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CONSULTANCY REPORT

# Cooperative Laws of Palestine

Cooperative Development Project  
West Bank & Gaza  
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## SCOPE OF WORK

A general description of the scope of my work is contained in appendix 1, pages 1 & 2, of this report.

Appendix 1 contained a request that I provide some "boiler plate" language for a cooperative law at the start of this assignment. A model of a cooperative law was faxed to the committee in advance of my arrival and a copy of that document is attached here to as appendix 2, pages 1 through 12.

This model was not intended as a fixed format for a law for Palestine Cooperatives. Rather, it is hoped that the model will be useful in demonstrating content and subject matter of cooperative laws else where.

A new cooperative organization should strive for flexibility so that local conditions can be accommodated. The essentials of a U.S cooperative are really quite basic, namely:

- a. Ownership of a cooperative must be held by its member/users;
- b. The control of a cooperative must be based on the principle of one vote per member;
- c. Dividends on member capital are limited.

To this list also should be added that a good cooperative must sponsor educational programs for the understanding and support of its members.

I further believe we share the same view on the following basics :

1. A cooperative's purpose is primarily to secure for its membership the advantages of cooperative association, to develop education and leadership programs in rural areas, to train producers to organize and to sell their products and to undertake other functions at a cost more favorable than can be accomplished by a lone individual.
2. A by-product of the cooperative system is the guarantee of better price to the consumer and producer alike through the elimination of unnecessary costs as well as the speculative profits of "middlemen" between the producer and consumer.
3. It is a legitimate governmental duty to encourage this process by furnishing assistance to cooperative undertakings through favored tax treatment and by providing services to assist in the exchange, interpretation and dissemination of crop, market and production and by aiding cooperatives in the purchase, credit, financing , insurance and other activities involved with production, storage and marketing of agricultural products.
4. It is not a function of cooperatives to discharge governmental imperatives. A cooperative is essentially a business, organized for the benefit of its members along democratic lines of control and for the pro data sharing of surplus.

Ideally, a regulation for governing cooperatives should be concerned with three major areas :

1. Rules that guarantee a democratic format for the cooperative organization rather than rules that provide for governmental involvement in the cooperative organization.
2. Regulations governing the relationship between cooperatives and their membership, free of restrictions.
3. Regulations requiring annual financial disclosure for the purpose of making the cooperatives, records public and for informing its membership rather than for the purpose of involving the government in the business affairs of a cooperative.

In the formation of the rules, it is usually best to allow that which is not restricted as opposed to restricting that which is allowed. If there is a choice between two courses of action, where one course involves less government involvement than the other, it is usually best to come down on the side of less government involvement. Cooperatives thrive best in a free enterprise environment.

During our workshop discussions various specific questions have been raised and I have attempted to deal with these issues in the section of this report entitled : "Random Issues". In the final phase of this report I have made certain recommendations which have been based on the criteria above set out.

## **RANDOM ISSUES**

### **COMPENSATION OF BOARD OF DIRECTORS**

There is no set rule or formula that governs this question. It is one that must be addressed on a case by case basis.

In a situation where the board meets from time to time to set policy to be followed by a manager and staff, many cooperatives, in different places provide by law or by-law that directors serve without compensation, but most would allow a board member to be reimbursed for actual expenses such as transportation, room and board, etc... for the time spent at meetings.

Some cooperatives additionally provide for a daily honorarium to be paid board members for the days that they are in actual attendance of a meeting. This is usually nominal such as a per diem fee.

Small cooperatives who need only part-time management frequently designate one of their board members as a "managing director" at a salary consistent with the time spent on cooperative business.

It is not usual that the board members of small cooperatives as a whole receive a regular salary for their services. The cooperative movement is driven by the spirit of volunteerism. If a smaller cooperative does not need a full time manager it would seem

logical to vest the part-time management in one managing director rather than divide these duties among several paid directors. Such a scheme tends to confuse the managerial authority and blur the lines of responsibility.

I would therefore recommend a statutory provision along the following lines :

"No compensation shall be paid to a person for service as member of the Board of Directors.

Provided, however the by-laws may provide for reimbursement of actual expenses incurred by members of the board in the discharge of their duty. Provided, further, the cooperative by-laws may permit the board to designate one or more of its members as managing directors at such salary as may be approved by the meeting of the membership.

### THE DETERMINATION AND DISTRIBUTION OF SURPLUS

A basic feature of a cooperative is that its operations are "at cost". This means that any surplus remaining after the cooperative pays its overhead and operating expense is distributed to the members. Cooperatives that operate on a purchase and sale basis usually operate on a cash basis by (1) charging prevailing price on inputs or supply sold to members and non-members alike or paying prevailing market price for farm commodities purchased, and (2) returning to members at the end of the year and "over-payment" on supply or "under payment" on farm products after reserve requirements and operating expenses. Payments are on the basis of the members volume of business on his use of the cooperative, some cooperatives first pay a limited dividend on member's capital and retain a percentage of the margin as an allocated capital reserve for members. Thus a member who delivers ten tons of production receives ten times as much as a member who delivers one ton of production.

A cooperative may provide by by-law or at the annual members meeting for a percent of margin to be reserved for capital improvement for cooperative users, by authorizing credit reserves or funds for pre-payment of costs of operation. The resulting capital "retains" may be paid to members in the form of "equity certificates" to evidence user profit on the retained fund. In such case each member is credited with his proportionate part of the "retain" on the books of the association. Such credits are not usually regarded as indebtedness which is due and payable, but rather represents an interest to be paid at a future unspecified date to be determined by the board.

The various methods for distributing a surplus are endless and the by-laws should be flexible enough to permit the members a wide discretion in determining the manner for forming capital for sustaining the association and for distribution of net margins.

The most important thing to remember is that the members should be free to decide these issues through the establishment of their by-laws.

### THE STRUCTURE OF COOPERATIVES AND RELATIONSHIP TO GOVERNMENT

The internal structure of cooperatives are described in appendix 2. Chapter III of

the Appendix describes a method of conferring legal body status on cooperative groups. This chapter also describes the desired content of by-laws.

Chapter IV describes the various kinds of cooperatives including credit cooperatives. In this report under the heading of "lending" I have made specific recommendation concerning this special kind of cooperative.

Chapter V gives a method for the operation of the general assembly. The other basic function of a cooperatives structure including the supervisory committee (chapter VI, art 3) surplus audits, merger and dissolution are also dealt with. Our workshop efforts are covering these areas with an emphasis on local needs. At one of our meetings it was suggested that special consideration be given in the law to encourage womens' participation in the cooperative movement, and whole heartedly agree on that proposal. The cooperative movement cannot truly succeed if half of the people in the country are excluded from participation.

The PNA Ministry of Labor has already appointed Dr. Bassam Qadoureh head of the Cooperative Department under the Ministry of Labor.

Although many countries place cooperatives under the ministry of Agriculture it would appear that the present arrangement ought to remain in place. Dr. Qadoureh is well acquainted the cooperative movement and is interested in its growth.

#### RE-EVALVATION OF EXISTING COOPERATIVES

There are Palestinian cooperatives that have been in existence for a long time but with a fairly static membership. Many of these associations have built up substational assets by way of land, buildings, personal property and inventory. At the same time, the original evolution of the stock has never been revised. Further, it is anticipated that the revival of the cooperative movement in Palestine will cause an influx of new members into these cooperatives which would result in a dilution of the present owners shares unless adjustment are made.

In my discussion herein of the "determination and distribution of surplus" the concept of equity certificates" was addressed as a method of evidencing deferred margin distribution. This same concept might be employed in resolving the foregoing problem.

In such case the existing capital assets of a cooperative could be fairly appraised with the resulting evaluation divided between the members in accordance with their historic participation in the cooperative and such division evidenced by the issuance of "equity certificates". These certificates could be redeemed from a portion of the future surplus being generated by the cooperative.

Great care would be necessary both in the evaluation process and in the method for redeeming "equity certificates" so as not to penalize the new members. Keep in mind that if the return to the member is not worthwhile, the cooperative will not be able to grow and the democratic format of the cooperative would be lost.

Other kinds of cooperatives would require other solutions. Some housing cooperatives have previously acquired land that has greatly enhanced by reason of inflation. "Equity Certificates" would not serve this situation as the end point of this cooperatives purpose is the creation of housing for individual members. In these kinds of cases, it might be possible to create two classifications of members within the cooperative, one for the vested old members and one for new members.

#### TRANSFERABILITY OF SHARES

The stock of the cooperative should not be held by persons who are not qualified members. Stock should be transferable to those persons who are eligible for membership, subject to the approval of the Board of Directors and upon admission to membership and subject to any other restrictions imposed by the By-Laws.

#### THE TREASURER FUNCTION

Any member of the cooperative should be eligible for any position of leadership within the cooperative. If a person who lacks certain technical skills is elected to an office where technical skills are required, that person can always enlist the aid of a trained person to assist in those particulars.

#### AUDITING FUNCTION

Every association must have its accounts and records audited as soon as practical after completion of its annual financial statement. The costs of audits vary widely and are sometimes burdensome to a smaller society.

For that reason, many cooperative movements have created a service branch that is maintained and operate by the apex cooperative for the benefit of its members. The service branch employs qualified accountants who are trained especially in a standardized bookkeeping method for cooperatives and the charges for this service are regulated by the apex cooperative. This guarantees uniformity at a reasonable price.

Until such a service can be put in place, the various groups of cooperatives in different geographic areas could join together in an effort to identify a qualified accounting firm who would give a favorable price in exchange for all of the business of the member group.

#### RESTRICTION ON HOLDING SHARES

I have studied the committee preliminary conclusions on this point and find that they are in accord with main stream thinking.

#### RESPONSIBILITIES OF MEMBERSHIP AND ITS LEADERSHIP

The general assembly : The obligations, responsibilities and rights of the membership are set out in Chapter II, articles 3 and 4 of Appendix 2.

In most cases, new members of a cooperative do not know how to exercise their full rights and obligations. It is for this reason and others that the U.S. model places such great emphasis on constant training programs. A member who is uneducated in cooperative principles will remain sterile to the process and must be brought into the decision making part of cooperative life.

The Board of Directors : The obligations responsibilities and rights of the Board of Directors are set forth in Chapter VI, article 2 of Appendix 2, aforesaid.

In my view, however, a good Board of Directors will constantly push on these areas:

1. The maintenance of thrift and efficiency in the cooperatives affairs so as to guarantee the greatest return to its users.
2. The maintenance of a good educational program on a constant basis as set forth above.
3. If a manager is to be employed, the selection of a good manager and to let the manager make the day to day decisions without undue interference.

The manager : The manager should be fully aware of the policy established by his board in all areas. He should then be left to the enforcement of the policies without undue interference by the board.

## LENDING

I am troubled by the preliminary recommendations of the accounting and financial committee on the question of a cooperative lending to its members.

If we are talking about rules for a credit cooperative, I would suggest that the International model for Credit Unions be more closely followed instead of an effort to set up a different structure. Credit Unions are a special category of cooperative and really should have a separate law or section of laws in the forthcoming cooperative movement.

If the present law on cooperative lending is in conformity with the International Credit Union Model, that portion of the old law should be left intact. If we are talking about rules governing an Agricultural cooperative making loans to its members, I would suggest that the committee attempt to codify existing law that has proved to be workable rather than adopt the present effort.

Therefore, in answer to your specific questions as to whether all cooperative should introduce loan, to their members and non-members or should lending be limited to a specific cooperative, I would state that lending would best be left to a specific cooperative under a law that comports to the International Model referred to above.

## OTHER RECOMMENDATIONS

1. As the law proposal is being completed, organize its provisions so that they may be compared side by side with the model laws you have been using and with the model law I have previously furnished. Make sure that you have included the essential structures and refine the language whenever possible to simplify and clarify the wording; separate the clauses that can be better included in the by-laws than in the statute, to keep the statute as broad and as simple as possible but without omitting critical safe-guards. I believe it would be of great assistance if you can at this stage, retain a Palestinian Lawyer with a cooperative background to assist you in the preparation of the final draft.

2. The apex organization should by by-law be empowered to adopt a standardized system for all cooperatives in the audit functions and to sell such supply to the membership for its use; to maintain accountants who can perform audits for the individual members: To development and run training programs, etc.

3. As already stated in the report under "lending", I recommend that either an additional section to the law now being discussed, or a separate law altogether ought to be drafted for the governance of credit cooperatives. A good credit union movement will benefit from its own law which is specialized and is not covered in our existing proposal. The World Council of Credit Unions at Madison, Wisc, USA would assist you in this effort.

4. A model by-law for all registering cooperatives should be studied and adopted by the group. This by-law would serve as a format for new cooperatives. If I can be of any help to you in sending "boiler plate" or other information, feel free to contact me through CDP and I will comply without charge.

5. I recommend that the registration process for new cooperatives be kept free of governmental restraint. This duty of the Registrar should be ministerial except to the degree set out in the Appendix 2.

6. We have spoken of the concept that a cooperative is operated "at cost". As such, the cooperative knows no profits as its surplus is distributed to its members. It follows that a cooperative should not be taxed on "income". The tax to be paid should be by the users as they receive their margins.

It would be a great help to the cooperative movement if the "no tax" concept could be incorporated into your new law rather than try for this later. The drafting of a tax exemption clause should be addressed by an expert in local taxation legislation.

**APPENDIX 1**

## SCOPE OF WORK

### LOUIS COSHO, LEGISLATION CONSULTANT

**Purpose:** To assist the Palestinian Technical Committee on Cooperatives prepare a proposed law for the Palestinian National Authority (PNA) regarding cooperatives in the West Bank and Gaza (WBG).

**Specific tasks:**

1. Meet with members of the committee, individually and as a group, as required to fully understand the situation and conditions regarding the cooperative movement in WBG.
2. Discuss with members of the Committee and Subcommittees relevant issues of importance to the legislation. This includes consideration of the Palestinian cultural and business practices as well as international standards regarding cooperative business.
3. Review existing statutes in the Middle East and other countries with the Committee so as to ensure understanding and inclusion of all major aspects of cooperative law.
4. Interact with the Palestinian Department of Cooperatives to ensure understanding and acceptance of the work of the Committee and CDP.
5. Assist in writing a "First Draft" of the Cooperative Law for Palestine.

**Expected duration:**

Two weeks --- December 16-30, 1994

**TECHNICAL COMMITTEE ON COOPERATIVES  
WEST BANK & GAZA**

**Purpose:** To present a proposed law regarding cooperatives in the West Bank and Gaza (WBG) to the Palestinian National Authority.

**Members:** Nine individuals that have been elected either Chairman or General Manager of working cooperatives in the WBG. Mr. Basam Qadoureh, Head of the Cooperative Department, Ministry of Labor, PNA is an ex-officio member of committee.

**Plan of action:**

**Phase I**

Prepare first draft of law.

The committee of nine has named a subcommittee of three persons to manage the process of drafting the law. The subcommittee, led by Mr. Bassam Wajweel will work with an international consultant and two local consulting work-groups [legal and structure] to prepare the first draft.

**Phase II**

Extensive review of first draft.

The committee will invite 25-30 specific individuals dedicated to the Palestinian cooperative movement to attend a workshop. The purpose of the workshop will be to conduct a line-by-line review of the draft law looking at the completeness and appropriateness of the law. The committee will seek recommendations for change. The recommendations will be carefully considered and a final draft of the law will be prepared.

**Phase III**

Public review of final draft.

A series of three public meetings will be held to expose the new law to as many people as possible. Comments will be solicited and reviewed by the committee. Following the public review, the final version of the law will be written and submitted to the Palestinian National Authority.

*Appendix 1*

## CDP Assistance

CDP has pledged to the committee to provide all possible assistance in their efforts to prepare a new cooperative law for Palestine. The assistance requested consists of:

1. During Phase 1, CDP will find and fund an international consultant/attorney experienced in writing cooperative law in the Middle East. The committee is not interested in "copying" the Jordanian or Egyptian experience. They want someone who has written cooperative law and has some insight into Middle East cultural and business practices. It is expected that the consultant would spend time in the WBG reviewing existing statutes and visiting with all the members of the Technical Committee. The consultant would work very closely with the subcommittee of three to prepare the first draft. CDP will provide complete logistical and administrative support.

It is anticipated that the "right" consultant will have worked on this kind of assignment before, be proficient at wordprocessing, and have some "boilerplate" language available at the start of the assignment. Therefore, it is expected that this assignment could be completed in 2-3 weeks.

2. During Phase II, CDP will help to organize and facilitate the workshops. It is anticipated that 2-3 sessions will be held involving 12-15 persons in each workshop. CDP will provide clerical and administrative support as well as provide technical input.

3. During Phase III, CDP will assist the committee plan and conduct the public meetings. In addition to the logistical assistance, CDP will provide technical assistance. CDP will provide an international consultant to work with the committee in preparing the final draft of the cooperative law after all the meetings and discussion has been held.

**APPENDIX 2**

**CHAPTER I – Principles, Purposes, and Definition of Cooperative Societies**

**Article 1 – Principles and Purposes**

A Cooperative is an enterprise belonging to the people who use its services, the control of which rests with all its members, and the gains of which are distributed to the members in proportion to the use they make of its services.

Membership in a cooperative is voluntary and open to every citizen. The member's general meeting is the supreme power of the cooperative and is governed by democratic principles.

A cooperative society may be organized to engage in any activity in connection with cooperative savings and lending, to act as a purchasing agent for its members, for the creation of housing and for all other manufacture or services suitable for cooperative ventures.

In the case of agricultural cooperatives, such enterprises may engage in any activity in connection with the production or marketing, of the agricultural products of its members, or with the harvesting, preserving, drying, processing, covering, packing, storing, handling, shipping, insuring or utilization thereof, or the manufacturing or marketing of the by-products thereof; or with the purchasing, manufacturing, selling or supplying to its members machinery, equipment or supplies; or in the financing of the above activities, or in any one or more of the activities herein specified.

**Article 2 – Definition of Cooperative**

A Cooperative shall conduct its affairs in accordance with universally accepted principles of cooperative which include the following:

- a. Ownership is held by member-users;
- b. Control is on the basis of one vote per member;
- c. Operations must have a return equal to or exceeding their costs;
- d. Dividends on member capital are limited;
- e. Education is necessary for understanding and support.

## CHAPTER II – Membership

### Article I – Qualification

1. The membership of a Cooperative Society shall consist of individuals or legal Cooperative societies.
2. Individual membership shall be voluntary and open to every citizen that:
  - a. Has attained legal age, and
  - b. Is a producer or consumer with mutual interest in the area of operation of the cooperative, and
  - c. Has paid the required membership fee (one share of voting stock) as prescribed in the bylaws, and
  - d. Meets such other requirements as prescribed in the bylaws.
3. An individual shall have the right to belong to more than one cooperative society without geographic restriction.
4. The membership of a cooperative society shall be proven by registration in the membership Register which shall be kept in accordance with the by-laws.

### Article 2 – Termination

1. A member may voluntarily withdraw from a cooperative society at any time, or
2. A member may be expelled from a cooperative society if the obligations as set forth in the bylaws have not been met.
3. In either case the membership fee (one share of voting stock) will be redeemed at face value providing all monetary obligations have been fulfilled.
4. Any other capital belonging to the member may be withdrawn in accordance with the bylaws.

### Article 3 – Obligations and Responsibilities

Every member of a cooperative society shall have equal obligations and responsibilities to:

1. Utilize the cooperative;
2. Attend and participate in member meetings;
3. Elect a responsible Board of Directors and a Board of Supervision that will fairly and honestly represent the membership as a whole;
4. Abide by the bylaws and other rules and regulations set forth by the Board of Directors.

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Individual members' liability shall be limited unless otherwise specified by the bylaws.

#### Article 4 – Rights

Every member of a cooperative society shall enjoy equal rights including but not limited to :

1. Attend member meetings and actively participate in such meetings including:
  - a. expression of opinion;
  - b. voting on issues brought before the membership including bylaws and amendments to them.
2. Elect and/or be elected as a member of the Board of Directors / Board of Supervisors;
3. Express his opinion or make suggestions to the Board of Directors outside the members meeting whether requested or not;
4. Receiving equal services;
5. Controlling the organizational and business activities of the cooperative through the Board of Directors.

#### Article 5 – Voting

Each individual member of a cooperative society shall have only one vote in the affairs of the society in accordance with his one share of voting stock (membership fee).

In the case of a cooperative society being a member of another cooperative society, votes shall be allocated proportionally based on volume done by the member society with the parent society.

### **CHAPTER III – Registration of Cooperative Societies**

#### Article 1 – Application

A society may apply for legal body status as a cooperative society subject to the provisions of this Law and which :

1. Has as its objective the promotion of the economic interests of its members in accordance with cooperative principles;

#### Article 2 – Procedure to Obtain Legal Body Status and Registration as a Cooperative

1. Every application shall be submitted to the Director of Cooperatives in the prescribed form and with the required information which shall at least consist of:
  - a. Proposed bylaws;

- b. Minutes of the meeting of incorporators;
- c. A statement of the economic or other need for the formation of the proposed society;
- d. A statement regarding the viability of the activities of the proposed society;
- e. A statement regarding the management capabilities of the persons being named to manage the affairs of the cooperative society and of keeping such records and accounts required to manage the cooperative and safeguard the assets of its members.

There shall be no restriction on the number or type of cooperative societies in any given area if items (a) thru (e) plus other considerations are positive.

- 2. If the society has complied with the requirements of this law and the undertaking of the society is viable, the society shall be registered as a cooperative society within two (2) months from receipt of the application and shall be entered in the Register of Cooperative Societies.
- 3. If the Director of Cooperatives refuses to register the society they shall be notified in writing and they shall have an opportunity to appeal the decision to the Minister of Agriculture.
- 4. The Minister's decision, which is final, shall be communicated to the society within two (2) months from the date of the appeal.
- 5. A certificate of registration signed and sealed by the Director of Cooperative shall be conclusive evidence that the cooperative society is duly registered until such time that registration has been officially cancelled in writing and due notice has been given to all parties.

#### Article 3 – ByLaws

Each cooperative, at the time of registration, must propose and thereafter adopt bylaws, not inconsistent with powers granted by the Cooperative Law. Said bylaws may provide for but not limited to any of the following matters:

- a. The time, place and manner of calling and conducting its meetings;
- b. The number of members constituting a quorum;
- c. The number of directors, which must not be less than five (5); the number of Supervisors, which must not be less than three (3); the terms of such officers and the number and composition of standing committees;
- d. The qualifications, compensation and duties and term of office of directors and officers; time of their election;
- e. Penalties for violations of the bylaws;
- f. The amount of entrance fees, obligatory savings; the manner of collection of the same and the purposes for which they may be used;

- g. The policies governing payment by members of the cooperative for services being rendered by the cooperative; the marketing contracts between the Cooperative and its members; the conditions upon which memberships shall be based; the conditions upon which membership may be terminated; the method for determining the value of a member interest and provisions for the repurchase thereof on the death or withdrawal of a member;
- h. For all other matters of interest to the membership for the governing of the cooperative consistent with democratic principles.
- i. The bylaws may be altered or amended at any regular or special members meeting properly called for that stated purpose by the affirmative vote of two thirds (2/3) of the members present.

#### **CHAPTER IV – Types and Powers of Cooperatives**

Cooperatives formed under this Chapter shall have the following powers:

##### **Article 1 – Agricultural Cooperatives**

- 1. Agricultural cooperatives are formed to serve the farmer and are empowered :
  - a. To engage in any activity in connection with the production, marketing, selling, harvesting, preserving, drying, processing, canning, packing, storing, handling or utilization of any agricultural products produced or delivered to it by its members; or the manufacturing or marketing of the by-products thereof; or in connection with the purchasing, hiring, manufacturing, selling, or use to, by, or for its members of supplies, machinery or equipment; or in the financing of any such activities; or in any one or more of the activities specified herein. A cooperative may do business with nonmembers;
  - b. To borrow money and to make advances to members;
  - c. To act as the agent of a member or members in any of the above activities;
  - d. To purchase or otherwise acquire real or personal property actually needed for use in the operation of the cooperative;
  - e. To establish reserves and to invest the funds thereof in such manner as may be provided by law and the bylaws of the cooperative.

##### **Article 2 – Nonagricultural Cooperatives**

Nonagricultural Cooperatives may fall under any of the following types:

- a. Credit Cooperatives which promote thrift among its members and create funds in order to grant loans for productive and provident purposes;

- b. Consumer Cooperatives which procure and distribute goods and commodities to members and nonmembers;
- c. Producer Cooperatives which produce other than agricultural products;
- d. Service Cooperatives which engage in health care, transportation, housing, labor, electricity and power, communications and other services;
- e. Other cooperatives or combinations thereof which engage in activities lending themselves to the principle of cooperatives.

Nonagricultural cooperatives are empowered to do all of the functions of an agricultural cooperative if applicable to that specific cooperative.

Cooperatives both agricultural and nonagricultural may do those things necessary, suitable and proper for the accomplishment of any of the purposes herein stated; or conducive to or expedient for the interest or benefit of the Cooperative; and to contract accordingly; and in addition, to exercise and possess all powers and privileges necessary for the purpose for which the cooperatives are organized. This is to include but shall not be limited to:

- a. Vertical or horizontal integration;
- b. Amalgamation;
- c. Creation of a higher level society.

The Minister of Agriculture is authorized to implement through decree and regulation all rules necessary to carry out these objectives.

## **CHAPTER V – Meetings**

### **Article 1.**

A general meeting of the membership must be held at least once each year. A cooperative by its bylaws shall establish the time for the annual meeting and timely notice of the time and place thereof shall be provided to the membership.

### **Article 2**

A special meeting of the membership may be called by a majority of the Board of Directors or of the Board of Supervisors or upon the written request of two-thirds (2/3) of the membership. Timely notice of the time and place of a special meeting shall be provided to the membership.

### **Article 3**

The Board of Directors and the Board of Supervisors and the Committees of a Cooperative shall meet as often as may be necessary for the conduct of the business of the cooperative and as may be required by the bylaws.

#### Article 4

A written record of all meetings of the membership, Boards, or Committees shall be maintained by a secretary appointed by the presiding officer of such meeting.

#### Article 5

All meetings shall be governed by the principle of "one member-one vote". All meetings shall be presided over by an-elected member.

#### Article 6

No member may vote by proxy.

#### Article 7

A quorum shall be established in the bylaws.

### **CHAPTER VI – Cooperative Society Leadership**

#### Article 1 – Business Management

The affairs of the cooperative shall be the responsibility of the Board of Directors of not less than five (5) persons, all to be elected at the annual meeting, by and from the membership.

The Board of Directors shall from its members appoint such officers and committees as may be needed for the operation of the cooperative and as may be required by the Bylaws.

The manager hired by the Board of Directors shall manage the business operations of the cooperative and implement policy established by the Board of Directors.

A Board of Supervisors consisting of not less than three (3) persons shall be elected by and from the membership at the annual meeting with the powers and duties herein after enumerated.

A member of the Board of Supervisors may not serve concurrently as a member of the Board of Directors.

#### Article 2 – Responsibilities of Boards of Directors

Directors serve to represent all members' interests. They shall be responsible for the affairs of the cooperative. Their power and responsibilities are set forth in the bylaws. Their major responsibilities are:

1. Establish and review long-term goals and policies;
2. Select, hire and discharge a professional manager to implement these goals and policies;

3. Evaluate and monitor the manager's implementation;
4. Leave day-to-day decisions to the manager such as hiring and directing employees;
5. Safeguard the assets of the cooperative;
6. Require accurate accounts and records;
7. Obtain outside audit services to include but not limited to verifying accounts, inventory and records;
8. Determine distribution and reinvestment of surplus;
9. Redeem equities of inactive members;
10. Act upon application for membership;
11. Appoint committees and committee officers as may be required by the bylaws or as may be necessary to discharge the business of the cooperative. The Board should appoint a standing committee for education;
12. To purchase, when available, fidelity bonds covering officers and employees against loss caused by dishonesty and for faithful performance of duty;
13. Supervise the management of the property and other assets of the cooperative;
14. Borrow money and raise capital by other means in accordance with the bylaws;
15. Upon two thirds approval of the Board suspend board members, committee members, and officers for absenteeism and/or failure to perform their duty;
16. Select from their own number a Chairman, Vice Chairman, Secretary and such other officers as may be prescribed by the bylaws.

#### Article 3 – Board of Supervisors

The Board of Supervisors shall have the duty of inspection of all aspects of cooperative life, including the organization, business and implementation of the policies made by the Board of Directors.

The Board of Supervisors shall confirm that the Board of Directors has caused an examination of the books and records of the cooperative annually and that a written report of such examination is made to the members at the next annual meeting of the cooperative.

By unanimous vote, the Board of Supervisors, if it deems such action to be necessary to the proper conduct of the cooperative, may suspend any officers, directors or members of a committee and call a special meeting of the membership to act on such suspension. The members at such special meeting may sustain such suspension or reinstate such individual.

By majority vote, the Board of Supervisors may call a special meeting of the membership to consider any matter submitted at such special meeting.

The Board of Supervisors shall be obliged to keep all the results of their inspection a secret towards third parties and shall be responsible to the members meeting directly.

## **CHAPTER VII – Capital and Net Surplus**

### **Article 1 – Capital of a Cooperative Society**

A Cooperative society is a business enterprise owned by the people who use its services. Ownership implies investment.

1. The capital of a cooperative society shall consist of and be accumulated from many sources as listed below but not necessarily limited to:
  - a. Members' basic savings as set forth in the bylaws and evidenced by one share of common stock (voting stock);
  - b. Members' obligatory savings as set forth in the bylaws;
  - c. Members' or nonmembers' voluntary savings;
  - d. Longer term interest bearing certificates with a set maturity date which may be issued to any individual or group;
  - e. Reserves accumulated from the net surplus of the Cooperative society;
  - f. Any other legitimate source of financing available to any private business enterprise;
  - g. Bank for Cooperative Loans.
2. Basic savings cannot be withdrawn as long as the holder remains a member of the cooperative society, may pay minimal interest annually, and will be redeemed at face value.
3. Obligatory savings may be withdrawn in accordance with the bylaws, may pay interest and will be redeemed at face value plus any accumulated interest to the date of redemption.
4. Voluntary savings will pay a competitive rate of interest and may be withdrawn at the discretion of the depositor at face value plus accumulated interest to the date of withdrawal.
5. All other types of certificates will be redeemed in accordance with the terms established when issued.
6. Bank for Cooperative loans will be repaid in accordance with the terms established at the inception of the loan.

### Article 2 – Net Surplus of a Cooperative Society

1. Net surplus of a cooperative society is the surplus remaining from the revenue earned by the society in a fiscal year after the deduction of all related costs and depreciation.
2. Net surplus originates in the business activities carried out both for the members and nonmembers.
3. Net surplus originating in the business activities carried out for the members and nonmembers shall be distributed for the following purposes:
  - a. Cooperative reserves;
  - b. Patronage refund to the members in proportion to the services rendered by them;
  - c. Cooperative education;
  - d. All other purposes authorized by the bylaws.
4. The procedure of distribution shall be regulated by the Bylaws.

### CHAPTER VIII – Accounts and Records – Audit and Inspection

#### Article 1 – Accounts and Records

1. Every Society shall keep proper accounts and records of its affairs in accordance with generally accepted accounting principles and shall do all things necessary to:
  - a. Insure that all payments are properly authorized and correctly made;
  - b. That all income/receipts are properly and correctly entered;
  - c. That adequate control is maintained over the assets of, or in the custody of, the society.
2. Every society shall, as soon as practical, but not later than three (3) months after the close of the fiscal year, prepare an annual financial statement for the use of management and members, and shall submit a copy to the Director of Cooperatives.

#### Article 2 – Audit and Inspection

1. Every society shall have its accounts and records audited as soon as practical after completion of its annual financial statement.
2. The completed audit is to be reviewed with the Board of Directors of the society and a copy of the audit is to be provided to the Director of Cooperatives directly by the auditor.

- 3 The society shall pay for the audit out of its operating funds.
4. The auditor shall inspect the accounts and records of the society and shall draw to the attention of the Board of Directors any irregularities or other problems of sufficient importance to justify his doing so.

## **CHAPTER IX – Amalgamation and Dissolution**

### **Article 1 – Amalgamation**

Any two (2) or more cooperative societies may resolve to amalgamate (merge) into one society.

1. Each society to be merged shall pass a resolution by the affirmative vote of two thirds (2/3) of the members present at any regular members or special members meeting properly called for that stated purpose.
2. The proposed cooperative society shall apply for legal body status in accordance with Chapter III – Registration of Cooperative.
3. If registered in accordance with Chapter III the assets and liabilities of the merging societies shall become the assets and liabilities of the successor society.

### **Article 2 – Voluntary Liquidation**

A cooperative may elect to dissolve voluntarily and wind up its affairs in the following manner:

Upon the recommendation of the board, the members may vote to dissolve the cooperative. If a majority of the total membership vote by ballot either in person or by written letter in favor of dissolution, and if not more than fifteen (15) members or thirty three and one third percent (33.33%) of the total membership, whichever is greater, by written notice vote against dissolution, the cooperative shall be dissolved.

If less than fifty percent (50%) of the total number of members participates in the process, the board shall call a special membership meeting for the purpose of discussing and evaluating the board's proposal to dissolve. The cooperative shall be dissolved only if a majority of the members present vote in favor of dissolution.

If the members vote to dissolve, the directors shall liquidate the assets of the cooperative, pay the debts thereof, and pay the members the balance (if any) in proportion to their interest in the cooperative.

### **Article 3 – Suspension & Involuntary Liquidation**

If it shall appear that any cooperative is bankrupt or insolvent, or that it has willfully violated any of the provisions of this law, its bylaws, other rules or regulations, is operating in an unsafe or unsound manner, or has become dormant, the Director of Cooperatives may issue an order temporarily suspending the cooperative's operations. The board of directors shall be given written notice by mail of such suspension, which notice shall include a list of the reasons for such suspension.

Upon receipt of such suspension notice, the cooperative shall immediately cease all operations, except for the receipt of money due it. The Board of Directors shall thereupon notify its members and its creditors of such suspension. The directors of the cooperative shall then file with the Director of Cooperatives a reply to the suspension notice within twenty (20) days, request a hearing to present a plan of corrective actions if they desire to continue operations, or to request that the cooperative be declared insolvent and a liquidating agent be appointed. If a cooperative fails to answer the suspension notice or request a hearing as herein provided, the Director of Cooperatives may then revoke the cooperative's charter, appoint a liquidating agent, and liquidate the cooperative.

## **CHAPTER X – Role of Government**

It is the role of the government to facilitate the growth, competitiveness, and financial well being of cooperative societies.

The policy of the government is not to impose rules, regulations and restrictions on cooperative societies, whereby potential members perceive the society as a tool of government, thereby discouraging membership.

To facilitate the success of cooperative societies:

1. The Ministry of Agricultural is the agency to administer this law.
2. The Minister shall establish an organization and appoint officials to render assistance, service, education, training and capital to cooperative societies.
3. The Minister shall promulgate rules and regulations to assist societies to govern themselves.
4. Ministry Officials cannot be a member of any cooperative society in their jurisdictional area and therefore may not serve in any official capacity within a cooperative society in their jurisdictional area and shall have no official voice or vote at Board of Directors or member meetings.