

**BUILDING A BETTER TOOLBOX TO BUILD A BETTER WORLD**  
*(Tools That Help Co-ops Succeed...)*

**Capstone Paper**

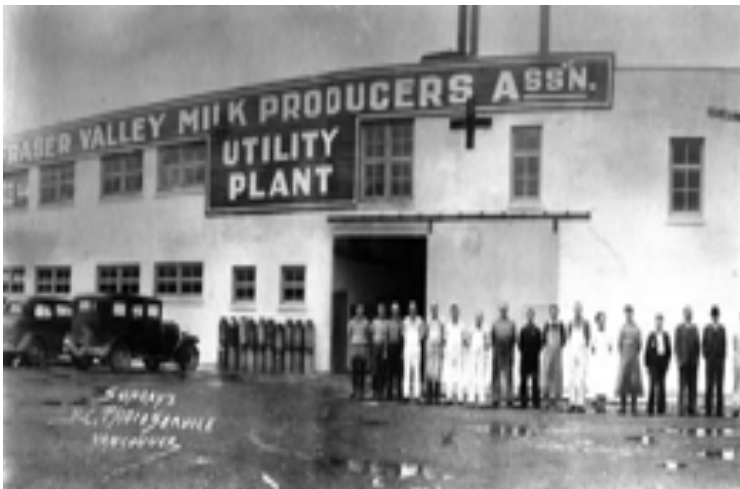
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**April 2014**



*How OCFAID Analysis could have saved this dairy co-operative...*



*How Co-op Index will help strengthen Cuba's farm co-operatives...*

*Building a Better Toolbox to Build a Better World*

CAPSTONE PAPER. Masters of Management Cooperatives and Credit Unions, Sobey School of Business, Saint Mary's University. April 2014. Wendy Holm, P.Ag.

***Building stronger co-operatives will build a better world.***

***To accomplish the ICA Blueprint Vision***

***– to make co-ops the “first choice” organizational form by 2020 –***

***– we must build a better toolbox,***

***If we put good tools in the hands of good people,  
they will build good things...***

***IMAGINE...***

## FOREWORD



Like the yoke harnessing the power of this pair of handsome Cuban *buey*, this Capstone Paper draws together in one yoke two important tools to help co-operatives around the world harvest their rich potential.

One is *Operating Cash Flow After Interest and Disbursements (OCFAID) Analysis*, a financial accounting tool that with two simple lines on a graph makes transparent the inner financial health of the co-operative. On the front page of every annual report, an OCFAID graph puts in the hands of members a ready stethoscope to monitor the financial heartbeat of their co-operative. OCFAID enhances member participation because when a transparent window into the financial health and well-being of the co-op is available to every member, then every member has both the self-interest and ability to participate. Add to that the responsibility to participate (everyone is responsible for everything; Jose Maria Arizmendiarrieta) and one can see where OCFAID Analysis offers a powerful tool to enhance ICA Blueprint goals of both participation *and* financial sustainability. By acting to level the playing field between Board and Management (full fiscal transparency) it further reduces the risk of agency failure.

The second is the Worker Co-op Index. Akin to “a full body scan” for co-ops, the Index is a powerful tool that allows members, through interviews and a questionnaire, to assess in a sophisticated manner the strengths and weaknesses of their co-op at the enterprise and associative level and provide a roadmap for improvement.

Presented as case studies in this Capstone (*how OCFAID could have saved a Canadian dairy co-op; how the Co-op Index will be used to improve the bench strength of Cuba's farm co-operatives...*), each will also be presented as a stand-alone paper at ICA's upcoming Research Conference in Croatia in June 2014. For this reason, apologies for some necessary repetition between the "yoke" portion of this paper and its two case studies (which go forth, yoke-less, to Croatia). I've done my best to keep such to a minimum.

These tools, although powerful, must be joined by tools of similar heft if we are to achieve the goals of ICA's Blueprint for a Co-operative Decade.

Building better tools to build a better toolbox is the challenge for co-operative professionals everywhere, academics and practitioners alike.

I hope you enjoy reading this paper and look forward to crossing paths somewhere in the new co-op future.

With deep appreciation to Tom Webb, who urged me to IMAGINE! And Sonja Novkovic, who dared me to DO! Thanks also to Larry Haiven for his support and encouragement as I wrote this paper...



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# BUILDING A BETTER TOOLBOX TO BUILD A BETTER WORLD

*(Tools That Help Co-ops Succeed...)*

Capstone Paper– DRAFT 1

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April 2014

*ABSTRACT: ICA's Blueprint for a Co-operative Decade identifies five areas requiring priority attention if co-ops are to become our fastest growing form of enterprise by the end of the decade. This paper looks at tools to help strengthen three of them - participation, sustainability and identity and, through case studies, looks at how such tools might have been used (OCFAID and Dairyland) and are being used (Co-op Index and Cuba's farmer co-operatives) to strengthen member participation, monitor financial sustainability and empower co-operative identity. It was written as a Capstone Paper in partial fulfillment of a 2014 Masters of Management in Co-operatives, Sobey School of Business, Saint Mary's University, Halifax.*

## INTRODUCTION

This paper is a Capstone Paper in partial fulfillment of a 2014 Masters of Management in Co-operatives, Sobey School of Business, Saint Mary's University, Halifax.

## CAPSTONE FOCUS

In architecture, a "capstone" is a finishing or protective stone that forms the top of an exterior masonry wall. An academic capstone similarly "caps off" a program of studies, finishing off (and supported by) the coursework and, in the case of SMU, resonant dialogue and experiential and co-operative learning spanning three and one half years.

The Masters of Management, Co-operatives and Credit Unions program was filled with relevant content. What stands out for me, at the end of the program and two years into the Decade of Co-operatives, is the huge responsibility incumbent upon all of us to help deliver the bold vision and promise of the co-operative sector.

IYC 2012 and the back-to-back conferences IMAGINE 2012 and Quebec International Summit of Co-operatives urged us to “imagine a better world.” The ICA’s Blueprint for a Co-operative Decade boldly states the vision that “co-ops will become, by 2020, the fastest growing form of enterprise in the world...” (ICA, 2013).

The Blueprint identifies 5 areas where significant progress is needed to accomplish this: Participation, Sustainability, Co-operative Identity, Legislative Framework and Access to Capital. This paper looks at tools to help strengthen three of them - *participation, sustainability and identity* and, through case studies, looks at how such tools *might have been used* (in the case of OCFAID analysis and Dairyland) and *are being used* (in the case of the Co-op Index and Cuba’s farmer co-operatives) to strengthen member participation, monitor financial sustainability and empower co-operative identity.

Helping co-ops to succeed requires that we put into the hands of their members the tools necessary to make this happen.

The need to strengthen co-operatives is critical not only for the co-op sector and the communities it serves; it is even more critical for the global community.



The financial collapse of 2008 demonstrates why private sector capitalism is not sustainable. Co-ops need to step up to the plate and take their place as the logical (and just and people-centred) organizational option.

To do this, we need to empower co-operatives to succeed. To accomplish this, members need tools developed specifically for the co-op sector. They also need to use existing tools more effectively to effect member participation.

This is the focus of my Capstone.

## ORGANIZATION OF THIS PAPER

An overview of different tools available to strengthen co-operatives is presented. The rationale behind the selection of OCFAID Analysis and the Co-op Index for the case studies is then explained. Following this, both case studies are presented.

## TOOLS TO MEASURE THE CO-OPERATIVE DIFFERENCE

Many advances have been made in measuring the co-operative difference. These include Sustainability Reporting, the Balanced Scorecard, Triple Bottom Line Accounting, Social Audits and Social Accounting approaches. The annual reports of VanCity and the Co-operative Group UK are good examples of how co-operatives can demonstrate the co-operative difference to members and the community and raise the bar for other co-ops to follow.

Significantly, this also changes internal culture. The old adage “we don’t value what we don’t measure, and we don’t measure what we don’t value” is true in most management settings; putting metrics on non-economic outcomes not only validates their pursuit, it beckons performance.

To the extent that reporting out on appropriately constructed social, environmental, ecological, equity, sustainability and resiliency metrics creates and/or reinforces a co-operative’s accountability and performance in these areas, Principle 7 (Concern for Community) and possibly, depending on the choice of metrics, Principle 6 (Co-operation with Other Co-operatives) are also strengthened.

By reporting annually on outcomes that reflect the co-operative difference, members are better able to hold Directors to account for performance at Annual Meetings and during elections. Reporting out on success towards achieving social and environmental goals encourages further progress along these lines as members and staff themselves begin to understand and appreciate the co-operative difference and want to “raise the bar” in their pursuit of same. Additionally, when metrics on, for example, “percentage of contracted services covered by living wage guidelines” are reported in the Annual Report, this information is shared across the sector, contributing to a growing awareness of how the co-op difference can be manifest; creating “competitive pressures” for other co-ops to adopt similar policies.

In *Stakeholder Engagement in the Design of Social Accounting and Reporting Tools*, Brown and Hicks (Brown & Hicks, 2013, pps. 88, 91) suggest that while responsible social accounting can dramatically increase the democratic potential of organizations through greater transparency, there is also the

danger that “in the longer run people may simply become cynical as social accounting is used more as an effort to manage perceptions rather than an instrument for real change.”

If co-operatives are to thrive and deliver the promise of the Blueprint, real change must also come from within. If Principles 6 and 7 relate mostly to the external manifestations of the co-operative difference, what then of the internal manifestations? Internal co-operative strength is largely related to Principles 1 through 5 — Voluntary and Open Membership, Democratic Member Control, Member Economic Participation, Autonomy and Independence, Education and Training — all foundational to the strength, viability and sustainability of the co-operative. How do we measure and fine-tune that? What tools are available to increase the *strength* of our co-ops?

## TOOLS TO STRENGTHEN CO-OPERATIVES

Tools to strengthen co-operatives fall into two categories: tools designed specifically for co-operatives and tools that are general in application but can confer a specific advantage when used by a co-operative. Below is a list of several of these tools and a summary of their key features.

### Sustainability Scorecard

Developed by Co-op Atlantic and some of its member co-operatives together with researchers from Mount Saint Vincent University and Université de Moncton, the Sustainability Scorecard was created to identify and measure those characteristics that make co-ops unique. It does so by

evaluating performance based on the seven principles and additional economic, environmental and social measures intended to provide insight into co-op identity and related practices. It measures stakeholder perception through the use of two surveys – one for employees and one for members/customers. Like other strategic tools, it is considered useful to help identify co-operative strengths and weaknesses and measure progress over time (Novkovic, S & Miner, K. 2013.)

### The Company Cube

The Company Cube is a tool created by CoopMetrics, a US based group formed by co-op sector leaders, to "...help local businesses compete with large corporations by providing analytic tools for effective business management" (CoopMetrics, 2014). "The Cube" is a multi-dimensional spreadsheet tool that links company data to a CoopMetrics database, allowing for dynamic evaluation of financial and non-financial data within a firm and within a sector. It allows small firms access to sophisticated comparative financial analysis normally only available to large firms with pricey in-house financial divisions.

CoopMetrics also offers sector-specific tools and reports including:

- Trends –peer group trends for key variables
- Gap –performance compared to peer group benchmarks
- Bud – budget projections based on past performance
- Risk Matrix – financial + non-financial performance vs. peer group
- Key Indicators – key indicator scorecard

Nothing on the website appears targeted to the co-op sector *per se*. The message is about bringing Fortune 500 level analysis to Main Street to allow small and medium enterprises – co-operatives presumably included - to more effectively measure performance.

A closed co-op group could provide useful data for co-operative collaboration.

### World Co-op Monitor - EURICSE

EURICSE's main goal of the world Co-operative Monitor project is "*to improve a multi - indicator database reporting on the socio-economic value and impact of co-operatives both within a global scenario and in their regional and national contexts*" (EURICSE, 2013).

Back in 2005, ICA was determined to build a database of the globe's top 300 co-operatives. In 2011, EURICSE added its support to the initiative. Today, the database is 2,032 co-operatives strong and growing.

The first product of this research was the production of The World Co-operative Monitor Report at the closing of the 2012 International Year of Co-operatives in Manchester.

The second edition of the World Co-operative Monitor, launched in Cape Town on the occasion of ICA General Assembly on November 5<sup>th</sup>, 2013, ranks the largest co-operative and mutual enterprises by GDP per capita and collects data on all sizes of co-operatives across the globe in categories. Both were distributed in 56 countries.

The benefits to participating co-operatives include (EURICSE, 2014):

- Increasing the profile of co-operatives within their own industries and countries as well as internationally.
- Demonstrating the economic importance of co-operatives and mutuals to government and other regulatory agencies.
- Modeling good practice and highlighting successful co-operative business models and innovative approaches.
- Creating networks between co-operatives and mutuals within the World Co-operative Monitor for greater sharing of information, business intelligence and business opportunities.
- Giving visibility to individual co-operatives in the main ranking and in sector/area/type sub-rankings.
- Creating a much improved statistical and data methodology to allow for better analysis of performance and impact.

### Member Loyalty Index – SAOS

For the 109-year-old Scottish Agricultural Organizations Society<sup>1</sup>, “loyalty” is about “total trust” – the belief that the co-op and its people will never take opportunistic advantage over customer vulnerabilities and will always act in their best interest, without exception

Bob Yuill, SAOS's Deputy Chief Executive, first introduced the concept of a Member Loyalty strategy back in 2006. Developed based on the work of Danielle Cote (HEC Montreal), the Member Loyalty Index one of a suite of tools used by SAOS when working with member boards on developing competitive strategies (SAOS, 2012).

Denis Cote sees loyalty as *"...a philosophy of leadership that seeks a mutually beneficial management of the relationship between enterprise and its stakeholders (Cote, 2005)*. Cote's work identifies loyalty as a co-operative advantage that is an important competitive advantage in the marketplace.

In Co-operatives and the New Millennium - the Emergence of a New Paradigm, Cote notes principles of loyalty are "coherent" with those of co-operatives and asks *"... is it possible to link the development of the special nature of co-operatives to the development of loyalty? If that is the case, we will have accomplished two things. First we will have identified an important source of added value inherent in the co-operative model. And second we will have succeeded, at least partially, in bringing co-operative principles closer to action."* (Cote, 2000, p. 8)

As compared with Cote's more ambitious list, SAOS's Member Loyalty Index limits itself to five simple questions (SAOS. \_\_\_\_):

1. I would happily recommend (my Co-op) to neighbours friends and fellow (growers) (producers) (farmers).
2. (My Co-op) knows how to listen to me and meet my needs
3. I can rely on (my Co-op) to provide a quality service
4. I trust (my Co-op's) staff for their integrity and honesty
5. I am proud to be a member of (my Co-op)

SAOS's Member Loyalty Index is never used in isolation but rather is a key component along with other tools in measuring member engagement with and/or development of co-op strategy. Loyalty questions are part of a broader consultation with members.

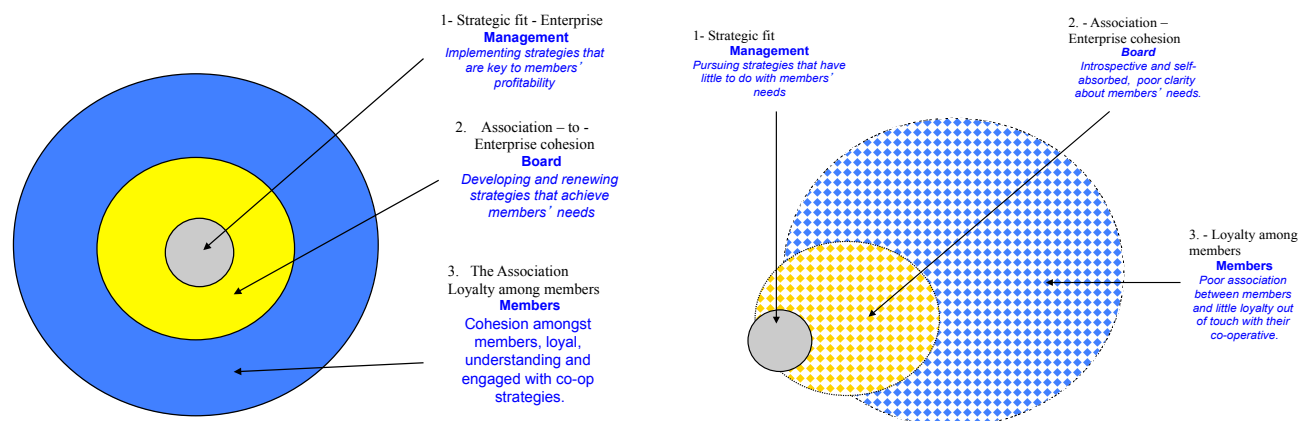
The value of SAOS's Member Loyalty metric is premised on the belief that when members are both loyal *to* their co-op and democratically involved *in* their co-op, the cohesiveness needed to allow members to actively understand and influence the development of strategy is greatly strengthened. This increases the ability of the co-op to provide members with tangible member values, making members themselves the primary source of co-op competitiveness.

SAOS sees the Member Loyalty Index as an important tool to support member cohesiveness in the face of factors that work to erode it, impairing competitiveness. These include (SAOS, \_\_\_):

- the number and diversity of members
- the challenge of participation
- the generation gap,
- changes in members' market position
- overlap between co-operative and private enterprise
- member interactions with new staff



The SAOS diagram on the LEFT reflects a cohesive and balanced co-op; the diagram on the RIGHT reflects one in misalignment (SAOS, \_\_\_\_\_).



Loyalty is a key management metric that improves both the Association and the Enterprise (Yuill, 2006):

*To earn member loyalty a co-op must apply a number of inviolate principles to its management practice. The first is a partnership with members based on ethics and uncompromising integrity. The second is the ever-important added value performed by the core activities of the Co-op. Also required are mutual trust and an openness and sharing of data; and the fifth principle involves mutual active concrete help between members and employees... Loyalty must be incorporated into the co-ops basic strategy and this starts by analyzing its management practices to identify processes that need improvement...*

Noting that “companies lose half their customers in five years, half their employees in four years, and half their shareholders each year...” and that this low level of loyalty reduces performance by 25 to 50% or more, Yuill (2006) points out that by building on their unique business model, Co-ops can develop loyalty as a real force for performance, growth and influence.

### OCFAID Analysis

OCFAID Analysis is a system developed by Professor Alan Robb, co-op forensic accountant based at the University of Canterbury in New Zealand and Adjunct Professor of Accounting, St Mary's University, Halifax.

In this analysis, which provides a clear window of transparency into the financial workings of an organization, Operating Cash Flow After Interest and Disbursements (OCFAID) is plotted graphically against Retained Earnings (RE), both on a cumulative basis. A major change in governance, management or operations triggers a new cumulative graph (Robb, 2008).

When plotted on a single graph over time, these two lines reveal, with devilish simplicity, five CLEAR SCENARIOS to take the financial pulse of an organization. When both lines are rising it's a STAR. When OCFAID is falling and RE rising, it's a PROBLEM CHILD. The reverse is a CASH COW. When both are falling it is A DOG. There is also a fifth scenario relating to mergers and transition.

OCFAID Analysis works equally well for co-operatives and private sector businesses.

## Worker Co-op Index:

The Co-op Index has as its roots the work of Johnston Birchall, who argued that we really can't create a co-operative competitive advantage until we manage our co-operatives differently from our competitors. Saint Mary's University's Sonja Novkovic, Tom Webb and the late John Chamard took up Birchell's challenge, and in 2005 approached Polish Professor Ryzard Stocki, for collaboration.

Stocki is an organizational psychologist and the developer of Total Participation Management (Stocki et al 2008) and the Open Non-Profit Index for non-profit organizations that assesses the level of participation in an organization. In 2008, St. Mary's organized a workshop that brought together a group of Canadian worker co-op developers and practitioners to envisage "the ideal worker co-operative". The outcomes of this meeting formed the basis for the development of the Worker Co-op Index.

The tool itself is a survey of just under 200 questions designed to measure the perceptions of immediate stakeholders in a worker co-operative. It asks questions designed to rate the ability of the co-operative to meet its obligations under the identity statement: Values, Ethics, Principles as well as its organizational ability to meet its members' needs. It creates an index for the co-operative to measure across time and, eventually, to measure against other worker co-operatives.

The Index is grounded in the theory of Total Participation Management (Stocki et al. 2008). According to the Total Participation approach, it is crucial for organizations to fully engage their employees in the management

of the organization to ensure their well-being. Evidence indicates that participation can increase productivity, individual motivation, and organizational efficiency.

Stocki argues for the application of a Total Participation (TP) framework (Stocki et al 2008) as an underlying concept in measuring co-operatives' organizational performance. According to Stocki:

*Total participation in management (TPIM) describes a method of directing an organization based on the conviction that participation is an inherent characteristic of every human being, and that employee participation has a constant, long-term, and positive influence on the achievement of organizational and individual goals. In practice, the implementation of the core principles of TPIM is based on the encouragement of all employees to take joint responsibility for the organization. Beyond business goals - thanks to employees' understanding of the company's activities as well as constant information feedback, employees in total participation management firms accrue meaning in their private lives, achieve harmony with their professional lives, and reap the benefits of a community within the bounds of their workplace. Total participation in management is an interactive process of moving from the natural, classical trends in management to the level of total participation as well as the maintenance of this level in time, in step with the constantly changing business and internal organization. (Stocki et al 2008)*

A detailed discussion of the development of the Worker Co-op Index is presented in *Assessing participation in worker co-operatives: From theory to practice*. (Stocki et al 2012)

The Co-Op Index tool measures co-op functioning on several levels. First, there are four general indices that capture the functioning of the organization on a scale ranging from 1 to 100. Such measures allow quick identification of progress and benchmarking against other similar organizations. Next, there are 22 scales that refer to particular Co-operative Principles and Values, and another grouping of 30 scales that refer to specific Organizational actions and their effects. The responses are also grouped into four dimensions: Systems, Climate, Attitudes and Outcomes. These dimensions point to types of actions to increase member and employee engagement and improve the functioning of the co-op (Co-op Index, 2014).

Following tabulation of the survey responses and interviews with key persons, a report is provided that presents various scales and indices which provide the co-operative with an in-depth picture of their values in action. At the end of the report, answers to each question are enumerated and provide selected demographic comparisons between groups within the co-op, e.g. members vs. non-member workers; managers vs. production workers.

The Index can be used for a very brief snap shot of the “state of the co-operative” or it can be part of a more intensive analysis of issues facing the co-operative. In either case, it can, and should, help influence strategic planning, education, training, and leadership development. At the national

and international level, it can help planners determine workshop needs and membership needs.

The identity of the person filling out the questionnaire is kept completely confidential. Through the Co-op Index process, further participation in a steering committee and key informant interviews, a broad perspective from all levels in the co-operative is sought. Much occurs "behind the scenes" by the Co-op Index Consultant. The following steps are followed in Canada (Co-Op Index, 2014):

- Present Worker Co-op Index to Co-op
- Receive commitment to use Index and sign License Agreement
- Set up Steering Committee
- Determine demographic questions
- Compile email addresses of all participants
- Co-op writes introductory letter to participants – members and employees
- Send email or participants to CIC administrator
- Set up/send survey; with support of Co-op encourage max participation.
- Run Broad and Narrow reports with demographics
- Co-op compiles documents for review and provides them to CIC.
- Analyse data
- Present preliminary analysis to Steering Committee for discussion.
- Identify persons for key informant interview.
- Develop questions for interviews
- Draft recommendations
- Present to Steering Committee
- Finalize recommendation and final report.

No one in the co-op sees any of the completed questionnaires, only the aggregate results via the report. The answers to the questionnaire are processed through a computer program to generate a co-op-specific report that highlights where the co-operative has done well at integrating co-operative principles and values areas and where improvement is possible.

## INTRODUCTION TO THE CASE STUDIES

### Tool Selection

The purpose of the case studies is to examine more closely several tools that help strengthen three of the five ICA Blueprint priority areas: participation, sustainability and identity. The tools selected to form the basis of the case studies are OCFAID Analysis and the Co-op Index.

OCFAID was chosen because of its potential to substantively increase both member participation and enterprise sustainability by providing full fiscal transparency to co-op members. The Co-op Index was selected because of the need for a powerful tool to dramatically enhance the co-operative identity, member participation and socio-economic sustainability of Cuba's farm co-operatives.

### OCFAID Analysis And Dairyland: Effective Fiscal Oversight by Members

When private sector firms fail, no one questions capitalism. But when co-ops fail, some are quick to question and condemn the model. In fact, 60

percent of new co-operatives survive and thrive (Webb, 2012), a much higher rate than for private sector firms.

How can we arm members with better tools to monitor the financial health of their co-operative organizations? How can we determine, when co-ops do fail, whether it was the result of poor business decisions or a failure to integrate co-operative principles and values in its associative and enterprise strategies.

This first case study discusses how OCFAID Analysis, had it been used as a tool by dairy farmers, could have saved Dairyland - Canada's oldest dairy co-operative – from demutualization.

Dairyland failed NOT because it was a co-op, but because it pursued high risk, high debt strategies inappropriate for a co-operative. Had OFCAID been featured on the front page of Dairyland's annual financials, members would have known years before their final, fateful AGM that management decisions were making their co-op vulnerable. Armed with "the evidence", members could have taken appropriate action to ensure Dairyland continued to thrive today as the strong, vibrant, farmer-owned co-operative it was throughout the twentieth century.

The question is not "why do co-ops fail" but rather "how can we ensure members have all the tools at their disposal to ensure co-op success?" The challenge for the co-op research community is to build a better toolbox. OCFAID Analysis should be one of the tools in that box.



This case study explains why, if the simplicity of OCFAID analysis had been provided to members by the Board, the members of this co-op could well be planning it's Centenary today.

### The Co-Op Index and Cuba – Building Co-op Identity/Strength From Within

An out-of-tune piano can play Mozart, but it's full potential can only be realized by a well-tuned instrument. Similarly, a co-op needs to focus on all seven principles to maximize its social and economic potential.

The Index allows co-ops can fine-tune their training needs on an ongoing basis to release the full power of co-operative, people-centred organizations.

Cuba offers a very interesting opportunity to observe this tool in action!

In March of 2011, the Cuban government issued Los Lineamientos (Communist Party of Cuba, 2011), new policy guidelines that, among other things, are intended to modernize the Cuban economy through support for worker co-operatives in areas formerly served by the state. Strengthening farm co-operatives – long an anchor of Cuban food security – is a crucial aspect of this strategy.

This Case Study presents an overview of how the Co-op Index will be used as part of a three year co-operation project between Cuba's National Association of Small Farmers (ANAP) and a team of co-op leaders from Cuba, Saint Mary's University, York University, ICA Latin America and Scottish Agricultural Organizations Society to help strengthen the internalization of co-op principles in Cuba's private farmer co-operatives.

## CASE STUDY ONE: OCFAID ANALYSIS AND DAIRYLAND

### INTRODUCTION

This case study discusses how OCFAID Analysis, if used as an ongoing diagnostic tool by the members of Dairyland Co-op, would have provided fully 4 years advance notice of the impending fiscal cliff, arming members with the facts they needed to save this century co-op from demutualization in 2001. The benefits of OCFAID analysis apply equally well to private sector firms. This text describes its importance as a tool to facilitate meaningful engagement by members in the financial oversight of their co-op.

The information presented in this analysis was obtained by the author from Dairyland/Dairyworld/Agrifood International Annual Reports (1980-2001) as well as personal discussions with numerous farmers who were either former directors and/or shippers. Alan Robb undertook the OCFAID analysis.

### OCFAID: WHY THIS TOOL IS NEEDED

To achieve the ICA Vision of co-ops becoming the first and most compelling organization choice by 2020, we need to provide members with tools to more effectively monitor financial health. OCFAID is a necessary tool in the Co-op Toolbox because nothing else provides members with such a simple, accessible and irrefutable assessment of the financial health of their co-op.

As co-ops move to triple bottom line accounting to demonstrate to members all the good things they are doing for community and the environment and

as balance sheets become more complex and financial instruments more arcane, member "evaluation" of co-op performance at each year's annual meeting increasingly reflects the "warm fuzzies" left by the stories of social and environmental payback that pepper the Annual Report and not the financial health and well being of the balance sheet.

A stool with one weak leg is dangerous, more so when it "appears" normal. Members instinctively know when something is "right" socially or environmentally. Living wage employer? Great! Supported social housing? Great! Winning Recycling Awards? Great! But members lack the same intuitive response to balance sheets and income statements. And therein lies the vulnerability of the co-op and its members.

If your doctor told you at your annual checkup "...Well, you have a foot on the left and one on the right... Each side has a hand. Ears and eyes balance. Nothing is too large or too small. You must be in good health..." you would quickly find yourself a new doctor! Yet this is pretty close to what happens when members approve the annual financial statements of their co-ops.

Ideally, the first responsibility for fiscal oversight lies with the elected Board of Directors, who are the members' representatives. But boards can be bullied and snowed by management, and when failure of agency occurs (inability of directors, the members' agents, to perform), the responsibility for fiscal oversight falls right back onto the shoulders of members.

If, as ICA Blueprint says, member participation is the most important priority in this Co-op Decade, the right co-op tool has to give members some way to

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allow them to participate more meaningfully in the financial oversight of their co-operative.

To accomplish this, we need to render balance sheets, income statements and related financial statements more transparent (what's really going on?), accessible (everyone understands), useful (irrefutable; gives the Board hollow-point ammo) and compelling (spurs members to action) in a straightforward (one simple graphic to diagnose fiscal health) way.

To measure human health, your doctor uses a stethoscope, a blood pressure cuff and a thermometer. The equivalent tool for members who need a better measure of the financial health of their co-op is OCFAID analysis.

#### DAIRYLAND – ALMOST A CENTURY OF CO-OPERATION

In the mid 1980's, the marriage of timing (fall of global tariffs) and technology (capable of separating bulky and perishable fluid milk into dehydrated constituents) created an opportunity for profitable new trade and investment in "modified milk ingredients". The "super dairy" was born. (Holm, 2010, 2009, 2008.)

As cheap imports displaced domestic product in local markets, smaller dairies – mostly co-operatives - tried to keep pace by modernizing plants and evolving product lines. But demutualization pressure was strong. There was a good buck to be made from dominating the Canadian dairy processing market, and global giants like Saputo and Parmalat were sniffing 'round the property line, ready to make their move.

BC's Dairyland Milk Producers' Co-operative, which would have been one hundred years old today, fell prey to this wave of predation-demutualization.

Dairy farmers, so good at carefully monitoring the health of their cows - feed uptake, milk production, stool quality, somatic cell count, hoof condition - are no better than any other member at monitoring the financial health of their co-operative. They elect Directors for that. It's up to the Directors to take action on behalf of the members. If Directors have problems doing that, it's their job to bring their concerns to the attention of the members at the AGM (or before, if serious).

But it is often hard even for directors to detect poor financial performance. And this problem is certainly not limited to co-ops. Senior managers acting to maximize individual performance bonuses can often mask financial risk and economic vulnerability, making income statements and balance sheets "hard to figure". Staff comes to the meeting armed with bafflegab, and board politics often constrain the ability of Directors to mount an effective challenge. The global financial collapse of 2008 was moot evidence to this phenomenon.

Some industry insiders interviewed for this paper say the problem lie in the fact that Dairyland's management took members on a very pricey ride, funding expansion across Canada and exposing the co-op to highly leveraged financial risk that ultimately proved to be its downfall. Others say the Board was at fault - where were they when all this was happening? Many claim management snowed the Board, making effective challenge of the CEO's practices impossible. Others point to similar dairy co-op failures (e.g. Australia's Warnambool Cheese and Butter) and say it was inevitable.

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At the final AGM, members were taken by surprise. The Board presented members with a resolution: bankruptcy or sell the co-op to Montreal-based global dairy giant Saputo at fifty cents on the dollar. Blindsided and seeing no option, they voted to demutualize. As one Alberta delegate to the fateful final meeting told me: "No-one knew what was going on... Delegates were not kept up-to-date by the Board; there was no transparency. Basically, they destroyed the co-op and Saputo picked it up for a song..."

How did it happen? Unsustainable debt. Why did it happen? Lack of transparency and loss of member control. Like mushrooms, farmers and Board members felt they had been kept in the dark and fed agricultural byproducts. Corrective actions were impossible. And when the chickens came home to roost, their co-op was gone

Could farmers have saved their co-op? Is there a tool out there that could have forewarned co-operative members– in a simple and straightforward manner – that they were heading for financial disaster? Is there a tool that could have forearmed members at the AGM with the transparent information needed to convince management to change course or resign?

Using Alan Robb's OCFAID Analysis, the answer is yes. OCFAID stands for Operating Cash Flow After Interest and Disbursements. Had Dairyland members used OCFAID's one simple chart as the cover page of their Annual Report, they would have known 4 years in advance that the run they were having was straight for the cliff.

This case study explains how – with the proper tools - this story might have ended differently for Dairyland and its members.

## THE STORY OF DAIRYLAND

Like many co-operatives, chaotic marketing conditions were behind the formation of the Fraser Valley Milk Producers Association.

By 1917, the new co-op represented 90 percent of lower mainland dairy farmers. Within three years, it operated two processing plants and a condensing plant. In 1925, it added a butter, powdered milk and cottage cheese plant to process milk surplus to fluid requirements. Ice cream was soon added to the product line. For some 70 years, Dairyland was a healthy and vibrant co-operative.

All that changed in July 1992, when Fraser Valley Milk Producers Co-operative merged with Northern Alberta Dairy Pool (Nu-maid Dairies) and Central Alberta Dairy Pool (Alpha Milk) to create a new entity: Dairyworld.

According to a dairy farmer on the board at the time, the 1980's was a period of positive board/management dynamics. "We had a CEO who was good - just needed someone to stand on his head occasionally." Allegedly, the CEO had two weaknesses: "he was not enough adverse to debt and was soft on clients - really scared of losing an account; if we managed to save 1¢ on a litre of milk, he would give 2¢ away to keep a client... Our Chair at the time was strong and could do it. And at the time, the Dairyland board didn't have the authority to spend money or go into debt without authorization from the members, so things were kept pretty well in check."

The catalyst, according to many, was cheese. In the 80's, Macdonald's Restaurants sourced cheese slices locally. When Macdonalds announced it

wanted to buy from only one Western Canada supplier, dairy co-ops in BC, Alberta, Saskatchewan and Manitoba decided they should find a way to collaborate to keep the Macdonald's market, opening the door to merger.

Even with apparently common goals, predictable challenges arise when co-operatives merge membership. Geographic separation adds complexity. As do changes to governance structure.

As part of the BC-Alberta mergers, the new Dairyworld co-operative kept Dairyland's Head Office and CEO, but BC's (strong and respected) Chair had to step down in favour of a (less experienced and weaker) Chair from Alberta. According to a director at the time: "this new Chair had a very different governance style; he was not prepared to lean on the CEO like his predecessor. And so the CEO basically ran the board, directors were kept in the dark and the membership did what the Board told them to do."

But the real challenge in this merger lay curled in the weeds of the new bylaws. And like a snake poised to strike, it took aim at the co-operative heart of the organization.

Alberta's two co-ops didn't operate under the same rules as Dairyland in BC. On merger, BC's requirement that members be consulted before spending large sums of money was dropped. As one former director on the Board at the time told me "...the board knew this was not helpful, but the Chair wasn't prepared to challenge the CEO, and it went through."

Also dropped in the merger was a revolving check-off loan (1% from milk cheques) that provided the co-op with low cost equity from its members



(patient capital, the loans earned modest interest and were repaid in 15 years). Paying out the loan drew down \$7-12 million in co-op capital.

According to industry insiders and former directors at the time, removing member authority over spending approval removed the last obstacle in the path of an expansionary, CEO-led Board.

The spending spree accelerated. In 1993, Dairyworld was again restructured and Dufferin Employment Co-op Ltd (Manco) became Dairyworld's Manitoba plant, with 3,000 employees.

But storm clouds were gathering... At the 1993 AGM, Director and former Vice Chair John Van Dongen publicly resigned, telling delegates that he had many concerns for which he could not get board support. In his remarks, he recommended to members several case studies of US co-op failures at the hands of overly aggressive CEOs.

In June 1996, Dairy Producers Co-operative Ltd. (DPCL) of Saskatchewan was brought in by merger and the new company's name changed to Agrifoods International Co-operative Ltd., the new parent company of Dairyworld.

The reorganization resulted in a co-operative with 2100 milk shippers (dairy farmers) in western Canada, the largest dairy co-operative in the country. In 1996, sales reached \$1.13 billion. Further expansion throughout Eastern Canada pushed this to \$1.5 billion/year in 2001.

The income statement looked sunny, but the real story was in the balance sheet: debt was growing faster than income. And it was this debt, in the end, that brought this proud farmer co-op down.

In 1997, the co-op's ice cream division was sold to Nestle. Sometime that year, Cliff Denny stepped down as Chief Financial Officer. A board member at the time suggests he was pushed.

Problems came to a rolling boil in 1998, when accelerated steps to position the co-op as a national supplier included expansion to Eastern Canada through purchase of plants in Ontario, Baxter Dairies in the Maritime, McCain Refrigerated Foods, a joint interest in Pascobel cheese and a partnership agreement with Nurtinor and Agrodor. Merger talks with Agropur were also initiated at this time; they failed on two issues: governance (Agropur wanted 14/10 board split, a four seat majority; Agrifoods wanted 12/12) and management (each co-op wanted its own CEO to take the helm).

In its 1998 acquisitions, the enterprise paid heavily for intangibles: goodwill represented 50% (\$43.8m of the \$84.2m) of net assets acquired from McCains and 79% (\$22.5m of the \$28.5m) of net assets of other acquisitions. All acquisitions were dependent on borrowed finance. And a rapid depreciation of this good will tanked profitability, leaving no surplus for distribution to members.

As a result of the 1998 acquisitions, long-term debt rose by 68% (\$73 million), and current liabilities rose 55% (\$75 million). The cash paid for intangibles caused a sharp drop in operating cash flows.

At the 1998 AGM CEO David Coe, brandishing a balance sheet showing assets of \$513 million and sales of \$1.2 billion, told delegates how “immensely proud” he was of this “substantial increase in sales and net earnings” that positioned the enterprise for a bright future. The budget was approved by the Delegates.

By 1999, the ratio of external debt to members’ equity had risen to almost three to one (2.9:1), double the debt to equity level in 1982 (1.5:1). Similarly, the ratio of intangibles to members’ equity and members loans had risen to a whopping 66.4 percent, up from only 0.6 percent in 1997 and a mere 3.3 percent in 1982.

At the 1999 AGM, delegates were told of a \$6 million loss (25% of member equity) from Ontario processing operations. When members criticized the board for operating outside their mandate (“to process members milk”), members in attendance told me the CEO justified the Ontario acquisitions as a “pre-emptive strike” to “stop processors from coming west”.

In a meeting in Calgary in January 2001, with financial statements reporting sales of \$1.5 billion, 120 farmer delegates were given the grim news by the Agrifoods Board: the Royal Bank had turned the co-op down for an operating loan, other banks were running scared, and bankruptcy was imminent.

Delegates were told there was only one offer on the table – 50¢ on the dollar from Montreal-based dairy giant Saputo. They were “advised to take it” by the Board.

According to my conversations with farmers who attended that fateful meeting, “a few people knew a lot and many knew nothing. There had been no transparency. Company insiders were the only ones who had the full story. The board knew only what senior management told them and the delegates knew virtually nothing of what was going on....”

A core of delegates argued passionately from the floor to preserve the co-op by seeking bankruptcy protection. This would have allowed the co-op to restructure debt, develop a strategy to reorganize assets and would have saved the cost of substantial severance packages for senior executives.

In the end, only 10 of the 120 delegates voted with them. The majority were, according to one farmer in attendance, “scared into accepting.” Between a rock and a hard place, 110 farmers voted to sell the co-op’s assets and brand to Saputo. The co-op Agrifoods International retained the raw milk transport business and a yoghurt plant. Reportedly, senior staff got healthy termination bonuses.

“No-one knew what was going on,” reports an Alberta delegate at that meeting. “Delegates were not kept up to date; there was no transparency... Basically, management<sup>2</sup> destroyed the co-op and Saputo stole it for 50 cents on the dollar...”

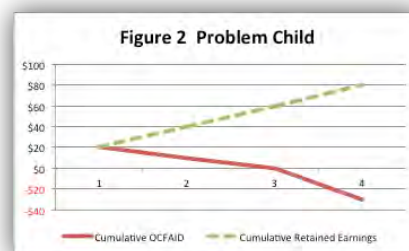
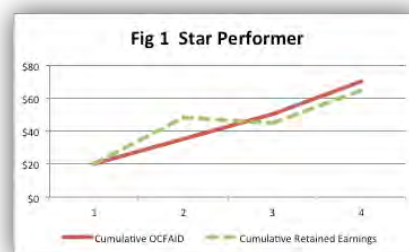
## COULD OCFAID ANALYSIS HAVE SAVED THIS CO-OP?

Absolutely says Alan Robb, co-op forensic accountant based at the University of Canterbury in New Zealand and Adjunct Professor of Accounting, St Mary's University, Halifax who developed OCFAID Analysis<sup>3</sup>.

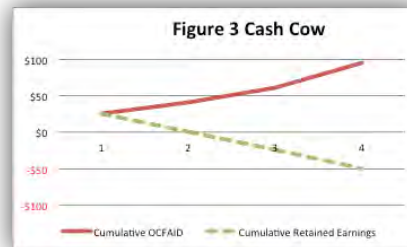
According to Robb, profit (or share value) is a completely unreliable measure of business performance; enterprise survival depends on two factors - profitability and liquidity. OCFAID would have predicted their problems years in advance, giving them both the time and the ammunition to put management on a different course.

OCFAID stands for Operating Cash Flow After Interest and Distribution (mainly dividends). It is plotted graphically against Retained Earnings, both on a cumulative basis. A major change in governance, management or operations triggers a new cumulative graph. When plotted on a single graph over time, these two lines reveal, with devilish simplicity, 5 CLEAR SCENARIOS that take the financial pulse of an organization:

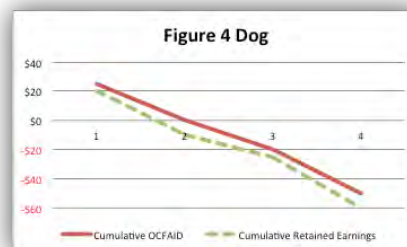
1. When operating cash flow after interest and distribution and retained earnings are both rising, it's a STAR.
2. When operating cash flow after interest and distribution is falling but retained earnings are rising, it's a PROBLEM CHILD.



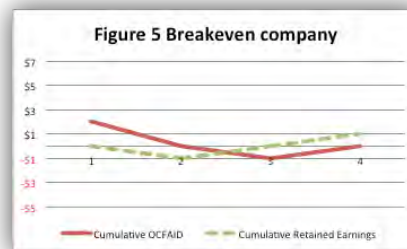
3. When the reverse is happening (operating cash flow after interest and distribution is rising but retained earnings are falling, it's a CASH COW.



4. When both are falling, it's a DOG.



5. A TURNAROUND (usually under a receiver or a change manager) is when both are neutral as the nature of the entity is reconfigured.



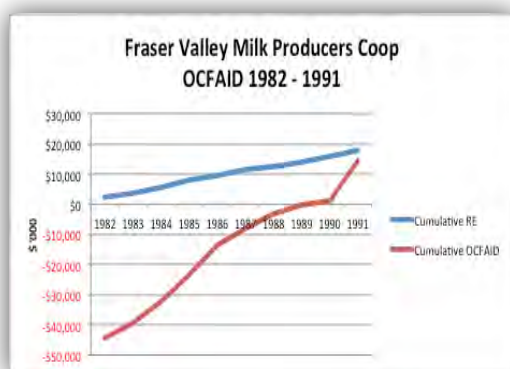
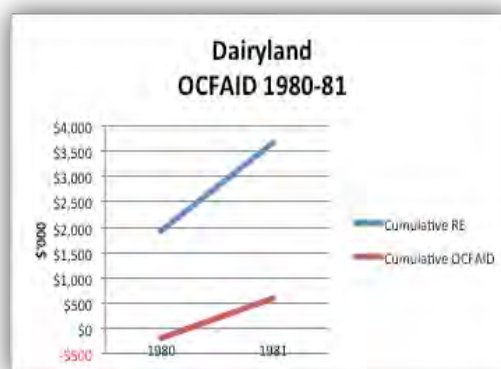
Robb's analysis has been applied successfully by investor-owned companies, co-operatives and not-for-profits in New Zealand, Australia, the UK and the USA, is monitored as a Key Performance Indicator by many boards and is in use by a national firm of chartered accountants to help decide whether a client is a 'going concern' or not (Robb, 2008).

To test the effectiveness of Robb's OCFAID Analysis in the Dairyland case, I compiled a complete set of Dairyland/Dairyworld financials from 1980-2001 and sent them off to Alan Robb for analysis. The results are fascinating...

## APPLYING OCFAID ANALYSIS TO DAIRYLAND

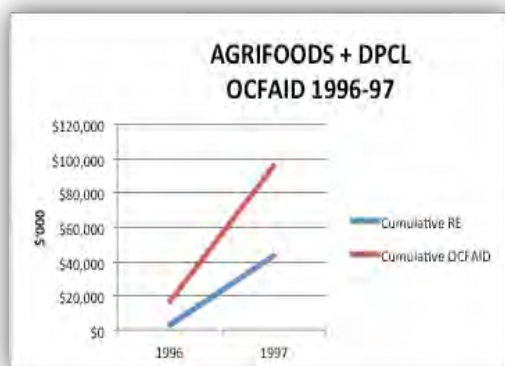
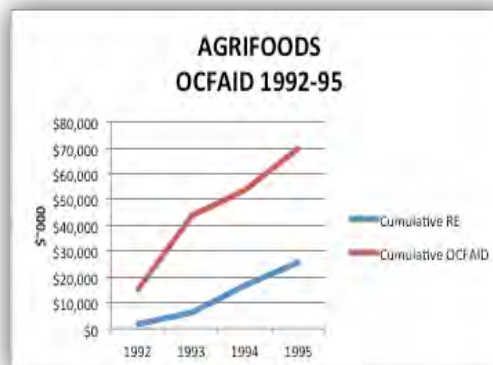
Had OFCAID analysis been used in the boardroom and featured on the cover of annual reports, the changing fiscal health of this co-operative would have been fully transparent to both directors and delegates FOUR YEARS BEFORE the co-op collapsed. This would have done two things: a) it would have provided irrefutable evidence of the deteriorating fiscal health of the co-op that management would have been powerless to deny, and b) it would have provided this information in time for farmers to take action to save their co-op.

Opening OCFAID analysis for 1980-81 depicts a healthy co-op. Both retained earnings and OCFAID are rising steadily.



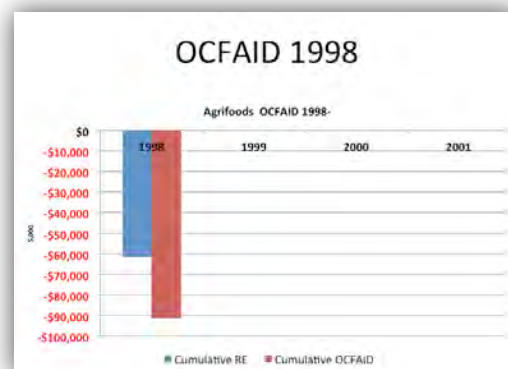
OCFAID analysis (1982-91) following the merger of Fraser Valley Milk Producers Co-op and Shushwap-Okanagan Dairy Co-op to create FVMPCA continues to show a "very good trend after an initially poor year of amalgamation..." (Robb, prs. com.)

OCFAID analysis for 1991-1995 following the merger of Fraser Valley Milk Producers Co-op Association, Northern Alberta Dairy Producers and Central Alberta Dairy Pool to form DAIRYWORLD FOODS continues to show "...a healthy trajectory, even better than the previous period." (Robb, prs com.)

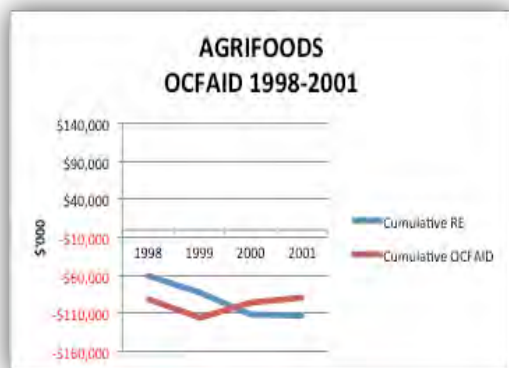


OCFAID analysis for 1996 and 1997 following Dairyworld Foods 1996 merger with Dairy Producers Co-op Ltd Saskatchewan to form Agrifoods International was again positive: "a successful merger for the members..." (Robb, prs. com.)

But in 1998, OCFAID analysis reflects a sharp drop in operating cash flows following acquisition of close to \$70 million in intangibles following purchase of Eastern Canada plants. Funded with borrowed capital, long-term debt rose by 68% and current liabilities by 55%. Had members known this in '98, it would have been obvious the co-op was in serious financial trouble and steps could have been taken to reduce vulnerability.







OCFAID analysis from 1998 onward tells the sad story. By 1999, debt to equity ratio had become 2.9:1 and intangibles represented 66.4% of members' equity.

Over the ensuing two years, unmanageable debt brought this fine, close to century old co-operative to its knees. It toppled by vote of the members in 2001.

In the decade or so since then, Saputo has grown into a behemoth that, like the beast described in Job, "...drinketh up a river, and hasteth not: he trusteth that he can draw up Jordan into his mouth..." (Job, 40:15-24).

Since 2001, a number of small dairies across Canada were acquired and shut down by Saputo; two Alberta plant closures were announced just this month. Today, Saputo is the third largest cheese maker in the US and one of the top 10 dairy processors in the world, generating about \$9.3 billion of annual sales and employing 13,000 people. With plants in Canada, the US, and Argentina, Saputo just acquired Australian giant Warnambool Cheese and Butter after fierce and costly takeover battle with Australia's largest processor, dairy co-operative Murray Goulburn. Saputo is now eyeing acquisitions in Brazil and New Zealand.

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## SUMMARY

As this case study shows, Dairyland didn't fail because it was a co-operative trying to make its way in a sector dominated by global players. There are a number of highly successful, international dairy co-operatives, including Australia's Murray Goulburn, New Zealand's Fonterra, The Netherlands' Friesland Campina, Denmark's Arla Foods and Canada's Agropur.

But Dairyland never got the chance to spread its wings on the global stage. Its potential to follow in the steps of Goulburn et al was nipped in the bud by unacceptable levels of financial risk that delivered this once-strong co-op to the private sector.

If dairy farmers in western Canada had been able to exercise effective fiscal oversight, Dairyland would today remain in member hands and be planning for its centenary. OCFAID Analysis would have given them that clear and crisp ability: an irrefutably transparent diagnostic that like the iconic smiley face (happy-bored-sad-dead) gives a clear reading of financial health.

## CASE STUDY TWO: CO-OP INDEX AND CUBA'S FARM CO-OPERATIVES

### INTRODUCTION

Victim of a punishing blockade and the collapse of the Soviet field, Cuba's farm co-operatives have been front and centre in Cuba's food security strategy for more than five decades. Fifty-six years after the *Triumph of the Revolution*, Cuba's socialist government is taking innovative steps to transform non-farm sectors of the Cuban economy into worker-led co-operatives.

If successful, this tiny island nation with a passion for socialism could be the first in the world to "get it right" – building a truly people-centred economy that avoids both the problems of top-down bureaucracies that seem to plague socialist societies and, at the same time, the wholesale rush to capitalist privatization that has marked the post-Soviet world.

This is of global significance. For this reason, a number of co-op sector academics and practitioners have come together in a project of international co-operation to support Cuba in her brave new path.

This case study presents the story of Cuba's farm co-op movement: their encouragement following the Cuban Revolution of 1959, their increased strategic importance after the collapse of the former Soviet Union, their role today in Cuban food security and how the Co-op Index, as a tool, will be used to help strengthen them for the opportunities that lie ahead as Cuba moves to a more co-operative, people-centred socialist economy.

## OVERVIEW

As part of a Strategic Plan developed by Cuba's farm organization ANAP (*Asociación Nacional de Agricultores Pequeños*), the Co-op Index will be used as a tool over the next three years by ANAP's National Training Centre Escuela Niceto Perez (ANAP, 2013) to:

- a) measure/assess the degree of co-op integration and engagement that exists within Cuban co-operatives at the organizational and associative level;
- b) identify areas where deficiencies exist;
- c) develop a strategy to improve overall co-operative integration and
- d) benchmark success.

This work to help strengthen Cuba's farm co-operatives will be carried out with the support and assistance of co-op professionals (academics, practitioners) from Canada, Scotland, Costa Rica.

This training fills a recognized need in Cuba. In a March 27<sup>th</sup> 2014 address to ANAP members in Camaguey, Jorge Luis Tapia, member of the Central Committee of the Communist Party of Cuba and first secretary in the territory, told Credit and Service Co-operatives Directors that they should properly look after their members (Bad Management of Co-operatives in Central Cuba Criticized. Cuban News Agency, 2014).

## ORGANIZATION OF THIS CASE STUDY:

- HISTORICAL CONTEXT explains the context in which Cuba's farm co-operatives developed and the importance of Cuba's farm co-ops to food security,
- ANAP THE FARMERS VOICE describes the important role played by this untied farmers' organization in supporting Cuba's private farmer co-ops.
- CUBAN CO-OPS AND THE TRANSFORMATION OF THE COUNTRYSIDE discusses the role Cuba's co-operatives played in transforming Cuban agriculture as it went from green revolution to sustainable leadership in one decade.
- FARM CO-OPS IN CUBA TODAY looks at Cuba's co-op structure today.
- CUBA'S NEW CO-OPERATIVE PATH highlights the many changes propelling the Cuban economy and society down a broader co-operative path.
- INTERNATIONAL CO-OP LEADERS ENGAGE examines how a small, informal workshop of international co-op academics and practitioners in Havana in December 2011 gathered momentum and opened a window top the world.
- A PROJECT IS BORN presents the steps leading to the development of a formal project with ANAP, Cuba's national farmers association, to strengthen co-operative identity and the internalization of co-operative principles and values within Cuba's three types of co-operatives.
- CO-OP INDEX CONFIRMED AS VALUED TOOL. Why the Co-op Index Tool is of interest to ANAP. Outcomes of a Project Workshop held in Cuba in February 2014.
- NEXT STEPS and SUMMARY.

## HISTORICAL CONTEXT

Built upon the socialist<sup>4</sup> ideals of Jose Marti,<sup>5</sup> the Batista legacy of powerful latifundios and illiterate farmers put agrarian reform squarely on the agenda of Fidel's new government. By hiding and feeding Cuban revolutionaries, farmers had been key strategic partners in the underground movement leading up to the Triumph of the Revolution in 1959. It was no surprise that agrarian reform and literacy topped the priority list of the new government.

Within the first year, large tracts of privately held land were expropriated (with compensation) and divided into state farms. Those who applied were given up to 67 acres of good quality farmland.

Thus began three decades of Cuban agriculture characterized by large state farms (>70% of production, predominantly sugar and livestock) and many small, private farmers. ANAP (*Asociación Nacional de Agricultores Pequeños* - National Association of Small Farmers) was created by Cuba's private farmers in 1961 to represent their interests.

As Cuba's population grew rapidly, the demand for food increased. In the early 1970s, responding to the need to help small farmers become more efficient through shared infrastructure, training, education and support, ANAP encouraged the growth of farm co-operatives. To reduce transportation costs, new co-ops were encouraged to locate close to population centres. Where necessary, this involved ANAP-facilitated land exchanges (e.g. swapping distant lands for closer parcels).

Two types of private farmer co-ops emerged: Credit and Service Co-operatives (CCSs; *Cooperativas de Créditos y Servicios*) and, after 1976, Agricultural Production Co-operatives (CPAs; *Cooperativas de Producción Agrícola*):

Credit and Service Co-operatives (CCS's) are producer co-operatives. Members retain individual title to their land and co-operate in areas such as transportation, sales and access to equipment, government credit and services and shared infrastructure (e.g. value-added facilities). The General Assembly, which meets monthly, approves the inclusion of new members to meet the needs of the co-op.

Agricultural Production Co-operatives (CPA's) are similar to worker co-operatives. Members pool their land (receiving payment when they join their lands) and work it collectively. As with CPA's, the General Assembly approves the inclusion of members to meet co-op needs.

During the 1980s – described by many as Cuba's "golden age" — sugar produced on large state farms using Soviet-style, high input, "green revolution" methods was sold on favourable terms to the former Soviet Union in exchange for consumer and industrial goods that were plentifully available. *La Libreta* (the ration book) provided every Cuban with a basic monthly supply of food and other items at dramatically subsidized prices. A doubling of the Cuban population had sparked a rash of new housing, ensuring everyone had a home, although extended families often shared a residence. Universities existed in every province and the population was educated and employed. Access to high quality health care and education was (and remains) free. By the late 1980's, Cuba's farm sector had become

one of the most highly industrialized in the world. By Latin American-based standard of living indices, Cuba's standard of living topped that of the US.

With the fall of the Soviet Union in the early 1990s, "*La Tubería*" – the umbilicus that connected Cuba to the former Soviet Republics - collapsed, plunging Cuba's economy into darkness. Facing the rigours of the "Special Period", Cuba's farm co-operatives rallied; in less than a decade, Cuban farmers learned how to grow food in the countryside without chemicals and pesticides and how to feed urban cities from within. By 1999, Cuba was recognized as a world leader in sustainable, organic farming methods and urban agriculture. (Biniowsky. 2011) The story of how this happened is a study in co-operation!

#### CUBAN CO-OPS AND THE TRANSFORMATION OF THE COUNTRYSIDE

The collapse of the former Soviet Union, Cuba's major trading partner, was the catalyst in Cuba's transformation from large-scale monoculture to sustainable farming practices. The loss of 70% of Cuba's food supply and virtually all agricultural inputs (tractors, tractor parts, petroleum, machinery, pesticides, fertilizers, seed, feed grains) meant Cuba had to quickly find new ways to produce food. With crisis as the driver, necessity became the mother of invention and Cuba embarked on a remarkable journey.

Based on the success of farm co-operatives in the private sector, large state farms no longer sustainable in the Special Period were divided up into a third type of co-operative – a UBPC (*Unidad Básica de Producción Cooperativa* or Basic Unit of Co-operative Production) – and workers were given usufruct<sup>6</sup>



tenure to the land, the opportunity to purchase the means of production and to organize co-operatively. Uncultivated urban areas were turned into urban *organopónicos* (co-operatives, organized as UBPCs). In the countryside, retired farmers were called back to teach younger ones how to plough with oxen. Rustic micro-labs for the production of cutting-edge biological controls were scattered across the countryside to bring farm extension and solutions to local farmers in their fields.

As a Professional Agrologist with sixteen years experience in Cuban agriculture, I believe Cuba had five very important things going for her that made possible her transformation from high-input monoculture to global leadership in sustainable and organic agriculture, virtually overnight.

1. Foremost of course is Cuba's co-operative structure. A food production system based on farmer co-ops and strong farmer-to-farmer connections made it much easier for farmers to work strategically and effectively to transform production methods. Also, through their member organization ANAP, farmers are able to "speak with one voice" to government, ensuring the delivery of solid policy support to farmer co-operatives.
2. Scientific capacity. Following the Revolution, the Cuban government placed a priority on developing a strong science and technology sector. Beginning in the 70s, Cuban scientists began developing alternatives to high input agriculture to their farm sector more sustainable. As a result, Cuba had the knowledge and technical capacity to develop bio-pesticides and bio-fertilizers needed to produce food in the Special Period.

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3. Smart and capable farmers and a strong farm voice. Supported by a national farmers organization (ANAP) that put an emphasis on skills and knowledge, Cuba's literate farmers were well supported in their adoption of new methodologies.
4. A solid system of agricultural extension. Critically important was the full support of Cuba's Ministry of Agriculture and related networks from the university and scientific community to support the training needed to farm more sustainably.
5. Excellent soils, water and climate.

These factors, combined with the agricultural knowledge, concepts and ideas handed across generations and the persistence of the Cuban people, made the impossible possible. Just ten years after the collapse of the former Soviet Union, in a solemn session of the Swedish Parliament in December of 1999, Cuba's *Grupo de Agricultura Orgánica* was honoured over 80 other candidates from 40 countries to receive Sweden's prestigious *Right Livelihood Award* (referred to as the "Alternative Nobel Prize") for world leadership in sustainable, organic farming methods and urban agriculture.

In the words of Mavis Álvarez, founding member of ANAP, co-operatives remain at the heart of Cuba's success:

*"Sustainable technology is difficult without sustainable economic and social structures. Cuban farmers are highly organized through the formation of co-operatives with real social and economic power, and the presence of national organizations that can represent the interests of individual farmers at the state level... The transition to sustainable*

*techniques has also been easier for Cuban farmers than in other countries because of the security bestowed by the Cuban government: land rights, access to and ownership of equipment, availability of credit, markets, insurance and free health care and education. Property rights include not only land, but also the materials necessary for production, such as farming implements, ploughs, housing and other buildings as well as ownership over the harvest itself. ” (Alvarez, 2001. p. 75.)*

## ANAP – THE FARMERS’ VOICE

Founded in 1961, ANAP (*Asociación Nacional de Agricultores Pequeño*) represents 100% of Cuba's private farmers. ANAP is funded by dues from all of its members, has democratically-elected leadership at the municipal, regional, provincial and national levels, and exists to provide organizational and productive support to Cuban co-operatives for training, promotion, marketing, international co-operation and the preservation of Cuba’s farming traditions, experiences and culture.

For the past 53 years, ANAP has played a critical role in supporting the transition of Cuban co-operatives to sustainable farming practices through training, education and the promotion of projects that incorporate sustainable agriculture practices.

Today, ANAP’s primary goal is to help members strengthen the integration of co-operative principles, values and management within their co-operatives and to encourage the use of agro-ecological farming techniques to improve production capacity, thus supporting an equilibrium between “associative”

(member related) and “enterprise” (co-op related) needs. Some of ANAP’s activities include (Alvarez, 2001. p. 82):

- Nationwide training programs to build capacity among small farmers, co-operative members, grassroots organizations and ANAP leaders.
- Farmer-to-farmer training programs where farmers teach others about their experiences with sustainable agriculture through direct participation and communication.
- Reorientation of the National Training Center Escuela Niceto Perez’s education and training curriculum in order to strengthen co-operative and agro-ecological knowledge.
- Collaboration with international donors and nongovernmental organizations (NGOs) to promote sustainable techniques.
- Farmer, extension and researcher participation in regional and national networks to discuss topics related to food security and sustainable development.

## NEW FARMERS ENCOURAGED AS PART OF CUBAN FOOD SECURITY

Beginning in 2008, the Cuban Government instituted a new policy of land distribution to boost food security (Decreto Ley 259 and 300). By the fall of 2011, 1.3 million hectares of land had been distributed in usufruct to 146,816 new farmers (97% of applicants). With 4,540 new farmers

approved and “in process”, a total of 151,356 new farmers were created. The average land allocated to each new farmer under this program has been 8.7 hectares. One third of these new farmers are 18-35 years old; 25% of whom were previously unemployed and 13 percent retired.

Land assignment under this program continues to provide new farmers with support to ensure success. Once a new farmer is approved, the relevant provincial soil lab looks for suitable land with a good soil profile. The agricultural extension specialists from the soil lab meet with the new farmer to explain the soil capability and crop suitability of the land s/he is receiving and provide two years of direct support to make them successful.

To be eligible to receive land, new farmers must also be accepted by an area CCS (Credit and Service Co-operative) to provide them with further incubator support. This is also a way of screening new land applicants – acceptance by a local farm co-operative is a solid indicator of character and capacity.

#### FARM CO-OPS IN CUBA TODAY

Agriculture in Cuba today employs 1.5 million workers, or 28 percent of the national workforce, and contributes between 4 and 5 percent of the gross domestic product (Fernandez, 2011).

Reversing the co-op-state ratio of the 1980’s, over 80% of Cuba’s farm production today is co-operative (CPAs, CCSs and UBPCs), providing 77 percent of Cuba’s production of crops and 79 percent of livestock.

Production from Cuba's farm co-ops constitutes greater than 90 percent of raw materials used by the country's agri-business sector; 98 percent in the case of sugarcane, tobacco and honey. There are 5,474 farmer co-operatives and 500 state enterprises (Fernandez, 2011).

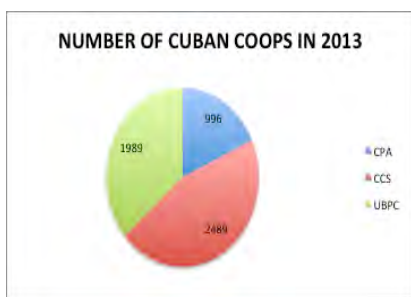
In 2013 ANAP had 396,526 members organized into 3,485 farmer co-ops. They farmed 2,894,405 hectares (39 percent) of Cuba's arable farmland and produced over sixty percent of domestic food production (ANAP, 2013.)

Of these, 2,489 were Credit and Service Co-operatives (CCSs) representing 348,080 members who farm 2,306,526 hectares of land (930,455 owned, 1,302,033 in usufruct, 14,768 leased and 59,269 owned collectively).

There were 996 Agricultural Production Co-operatives (CPAs) representing a total of 48,446 members who collectively farm 587,878 hectares of land - 535,033 of which are owned and 52,845 farmed in usufruct.

In addition to the private farmers, there were also 1,989 UBPC's (organized under the Ministry of Agriculture) representing 121,481 members.

This information may be summarized as follows:



Structure of Production, Cuba's Farmer Cooperatives. 2013					
	CPA	CCS	COMBINED ANAP (CPA + CCS)	UBPC	TOTAL
<b>Co-ops</b>	996 <sup>1</sup>	2,489 <sup>1</sup>	3,485	1,989 <sup>2</sup>	5,474 <sup>4</sup>
<b>Members</b>	48,446 <sup>1</sup>	348,080 <sup>1</sup>	396,526	121,481 <sup>2</sup>	518,007 <sup>4</sup>
<b>Hectares</b>	587,878 <sup>1</sup>	2,306,526 <sup>1</sup>	2,894,404		
<i>owned</i>	535,033 <sup>1</sup>	930,455 <sup>1</sup>			
<i>usufruct</i>	52,845 <sup>1</sup>	1,302,033 <sup>1</sup>			
<i>lease</i>		14,768 <sup>1</sup>			
<i>commons</i>		59,269 <sup>1</sup>			
<b>Percent Arable Land</b>			39% <sup>2</sup>		
<b>Percent Food Production</b>			60% <sup>3</sup>		
Source:					
1 ANAP 2013					
2 Pablo Fernandez, 2011, pers com.					
3 Alvarez, pers com. 2014					
4 Derived					

## CUBA'S NEW CO-OPERATIVE PATH

In April 2011, after almost a year of grassroots discussions in communities across Cuba, the Sixth Congress of the Communist Party released *Los Lineamientos* - The Policy Guidelines - a set of comprehensive guidelines spread across 12 economic policy sectors:

1. Economic management policy
2. Macroeconomic policy
3. External economic policy
4. Investment policy
5. Science, technology, innovation and environment policy
6. Social policy
7. Agro-industry policy
8. Industry and energy policy
9. Tourism policy
10. Transportation policy
11. Construction, housing & water resources policy
12. Trade policy

Seven of these policy statements specifically widen the opportunity for co-operatives as a form of non-state enterprise, delivering the socialist objectives<sup>7</sup> of human development, equity and social justice called for by Jose Marti and embedded in the tenets of the Cuban Revolution.

Changes to Cuba's agricultural policies include decentralization of state functions, elimination of subsidies to producers, more space for commercial relations (farmers purchasing own inputs), changes in access policy and, at the heart of all the changes, the concept of "the territory".

Prior to being finalized, a draft of the document *Los Lineamientos* was widely distributed throughout the country to allow for grass-roots consultation with the Cuban people in the crafting of this new economic model. Neighbourhood and workplace meetings were held over several months. The guidelines were then amended to reflect input from this process.

As a result of these changes, agriculture will be more demand oriented, there will be a reorganization of marketing and retail, intermediaries will be reduced, the territories will determine food balance to achieve self sufficiency, the state will act as a balance between the territories, state and local solutions for commercialization will be promoted and direct sales to tourism will be permitted (Fernandez, 2011). Changes to other sectors of Cuban society include:

- Close to 200 new categories of small and medium sized private businesses (*cuenta propistas*). (This fits with upcoming rationalization of state enterprises.)
- A gradual reduction in inefficient subsidies - including food ration books - and a search for new ways to fulfill social objectives. Co-operatives will play an increasingly important role in this.
- Regional decentralization – government has given more power to regional and municipal governments to establish their own priorities and utilize their local human and natural resources.
- Cubans now have the ability to buy and sell homes and cars.
- Government is encouraging non-farm co-operatives.



According to Saint Mary's University Sobey School of Business economist Dr. Sonja Novkovic (Novkovic, 2013):

*"The key principles include the preservation of socialism and an economic system based on the 'people's socialist ownership over the fundamental means of production, governed by the socialist principle of distribution: from each according to his/her capacity, to each according to his/her contribution.' Planning continues to be the allocation mechanism, but will be informed by market trends... Also important and reflected in the Guidelines is the principle of security for all citizens in the statement that 'no one will be left behind'. The main thread in these general guidelines seems to be the overarching goal to achieve social development (the socialist purpose), with decentralizing economic decision-making and thereby increasing productive efficiency as a means to achieve that goal. Socialist Cuba has succeeded in reaching a high level of human development<sup>8</sup> and there is an ongoing concern and effort not to erode that achievement with economic restructuring."*

Los Lineamientos guidelines relating to co-ops are the following:

25. Grade 1 cooperatives shall be established as a socialist form of joint ownership in various sectors. A cooperative is a business organization that owns its estate and represents a distinct legal person. Its members are individuals who contribute assets or labor and its purpose is to supply useful goods and services to society and its costs are covered with its own income.

26. The legal instrument that regulates the cooperatives must make sure that this organization, as form of social property, is not sold or otherwise assigned in ownership to any other co-operative or any non-State organization or any natural person.

27. A cooperative maintains contractual relations with other cooperatives, companies, State-funded entities and other non-State organizations. After satisfying its commitment with the State, the cooperative may pursue sales operations free from intermediaries and in accordance with the business activity it is authorized to perform.

28. Subject to compliance with the appropriate laws and after observance of its tax and contribution obligations, each cooperative determines the income payable to its employees and the distribution of its profits.

29. Grade 2 cooperatives shall be formed and the partners of which shall be Grade 1 cooperatives. A Grade 2 Cooperative shall represent a separate legal person that owns assets. The purpose of this cooperative is to pursue supplementary related activities or conduct operations that add value to the goods and services of its partners (such as production, service and marketing operations) or carry out joint sales and purchases for greater efficiency.

180. Ensure that the management of the different forms of cooperatives is autonomous and agro-industrial service cooperatives are formed at local level.

200. Develop a comprehensive training plan in keeping with structural changes. The purpose of this plan will be to train and re-training managers and workers in the fields of agronomy, veterinary medicine, industrial and food technologies, economics and business management. This plan must also cover cooperative and environmental management.

Cuba's new co-operative policies align well with ICA's co-operative principles:

1. Voluntary and open membership. (Guidelines 25 and 29)
2. Democratic Member Control. (Guidelines 25 and 27)
3. Economic participation of members. (Guidelines 25 and 27)
4. Autonomy and independence. (Guidelines 25, 27, 28 and 180)
5. Education, training and information. (Guideline 200)
6. Co-operation among co-operatives. (Guidelines 27, 29 and 180)
7. Commitment to the community (Guidelines 25 and 180)

## INTERNATIONAL CO-OP LEADERS ENGAGE

My work in Cuba since 1998 entailed coordinating of the visit of close to fifty delegations of Canadian farmers and university students to learn more about Cuba's path from high-input monoculture to global leadership in sustainable agriculture in only one decade. When *Los Lineamientos* was released, I was in the second year of my Masters of Management, Co-operatives and Credit Unions program at Sobey School of Business, Saint Mary's University, Halifax.

Bringing together co-op colleagues to see for themselves Cuba's new path to a more co-operative economy intrigued me. In December 2011, I organized a series of workshops in Havana that brought together a cohort of co-op academics and practitioners from 3 countries for discussions with their Cuban counterparts on Cuba's new co-operative directions. *Walking the Walk* is the proceedings of that workshop series (Holm, W., 2011).

In October 2012, pursuant to recommendations arising from this workshop, four Cubans were invited to Quebec City to participate in IMAGINE 2012 and the Quebec International Summit of Co-operatives. These two conferences, marking the International Year of Co-operatives, drew over 2,800 delegates from 100 nations.

In February 2013, two significant events occurred. The first was a meeting in Havana between myself, Cuban colleague Mavis Alvarez (one of the four who participated in the IYC 2012 meetings in Quebec City) and ANAP's late President Félix Gonzales Veigo, who invited us to propose to ANAP a strategic plan to strengthen farmer co-operatives.

The second event was a meeting between myself and three of the four Cuban colleagues who attended the conferences in Quebec City (Mavis Alvarez, Dra. Grizel Donestevéz Sánchez, and Sr. Gonzalo González) to review outcomes following their participation in the October 2012 conferences and obtain their advice with respect to "next steps".

The following recommendations arose from that meeting:

1. To support Cuba in its development of a people-led, co-operative economy, a two-tracked process is recommended:

- a. Academic
- b. Practical (farm and non-farm)

2. Academic Track

Build and strengthen a co-operative network of universities across Cuba with co-operative studies centres (Grizel Donestevez Sánchez)

- i. University of Pinar del Rio (Alberto Vierra)
- ii. University of Villa Clara (Victor Figueroa)
- iii. University of Granma (Ruven Viellegas)
- iv. University of Holguin (Maria del los Angeles Arias)
- v. University of Havana
  - 1. Faculty of Economics (Jesus Cruz)
  - 2. Centre for Study of the Cuban Economy (Camila)
  - 3. FLACSO (Beatriz Diaz)
  - 4. Dept. Rural Studies, Sociology (Niurka Peres)

3. Practical Track – Farm Co-operatives

Support for co-operative training:

- i. Cuba's Private Farm Sector (Mavis Dora Alvarez Licea):  
Support ANAP's three year strategic plan to provide education and training on co-operative principles to ANAP administration, ANAP training centre, co-operative presidents across Cuba and the members of those co-ops (CPAs, CCSs) that will be selected to form Cuba's first second tier co-ops.

ii. Cuba's Urban Agriculture Sector (Gonzalo González)

Work directly with members of UBPC Organopónico Alamar in Havana (workshops, measurement indicators) to build leadership in the understanding and adaptation of co-operative principles equivalent to Alamar's leadership in sustainable, organic urban agriculture. The objective is to build an accessible model to strengthen co-operative understanding and practice in other UBPC's.

In early March, the strategic plan Mavis Alvarez and I developed was submitted to Félix Gonzales Veigo, President of ANAP. The focus of the three-year plan is to strengthen the internalization of co-op principles in Cuba's private farmer co-operatives through the exchange of experiences and good international co-operative management practices.

In August 2013, Ivette Garcia became the first Cuban student to enter Saint Mary's University's Masters of Management, Co-operatives and Credit Unions Program under a full scholarship created - in perpetuity - by SMU President Colin Dodds.

## A PROJECT IS BORN

In the Summer of 2013, ANAP presented me with an approved three year International Project to support co-operative training objectives in Cuba's farm sector (ANAP, 2013).

In putting together the project architecture, I was inspired by research done by Sonja Novkovic (Novkovic and Holm, 2012) and Linda Soots (Soots, Perry and Cowan, 2007) in complex adaptive systems and network theory and innovation that suggests complex systems and the adaptive networks, and relationships they foster, fuel innovation and boost capacity.

Complex Network theory holds that if groups of diverse, interconnected and independent agents with adaptive capacity and the ability to learn are given the opportunity to form non-linear, path-dependent networks characterized by decentralized decision making where relationships – not individuals – are of primary importance, then complex adaptive networks are created that fuel innovation and creativity (Novkovic and Holm, 2012).

Because of the importance of the success of this project to Cuba's co-operative farms and the communities dependent on them, I did my best to structure a project architecture built on a network of external advisors, funders and partners with the above characteristics to become the external gyroscopes of this Project, steering it to innovative and successful approaches to delivering ANAP's strategic plan and beyond.

In September 2013, the following academics and practitioners agreed to serve as International Advisors to the Project:

Wendy Holm, Student, MMCCU, Saint Mary's University

Sonja Novkovic, Saint Mary's University

Marcelo Vieta, University of Toronto

Tom Webb, Saint Mary's University

Bob Yuill, Scottish Agricultural Organizations Society

In November 2013, the International Advisory Team was joined by

Manuel Mariño, Regional Director, ICA Americas

A Cuban Advisory Team was similarly constituted, comprised of:

Vladimir Novas, Head of International Projects, ANAP

Mavis Alvarez, Founding Member of ANAP, Co-op Specialist

Grizel Donestevéz, Professor of Co-op Studies, University of Villa Clara

Pablo Fernandez, Economist and Co-op Specialist. University of Havana

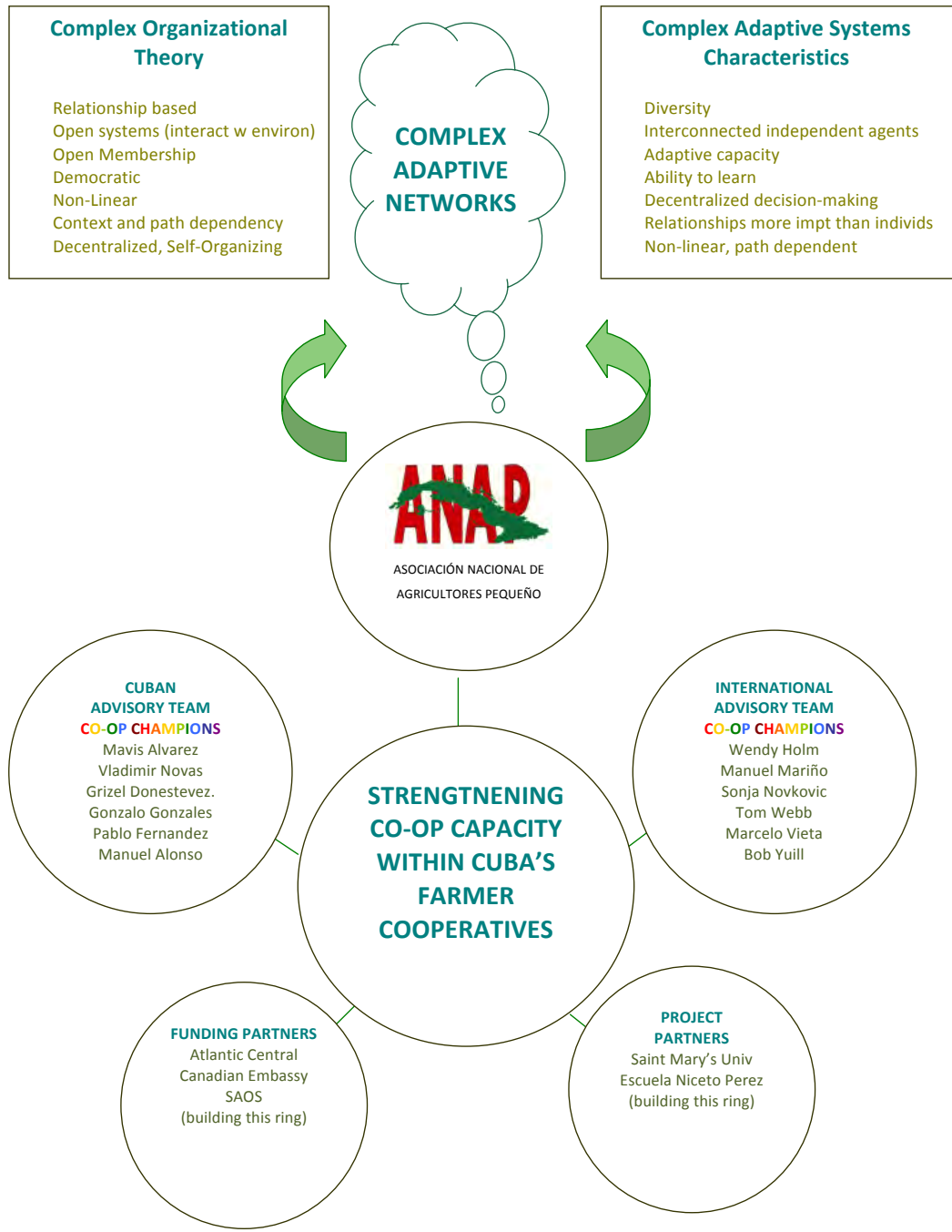
Gonzalo Gonzales, Vice Director, UBPC ALAMAR Organopónico

Manuel Alonso, Former Head of International Relations, MINAZ

A schematic depicting the project architecture is presented on the following page.



## SCHEMATIC OF PROJECT ARCHITECTURE



## CO-OP INDEX CONFIRMED AS KEY TOOL

On February 24 and 25<sup>th</sup>, 2014, a workshop was held at ANAP's National Training Centre Escuela Niceto Perez in Artemisia Province to kick off the project<sup>9</sup>. Participants included:

Four members of the International Project Advisory Team (Sonja Novkovic, Tom Webb, Marcelo Vieta and Wendy Holm);

Canadian Worker Co-op Federation colleague Peter Hough;

Three members of Cuba's Project Advisory team (Mavis Alvarez, Grizel Donestevez Sanchez and Gonzalo Gonzales);

Escuela Niceto Perez Vice Director Armando Hernandez Romaro and five members of his teaching faculty;

SMU MMCCU Graduate Student Ivette Garcia, Professor at the University of Havana.

Consistent with the Strategic Plan of ANAP, the intent of this first workshop was to discuss ways to strengthen co-operative identity and the internalization of co-operative principles and values within Cuba's three types of co-operatives. And, specifically, to focus on the Co-op Index as a tool to help start that process.

The first day of the two day workshop focused on getting to know one another: exploring what each brings to the table and how both teams might work together to support the success of Cuba's farm co-operatives as they enter a new co-operative era (Los Lineamientos 2011).

The afternoon focused on sharing with the International Team a stronger understanding of how Cuba's three types of co-ops (CPA, CCS, UBPC) are structured, how they function, how they differ, and ANAP's role in supporting members and their co-operatives.

The morning of the second day focused on a presentation and wide-ranging discussion, led by Peter Hough, on the Co-op Index: how it works, how it is structured, what it is and what it is not, how it is used in Canada and elsewhere, how it might be adapted (or designed from scratch) for use by Escuela Niceto Perez in their work with Cuba's socialist worker (CPA, UBPC) and producer (CCS) co-ops. The afternoon focused on "next steps" to move this forward. The workshop concluded with the following accords:

1. The Vice Director and members of the teaching staff of Escuela Niceto Perez value and accept the "Train the Trainers" invitation by ANAP to work with members of the International and Cuban Advisory Teams to strengthen farm co-operatives.
2. The Co-op Index was recognized by Escuela Niceto Perez as a valuable diagnostic tool for members to understand better co-op training needs and allow them to pursue more successfully co-operative potential.
3. The structural differences between Cuba's farm co-operatives suggest it may be possible to "tweak" the existing tool for CPA's and UBPC's, the tool will most likely require rebuilding from the ground up for Cuba's producer co-ops (CCS/CCSF's).
4. Next step is for Co-op Index tool developers to install a Spanish Co-op Index report in a draft Cuban version of the tool.

The Cuban Team and Escuela Niceto Perez representatives will report back to the International Team with an estimate of how many (and which specific) questions might need to be changed in order to allow the tool to be successfully used by CPA's and UBPC's. It was generally agreed that if the number of questions needing rephrasing is ten or less, tweaking is likely possible. If there are a great deal more questions that need "adjusting", then the best course of action may be to design one Cuban Co-op Index tool that works for all types of Cuban farm co-ops, if possible.

An Action Plan was summarized as follows:

- a. Training workshop with Escuela Niceto Perez once a Spanish tool is available.
- b. At the invitation of Escuela Niceto Perez, meet with members of a representative CPA and a UBPC to determine if the modified worker co-op tool will be useful; fine-tune questions as needed.
- c. Analyse results: will modified tool work or is new tool needed?
- d. If yes, begin work with a pilot group of CPA and UPBC co-operatives.
- e. Begin discussions with Escuela and CCS members to design and build a Co-op Index tool for Cuba's producer co-ops.

## NEXT STEPS

When the Co-op Index training is complete and the Co-op Index tweaked or rebuilt for the Cuban context, Escuela Niceto Perez will work with ANAP to identify CPAs, CCSs and UBPCs to form a pilot group of co-operatives who will then begin to work with the Co-op Index as a tool to strengthen co-operative identity and member/worker participation.

From this will emerge a list of training needs to support the ongoing advancement of Cuban farmer co-operatives. The three year project also envisages providing Cuba with assistance with co-operative curriculum development and providing support for co-operative training programs and visits to co-operative exemplars by the pilot farm co-ops.

The International Team will work to support these needs over the next three years. Some will be met by providing curriculum support, others by bringing in leaders like Scottish Agricultural Organizations Society's Bob Yuill to talk to farmers about global leadership in farmer co-operatives. The project also envisages visits to co-operative exemplars by the pilot farm co-ops.

At the end of the three-year project, the Co-op Index will be again administered to provide feedback to the co-operatives and program stakeholders on the outcomes of the project.

Because of the uniquely homogenous Co-op Index data set created by this work (all farm co-operatives in the same country producing a similar range of crops facing the same climate and market conditions, using the same sales and marketing channels and receiving the same state-supported

prices) a further research opportunity exists to explore with the individual pilot co-ops the correlation between integration and advancement of co-operative principles (as measured by Co-op Index scores) and level of achievement of socio-economic goals of the co-operative and its members (as expressed by the co-ops themselves) is of interest.

Fundraising is underway to support this three-year project of international co-operation (Holm, 2014)

## SUMMARY

A child of Cuba's Revolutionary agrarian reforms, Cuba's co-operative roots are poised to deliver a cutting edge defense of democratic socialist principles in a world of global indifference.

In Los Lineamientos, the Cuban government has committed to a transition from state socialism to co-operative control in many sectors of Cuba's economy.

Cuba could be the first nation to get this right. With the exception of China and Vietnam - and they are different in their own right - no socialist economy in transition (post 1989) has made a concerted effort to remain socialist.<sup>10</sup>

(This is why Cuba does not want to be termed 'in transition' – they are instead transforming, or reforming, their socialist economy.)

Because agricultural co-operatives have a long tradition of working well in the Cuban economy, farmers will lead the way down this wider co-operative path - joining to form "second tier" co-operatives to provide, for example, further-processing, value added services to the members.

Co-operative researchers in Canada and Cuba are now collaborating in a three-year project to help deliver this promise. With a project architecture intended to maximize creativity and innovation, the Co-op Index, developed at Saint Mary's University, will be an early and very important tool in that process.

If the Co-Op index works well as a tool to strengthen internalization of co-operative principles and values within Cuba's farmer co-ops, it will be well-received by Cuba's non-farm sector as this tiny island nation moves to create a sustainable, worker-led, participatory and co-operative economy.

Imagine...

## OBSERVATIONS

Discovering a useful tool is one thing. Learning how to use it properly another. Using it productively within your co-operative to increase the bench strength of both the members and the enterprise requires skill and perseverance. Finding out what you should be next adding to your toolbox to keep your co-op tuned up and running at top potential can be daunting.

Why would all co-operatives not display OCFAID Analysis prominently on the cover of their Annual Reports? Why would boards of directors not direct management to include OCFAID as a key indicator and provide this analysis monthly? Why is Co-op Index not a standard for worker coops wishing to enhance coop potential and competitive bench strength?

I suspect there are a number of reasons.

In the case of OCFAID Analysis, most co-ops don't really know it exists. And in truth, it doesn't have a very marketable, user-friendly name. As a result, it likely doesn't even make it *into* the toolbox of most cooperatives, much less get used. Very sad for such a powerful tool. (I continue to be surprised at how, *almost without fail*, colleagues' eyes glaze over when I try to explain OCFAID. Perhaps a coop marketing team could come up with some clever re-branding; something like "Co-op Scope" or "Co-op \$ Scan" to associate it more readily with the important diagnostic benefits it so clearly offers to members. Alan Robb's call, of course!)

In the case of Co-op Index, four co-ops in Canada have used the Index; one used it twice. In the USA, three or four co-ops (and perhaps more) have



used it. One challenge to its use in Canada is that many of the worker co-ops are too small to achieve meaningful results. There has been some discussion about smaller co-ops using the tool principally to create a dialogue amongst member employees, however to date this has not been undertaken (Hough, 2014).

The significance of both of these tools is in sharp contrast to their use. This underscores the need for more engagement with Principle 5 and 6: education and training and cooperation among cooperatives.

To deliver the vision of ICA's Blueprint in three of its five areas (participation, sustainability, identity), co-operatives would greatly benefit from a stronger support system – a mother ship as it were – that could do the hand holding, manage and distribute the tools, provide turn-key services and assist in network building to help develop co-op athletes in all sectors.

In 2009, I visited such a "mother-ship" in northern Italy's Emilia Romagna region. Created by The Lega Co-op to provide full services to its federated member co-ops, it functions as an effective one-stop-shop for co-operative values, products, support, advice, education, training, services and diagnostics to help member co-ops achieve their full potential. Mondragon has similar cooperative infrastructure. There also exist some fine regional models in Quebec.

Cross-cutting all co-op sectors and reaching beyond the services provided by today's apex organizations, the goal of such a co-op service bureau well might be to develop the tools and solutions needed to support ICA's Blueprint Vision of co-ops as the first-choice organizational form by 2020.

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## ENDNOTES

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<sup>1</sup> Established in 1905, the purpose of Scottish Agricultural Organizations Society is to strengthen the profitability, competitiveness and sustainability of Scotland's farming, food and drink, and related rural industries and communities through the development of co-operation and joint venture. Owned by 80 producer cooperatives, SAOS members have annual aggregate sales of £ 3.2 billion - two thirds of this from 10 members. Their website is <http://www.saos.coop>.

<sup>2</sup> The CEO who drove the expansion plans and attendant debt retired when Saputo took over and went on to become a leadership coach with US-based TEC. His management record at Dairyland is described on the TEC Canada website as follows:

*During that time, [he] drove the business from a two-plant operation...to a national company with plants operating from coast to coast and selling its own national brands. During this period of unprecedented expansion, company revenues grew from \$180 million to more than \$1.7 billion, and productivity of the company's 3,400 employees increased five-fold on a per-worker basis.*

<sup>3</sup> It is based on the Tom Lee dictum: "*The ultimate bottom line in business is not profit, it is the ability to earn a profit on a transaction and turn it into cash and do this repeatedly...*" (Lee is a well known financial author and Director of Accounting and Auditing Research, Institute of Chartered Accountants of Scotland. More information on OCFAID analysis can be found at [www.alanrobb.coop](http://www.alanrobb.coop))

<sup>4</sup> As a social movement, socialism is about ensuring human development, equity, and social justice. With attention to people's needs at its core, the purpose of a socialist society is captured in the subordination of capital, in calls for fair income distribution, and in ensuring general access to social security and the provision of basic necessities, such as food, shelter, healthcare and education, among other. Rooted in the labour theory of value (Ricardo; Marx), work is the main source of income in socialism, with labour (rather than capital) as rightful owner of the residual income, i.e. profit. (Novkovic, 2013.)



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<sup>5</sup> Jose Marti, Cuba's National Hero, 1853-95, was a poet an essayist, a journalist, a revolutionary philosopher, a translator, a professor, a publisher, and a political theorist. His writings continue to resonate within the Cuban society.

<sup>6</sup> Essentially, the right to work the land in perpetuity. Similar to a life-long lease (unless the Government needs the land for another purpose).

<sup>8</sup> The Human development index consists of three components: income, health and education. HDI for Cuba was 0.78 in 2011, well ahead of economies with similar levels of income per capita. <http://hdr.undp.org/en/statistics/hdi/>

<sup>9</sup> This workshop was organized with funding kindly provided by the Canadian Embassy in Havana and Atlantic Central.

<sup>10</sup> Transition economies all deliberately moved to outright capitalism, selling of assets to employees was a (small) part of their privatization efforts for a number of reasons - none of which were ideological. Employee-ownership is still marginally present in some countries. none of them introduced a co-operative economy. (*Novkovic, pers. Comm.*)