

DRAFT OF NATIONAL POLICY ON COOPERATIVES.

PART 1.

'The Context.

•Preamble.

•Government policy document titled '*Mahinda Chintana- Idiri Dekma*' has emphasized on few aims such as: a prosperous country with all needs fulfilled; green Sri Lanka; a country positive for the aspirations of the youth; human society in good health; abundance of local resources; local entrepreneurs who would conquer other countries etc. It is also stated that these are contributed by sustainable strategies for increasing local products through cooperatives among others. Furthermore, programmes such as milk producers villagers, green villages have also been present in the document. It has also stated that through establishing a production oriented farmers' cooperative system, facilities would be provided to eliminate the difficulties of obtaining inputs and equipment and also marketing issues. Another emphasis was to provide all credit facilities to farmers through agricultural banking system by strengthening it. The '*Idiri Dekma*' contains emphasized areas such as market development, new technology, local entrepreneurship, small and medium scale enterprises and development of self-employment, which fall within the interest areas of cooperatives.

•The cooperative system hitherto functioned as one national movement has been devolved to Provinces with the establishment of Provincial Councils in 1987, and as a result, several provincial statutes have been formulated to regulate cooperatives in the provinces. Still, few provinces continue to regulate cooperatives on the basis of Cooperative Societies Act No. 5 of 1972 with its amendments made subsequently. The current legislation is diversified in the content and the model to the extent that it contains sections which would not fit into the totality of one national movement. Therefore, this situation would affect the capacity of the cooperative movement to contribute directly towards the implementation of national economic policies. The Presidential Commission on Cooperatives established in 2000 too have endorsed the same view and also emphasized the need of a national cooperative policy.

•After a careful consideration of these factors, Ministry of Internal Trade and Cooperatives, in collaboration with the National Cooperative Council of Sri Lanka, organized consultations among stake holders from the provincial level to national level in 2010. This was completed at a national conference held in 2011, participated by stakeholders of cooperatives at different levels. This Conference provided the main elements of a national policy on cooperatives concurred by all parties concerned. Later a committee appointed by the Ministry of Internal Trade and Cooperatives prepared a blue print of a national policy.

02.Rationale for a Statement on National Policy on Cooperatives.

•Out of three pillars for leading the national economy, legal and regulatory frameworks for state and private sectors have been updated to meet the requirements that are necessary for functioning in a globalised market economy. In contrast, the legal and regulatory system that governs the cooperative

sector has been formulated in 1972, which was to suit a closed and centralized economy. Succeeding Statutes of the Provincial Councils too have been introduced on the same principles of previous central legislation. This framework has been an obstacle for the furtherance of the cooperative movement in the country.

- Furthermore, a new Statement of Cooperative Identity has been declared in 1995, by the International Cooperative Alliance- global organisation of cooperatives, in order to become aligned with global changes, which has been endorsed by the International Labour Organization through Recommendation 193 in 2002. The United Nation has thus incorporated the changes at its General Assembly, to be adopted by its member nations inclusive of Sri Lanka. Even before this development, the United Nations has introduced guidelines to its members as to create a supportive environment for functioning of cooperatives in 2001, but Sri Lanka has not yet incorporated these improved principles and guidelines for cooperatives.

- Under these circumstances, it has become necessary for declaring and updated policy on cooperatives as a pre-requisite for further development of the cooperative system. In such an environment of changed legislation and regulatory mechanism based on the basic elements of a national cooperative policy, the cooperative movement will be able to contribute actively in the implementation of current national economic policy of the government.

PART 2.

National Policy on Cooperatives.

•Objective

The objective of the National Policy on Cooperatives is to establish a policy framework which is required to create supportive legal and regulatory mechanisms, in order to contribute actively to the development of economic and social development of Sri Lanka, within a globalised market environment pursuing internationally accepted principles and the Statement of Cooperative Identity.

•Fusion of state, private and cooperative sectors

•Functioning of cooperative enterprises in a level playing field

The cooperative sector will become effective in a level playing field with state and private sectors in order to contribute actively within an economic and legal policy environment. The government offers to create a facilitating environment for cooperatives to undertake this role in keeping with the distinct features of cooperative enterprise system.

•Expansion of cooperative micro-finance system

The government will take necessary steps to expand the financial service system of cooperative organizations, which is based on membership, from micro-finance activities to the level of establishing a commercial bank through required legislation and regulatory mechanisms.

- The role of cooperatives meeting the basic needs of the community.

While cooperatives will perform entrepreneurially for the provision of livelihoods emphasizing on the food production and processing, construction and maintenance of houses, provision of consumer needs and launching small and medium scale industries that are necessary for the sustainability of the community, the government would intervene to provide infrastructure and service facilities for such undertakings.

- Value chain development of the services of cooperative enterprises.**

Cooperative enterprises will be encouraged, through the provision of incentives for the development of backward and forward linkages in the economic services, value chain development, joint processing, and market development through strategic and business alliances with state and private sectors.

- Fair trading by cooperatives.**

Retail shops, supermarkets and wholesale shops of cooperatives will be restructured with the objective of offering fair prices and quality goods through best trading practices for the members' families as well as entire consumer community.

- Diversification of cooperative enterprises.**

While broadening the scope of current cooperative enterprises such as agriculture, credit and banking services, consumer services, small industries, hospital and nursing services, funeral services, fisheries and animal husbandry, coconut production and processing etc., facilities will be provided to diversify services including information technology.

- Management development and governance system in cooperatives.**

- Legal and management measures for self-financing of cooperatives.**

The government will initiate regulatory and management processes to maintain self financing status and profitability of cooperatives. This should contain required legal and regulatory provisions.

- Ensuring good governance of cooperative organizations.**

Actions will be taken to introduce a corporate governance system to establish a better governance system incorporating penal provisions for ensuring responsibilities and accountability of the directors and managers and ensuring members' democratic control over cooperatives.

- Improved accounting and information technology systems.**

Steps will be taken to introduce a better management system in cooperatives which incorporates an improved management information system and updated accounting system based on the Sri Lanka Financial Reporting standards.

•Cooperative employees' career development.

Actions will be in place for the development of professional skills of cooperative staff through a logically prepared career development system.

•Active participation of cooperative members.

It is considered that members of cooperatives should actively participate in the business and governance systems in their cooperatives. The government would facilitate a policy aiming at self generation of capital and also business development revolving around members in cooperatives.

•Cross cutting themes of environment and women's participation in cooperative enterprises.

It is considered that environment protection and providing equal opportunities for women should be common themes for observation in cooperative enterprises.

•Self-financing of cooperative organizations.

•Equity capital for cooperatives in keeping with the nature of the enterprise

It is considered that cooperative enterprises are essentially self-financed. Guidance will be provided to identify and implement the ways and means of accumulating self-generated working capital in relation to the character of the enterprise.

•Means of self-generated working capital.

Provisions will be made to re-generate the surplus of cooperatives and to ensure better management of credit business in order to accumulate internal capital.

•Common funds created through participation of cooperatives.

Action will be pursued to contribute towards enhancing working capital of cooperatives through efficient management of common funds created through participation of cooperatives such as Cooperative Development Fund and Surplus Fund.

•Banking system contributed by cooperatives through surplus capital.

Legal environment will be created to evolve a financial system that would re-invest the surplus funds generated in cooperatives as a result of business activities, which will eventually result in creating a commercial banking system for cooperatives.

•Revision of cooperative legislation.

•Formulation of cooperative law in keeping with the current economic system in Sri Lanka.

In keeping with the changes in the present market economy and also the changes in the cooperative identity, action will be taken to revise the currently imposed cooperative legislation, which was a creation during 1970's, at a time when a different political and economic ideology was in operation.

•Prevention of the emergence of pseudo-cooperatives.

The government will establish legal and regulatory mechanisms to prevent any emergence of pseudo-cooperatives in the country.

•Model by laws for new cooperative legislation.

The government considers the necessity of having model by laws and subsidiary legislation for facilitating the implementation of new cooperative legislation and the governance systems and would assist in the introduction of new by laws for different types of cooperatives.

•Revision of current cooperative labour legislation.

It is necessary to revise the present cooperative labour legislation in keeping with the updates of locally and internationally accepted labour conventions and policies. The government would take initiatives to revise the cooperative labour legislation accordingly.

06. Vertical and horizontal integration of cooperative organizations.

•Treating cooperative movement as one entity.

The government considers cooperative movement in Sri Lanka is one movement. Nevertheless, due to the vicissitude of legislation and regulatory arrangements by Provincial Councils, many inequalities occurred. Therefore, action will be taken to build up formal and regular consultations between the Central government and provincial councils to eliminate such differences.

•Leveling of legislation at the central government and provincial councils.

In order to achieve equilibrium between central government legislation and provincial council statutes on cooperatives, the central government will evolve guidelines based on common principles of cooperative legislation and conduct orientations based on such principles.

- Structure of cooperative organizations.**

Action will be taken to establish a rational federal structure of cooperatives at the internal and intra level of provincial councils leading to secondary and tertiary levels in order to reach maximum productivity and profitability in their operations.

- Business alliances of cooperatives within and outside the provincial councils.**

Provisions will be made to create alliances among cooperatives within the provincial councils for business operations and also to create inter provincial council alliances while allowing them to join the national level organizations for national issues and international relations.

07. Cooperative education, training and transmission of information.

- Technical support for cooperative education and training.**

Arrangements for providing technical support for maintaining the development centres at district, provincial and national levels for educating and training cooperative members and employees will be undertaken by the central government considering it as its responsibility.

- The role of national institute of cooperative development.**

Systems for cooperative management development, regulators' training and leadership development will be developed and introduced with the facilitation by the National Institute of Cooperative Development.

- Coordination of education and training activities.**

The Ministry of Cooperatives will create a system of coordination for cooperative and government training institutions in order to have a better organization of such events and programmes resulting in joint activities and programmes.

- **Integrated system for transmission of information in cooperatives.**

The central government would support the National Cooperative Council to evolve and implement an integrated system of collecting and transmitting information on cooperatives to eliminate difficulties of collecting information caused by devolving the cooperative subject to provincial councils, which are still required for monitoring and progress control of the cooperative movement in Sri Lanka.

PART 3.

Action Plan.

•Fusion of state, private and cooperative sectors.

- Planning and implementation of awareness programmes for cooperative members on the identity and practices of cooperative enterprise system;
- Identification of any constraints for cooperative enterprises to function in a level playing field vis a vis other sectors and introduce changes to policy and legislation;
- Introduction of a proper regulatory system for cooperative micro-finance system and banking services;
- Cooperatives to participate in the projects and platforms In order to make an active contribute to price stability in the market and bringing down the cost of living as a government policy;
- Introduce management systems and regulatory mechanisms to remedy the weakness at different levels from 'mini coopcity's to consumer federation level in the imports, processing, wholesaling and retailing;
- Mobilizing, training and developing small and medium scale entrepreneurs and organize them to cooperatives;
- Make provisions for introducing organic farming practices and engage in pilot programmes for mobilizing young farmers in order to revive agricultural cooperative system in the country;
- Introduce improved dwelling houses construction methods and maintenance systems inspired from such practices in cooperatives from different countries;
- Reorganize cooperatives in the schools, universities and other academic institutions in order to develop young cooperative entrepreneurs;
- Reorganization of current cooperative enterprises to provide gainful employment for unemployed and organize marketing facilities for the sale of their products;
- Introduce value addition to agricultural products and livestock products through processing industries based on joint ventures;
- Provide facilities at the retail shop level to sell cooperative products;
- In appropriate conditions, establish joint ventures with the state and private sector for the sale of agricultural produce and market consumer goods;
- Take action to export minor export products and processed commodities through the business federations and private companies;
- Capacity building and modernization of cooperative hospital network, nursing and medical consultancy services and funeral services.

•Management development and governance system in cooperatives.

- Introduction of corporate strategic planning for cooperative enterprises and their capacity building;
- Implementation of systematic performance management processes in cooperatives;
- Enhancing capital base of cooperatives by either making idle assets profitable or disposing them;
- Introduction of updated accounting system of international standards and integrated information technology system for cooperatives;
- Updating of auditing standards for cooperative auditing to the internationally accepted standards;

- Introduction of good corporate governance system as in the case of state and private sectors and establish a regulatory mechanism to oversee the practices;
- Formal establishment of committee system in cooperatives in order achieve more democratic decision making;
- Set up a code of good corporate practices and follow through the business practices within such a model;
- Establish code of good conduct for directors and managers of cooperatives which compel them to disclose their assets and qualifications.

•Self-financing of cooperative organizations.

- Introduction of strategies for ensuring active participation in decision making by major stake holders who provided more capital and participation voluntarily;
- Revision of value of a share of a cooperative enterprise as per the nature of business they carry out in order to receive basic capital needed;
- Provision of extra capital through deposits, debentures, bonds and any other form of capital mobilization strategies;
- Make provisions for accumulating surplus capital through the network of cooperative rural bank unions and their primary member cooperatives and invest in sustainable business;
- Introduction of profit centre concept for cooperative enterprises;
- Evolve a system for receiving enhanced returns from the investment of surplus capital available in cooperatives made in value chain development of members' products through partnerships and joint ventures with cooperative companies etc.;
- Introduce new strategies for realizing efficiency in credit management in the cooperative rural banking system;
- Revolve the capital lying in the common funds created through cooperatives such as Cooperative Fund and Surplus Fund for meeting the needs of cooperatives with active participation of the stakeholders in decision making;
- Create legal and other facilities for establishing a commercial bank for the needs of cooperatives with share contribution from cooperatives;
- Provide legal provisions, regulatory mechanisms and consultancy services to invest surplus capital of cooperatives in ventures such as share market and companies ensuring better returns and less risk.

•Revision of cooperative laws.

- Establish a new cooperative law within the provisions of the constitution of the country, which will be based on an international model that has contributed to achieve sustainability in cooperative enterprises in an open market economy;
- Restructure the departments of cooperative development at the provincial and central levels which could facilitate cooperative laws and regulatory mechanisms;
- Review of the current cooperative employees legislation and re-formulate a model legislation at the central level in keeping with the accepted international and local labour conventions and regulations, which would pave the way for adoption at the provincial council level;

- Prevent emergence of pseudo-cooperatives in the cooperative system through the establishment of a statutory tribunal to settle such disputes or challenges that may arise while registering cooperatives and managing cooperative enterprises;
- Prepare model by laws for different cooperative organizations for adoption, in keeping with the legal changes;
- Make legal provisions to appoint independent arbitration panels to hear appeals on the disputes arisen in the cooperative organizations;

• **Vertical and horizontal integration of cooperative organizations.**

- Establish a formal cooperative ministers forum consisting of the ministers at the central and provincial levels;
- Formulate a model cooperative law which would have commonality between the central government and provincial councils in their statutes;
- Provide facilities for setting up partnerships in cooperative enterprises within the provinces and among provinces;
- Make provisions to establish federal structures for business related cooperatives and also ideological structures from primary cooperatives to provincial and national levels;
- Establish a consultancy agency by the central government to offer technical and business consultancy services to cooperatives at the primary, provincial and national levels.

06. Cooperative education, training and transmission of information.

- Revision and updating current foundation courses meant for cooperative employees;
- Modernization of the existing regional and national level cooperative training institutions;
- Support the National Institute of Cooperative Development to formulate management training programmes, diploma courses based on the current needs of cooperative enterprises and implement them;
- Organize cooperative members entrepreneurship development programmes through district cooperative councils and primary cooperatives;
- Organize capacity development and training projects for cooperative organizations through national federations and the National Cooperative Council;
- Set up a mechanism at the central government level in order to achieve better coordination among cooperative training institutions;
- Reorganize school cooperatives and promote entrepreneurial activities among school children;
- Introduce an integrated information system on the cooperative movement and evolve a transmission system for information;
- Evolve strategies and mechanisms for research on cooperative enterprises and market research.

PART 4.

Implementation strategy for National Policy on Cooperatives.

- An Implementation Committee will be set up by the central government through the Ministry in Charge of Cooperatives to operationalize the national policy on cooperatives. The Committee would be consisting of the representatives from the Department of Cooperative Development of the central government, National Cooperative Council, cooperative ministries of the provincial councils and the National Institute of Cooperative Development. The responsibility for the implementation of the National Policy should be vested with the Ministry of Internal Trade and Cooperatives of the central government.
- The Committee would evolve a strategy and plan for implementing the National Policy and in particular, following terms of reference will be followed:
 - Create a deep understanding among the stakeholders on the National Policy on Cooperatives;
 - Appoint special task forces on specific areas of work such as preparation of an integrated IT system and the revision of cooperative law and monitoring their work;
 - Implement, within the guidance of the National Policy, a transitional programme to make the cooperative movement a self- financed and self- governed peoples movement;
 - Assess the infra-structure which are expected to be used in the development of cooperatives at the provincial level and at the central level and restructure the facilities and make improvements wherever necessary;
 - Set up a coordinating mechanism between the provincial councils and the central government for the implementation of the National Policy.
- It is expected that the implementation of the National Policy on Cooperatives will be completed within three years.