. Last year, the turnover of DeltaMilk was € 150 million, with a profit of € 1.5 million.

The board needs to make decisions for the farmers, and they are reliant on the cooperative. You need insights in the cash flow of the cooperative in order to make the right decisions. Accepting a lower price to eradicate extra provisions is disastrous for the market and for the sector. As a bigger cooperative, you also have sector responsibility.

Members bring in the milk with a deposit of 5ct/liter. 2 cents is for building capital and 3 cents is for subordinated loans with interests. The separate entity DeltaFinance was set up to manage the funds. Members will get an advance based on the benchmark (Friesland Campina). In a later moment, a cash payment or registration by name with interest is done with the profits. 100 percent of the profit is being returned to the members, but the form differs. There is always discussion about this percentage in terms of short and long term. Members who leave the cooperative get the money that has been registered on their name back in 5 years time.

Performance

At the start of the cooperative, Deltamilk has made deals with Friesland Campina about the purchase of milk they needed up until 2017. This contract has been renewed till 2022. Questions that concern the new negotiations for after 2022 are about the incoming flow of milk. Will there be enough at the market or not? The target is to let the own members grow. Knowledge of the market is not enough. You need to have a vision about the (future) developments in the market to be able to get along with it. Through setting a benchmark, the result is being made transparent and measurable. This forces the board to meet the expectations. The decision making can be a bit slow, but the possibility of making mistakes is smaller. In the dairy industry, everything changes rapidly. If a chess piece moves the whole playfield changes, you need to switch fast and take a new position or else you will miss chances.

Almost 70 employees work in the factory at the moment, working on the different products. The products serve a niche market. To keep serving this market, the techniques have to be at a constant high level and therefore the cooperative does many investments. Most of the work in the factory is done automatically and more and more in a sustainable way (although the financial benefits have to be positive regarding the change).

When the factory was bought, there were 2 recipes for cheeses, and the factory was running 7 days a week to produce 38.000 tons. Currently, there are 8 recipes and the factory is running 6 days to produce 40.000 tons. $\frac{1}{4}$ of the milk being used comes from the member farmers, the other $\frac{3}{4}$ is coming from the Dutch Milk Foundation. In total, about 400million litre milk is being processed. The maximum capacity is 500million litre. The chosen recipes are all 'added value cheeses' (niche market), with less fat and salt. They are being sold to wholesale traders, but also more and more to smaller special cheese businesses. The rest products of making cheese, whey and cream, are also being sold. The whey is of such high quality it is sold for the use in children nutrition. The cream is almost up to the level to sell this for use by pastry chefs.

The packaging of the cheeses is done elsewhere, with a wrapper containing the images of the farmers in the cooperative. This is also part of securing the quality of the food chain. The factory is coming more and more at the farm and the yard of the farmer. There are quality demands for the factory, which has to ensure the quality can be made by the farmers. Everything that is done is from the highest quality level.

5.3 Deedar Comprehensive Village Cooperative Society

Introduction

Deedar Comprehensive Village Cooperative Society works closely under the BARD (Bangladesh Academy for Rural Development) Comprehensive Village Development Programme. The cooperative is located in the outskirts of Comilla, covering three adjacent villages. A majority of the people are small farmers with less than 1.5 acres and landless labourers. Deedar Comprehensive Village Cooperative Society is strictly based on the principal that the poor do not need subsidy; that they can organize successfully on their own to get better access to resources and that savings can be mobilized from among the poor. Although set up as a cooperative, and fundamentally the model functions based on cooperation and income generation, it is important to note that the model also depicts support services provided to the poor and social welfare of the community. Therefore, the model is more of a small scale community based cooperative, rather than a large scale profitable cooperative as seen in other cases.

Background

Deedar was established at the initiative of Mr. Mohammad Yeasin, a teashop owner in Balarampur village, Comilla, who like others was frustrated by widespread extreme poverty, food scarcity, illiteracy and unemployment. Starting with nine cups of tea, the nine members-mainly consisting of rickshaw pullers, who first joined the

cooperative vowed to forego a cup of tea each day to pool their savings for the purpose of capital formation and self-help. From a small beginning of contribution of 9 annas (10 cents) in the 1950s, the total membership rose to 1973 in 1990.⁶⁰

Later, following expansion and support from external donor funds, Deedar operated with assistance from BARD setting up cooperatives societies all over the district. Deedar was therefore one of many village cooperatives that became part of the Kotwali Thana (District) Central Cooperative Association (KTCCA). The association provided funds for village projects and set up a centre where cooperative organizers received training in cooperative management and techniques for village improvement. In 1961, Deedar Comprehensive Village Cooperative was registered as a formal cooperative society.

Today, Deedar has separate cooperatives for men, women and children who meet each week to deposit their savings and to discuss business operations and common problems. The members are required to deposit each week a minimum- BDT 5 for men (€ 0,05), BDT 4 (€ 0,04) for women, and BDT 3 (€ 0,03) for children. These savings are used to provide loans to members for productive agricultural and non agricultural activities.

The cooperative includes a nominal admission and membership fee of BDT 50 (€ 0,50). The total number of active members is 1500 (700 men, 400 women, and 400 children) who are actively engaged within the moulds of the cooperative functioning.

The key objectives of the Cooperative are formulated in two tiers:

- (i) To enable the community to find forms of income;
- (ii) To contribute to the social welfare and functioning of the villages.

The cooperative works towards assisting its members in developing income generation methods, and later individuals are able to run businesses/trade individually or collectively. To contribute to the social welfare of the comprehensive village operational functioning, the following funds have been set up:

Table 5: forms of funds set up by Deedar with their description

Forms of Funds	Description
Education Fund	To support the education and operation of schools
Combined assistance Fund	This is set aside for the villages and their emergency crisis or development needs.
Health and Family Planning Fund	Set up to support medical, and health needs of the community.
Village Development Fund	Set up towards the development of the village infrastructure and other operational needs.

⁶⁰ | Meeting Deedar Cooperative Society, February 2014

Skills Development Fund	Set up to provide support to mainly skills development (crafts, agro and others) for mainly women.
Deep Tube Well Maintenance Fund	To ensure the tube wells set up are maintained effectively.
Social welfare and security Fund	Set up for the social welfare services to the communities.
Agricultural Development Fund	Set out towards support to cropping and agricultural support services.
Death Support Fund	To support the families of members following their death, pension services and others.

Cooperative business services

One of the key focuses of the cooperative is to raise the communities from poverty and enable income generating methods. The forms of trade within these are outlined below:

- Deep-tube well: In collaboration with BARD, Deedar began introducing deep tube-wells for irrigation; until then the farmers relied solely upon streams and the heavens to water their paddies. It was not possible to position the new wells and water channels to benefit poor farmers exclusively, since their small holdings rested amidst the larger fields of others; here was a case where the poor and the middle class needed each other. And poor farmers could not have new wells if wealthier villagers did not join in paying for them. Today a number of deep tube wells have been set up assisting in the agricultural process of the villages.
- Brick field: Although this started with a larger scale operation, the brick field business was not as successful as it had been anticipated to be. This was primarily due to influential versus the poor group conflicts and trends of various non transparent mechanisms in place. As result, this specific form was scaled down in the past decade.
- Paddy-husking mill: This helps village farmers to obtain a higher profit on their rice by eliminating the private millers who, in some cases, charge extortionary fees. Its mustard oil mill provides a similar service. At the Cooperative Consumer Store, members can purchase their needs without having to pay a middle-man.
- Cooperative stalls/market: Deedar has also set up a cooperative market to provide facilities for small traders and crafts persons. They rent their stalls directly from the society, which permits the very poor to sell their fruits, vegetables, and fowl without paying a fee. Deedar units distribute low-cost fertilizers and pesticides, manufacture brick chips, and market embroideries made by Deedar-trained village women.
- Hand Tube well: To improve the local water supply, the cooperative has encouraged its members to install hand tubewells and gives loans for the purpose. Over 800 families have done so. There is now one well for every twelve people, more than twelve times the national average. Likewise, at the society's urging and with its financial help, 500 families in Kashinathpur-Balarampur (or about 88 percent of the total) have installed water seal toilets.

- Trucks: While Deedar started out with the business of trucking, they have not scaled up significantly. The problem faced by the cooperative in this regard was corruption. It was impossible to know if drivers reported their cargoes truthfully to Deedar's managers, especially for long-distance trips, and evidence emerged of pilferage of cargoes and automotive parts. Furthermore, policemen and petty officials along the trucking routes frequently demanded small bribes as the cost of doing business, and some truckers exaggerated the amount of bribes paid and pocketed the difference. Majority of these trucks have been now sold and replaced tractors. Although they are much less profitable, they do not face the issues of corruption.

Financial Status

The Cooperative society has total 285,154 member's end of June 2013. The cooperative society collected BDT 2.4 million as deposit through various kinds of deposit schemes i.e.: current deposits, term deposit, etc.⁶¹

Table 6: Financial status Deedar

Particular	Amount in BDT
Total Deposit of the Member	2,480,135.00
Total loan to Member	1,290,291.00
Revenue for FY2012-13	4,335,435.00
Profit for FY2012-13	1,200,818.36
Dividend Distributed on FY13	565,778.00
Profit reversed as of FY13	2,039,892.92

Other services

An attractive feature of membership in Deedar was the availability of loans. Compared to higher rates of interest, Deedar's loans to members carries 15 percent, with the flexible option of extended payback period. To keep personal loans from dangerously depleting the cooperative's savings, there is a rule stipulating that such loans not exceed one-fourth of a member's total shares (each share is maximum of BDT 20,000 = € 190). This rule can be put aside only when two other members bound themselves and their shares to guarantee repayment of the loan.

5.4 Bangladesh Milk producers' Co-operative Union Limited

Bangladesh has a dairy system characterized by small-scale operations, integrated with crops and other off-farm activities. In the recent time, a gradual shift from subsistence to market-oriented dairy units demands more advanced knowledge and dairy technology can be noticed.

⁶¹ | 46th Annual Publication FY 2012-2013, Deedar Comprehensive Village Cooperative

Bangladesh Milk Producers' Cooperatives Union Ltd (Milk Vita) has been recognized as the pioneer model of formal dairy development in Bangladesh since its establishment in 1973. Milk Vita dairying is based on the cooperative principle and is a replication of the world-renowned Anand model in India (Figure 9)⁶².

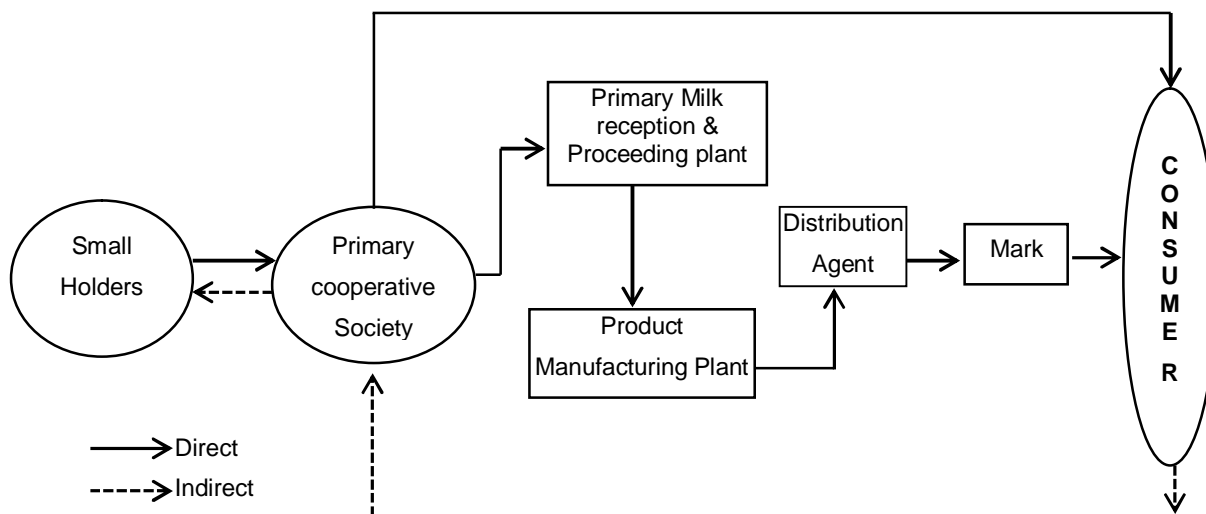


Figure 9: Cooperative dairy model Milk Vita

In 1970 it was initially involved in introducing a complete package of milk production enhancing technologies, village-level organizational skills and a milk collection–processing–marketing system for 4,300 very poor, often landless households in remote areas.

Currently milk is collected from 126,000 members (organized into 1,363 primary village cooperatives), then pasteurized, processed and distributed to all major cities in the country (Milk Vita, 2008). In 2006 the cooperative members supplied 75,000 tons of milk in addition to providing for their household consumption. This market model differs from traditional models in that it has only a very small or no price gap throughout the country and it provides milk quality and market assurance. It also provides services such as animal health care, artificial insemination (AI) and extension free of charge or at minimal cost.

In the late 1960s, two loss making dairy organisations were amalgamated by the Government to form the Eastern Milk Producers Co-operative Union Ltd (EMPCUL). The federal union was called 'Milk Union'. The brand name 'Milk Vita' is today used for its products. During mid 1970s the Government of Bangladesh initiated a cooperative dairy venture with the financial and technical assistance from United Nations Development Programme (UNDP), Food and Agricultural Organisation (FAO) and Danish International Development Agency (DANIDA). Three chilling plants and one pasteurisation/processing plant were commissioned in rural milk pocket areas. One processing and

⁶² | Haque, S. A. M. (2009)

packaging plant was set up in Dhaka city for standardization of liquid milk and marketing of pasteurised milk and milk products to the city dwellers.

The main objective of this cooperative was:

- Work towards increasing the income of small farmers in rural milk pockets by facilitating with a remunerative year round cash market of milk through the cooperative system;
- Assurance of support services for livestock development activities;
- Ensuring an adequate supply of hygienic milk and milk products to the urban population.

In 1977, the name of the organization was changed to Bangladesh Milk Producers Co-operative Union Ltd. (BMPCUL). Initially the cooperative started its activities in 110 village primary cooperatives having 4304 household members in four districts, procured 0.85 million litres of milk and paid Taka 1.85 million (€ 17.000) to the producers. In spite of gradual increased milk collection, extended support services for cattle development and marketing activities, the cooperative was a losing concern till 1990-91 financial years. Development of management skills and commercial approach in business operation led the co-operative to emerge as a profit making organization since 1991-92 and its ever-increasing business success is continuing year after year.

Key figures

The developmental activities of 1998-99 financial year revealed that the cooperative procured 29.5 million litres of milk from 390 village milk cooperative societies spread in 15 districts at a cost of Taka 467.42 million (€ 4.4 million). The 1997/ 98 audited accounts of Milk Vita indicated a net profit of Taka 47.8 million (€ 0.5 million) on a turnover of Taka 490.5 million (€ 4.6 million)-much of which was distributed as a dividend to the milk producers. Four additional chilling centres were already set up in the milk pocket areas and one instant milk powder plant of 100.000 litres processing capacity per day commissioned at own fund and three more chilling centres are in pipeline for set up. Milk collection target for 1999-2000 financial years is 32.5 million litres. As of 2012, more than 11,000 cooperatives are supported by the organisation having about 1.3 million beneficiaries. They raise about 84.000 cows.⁶³

Operational and Financial status

The Milk Vita has 1600 employees, including permanent and casual staff, at its 32 factories in 23 districts. There are more than 500 irregular employees, who are under a 'screening process' with a view to ensuring discipline in the workforce. Two recruitment committees are working to verify and recruit officers and workers. Milk Vita owns 70 percent of the market share. Available data shows the company earned Tk. 118 million (€ 1,1 million) in 'profit'

⁶³| Meeting with Milk Vita Management, March 2014

in the financial year 2010-11, Tk. 167 million (€ 1.6 million) in the financial year 2011-12 and Tk. 171 million (€ 1.6 million) in the financial year 2012-13.⁶⁴

On average, a little less than 0.2 million litres of liquid milk is produced at the moment per day in 23 districts, which increased up to 0.35 million litres in the past year. The actual capacity is about 0.15 million litres.

The direct beneficiaries of this cooperative organization are 40,000 landless, small and marginal household milk producers of 390 VPMCS. Other beneficiaries are: 300,000 family members, 800 employees of VPMCS, 300 rickshaw pullers of Dhaka city engaged in milk transportation to the retail shops and 700 employees of different dairy plants and Head Office. Having pasteurised liquid milk and other milk products at their doorsteps daily also benefits millions of city dwellers.⁶⁵

Table 7: Fund Status of Milk Vita as of 2009

Government Equity	41.50 Crore (1 Crore = 10 million)
Government Loan	44.63 Crore (Principal)
Revolving Fund	5.00 Crore
Co-operators fund	19.10 Crore

Value chain

A milk-producing farmer can easily come under the umbrella of Milk Vita. Milk Vita makes a simple agreement with milk producing farmer. Under this agreement any farmer within the operating area of Milk Vita can be part of existing Primary Cooperative society or organize a new Primary Cooperative society. The Primary Cooperative society is primarily responsible for the collection of milk.

A Village Milk Producer Cooperative consists of one to three villages covering an area of approximately 1-2 sq. miles, having a marketing surplus of 180-200 litres of milk per day. To establish a cooperative first a group of daily farmers needs to inform the BMPCUL regional authority of their intentions. Generally, the authority considers the first year as the observation period. At that time the authority verifies the milk production capacity of this group. If the group can fulfil their required amount of milk production then it will be formally registered as a cooperative under the BMPCUL system. A number of cooperatives together constitute a milk shed area.

The Milk collection Centre (Primary Cooperative) collects from the individual cooperative members in the village and also compiles information of milk for payment. Collected milks of different Milk collection centres then send to the nearest Milk Chilling Centre of Milk Vita. The Milk Chilling centres chill and process the milk. After finishing the

⁶⁴ | Meeting with Milk Vita Management, March 2014

⁶⁵ | <http://www.milkvita.org/financial.php>

chilling process, processed milk then sends to the Dairy Plants of Milk Vita. Dairy plants make various dairy products like liquid milk, butter, cheese, and ice cream. These ready products are supplied to the Distributors who are responsible to distribute milk products among the retailers of all over the country. End user or customer can easily buy milk products from nearest retail stores.

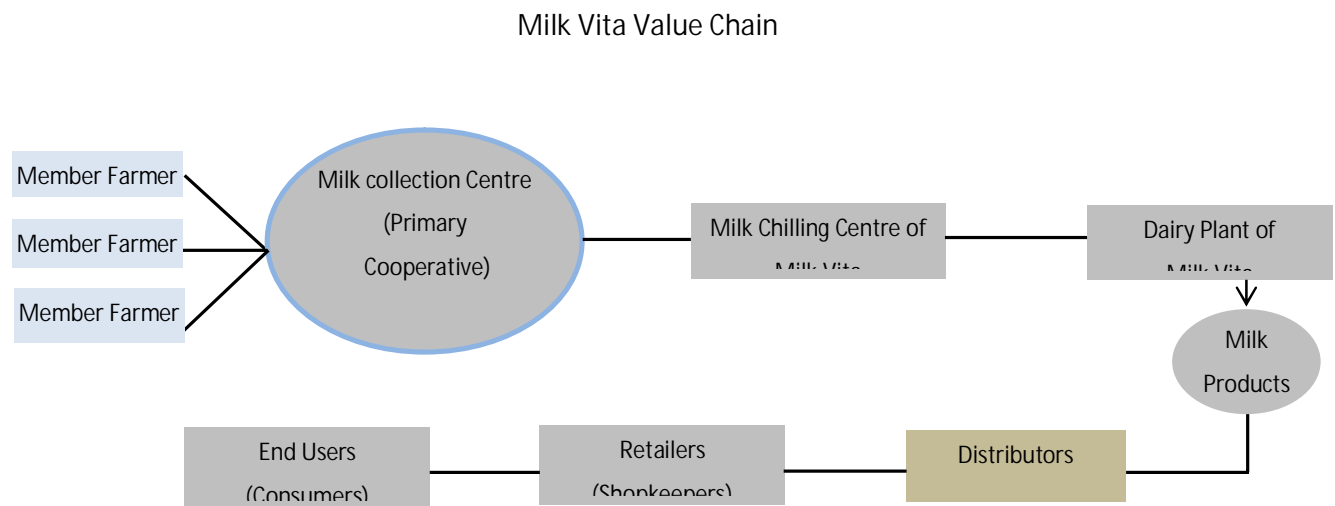


Figure 10: Milk Vita Value Chain

Since 1992, marketing of standardized fresh milk instead of recombined powder milk created consumers' preference for intake of Milk Vita pasteurised milk than any other products available in the market. Measures such as duty on imported milk powder and Government patronage on dairy industry were also helpful for the business development of Milk Vita.

6. Findings

In this chapter, the findings of the interviews are presented. During the interviews, questions were asked regarding the facts and figures of the cooperatives, but also on the lessons learned and personal insights regarding the set up of a cooperative. The first are displayed in the chapter case studies, the second are displayed below. Besides sharing successes, challenges and lessons learned, the respondents also provided numerous comments regarding the set up of cooperatives in Bangladesh they thought important to mention. These are summarized in the last paragraph of this chapter.

6.1 Oikocredit

By trying to find common ground with members in the decision making processes, the process usually goes slower than would otherwise be the case. However, ultimately people need to agree with a decision or adapt it. This will be easier and faster when everyone agrees with the decision beforehand. Furthermore, fewer mistakes are being made. Consultation is the key to the success. This keeps the members focused and sharp. It is important that the members see the added value of the cooperative for themselves.

Do not let the wishes of the members get out of sight, but place them in front. The daily business of running the cooperative can get the overhand very easily. The management has to be focused on keeping in contact with the members and satisfying them. The path being followed by the cooperative is chosen by the members. You can make slight changes in this course, but not big turnovers. The members are the 'shareholders' keeping the board and management focused. They are the ones asking the right questions about performance and goals.

Trust is very important in a cooperative. Without trust, the cooperative cannot go forward. To earn the trust of the members, you need to have good listening skills. Always involve the members in decision making and have respect for the variation of input you will receive. Building relationships takes time, but also ensure stability. They start from a mutual interest.

You need both idealists and managers in a cooperative. Someone with a vision and someone to execute the operational side, however both need to have a strong sense of commitment towards the overall mission and objectives. This is the same when there are more than two founding members.

When choosing a legal and financial form, look at how the members would want this and what suits the legislation in the concerning country. It helps when the legislation is advantageous for cooperatives. In a cooperative, most members want to reach the common goal and do not strive for the highest financial returns. They must make a

decision every year about the dividends, because this is in the statutes and formal documents, but they choose to keep the dividend low to enable more funds to go to the beneficiaries.

6.2 DeltaMilk

DeltaMilk originally started as a group of friends from the agricultural school that were sharing their knowledge of the farmer business. This was the beginning of a collaborative relationship where trust was able to grow. After starting to organise the purchase of resources, the cooperative started to take form. At this moment, the trust bond was already in place. This enabled the cooperative to expand the activities to organising storage, logistics and eventually the purchase of the factory. Important is to use the right moment and make use of professionals outside the cooperative if up scaling needs to take place to ensure the right business focus. Members are too involved, so do not try it yourself.

There is no such thing as conflicting interests in a cooperative. The cooperative interest is that of the members. Members are always rights. Differences in opinions should be heard and should get a place, this helps the cooperative forward. Let the members pick their own structure in terms of member rates and proportions and voting systems. If the members agree with the structure, it does not matter which structure this is. Cooperative structures slow down decision making, but the percentage of faults is less.

For the board members, it is important to make sure you are open, honest and transparent towards the members about decisions. With diversity in the board of the cooperative, decisions are more resembling of the opinions of the members, but keep in mind that people are different and have different goals ultimately. This is influencing the way they will react to new plans and changes. Furthermore, it is important to never give a veto to a board member. You need to ensure that the decisions are mutually agreed upon. If someone from the board does not agree with a decision, perform more research.

The right to speak up and vote is something that has to legally be put down and constantly reminded of. This is also the same for the financial structure. The board needs to ensure a long term vision.

Make sure the cooperative is incorporated into the daily lives of the members to ensure a high degree of member participation, but without trust there is no basis for picking up economic developments together. A strong bond of trust ensures easier decision making. Trust is not something that you can take for granted. It has to be worked on.

6.3 Deedar

Some of the successes of Deedar have been based on the small scale operations in three villages and a focus on realistic income generation methods. One of the success factors for the operation of Deedar Village Cooperative is

the fact that its operation started on a very small scale and expanded on to villages. The services catered were all for the poor and there was an attitude towards ensuring that they do not start on a massive scale or obtain support from donors agencies and financing authorities. Of course, initially there were contributions made due to the success of the initiatives, but much focus has been given on ensuring independent operations.

Work based on cooperation in three villages: The initiative with focus on three comprehensive village developments has worked well in this case, as the extreme poor require comprehensive approaches that seek to address not just income generation methods, but also focus on other factors such as medical facilities, schools and catering to community needs.

One of the aspects that is clear from the Deedar approach is that it is a realistic one and is cautious about the complexities related to expansion or focus on ambitious approaches. One of the key lessons from Bangladesh cooperative approach is that the rich tend influence the cooperatives due to their social and economic power, as a result poor tend to be worse off than being better off. This has been case in numerous irrigation projects and others in 1990s where the pump owners were the rich and they had the voice, influence and power to dominate the activities. As a result the whole approach of benefitting the poor and bridging the gaps failed significantly. In case of Deedar, similar possibilities were foreseen in case of more viable opportunities such as brickfield and truck business, but the cooperative did make the call to ensure they step back from such cases.

The challenges for Deedar are mostly focused on the governance and organisation of the cooperative, although also financial challenges arise. They do not have a formal planning or strategy in place. Despite the significant success, and years of operation, there remains to be an absence of a proper planning or strategy. As a result of this, the operations remain to be ad-hoc and based on the needs rather than through appropriate planning and strategic insights. With the lack of strategy, there seems to be a clear absence of a mission- the idea that the cooperative can improve and move towards more sustainable approaches for poverty reduction and better standards of living.

Furthermore, there is a lack of monitoring and accountability and there is no business of sustainable strategy. Due to the inherently poor monitoring structure from part of the DoC, there is no incentive for Deedar to have a proper system in place which is accountable. The adhoc nature of processes, banking transactions, and others, mean that some of the activities with possible areas for improvement do not necessarily have the chance to do so. One of the key issues facing Deedar and numerous other cooperatives is that there is no sustainability strategy in place. Specifically in case of Deedar, while the approach of working for the community and income generation is praiseworthy, there isn't a visible business case here. Majority of the initiatives taken on are supported by the cooperatives and handed over to the individuals following repayment- this in a way may be the best

empowerment approach for ultra power, but at the same time, it has the potential to impact the sustainability of the cooperative itself.

Lastly, although the cooperative act stipulates, it is clear that the cooperative societies are prohibited to undertake any banking transactions. It seems that Deedar is yet to transition from banking to non-banking transaction. In addition to undertaking banking transaction, the cooperative needs to have a more transparent approach to the financial management systems. The financial records of the cooperative till date seem to follow very medieval and outdated systems- mostly being recorded in a notebook and there is no tracking system in place. Without this in place, it is difficult to determine the success of the cooperative in terms of business operations. In addition to this, there is a significant risk of non transparent activities.

6.4 Milk Vita

The success factors behind the large scale operation of Milk Vita are based on the right governance and organisation structures. Since 1991, Milk Vita is governed by an elected Board of Directors, from amongst the VMPCS who are very keen to protect producer's interest in setting fair milk price, timely procurement of required support services to enhance milk production and active role in business development plan of Milk Vita. BMPCUL has been permitted to employ professional management personnel at senior level and this provided a sound efficient management system resulting in improved business turn over. Furthermore, numerous support services are provided to the Fair milk price and milk procuring centres at remote villages facilitate cattle rearing for increased milk production. Accountability of employees to the producers through the Board and requirement of approval of the producers' representative for budget approval stimulate their integrity with the cooperative and thus enhances increased milk supply.

Upgrading local indigenous low yielding cattle to a high yielding variety through massive artificial insemination facilitates increased milk production than that of the 90's decade. Assurance of timely healthcare service decreases producer's fear on disease outbreak and encourages more cattle rearing for milk production. Arrangement of pastureland for winter fodder cultivation and grazing scope greatly expedites increased milk production. Distribution of balanced concentrate cattle feed to the producers at cost and repayment through weekly milk bills facilitate feeding practice to increase milk production. The cooperative provides numerous other incentives to the members, which include grants for development and up scaling, training, incentive bonus, additional price to the producers and special prize to the cooperatives stimulate competition for increased milk production. Interest free credit facilities for milk cow purchase and repayment through weekly milk bills helpful to smallholders for cattle rearing and milk production

Strict quality control measures both at producer's level and in processing plants disseminate reputation of quality products to the consumers, which helps MilkVita to be successful. Also, timely distribution of quality pasteurised milk and other dairy products to shops and consumers of greater Dhaka and other cities enhance expansion of marketing network is a strong plus for their reputation. In the value chain, MilkVita makes use of locally fabricated Milkshaws, an insulated box, mounted on a traditional three- wheeled cycle rickshaw chassis, to deliver milk and milk products in the narrow, congested streets expedite more sales.

Although MilkVita has a good working governance structure in place, it is highly dominated by government, with approximately 70 percent of the shares. More recently, there have been reforms made with regards to reduced day-to-day engagement of the government. Yet, the management team within the cooperative are representatives of the DoC. Transparency in this regard is a key issues, and major levels of conflict of interest exists, as the auditing of the operation is done by the DoC despite their heavy engagement in the management of the operation. If Milk Vita is to remain competitive in the face of expanded private investment in the dairy sector, more engagement of private parties is required to ensure that the model operates as an independent cooperative.

6.5 Cooperatives in Bangladesh

The majority of the cooperatives in Bangladesh started out through donor financing or subsidies. As the cooperatives are backstopped by project funds or funds from the public sector, there remain to be serious concerns relating their sustainability. One of the key lessons learnt from the cooperatives in Bangladesh has been that, once this financing support ends, the operation of cooperatives also ends or becomes non-functional. In various irrigation projects, specifically, there was a clear lack of effective exit strategy that led to non-functional cooperatives.

The Bangladesh National Co-operative Bank is reportedly in bad shape and unable to meet the resource needs of cooperatives. Credit-based cooperatives are under performing and only dairy and housing cooperatives in urban areas are reportedly functioning satisfactorily. Grant of one time loan waiver, always a popular move, did considerable damage to credit cooperatives. Industrial cooperatives or National Cooperative- all these do not seem to add up to creation of an environment conducive to growth of cooperatives as vibrant sector of the economy. This is mainly because of the presence of a competing NGO sector and in comparison; the cooperatives seem to be rigid, formal with limited innovation capacity.

Lack of capacity and transparency in DoC: One of the clear issues relating the functioning of cooperatives is the lack of capacity of DoC- should the cooperatives function effectively and transparently is clearly dependent on a functioning department that is equipped with appropriate and skilled resources with clear and transparent auditing systems in place. The separation of their role from auditing and being seconded in various operations such

as Milk Vita is a necessary requirement for this. Unless these roles are separated, the success of cooperatives will be difficult to achieve.

A challenge for cooperatives (in Bangladesh) is how education of the (board)members of the cooperative is arranged. The cooperatives success will improve when members can benefit from it. It is therefore not necessary when the (board)members do not have an educational background, but it can help in terms of making the cooperative more professional or for up scaling.

Elite capture: Majority of cooperative models are prone to elite capture given that weak (poor) and strong (rich) co-exist uneasily within the institutional system put in place. This has been the case in numerous projects specifically the irrigation initiatives undertaken in the past. The approach should focus on ensuring that such cases are avoided and at that a bottom up approach is undertaken at best.

The government in Bangladesh should facilitate and stimulate cooperatives, not be the ones running them. In the start up of the cooperative they should stimulate initiatives, without already laying out plans for the members. Make sure the cooperatives are set up from a practical point of view, with clear benefits for the members (common sense instead of business wise). The members need to form their own ideas and seek guidance in this. Only when the right momentum is used, members are committed to their goals. This does not necessarily need to be done with membership fees. There is a lot of distrust regarding to setting up a cooperative, because it costs a lot of money. This withholds people to start. Thus: make the cooperatives more a business model, not a registration form.

Overall, the members should think about if the cooperative can make more profit as stand alone or with collaboration in the value chain. Although the culture is not aimed at this, the members need to create an awareness of their own strengths and negotiation position. Also, current and new formed project could help with searching collaboration. For example, knowledge sharing and forming bonds can be done via Farmer Field Schools. Here, members can be taught to be more pro-active and learn about the business form cooperative.

7. Outcomes

In this chapter, an answer will be provided for all four sub-research questions. Subsequently, an answer will be given on the main research question.

7.1 Basic principles of cooperatives

Sub-question 1:

What are the main or basic principles of a cooperative related with expectations, promises or perspectives for participants?

Cooperatives are formed either to correct market failures, create innovative solutions for new welfare needs, to access economies of scale, to change current economies or society, or to get access to, or simplify access to, certain markets. They have to generate enough financing, have a long term strategic (collaboration) focus, and the participants need to have a relation with the cooperative and a large degree of control. Participants should be expected to think about the governance and organisation, financial and legal structure of the cooperative, as well as the identity, place in the value chain and network, when setting up or participating in a cooperative. These factors all need to be addressed in order for the participants to reach their goals and meet their promises. However, the structure depends on what the participants choose it to be. The most important thing is that the participants stand by their choice and feel comfortable with the structure.

With regard to governance and organisation, participants should expect to make decisions about the voting systems, variation in ownership-rights structure and the board. The board should promise always to have the best interest of the participants in mind, and strive for the best conditions and outcomes for its members by a long term orientation for stability and growth. With solidarity, trust, accountable and sustainable entrepreneurship and strong commitment, the perspective of the cooperative is the best. Participants should expect to have the social values guide the structure and strategy instead of legal or fiscal benefits. However, these need to be put down in writing and they should suit the interest and common goals of the cooperative. There is no 'one size fits all' approach for cooperatives in this, when it serves the interests of the participants and fits within the legislation the structure is good.

Participants need to promise themselves to put their 'I want' aside for the 'we want', and remain close to the cooperative. It is important to attend the general meeting and choose the board and look into investment options. The participants have a relationship with the cooperative, either a trade, saving, credit or insurance relationship, and by choosing they can affect their returns. This keeps member commitment high, along with a strong

commitment to values and principles and having a tight network. A clear perspective on values and principles such as democracy, equality, concern for community helps with choosing for the interest of the cooperative. Participants should expect the board members to understand these values and principles, and understand how cooperation and having the right relationships in the value chain helps the cooperative. Value distribution should be equal in order to enhance a communal feeling and withhold fragmentation of the network.

7.2 Lessons learned from WMO's

Sub-question 2:

What can be learned from the present WMO's with respect to their becoming of and acting as cooperatives?

Various lessons can be learned from the present WMO's with respect to their becoming of and acting as cooperatives. Challenges they are facing are difficulties in registering as cooperatives and forming a WMA with at least 10 WMG's. Furthermore, it is being used for obtaining a legitimacy of existence and therefore a legitimacy to lend money. The WMG's also have difficulties with the audit process needed for continues registration and they hint at a non-transparent review process to obtain a renewal of the registration with DOC. The charges for registration and renewal are also quite high and in some cases beyond the capacity of these groups to pay (especially for WMA's that would need to be registered as second tier cooperative associations). Moreover, the Cooperative Department in various cases considers the capital accumulation as a result of the purchase of share and savings as income and charges income tax for these funds. This practise by the Department is creating serious bottlenecks in the operation of the WMO's.

These difficulties created by the registration process need corrective measures to remedy the situation. The registration is a now formulated as a goal, not a means to reach this goal. The cooperatives that flourish had a serious drive from its members to start collaborating and felt the support from the cooperative agencies or favourable legislation. Both cooperatives in the Netherlands, DeltaMilk and Oikocredit, responded that the legislation in the Netherlands is supportive of cooperatives and helps initiating as a cooperative without being to restrictive.

7.3 Lessons learned from cooperatives

Sub-question 3:

How are cooperatives dealing with business development and participation in broader value chains or market systems and which role competing values play in their business approach?

Both Oikocredit, Deedar and Milk Vita were set up from a social value perspective, to help others develop and grow. Deltamilk was set up for the economies of scale, but the members of the other cooperatives also benefit from the wide collaboration. At all the cooperatives, the strategy, mission, vision as well as financial and legal structures have been set up to meet the values and principles of the members, but the governance structures are what slows down the development of Deedar and Milk Vita.

Within Oikocredit, the members are active and the commitment of the largest investors is there. Because they generate both social and financial returns, the members keep the dividend percentage low, making the cooperative able to be financial healthy. Here, it was seen that too much loose control affects decision making and can turn a project upside down. With Deedar, the progress is slowed down because of the lack of strategy and business structure. Without a strategy in place and a course to sail to, the members can 'run freely' and there is no control any more. This also affects decision making about new technologies, because the board cannot make apparent why investments are needed for the cooperative to develop.

DeltaMilk is an example of have a clear strategy and vision of the future. The board thinks carefully about the investments, and can 'sell' them to the members because of the strategy that the members mutually have agreed upon. Trust of the members towards the board is the basis for this, and this starts by having control over the cooperative as a member and having close contact with each other as part of a network or value chain. Milk Vita has a really strong network and value chain, but it is led by the DoC, a government agency that is not engaged with the producing of milk and by-products. Real success for Milk Vita will come if the board members and members have a stake in the cooperative and have 'something to lose' when the cooperative ceases to exist.

7.4 Lessons learned for Blue Gold

Sub- question 4:

Which lessons can be learned for the Blue Gold Program when the findings of 1, 2 and 3 are applied to the situation in Bangladesh?

Cooperatives need to be set up with all factors regarding governance and organisation, capital and legal systems, network and value chains, entrepreneurship and identity in mind. The members must choose the direction and structure of the cooperative that serves their interest best, and they need to form the common goal and the cooperative themselves. With solidarity, trust, commitment, transparency and regard for the best interests of the members in mind, the cooperative can be at its best. 'Hard' legal and financial structures have to be arranged in line with the values and principles, but the "soft" commitment and trust side has to be worked on continuously.

In Bangladesh cooperatives face many challenges in the form of lack of understanding on: cooperatives and their operation, managerial capabilities, education among cooperative members and access to capital, living-dead cooperatives, and failure to repay loans by members. There are no principles of cooperatives put down in the legislation, and there is a lack of transparency. Therefore, the Bangladeshi government has changed the cooperatives law in 2012. Studies showed cooperatives in Bangladesh have challenges regarding the registration process- with the audits that are needed, the number of cooperatives to form a WMA and the charges for registration-, the income tax for cooperatives and the non-banking activities. Furthermore, there is a lack of transparency in rules and regulations, cooperatives are started top-down with external financing and member relationships are not equal.

For Bangladeshi cooperatives to develop and to be successful, they need to have an eye to all of the above mentioned factors. The government should facilitate and support the members in setting up their own initiatives, without having a say in the direction of the cooperative. Training and guidance should be sufficient to teach the basics of financing and controlling the cooperative. Furthermore, restrictions regarding financing input and registration numbers and fees should be kept at a minimum. When looking at the Dutch cooperatives, the board members explain that the legislation was a reason to register as a cooperative, instead of it being the other way around in Bangladesh.

7.5 Conclusion

Main research question

What are the main principles and promises of a cooperative as organizational and institutional form and how can be dealt with competing values within a cooperative and or with the setting surrounding it?

Main principles for cooperatives as organizational form include organizing the financial, organizational legal structure as well as the governance (such as the voting systems), control system, place in the value chain and network for the cooperative. The institutional principles include setting up an identity for the cooperative. The members should be the ones starting the cooperative and discussing the right form with the goals of the cooperative in mind. For a cooperative to be really successful, it is important that members have something to lose when they leave the cooperative, because then they will be motivated to make the cooperative work.

With the right principles in order, a cooperative can be highly successful in either correcting market failures, stimulating innovative solutions for welfare needs, access economies of scale, change current economies or societies and create more (inter)national competition. Furthermore, cooperatives can strengthen the separate

members, the community and economic status of the country. For example, more economic welfare of the population in rural areas can ensure more income taxes which can be put back into water management projects. On the business level, entrepreneurs can share success stories and failures in order to learn and develop from them through a cooperative.

Competing values within a cooperative can surface because there is a fine line between trust and solidarity and the need to put rules on paper. Friendship goes a long way, but sometimes opinions of cooperative members vary. This is why sometimes an unequal number of (board) members are needed. People do need to run a business, so sometimes the friendly words have to be harder to make the best decision for the whole. Furthermore, the members decide the voting system, whether this is based on 1 member 1 vote or on the percentage input of the members. Once chosen, it can be adapted but it should not be a discussion point throughout the year.

Competing values with setting surrounding cooperative are mostly found on national level. In Bangladesh, the government is pulling too much at cooperatives with measures that are not stimulating the cooperative set up at times. The government should facilitate and support the set up of cooperatives, cooperatives will form once members see the benefits for themselves.

8. Final Remarks

We have some final remarks concerning the future of cooperatives in Bangladesh and in association with the Blue Gold program. The cooperatives should also be approached with the relational, institutional and contextual dimension in mind. This is a different way to approach them than has formerly been done, namely with only a legal and financial dimension.

1. Relational dimension

People forming cooperatives do this with trust, because the other members usually own an equal share and thus have an equal say in the cooperative. For a cooperative to flourish, the members need to look for the synergy that emerges when collaborating. The government of Bangladesh could support this and stimulate the people to start looking further than the boundaries of their own land or entrepreneurship. The government could stimulate the creation of trust and forming of ideas through giving workshops for local entrepreneurs or support of, for example, farmer field schools. Within a cooperative, there should be simple rules which everyone enforces. The chain is just as weak as the weakest link.

2. Institutional dimension

Rules of registration should not be the goal, but only a means to the goal. The government of Bangladesh could ask themselves the question whether the registration is at the right level or if it should be handled on a lower scale. Training should also be at micro (individual skills) and meso (entrepreneurial and managerial skills) level, not macro, since the needs of the people in the districts might vary widely. The government should be the one giving boundaries and a framework for cooperatives to form themselves within, they should not put down rules for the detailed levels of cooperatives. In this way, entrepreneurship and the formation of a cooperative around an idea or product can take place.

3. Contextual dimension

A cooperative has an economic model that reaches further than that of a WMO. Primarily, a cooperative is focused on collaboration in a value chain, which is not the task of WMO's and goes above the power of collaboration in WMO's. Cooperatives could be based on value chain aspects such as producing, storage, logistics, marketing and customers, where WMO's mostly focus on the first aspects. Water safety measures can create the right conditions for economic development. With arranging WMO's and cooperatives, the value chain can develop and this economic growth can be put back into researching and implementing water safety measures.

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