A Critic of the Legal Framework for the Incorporation of Co-operative Societies in Nigeria

Professor T.I. Akomolede & Dr. E.T. Yebisi
Faculty of Law, Ekiti State University, Ado-Ekiti.

Abstract

This paper is a critique of the legal framework for the incorporation of co-operative societies in Nigeria. To achieve this objective, the paper critically examines the statutory provisions of the Nigerian laws and the common law relevant to incorporation of co-operative societies and juxtaposes these laws with the principles contained in the International Co-operative Alliance (ICA) statute which are meant to be the fons et origo of a modern co-operative societies law. The paper finds amongst others that, the Nigerian law is replete with provisions which tend to undermine the ICA principles. Time honoured common law principles which tend to paralyse the purpose of co-operative activities feature prominently. The paper also underscores the enormity of the powers of the Director of Co-operatives and the danger such powers portend to the vibrancy of co-operative societies and suggests ways of keeping abuse in check.

Keywords: Co-operative Societies – Director of Co-operatives – Corporate personality – co-operative principles – International Co-operative Alliance.

1.1 Introduction

Although, there are alternative legal forms for the carrying on of a business and at least for small businesses, the choice among them is not necessarily a forgone conclusion. A person may carry on a small business as an unincorporated small trader or in a partnership, the alternative when a small body of persons wishes to carry on business in common with a view of profit. A body or association of persons may be registered or incorporated under the relevant law regulating companies and which is in force at the time of registration. For example, the Companies and Allied Matters Act, 2004 under which a registered company may be private or public and may be limited by shares, guarantee or unlimited, irrespective of whether it is a private or public company. Such companies are also often formed for trading purpose with the view to making profit, but may also be formed for purposes, including charitable, social or promotion of education or science. In contrast to the aforementioned types of businesses, the main purpose of a co-operative society is the advancement of its members and not the pursuit of economic gain. It is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs through a jointly-owned and democratically-controlled enterprise. From this definition of a co-operative, it is difficult to classify a co-operative society as one or other of the two types of enterprise mentioned above. On the other hand, there is no doubt at all that, a co-operative society is a private, non-profit making enterprise and the co-operative model provides the facility which the law makes available for carrying on such enterprise. Consequently, this paper critically examines the legal framework for forming and registering a co-operative society in Nigeria under the following sub-heads.

1.2 Appointment of Director of Co-operatives

The officer in charge of co-operative work under the Nigerian Co-operative Societies Act, is called the Federal Director of Co-operatives and in some states, the occupant is referred to as Registrar of Co-operatives as was the designation under the 1935 Ordinance. The change from the hitherto designation of Registrar of Co-operatives under the Ordinance to Director of Co-operatives is profound, because the title Registrar is perhaps a very infelicitous word by which to indicate the functions of the holder of the office. Presumably borrowed from England, it rather implies that, his functions are mainly formal and that his duty is merely to see that legal requirements are duly

42 This is the definition of a Partnership contained in section 1(1) of the Partnership Act, 2004.
44 Ibid p. 1: Section 26(1) Companies and Allied Matters Act, 2004
47 The Co-operative Laws of Oyo, Ogun, Osun, Lagos and Delta States are examples of states still retaining the designation of Registrar in their statutes, but in practice or official circles refer to them as Directors. The Ekiti State Law 2010 Cap. C.13 refers to the occupant as Director.
observed. Though, it is true that these are among the functions of the Registrar, the holder is principally shouldered with the responsibilities of lighting a fire of enthusiasm and preventing it from going out by guiding the activities of the enthusiasts, devising constitutions and forms of accounts and shielding them from what might be costly errors. Under the Ordinance and the extant Act, the occupant of the office is constituted the very foundation and fulcrum of co-operative activities in Nigeria. It is left entirely to his discretion subject to an appeal to the Minister to register or to refuse to register a society and its bye-laws and every amendment of them require his approval. Thus, on the Registrar rests the responsibility of seeing that, a society starts under conditions as favourable as he can make them. In order to ensure that, wise rules are carefully observed, he is given unlimited powers of inspection and audit. The holder of the office also has a voice in the investment and disposal of funds of the society. Finally, the holder of the office has full discretion, subject to the right of appeal to the Minister, to order the cancellation and dissolution of a society and to appoint a liquidator to wind it up. The term ‘Registrar’ gives no indication of the scope and width of these extensive functions and powers which could approximate only to the power of life and death over a co-operative society.

The term, Director of co-operatives therefore, seems more apt and captures the daunting functions and powers of the official placed statutorily in charge of co-operative societies, be it in or at the federal or state level of government in Nigeria. Some quarters, although not in Nigeria, have had inclination to object to these extensive powers being centred in a government official. In his note of dissent to the report of the Co-operative Planning Committee of India, Professor H. L. Kaji had advocated that, the powers of the Registrar be reduced and the co-operative movement progressively de-officialised. Pleading in the same vein, Ramadas Pantalu said in 1941 that, co-operative societies Acts are all drawn up with the Registrar as the centre of the picture and not the society. Pantalu intoned further that, if Co-operative Societies Acts are framed on the basis that co-operation is a movement of the people and not merely a department of administration, they will help to promote the initiative of those for whose benefit the movement is intended. Erastus Mureithi, a former Managing Director of the Co-operative Bank of Kenya seemed to echo these sentiments, when he wrote that, co-operative legislations have to be reviewed to ease government control and limit its involvement to policy issues, so that members determine the survival of an organisation.

Although, these views are from climes namely India and Kenya with long co-operative history and, therefore, deserving of attention, it is yet to be empirically concluded that control of co-operatives by officials, designated whether as Registrars or Directors has in anyway tended to undermine or paralyse the progress of co-operative activities in Nigeria so far. But we must be proactive since extant law vests in the Director indeterminate powers approximating to absolutism. Be that as it may, in support of the status quo, it has been opined that, co-operative societies, though primarily self-contained and self-governed are subject to supervision by government officers, and this has an important effect in attracting public confidence, since these officials by whatever named called, are not intended to be merely registering officers, but also expected to provide supervision, assistance, counsel and control, which government alone has the wherewithal to provide to the co-operative movement.

It is worthy of note that, apart from vesting in the President or the State Governor as the case may be, the power to appoint the Director or the Registrar, the legislations are mute on the qualification and experience of the appointee. It is however, the rule rather than the exception for Directors or Registrars to be appointed within the ranks of senior civil servants and at times without any formal training or requisite qualifications. In England, the only qualification obligatory for the Registrar is that, he must be a barrister of not less than twelve years standing. It is submitted however that, the Director or Registrar of co-operatives must be more than a legal practitioner. Besides registering, the drafting of laws, framing of rules under it and devising by-laws and being the delegate of government, the appointee also prepares and circulates model forms of accounts, balance sheets and collects and publishes

49 Ibid
50 Sections 5 and 12 of the Nigerian Co-operative Societies Act. 2004
51 Ibid sections 36 and 37
52 Ibid section 34
53 Ibid section 38
54 Ibid section 40
56 Ibid
57 Ibid
60 The first Registrar of Co-operatives in Nigeria was Major H. H. Haig.
61 Calvert H. op. cit., p.107
information as to statistics useful to the societies. Thus, the Director is not only necessarily versed in co-operative principles, it also behoves the appointee to continually study co-operative literature which is now very extensive. The appointee must be acquainted with socio-economic conditions, customs as well as prejudices of the country or locality where he is to operate. He is also the head of a teaching establishment and must devise effective means for impacting a real knowledge of co-operation on the bulk of the citizenry. The appointee is further required to control a large staff, to draft model bye-laws and rules, to collect statistics and write reports and to advise government on various subjects. To be able to brace up to these responsibilities, the Director it is suggested, should undergo a thorough training of at least two years as Deputy Director or Joint Director and must be at least a legal practitioner of at least ten years post-call, before assuming duty. He may not necessarily be appointed from the civil service.

1.3 Societies Which May be Registered
The Act groups co-operatives into primary societies, secondary societies and industrial societies for purpose of registration.\(^{63}\) The term “primary society,” refers to a registered society consisting of individuals as members.\(^ {64}\) This type of society enables individuals to come together at village, kinship, age or as professional groups to pursue or satisfy their economic and social needs. To qualify as a member, a person must have attained the age of sixteen years at least and must be resident within the society’s area of operation.\(^ {65}\) No age limit however, applies in the case of School Co-operatives,\(^ {66}\) which is defined as a registered society whose members are pupils or students attending school or any institution of learning.\(^ {67}\) Those who occupy land within the society’s area of operation may also join the society, but land owners who are not residents within a credit society’s operational area are prevented from joining such a society.\(^ {68}\) The Director of Co-operatives however, reserves the right to grant exemption from these qualifications in the case of societies registered with limited liability.\(^ {69}\) Furthermore, no member of a primary society can hold more than one-fifth (20\%) of the share capital of the society.\(^ {70}\) Here, capital means the funds contributed or guaranteed by the members. Share Capital is commonly classed under three heads: authorized or nominal capital being the amount of share capital which a society or company is authorized by its bye-law or memorandum and articles of association to raise; subscribed capital, being the total value of the shares taken up by members, that is the sum which the existing shareholders have undertaken to pay up or the sum of their total liability; and paid up capital being the amount of share capital actually paid up out of the sum (subscribed capital) which they have undertaken to pay.\(^ {71}\) The difference between the subscribed capital and the paid up capital represents the reserve liability of the members. In a limited liability society, this represents the maximum sum which a liquidator can call up by way of contributions.\(^ {72}\) The Act also recognizes the terms, “secondary and central co-operative societies”, which terms, synonymously refer to registered societies established in a state or at the federal level to facilitate the operations of registered societies in accordance with co-operative principles.\(^ {73}\)

It can be surmised from the above discussions that, the qualifications for membership of a co-operative society are based on:

a. Age;
b. Residence;
c. Occupation or ownership of land or attendance at a school or an institution of learning
The Director of co-operatives may grant exemption from some of the qualifications in appropriate cases.\(^ {74}\)

At this juncture, it is apposite to juxtapose these qualifications with the co-operative principle of voluntary and open membership which abhors any artificial restriction or any social, political, racial or religious barrier to admitting members to a society.\(^ {75}\) The principle has to be applied in the context of the particular types of co-operative society

\(^{62}\) Ibid
\(^{63}\) Op. cit., section 2(2)
\(^{64}\) Ibid section 57
\(^{65}\) Ibid section 22(1)
\(^{66}\) Ibid
\(^{67}\) Ibid section 57
\(^{68}\) Ibid section 22 (1) (b)
\(^{69}\) Ibid section 22 (2)
\(^{70}\) Ibid section 27
\(^{72}\) Op. cit., section 40 (2) (a)
\(^{73}\) Obeng, S op. cit., pp.179-181
\(^{74}\) Ibid
\(^{75}\) Co-operative societies are voluntary organisations open to all persons able to use their services and willing to accept the responsibilities of membership, without, gender, social, racial, political or religions discrimination”. *The ICA Commission Report*, 1995
being set up.\textsuperscript{76} Thus, the International Co-operative Alliance Commission in its report acknowledged that, “open membership” does not mean that a co-operative must admit all who apply to join.\textsuperscript{77} A broad-based concept of “open membership” is to be expected for consumer co-operative as everyone is a consumer. However, a producers’ agricultural co-operative may legitimately limit membership to those producing a particular agricultural product, while a workers’ co-operative may insist that, only employees of a particular organisation or institution are eligible.\textsuperscript{78} A housing co-operative may enjoin prospective members to wait until a vacancy arises in their property, before admission to membership.

Also, the insistence on the principle of voluntary membership appears to conflict with certain practical examples. Calvert,\textsuperscript{79} cites an example from a part of Burma, where it was the rule that, anyone who desired to join a credit society should also join the Cattle Insurance Society in the same village. This, he opined was more prudent than compulsion, because if a man in the cattle trade borrowed to buy cattle, his fellows reasonably insisted on his taking an obvious precaution against sudden loss.\textsuperscript{80} The insurance, made the loan more certain of recovery and so there was nothing unco-operative in the rule. So also is the bolting of the door against downright paupers who may not possibly be able to meet their obligations to the society, a co-operative society not being a charitable organisation. Nevertheless, economic restrictions by the use of high minimum shareholdings or membership fees and any ideological restrictions based on declarations as to political or religious belief, are condemned by the International Co-operative Alliance Commission.\textsuperscript{81}

Although, these restrictions are not specifically mentioned under the Act, it may be appropriately subsumed, under the rubric of section 2 (1) (b), which requires that, a co-operative society must act in accordance with co-operative principles.\textsuperscript{82} It is however pertinent in terms of legal structure, that, appropriate criteria are built into the co-operative’ society’s constitution so that the process of becoming a member is not made unnecessarily impossible.

The Act also requires that a co-operative society to be registered must be a limited liability society.\textsuperscript{83} The corresponding equivalent of this section in the States law, provides that, a society may be registered with or without limited liability as the Registrar may decide.\textsuperscript{84} The liability of a society is limited, if the financial responsibility of members is limited to their share subscriptions. Thus the personal property of members is not affected by the co-operative’s borrowings.\textsuperscript{85} As a rule, unlimited liability is the ordinary rule of business of many social institutions and it is only replaced by limited liability under special conditions and under special regulations.\textsuperscript{86} As the name implies, in an unlimited society, the liability of members is unlimited. Where liability is unlimited, it is necessary to confine contributions to members of a small circle sufficiently intimately acquainted with each other’s affairs, to ensure mutual trust. As each member of such society was liable for all its debts, a prudent and responsible person would be unwilling to take a share in it, even though it afforded reasonable prospects of high gains, unless he knew enough of his fellow members to be sure that, he would not have to bear a great part of the burden in case of failure.\textsuperscript{87} But where a large capital is required for an enterprise or society, and shares for the enterprise are to be drawn from a wide circle that, mutual acquaintance of an intimate nature cannot be guaranteed, then unlimited liability is dangerous.\textsuperscript{88}

Quite apart from what the law permits or does not permit, unlimited liability has been found to carry with it, certain advantages of considerable importance in a co-operative society. Schulze–Delitzsch, considered unlimited liability indispensable at the beginning, in order to put all on guard in an association composed of persons not yet accustomed to forethought in financial matters.\textsuperscript{89} It would oblige each to watch his associates as well as himself. Later on, when the members have become better trained and acquainted with their credit value, they might limit their responsibility. The fact that all the members are jointly and severally liable for outside debts involves many consequences:\textsuperscript{90} (1) members must be selected, as obviously everyone wants to be sure that a new member will be able to bear his share of the common burden; (2) members must be formally admitted, so that there will be some proof that

\begin{thebibliography}{99}
\bibitem{77} Ibid
\bibitem{78} See EKSU ASSU Co-operative bye-law
\bibitem{79} Calvert, H. op cit., p. 23
\bibitem{80} Ibid
\bibitem{81} Snaith, I. op. cit., p. 15
\bibitem{82} See Co-operative Societies Law 2010 Cap C13, section 4 (Ekiti State); Delta State Cap 42 section 4 and Oyo State Cap 35 section 4
\bibitem{83} Section 2 (1) (a)
\bibitem{84} Section 4 (Oyo State); section 4 (Ekiti State)
\bibitem{85} Tchami, G op. cit., p. 45
\bibitem{86} Calvert, H. op. cit., p. 47
\bibitem{87} Ibid p. 48
\bibitem{88} Ibid
\bibitem{89} Ibid
\bibitem{90} Ibid
\end{thebibliography}
they have accepted legal liability for the debts of the society as they stood on the date of administration; (3) members must be allowed to withdraw in case they find the society incurring a heavier liability than they desire to share in; (4) the liability of past members must continue for a period, so that the surviving members have opportunity to proceed to liquidation if they consider that, in consequence of withdrawals, the liability is becoming too great for them; (5) members must not be allowed to transfer their shares or interest to anyone they please, but must only transfer to or through the society, for the survivor must be sure that the transferee is fit for his liability; (6) The members must be able to expel anyone whose liability is worthless, or who has pledged it in another society of unlimited liability and to take action against defaulters by arbitration procedure; (7) the list of members is the list of persons liable and so must be kept up to date, the date on which anyone ceases to be a member must be carefully entered, as from this date commences the period of liability of a past member; (8) accounts must be strictly kept and daily audited so that, the extent of the liability can be definitely established, and all members must have the right to see the accounts; (9) amendments to bye-laws must require a considerable majority of the members as an amendment may alter the liability; (10) the members in general meeting must settle the maximum liability they are prepared to undertake; and (11) must have full power over the employment of funds; (12) a reserve fund is desirable to protect the liability; as any loss will first fall on the fund accordingly; (13) a limitation of dividend is desirable so as to leave more for reserve; (14) members must have the right to secure independent inspection of the accounts and in the long run; (15) to bring about the liquidation of the society and so definitely close their liability.

We must necessarily add that, there must be no pressure from outside to make the society do what its members consider unwise or dangerous to do, such as to admit members or elect the management committee on religious grounds. Where liability is unlimited, there must be intimate mutual knowledge between members, and this can only be secured by confining selection of membership to a small area. The close proximity type co-operative society based on unlimited liability, because members live together in close proximity and have usually known each other from cradle, cultivate adjoining lands, buy their requirements at the same shop and see each other practically every day at the village square, with every inhabitant knowing what goes on in the community, may not work for a group of salary earners whose main bond of union is the place where the members work.

The simple type of society capable of rendering the assistance to the people of this class is limited liability society which must have as its seat, the place where the members work. Here, every member decides for himself, subject to any minima which may be imposed by the society, what sum he wishes to save monthly and signs a paper authorising his employer to deduct that sum and pay it to the society, instead of to him, together with any loan instalments or interests which may be due from him. It is true that, this will involve an appreciable amount of extra work for the employer, especially, the Salaries and Accounts Department, but the advantage of having a solvent and unembarrassed staff easily outweighs this.

Thus, it is submitted that, there should be no controversy over the question of liability of members of co-operative societies. The choice of limited or unlimited liability must be decided and influenced by the nature of each society and as argued above, an unlimited society is best suited and practically ideal for the operation of the mutual trust and mutual supervision entailed in running a society whose members have mutual knowledge of each other’s affairs by living in close proximity. Limited liability is preferred where there is less need of mutual knowledge of each others affairs, the area is large, the number of members is greater and the whole transactions of the society can be carried on, on a grander scale. The restriction of registration to only co-operative societies with limited liability by the Act, is preposterous in view of the potential advantages of both limited and unlimited liability depending on when they are deployed. It is also suggested additionally that, both the Act and the Law should make provision for limitation by guarantee in respect of secondary societies.

---

91 A public company can ordinarily only object to the transferee if the share carries a reserve liability in the sense of, for example not fully paid-up. If it is fully paid-up, the holder has the right to sell freely.
92 Campbell, WKH. op. cit., p.97
93 Ibid p.98
94 The EKSU Academic Staff Co-operative Society as well as the EKSU Multipurpose Staff Co-operative Society practise this.
95 Campbell loc. cit.,
96 Calvert H., op. cit., p. 53
97 In a guarantee society, each member is liable to contribute a specified amount to the assets of the society in the event of its being wound-up. Epetimehin F. M.(2005) Understanding the Dynamics of Co-operatives. Ibadan: Worldwide House, p.
In addition to the requirements harangued on above, it is also a condition sine qua non for registration of a co-operative society, for the society to have as its objects, the promotion of the socio-economic interest of its members in accordance with co-operative principles, and established for the purpose of facilitating the operation of those principles. Several writers have stressed the promotion of the economic interest of its members as the main object of a co-operative society. For example, Adesina defined a co-operative society as an organisation wherein people voluntarily associate together as human beings on the basis of equality to promote common economic interest of themselves. The author underscores his opinion with a claim that, “co-operative societies are established for economic reasons… All members must make sure that none of them suffers economically.”

Similarly Oluyede posits that, the concept of co-operation is a common bond that binds people with common economic interest or needs. The emphasis on economic benefits by these writers overshadow the social benefit of co-operation. Co-operation for better living is not less important than co-operation for furthering economic interests. Better living is the final objective of co-operative effort and better methods of production and better business are but, the means to this end. In fact, there are co-operatives for mutual welfare and for various types of communal services, for example, health societies, anti-malaria societies and better living societies in India. The emphasis on economic benefits also denigrates the very basis of co-operatives as laid down by the fathers of the movement which is that, a co-operative society is to satisfy the needs and interest of their members, rather than, maximising profit which may be the target of other forms of business organisations. This is poignantly stipulated by Article 5 of the International Co-operative Alliance (ICA) which recognises as a co-operative society, any association of persons or of societies which has as its objects, the economic and social betterment of its members by means of an enterprise based on mutual aid and conforms to the ICA statement on the co-operative identity as approved by its general assembly.

The Act encapsulates the wisdom of the ICA, but omits to give an inkling of what co-operative principles are. Lack of definition of these principles, leaves every Director or Registrar to come to his own conclusions about them. This may not augur well for elegance in legislating, but on the other hand the omission could be a blessing in disguise, when one considers the chequered history of the evolution of these principles from the Rochdale Pioneers through the inception of the International Co-operative Alliance in 1895. The dynamism of co-operativism makes the evolution of a comprehensive and definite list of universal co-operative principles a pipe dream, since modernity may from time to time render some usages either obsolete and some accolades less or more felicitous. In effect, we have to be circumspect, in attempting a precise definition of co-operative principles in the interest of elasticity and simplicity.

20
98 Section 2(1) (b) of the Act.
100 Ibid p.2
101 Oluyede P. A. op. cit. p. 163
102 Calvert op. cit., p.111 quoting Rajagopalan
103 Ibid
105 Ibid
106 The law of the various States also do not adequately define the principles
107 The evolution of the principles of co-operation falls into two distinct periods. First was the period from the 1840’s to as late as the 1960’s when co-operators regarded the Rochdale Pioneers as a sort of oracle from which all the principles and practices of co-operation must issue, because they made a success of their retail shop. Unfortunately, these rules properly called, because the Pioneers themselves did not start off with a list of principles, were limited in scope, in that, they were economic rules mostly germane to consumer co-operatives and viewed in the light of the immense expansion of the co-operative movement, proved elemental and imperfect. The second period, is between the early 1960’s and the present day when co-operators essentially researched for the principles of co-operatives wherever they may be found. The contributions of academics such as Professor H. H. Bakken (Basic Concepts, Principles and Practices of Co-operation, Madison, 1963) who postulated eleven principles of co-operation; Professor Hans H. Munkner (Co-operative Principles and Co-operative Law, Marburg, 1974), who similarly identified eleven principles and Dr. Martin Abrahamsen of the University of Maryland (Co-operative Business Enterprise, New York, 1976) who listed five principles, need to be acknowledged and appreciated. These individual contributions to the development of the principles of co-operation, eventually got to the conferences of the International Co-operative Alliance now held quadrennially, where they are debated, sifted and either adopted or kept in view. In 1930, the International Cooperative Congress meeting in Vienna authorized a study of the principles of co-operation and in 1937 the Congress at its meeting at Paris, unanimously adopted four out of the former eight Rochdale principles as obligatory, universal and necessary for eligibility into the membership of the International Co-operative Alliance. Again in 1963, the Congress in England, set up a commission to study the relevance of the Rochdale principles to modern conditions. The commission reported to the 1966 Congress in Vienna recommending, and the Congress approved six principles and thus adding two new principles to the four adopted in 1937. Today, there are seven principles, the last having been included at the 1995 Congress.
108 Calvert H. op. cit., p.112
In spite of our reservations, it is necessary to define these principles without leaving it to every Director or Registrar to come to his own conclusions about them, because of the danger of unintended discretion, or where a Director or Registrar is routinely appointed without regard to his experience or none, in co-operative matters. The definition cannot be merely a reference to the principles of the International Co-operative Alliance of a particular date or a reference such as “in accordance with co-operative principles…” 109 In the former case, a particular set of principles of the International Co-operative Alliance will have to be preserved and in the latter, the law will change as and when the relevant principle is modified by the International Co-operative Alliance. The definition of the principles which will suffice for all purpose is the definition that is stated in the rules of the International Co-operative Alliance, 1995 and this ideally must be in the interpretation section of the Act, because, stating the International Co-operation Alliance rule in the Act is the best way of adopting the ICA’s definition, 110 otherwise, the principles may be affected by constitutional constraints on international treaties. 111

It is also a requirement for registration that a co-operative society has as its objects, the promotion of the socio-economic interests of its members in accordance with co-operative principles. Co-operatives are enterprise run by their user-owners who constitute the dominant power of the co-operative. 112 Within a co-operative, the co-operation of the members takes precedence over their contribution to capital. The role of capital is only to serve the interest of the members and to allow them to fund the activities of the co-operative. Capital is thus, stripped of all powers:

i. Voting rights in fact follow the rule of “one member, one vote”.

ii. The distribution of surpluses as a reward for members’ contribution to capital is expressly restricted, 113 in the sense that distribution is based on patronage with limited returns being given to share capital.

The main aim of a co-operative is to respond to its members’ needs and not to make maximum profit, unlike investor-oriented enterprises. 114 The satisfaction of the common need of the members through their common undertaking thereby eliminating middle men profit-making, is the economic purpose of co-operation. 115 Co-operatives, like other businesses, also add margins to cost prices of their goods and services, however, under co-operative pricing, this is done only as a precautionary measure, a margin of safety rather than as a deliberate attempt to attract as much money or high margin as possible from its customer for the benefit of the owners of the enterprise. 116 In co-operatives, the customer is supposed to be the same as the member, that is, having a dual identity of owner-consumer. This dual identity would make it absurd for the members directly by themselves or through their functionaries to try and extract as much money as possible from themselves. Rather, excesses which arise from the margins are returned to the members. 117 The same rational arises in the profit maximizing firm, when the owner himself consumes some items of the produce of his business enterprise, for example, in his household. These are not valued at their sales price, but rather at their cost price, the dual identity of owner and customer also existing in that case. 118 Because of the these differences, instead of profits, co-operators have tended to talk of surpluses which for them represent over-charges in the case of supply activities or under payments, in the case of marketing activities. 119 These two terms are identical only to the extent that, they both result from margins and calculation-wise, both result from a subtraction of expenditure from revenue. Many co-operatives tend to use the terms interchangeably or simply use the term profit for both the profit- maximizing enterprise as well as the co-operative. This is not quite accurate, even if it does no harm, as long as one keeps in mind that, differences do exist and the legitimate tax authorities take these differences into account in their dealing with co-operatives. 120 Co-operatives make their surpluses out of their own members, and the theory of profit assumes that, the entrepreneur is distinct from the patron, but with regards to co-operatives and for purposes of taxation, the veil is lifted and the society and the members/patrons are treated as a single entity and law

110 Ibid
111 Ibid
112 International treaties and conventions are not self-executing in Nigeria. Such treaties in following the dualist theory must be enacted by the National Assembly before their provisions may be given effect by Federal or State Courts. Section 12, Constitution of the Federal Republic, 1999.
113 Tchami. G. op. cit p.16
114 Ibid
115 Weeraman P.E. Loc. cit
117 Ibid
118 Ibid
119 Ibid
120 Ibid
makers and tax administrators are compelled by law to exempt co-operative surpluses from income tax, to avoid taxing members’ income twice.\textsuperscript{121}

The principle of eliminating middleman profit is fundamental to co-operation. Therefore, there should be no room for a co-operative to engage itself in an enterprise which would be of mutual aid to its members, but whose need of that aid, arises from a purpose of capitalistic exploitation. For example, a society of capitalistic entrepreneurs formed to render a service to satisfy a common need of theirs, would not be a co-operative society, if that service is obtained for the exploitation of the economic needs of a third party outside the pale of the society’s membership. Such a society would be aiding its members in capitalistic exploitation and therefore, would be a commercial undertaking and not a co-operative society, although the society could be defined as one of mutual aid to the members, in view of the provision to return to them the profits of their undertaking. The point is that, the members of a society should be either the consumers or the producers in respect of the article supplied or sold by the society to, or on behalf of the members and not merely the owners of capital if such society is to be classed as a co-operative. No co-operative society should assist its members to have their hands in other men’s pockets.\textsuperscript{122} In reality, most co-operatives will be found to be transacting business with non-members; specifically letting such non-members also enjoy the goods and/or services produced. However, unlike in the case of transactions with members, the co-operative is not established to serve non-members.\textsuperscript{123} It can in fact, be said that, ideally such non-member transactions are alien to basic co-operative thinking. Nevertheless, different reasons lead to such transactions. Chukwu,\textsuperscript{124} lists three advantages and some limitations to non-member business transactions. These advantages are:

\begin{enumerate}
\item Advertisement effect: Through such transactions the non-member gets a taste of what advantages the co-operative could have in store for him. It therefore, helps to convince and attract increased membership leading to increased share capital and all other advantages which follow there from.
\item Improved capacity utilization: Non-member patronage helps increase the output of the co-operative. It can thus, under the right circumstances lead to increased economies of scale, reduced unit costs and reduce prices to members.
\item Increased reserve funds: The co-operative which also undertakes non-member transactions will usually not adopt differentiated or two-tier pricing. Both the members and non-members are usually served at identical prices. Any over estimations will thus, also lead to surpluses from non-member transactions. Such surpluses are usually passed into the reserves, thus increasing those created from the regular member transactions and increasing the usual advantages from reserve creation.\textsuperscript{125}
\end{enumerate}

Against the above are limitations of non-member business transactions which are:

\begin{enumerate}
\item Danger of discouraging membership: This is the other side of advantage (i) above. The non-member enjoys the same service at no extra cost or risk to himself, that is, the so called free rider effect. This position can easily become attractive to the member especially where no price differentiation takes place and for one or the other reason patronage refunds are either not granted or are too low to mean much to the member, relative to the cost of membership.
\item Danger of over production of non-members: This is the other side of advantage (iii) above. That, managers including those in modern co-operatives often seek autonomy and freedom of action, even including freedom to pursue their individual aims and objectives is common knowledge.\textsuperscript{126} Especially, the possibility of the use of the reserves, which is usually removed from the control of the members, helps them exercise such powers. Since non-member surplus readily strengthens those reserves, the danger arises of the management, for this reason, increasingly emphasising such non-member transactions at the expense of member promotion. This may arise where non-members are willing to pay mouth-watering interest on loans as compared to returns expected from members given similar loans.
\item Commercialisation of the relationship between members and the co-operative: Arising from (i) and (ii) above, is the danger of the relationship within the co-operative complex slowly developing into a typical market relationship.\textsuperscript{127} As explained in an earlier context, among other reasons, the non-market relationship and the positive attitude of the member which goes with it, will help to rally members at

\begin{flushleft}
\textsuperscript{121} Ibid
\textsuperscript{122} Weeraman \textit{op. cit} p. 48
\textsuperscript{123} Chukwu \textit{op. cit.}, p.147
\textsuperscript{124} Ibid
\textsuperscript{125} Ibid
\textsuperscript{126} Ibid
\textsuperscript{127} Ibid
\end{flushleft}
temporary critical times. A strained market relationship will erode part of the advantages which the co-operative enjoys regarding level of risks to non-co-operative institutions.128

iv. Danger of loss of tax and other concessions: In most countries, co-operatives enjoy different tax and other concessions.129 However, these are usually granted on the understanding that, they are promotion and not profit-oriented. While a limited extent of non-member business dealings are thus usually condoned for the reasons stated above, in most cases, where non-member transactions assume great magnitudes, the co-operative is regarded as slipping increasingly into the position of any other profit-oriented enterprise; accordingly concessions which were granted could be withdrawn.130 Although the loss of such concessions may sometimes be more than compensated for by the advantages from such a level of non-member transaction, even in such a situation, a fundamental question would still remain, whether such a co-operative, virtually for non-members, is still a co-operative. This is very topical in most developing countries.131

iv. Business with non-members is abhorred by co-operatism in the spirit of co-operative exclusivism, which translates to dealing with members only. All members should be patrons and all patrons should be members.132 Therefore, its dealings should be exclusively with its members. However, it could happen that a minority of non-members may have to be served on grounds of compassion, but even then, the percentage of such non-member clientele should be very small. And when it happens, care should be taken to see that, the profits made by trading with non-members, are not distributed among the members, otherwise, members would have participated in profits in a manner that co-operative expressly abhor.133

By way of reiteration, a crucial point to mention is that, the main aim of a co-operative is to respond to its members’ needs and not to make maximum profits, unlike capitalist enterprises. There is nothing wrong at all with having no surplus; on the contrary, the absence of a surplus can be a sign that, the members have enjoyed the services of the co-operative at the lowest possible cost.134

The mandate of the Director or Registrar is therefore, well defined, to only register societies whose object is the social and economic betterment of their members in conformity with co-operative principles, by virtue of section 2 of the Act135.

1.4 Conditions for Registration of Co-operative Societies

For a society to be registered, it must satisfy certain conditions. In the case of a primary society, it must consist of at least ten persons who may be qualified for membership as required by section 22 of the Act. In the case of an Industrial Society, it must consist of a minimum of six persons and must be economically viable.136 A secondary society established for the sole purpose of facilitating the operations of other societies, unlike secondary societies established as central financing societies to grant loans to its members, must have at least five registered societies as members and in the case of a federal apex society, it must have at least five registered state apex societies.137 In order to provide the best possible service to their members in line with the co-operative principles of “co-operation among co-operatives”, co-operatives are duty bound to co-operate with each other. Section 3(3) of the Act enjoins this mandatory duty on all co-operatives. Inter-co-operative collaboration is not optional. It is a principle of binding rule of co-operation. A co-operative is not allowed to remain an island to itself; it must reach out to other members of the co-operative family. In any practical way, it must actively seek out avenues for effective collaboration with other co-operatives. Having secured the initial link-up, however loose and tenuous it may be, co-operatives shall progressively strive to tighten their bonds of mutuality and independence until unity of action by co-operators throughout the world is achieved.138

The collaboration envisaged can take various forms. It can take the form of horizontal integration or vertical integration.139 There are three forms of horizontal integration: a merger, where two or more societies on the same

128 Ibid
129 Ibid
130 Ibid
131 For the example of Kenya, see. Ghai Y. (1972) “Co-operative legislation in East Africa” in; Widstrand (Ed) African Co-operatives and Efficiency, pp. 58 - 59
133 Ibid.
134 Tchami, G. op. cit., p.17
135 Where the definition of co-operative principles are defined in the Law or Act as suggested above, there would be no room for the Director or Registrar to give another interpretation to “co-operative principles”.
136 Section 3(2)
137 Section 3(3)
139 Ibid
horizontal hierarchical level fuse together to form a single new, but larger society to reduce costs, among other things; or an amalgamation, where smaller societies affiliate with a larger one and in the process lose their identity to the latter which alone retains its original identity; or a multiple-purpose society in which several functions (that could have required separate societies) are performed by one society. Another form of integration is the vertical integration in which no society loses its identity, but rather several societies come together to establish a new society of a higher degree (secondary, tertiary or apex), offering central business or supervisory services. This represents a growth of the system from bottom to top. It is however pertinent not to confuse co-operative vertical integration with the concept of business conglomerates. While the two systems are similar, in that both are composed of individually legally autonomous units, major differences exist. The activities under co-operative vertical integration are directed to, and dictated by, the interest at the bottom of the system. In the conglomerate, it is the other way around. While decision making direction and/or control in the co-operative system is carried out by members represented by elected persons, in the conglomerates, it is dependent on capital holding and people from outside. While capital holding in the co-operative runs from bottom upwards, it is the other way round in the conglomerate. In the same manner, co-operative vertical integration is not to be confused with the system of chain stores/multiples which have a centralized financing and controlling headquarter or head office. The primary and/or control in the co-operative system is carried out by members represented by elected persons, which no society loses its identity, but rather several societies come together to establish a new society of a higher degree (secondary, tertiary or apex), offering central business or supervisory services.

These collaborations or integration which the law enjoins, have a lot of advantages. The secondary co-operatives exist to offer promotional services to the primaries. The secondary co-operatives owe their existence to the weakness of the primaries which through the secondary should be strengthened. The major weakness of the primary co-operative stems from its usual base of a limited area of co-operation. Consequently, in the case of the credit co-operative, the number of depositors and borrowers are relatively small. This implies that, the extent to which the usually small owned capital based can be augmented by deposits is also very small. Furthermore, all the members of the co-operative will live under the same natural conditions, especially regarding agricultural producers, unfavourable natural, particularly climatic conditions and mishaps will have identical effects on the members private business enterprises. Their planting and their harvest periods will be identical for all members. In the case of a salary-earners co-operative society, it may be that, the institution is unable to access its subvention in order to pay salaries and therefore making it impossible for the employees who are also members of the society to receive their salaries; sometimes arrears may run into several months.

The factors contribute to a situation in which virtually all members would want to withdraw their savings at the same time and also even need increased loans at the very same period. It would prove impossible for a primary credit society on its own to meet such demands and work with a responsible level of stability under such conditions. Recalling any outstanding loans to ease the pressure of increased withdrawals of savings will not be fruitful. It could easily lead to a run on the credit society and its eventual liquidation. These problems result from a lack of diversity in membership, area of operation, and timing and types of risks involved, all of which eventually go back to the limited area of operation. The factors which help to spread and diversity risks and which belong to good lending/banking practice are not open to the small primary credit co-operative society. It must, therefore, find ways of eliminating the shortcomings and dangers there from. The secondary co-operative provides solutions. Being state based, its areas of operation are more likely to contain areas of different crops, different planting and harvesting times, different soil and weather conditions and different occupations and employers. It thus provides the basis for better spread of savings and loan requirements as well as diversification of risks, time, crops, profession and weather. It can better co-ordinate

---

140 Chukwu, S. C. op. cit., p.110
141 Ibid
142 Ibid
143 Ibid
144 Ibid
145 Munkner op. cit., p.166
146 Chukwu op cit p. 113
147 Ibid
148 Ibid
between co-operatives of high liquidity and those of low liquidity, thus saving the primaries from the mentioned dangers.

The secondary society is also in a better position to bridge the gap between two parties. In the case of marketing, for example, processing factories, exporters and marketing boards usually accept only relatively large minimum quantities. Individual primary producers’ co-operatives are rarely able to supply such minimum quantities. This is more easily met through the secondary co-operative, bulking the relatively small quantities from the primaries, thus indirectly increasing acceptance of the primary co-operative. It can reduce the normally long marketing chain and corresponding margins, otherwise withheld from the producer leading to higher end prices for the primary co-operative and its members.

Audit and supervision services are also often provided by secondary co-operatives to the primaries. Special advantages arise from the fact that, in most cases, unlike in the case of non-co-operative auditors, auditing activities cover not only the formal legal requirements, but also the quality of management and decision making in the affiliate co-operative. Auditing is thus, more detailed and thorough than in other cases. Apart from being required by law, it is inherent in the co-operative system, since it is not only in the interest of the primary co-operation, but also in that of the secondary whose continued existence, directly depends on the continued existence and progress of the primaries. Where such services are obtained from outside the system, especially from government sources as in most developing countries, this personal and institutional inter-dependence is absent. Audit and supervision are thus geared merely towards satisfying the basic legal requirements. The type of audit and supervision provided by the secondary societies as indicated above, lead to increased credit worthiness and ought to be more generously recognized by especially, commercial bank lenders.

Primary co-operative societies also derive the advantage of varied advisory services from the secondaries. Compared with the alternative of consultancy services from outside the co-operative system, these advantages take different forms. Whereas private consulting firms are profit oriented and thus, are normally quite costly, the secondary co-operative, being promotion-oriented, offers the same services to the primaries at lower cost. Furthermore, the secondary co-operative through its audit functions, enjoys better insight into knowledge and appreciation of, and most especially, comparative experience from the different affiliate primary co-operatives. This is not usual with primary consultancy services. The secondary co-operative is thus not only less expensive but combines this advantage with better and more appropriate service to the primaries. The advantages from the extension and educational services offered by the secondary societies to the primaries, are also to be seen in this light. Individual co-operative societies are usually not financially or personnel-wise in the position to organise their own education and extension services. On both counts, the secondary is better equipped to do so. Furthermore, in comparison to the individual co-operative society or even private training firms from outside the co-operative system, the secondary, again based on its varied and comparative audit functions and experience, is in a better position to offer more appropriate research, education, training and extension services to the primaries.

Centralized book-keeping and accounting is another important service offered by secondary co-operatives. In most developing countries, the inadequacy of accounting and the high cost of obtaining fairly good accounting personnel, have led to the failure of many primary co-operatives. An approach towards improving the situation has often been found in the secondary co-operative offering this service in a centralised manner, since it is financially in a better position to obtain and more fully utilise the appropriate personnel. In many industrialised countries, this is solved with the introduction and use of highly computerised accounting installations which help the co-operatives to keep up with competitions in the credit and other sectors. This may be costly for many primary societies in Nigeria, but a centralised accounting system initiated by a secondary society may be affordable.

150 Ibid
151 Chukwu, *op. cit.*, p.116
152 Ibid
153 Ibid
154 Ibid
155 Ibid
156 Munkner, *op. cit.*
157 Ibid
158 Chukwu, *op. cit.*, p.112
160 Ibid
Other services include those of public relations and advertising. These are usually too expensive for the primary society and are more cheaply and effectively handled centrally by the secondary society, representation in dealing with third parties, especially regarding primary legislation and other legal matters, advising on the general direction of state or national co-operative policy and suggesting changes or revisions of documents concerning co-operatives; dealing with labour matters and government agencies and in arbitration and settlement of disputes between the primary co-operatives and its members or the co-operative and third parties in order both to avoid cost of litigation and to preserve the overall good co-operative public image. It takes on the role of spokesperson at the national level of government and related authorities for all questions relating to the co-operative movement and represents it at regional and international levels.

1.5 Factors Hindering the Achievement of the Above Advantages for Primary Co-operatives

The highlighted advantages of the federative structure of co-operatives as envisaged by the Act, makes the need to provide for a federative structure not only legally imperative, but economically and socially too. There lies the strength of the societies. It is regrettable to note that many factors have hindered or perverted the course of these advantages to primary societies. The establishment of most secondary societies are promoted by government, so that their functions have been practically taken over by Directors and Registrars with powers of giving directives and approving or otherwise forbidding decisions by the co-operative and their secondaries. Many secondary and tertiary co-operative bodies, have as their directors and general managers, people appointed and paid by government or must be approved by the government and therefore, serve the interests of the government, rather than the primary co-operative and their members.

The upsurge in government promoted or sponsored co-operative societies has also not helped matters. Co-operative societies encouraged by government to facilitate access to government patronage, for example the Fadama project and the various poverty alleviation initiatives are not co-operatives properly so called, because they are bereft of the voluntary, autonomous and democratic character of co-operative enterprises. The closer the states’ grip, the more estranged the people are from these societies, so much so that, members of co-operatives in many states are similar to the passengers of a train who use it for their ad-hoc purposes, but who have nothing to do with its running. A new thinking therefore becomes imperative, if secondary societies in Nigeria are to offer those functions and advantages outlined above to primary societies.

1.6 Co-operatives as Part of Name

It is also a condition that the word co-operative or its vernacular equivalent forms part of the society’s name before registration is granted. Generally, the employment of vernacular equivalent of the word co-operative in substitution is legal, it is hardly in use, except in Yorubaland, where evidence abounds of names consisting of words such as Alajeseku which literally means the one who eats today and leaves some for tomorrow or saving for a raining day and Egbe Alafowosowopo, which simply means co-operation. While the Director of Co-operatives may register names with words like alajeseku and egbe alafowosowopo which approximate more with the concept of co-operatives, it is doubtful, if vernacular words such as ajo, aro, esusu owe among Yoruba; gayya and adashi among the Hausa; and isise, isise-ego, utu unimuna and oha among the Igbo as meaning co-operatives will be accepted as vernacular equivalence of the concept of co-operation.

1.7 Power of Director of Co-operatives to Decide Certain Questions

When, for the purposes of registration, a question arises as to the age, residence or occupation of land constituting the qualification of any person, that question shall be decided by the Director of Co-operatives whose representation in third parties, especially regarding primary legislation and other legal matters, advising on the general direction of state or national co-operative policy and suggesting changes or revisions of documents concerning co-operatives; dealing with labour matters and government agencies and in arbitration and settlement of disputes between the primary co-operatives and its members or the co-operative and third parties in order both to avoid cost of litigation and to preserve the overall good co-operative public image. It takes on the role of spokesperson at the national level of government and related authorities for all questions relating to the co-operative movement and represents it at regional and international levels.

...
decision shall be final. The import of this statement is that, the Director’s decision on any such question is not subject to review even by the court. The validity of this provision flies in the face of the constitutional provision that, a law conferring on a government or authority power to determine questions arising in the administration of a law, that affects or may affect the civil rights and obligations of any person shall not be valid, unless such a law contains no provision making the determination of the administering authority final and conclusive. The courts’ resentment to such ubiquitous administrative legalese, is also eloquently exemplified in LPDC v Fawehinmi, where the Supreme Court, unequivocally ruled that, any provision in an enactment, rule or regulation which purports to oust or limit the jurisdiction of the courts, no matter how unambiguously couched or worded, is null and void. Thus, although the function of the Director of Co-operatives in determining for the purposes of registration any question arising as to the age, residence or occupation of land, constituting the qualification of any person is administrative, rather than judicial, his determination can be challenged by judicial review.

1.8 Procedure to Obtain Registration of Co-operative Societies

To obtain the registration of a co-operative society, certain documents must be obtained and delivered to the Director of Co-operatives, in addition to the payment of specified statutory fees. The application shall be made to the Director on a specified application form. In the case of a primary society, the application shall be signed by at least ten individuals qualified for membership of the society. In a largely non-literate country, it is reprobative that, the term sign which appears in the Act, is not defined and therefore must be interpreted with its grammatical varieties and cognates to include “mark” in the case of a person who is unable to write his name. Otherwise, the term is defined as, “to write your signature or something to show that you wrote it, agree with it, or was present”. However, this grave inadequacy appears to have been taken care of by Form A, which provides that, in the case of illiterate persons, the name should be written by someone able to write and the applicant’s thumbprint added below.

The requirement of Form A is, however, short of what is prescribed under the Illiterates Protection Act or Law, which requires any person who writes any letter or document at the request, on behalf, or in the name of any illiterate person to also write on such letter or other document his own name as the writer and his address. The penalty for transgression is conviction to a fine of one hundred naira or imprisonment for six months. In the case of a secondary society, the application for registration has to be signed by a duly authorised member of each of the registered societies intending to form the secondary society. The words “duly authorised” in this section, suggests that a copy of the resolution of the society authorising the person to sign should be produced, to satisfy the Director of Co-operatives.

The application shall be accompanied by copies of the proposed bye-laws of the society as prescribed by the Director and the person by whom or on whose behalf the application is made shall furnish information relating to the society as the Director may require. On receipt of the proposed bye-laws, the Director may make such alteration as may be necessary to bring them into conformity with the provisions of the Act. The implication of this is that, the Act does not confer upon a society power to make bye-laws, but rather, draft–copies of the proposed society’s bye-laws, must be sent to the Director prior to registration for his approval. In approving, the Director is also given powers not only to make alterations to the proposed bye-laws, but is practically imbued with powers, to impose model

172 Section 3(2)
173 Constitution of the Federal Republic of Nigeria, 1999 section 36(2); See also Bakare v Lagos State Civil Service Commission [1992] 8 NWLR (pt 262) 641, 689-690
174 [1985] 2 NWLR p.300
175 By section 3 (8) of the Act, the registration fee is N100
176 See Regulations 2(1) and 246 (2) Co-operative Societies Law of Oyo State, 2000, specifically appendix 1 for the contents of the form
177 Section 4 (2) (a)
178 A recent report revealed that, Nigeria’s adult literacy is less than 45%, i.e. over half of the adult population can neither read nor write in english-language-www.peoplesdaily/index.php/news//10197-striving-to-raise-Nigerias-literacy-level. 13 Dec. 2012
179 Section 4 (2)
180 Calvert, H. op . cit., p.131
182 See Appendix I. Ibid
183 Illiterate Protection Act. S 8
184 Section 4(2) (b)
185 Calvert op. cit., p.131
186 See appendix I. Ibid
187 Section 4(4)
188 Ibid
by-laws, if necessary, to bring the draft by-laws in conformity with the provisions of the Act.\textsuperscript{189} These wide powers are in themselves at variance and contravene the co-operative principles, since it militates against the development of a voluntary and an autonomous movement. Autonomy is essential and important for the growth of co-operative societies. There can be no real co-operative development if the very law enacted to promote co-operatives is contrary to its principles. It is however alluring that the Co-operative Societies Law provides that such alteration where material must be ratified by the applicants. Such provision is more in tandem with the co-operative spirit.\textsuperscript{190} Compared with enterprises under the Corporate Affairs Commission, the Commission is required to register the memorandum and articles of association of a company unless inter alia, the business which the company is to carry on, or the objects for which it is formed, or any of them, are illegal.\textsuperscript{191} If the Commission refuses to register a company for the above reason, any person aggrieved by the refusal may give notice to it, requiring it to apply to the court for directions as the Commission must within twenty-one days of receiving the notice, so apply.\textsuperscript{192} A provision like this in the Co-operative Societies Act, will restore the much needed autonomy which is a pillar of the co-operative movement. The Director or Registrar should at best only guide the promoters, rather than flaunt his authority. Indeed the Co-operative Societies Law requires the consent of the applicants to effect such amendment.\textsuperscript{193}

It is also worthy of note that, differing from the Companies and Allied Matters Act, under the Co-operative Societies Act,\textsuperscript{194} a member is not necessarily entered as such in the register of members, signatories to the bye-laws need not be attested and the appearance of his name on the register is not prima facie evidence that, he is a member. The matter is left to the Regulations by virtue of section 56. It is also to be noted that, the ten signatories become members of the society on registration and form a noteworthy exception, to the general rule that, members must be elected.\textsuperscript{195} If the Director is satisfied that, a society has complied with the provisions of sections 3 and 4 of the Act and that, its proposed bye-laws are not contrary to the provisions of the Act, he shall register the society and its bye-laws.\textsuperscript{196} It is clear from this provision that, both the society and its bye-laws require registration, but while there may be a registry of bye-laws apart from the registry of the society, the registry of the society must be of society with bye-laws.\textsuperscript{197}

The corollary to the power to register is also the discretion not to register if the Director is satisfied that, a society has not complied with the requirements for registration. Although not mentioned in the Act, the Director may refuse to register a society with an identical name with that of existing society. Clearly, the name should not be the same as or very similar to that used by a society already registered and any name such as “Federal”, National, “State” “Government”, implying patronage or connections with government or government departments without permission from the approximate authority.\textsuperscript{198} Using a name for one’s business which is deceptively similar to the name of another business, so that actual damage has been, or is likely to be caused to the goodwill and reputation of that other business, is a form of tort of passing off which may be restrained by injunction.\textsuperscript{199} The word limited or its vernacular equivalent must be the last word of the name\textsuperscript{200} and except in the case of a central financing society, the word “bank” or “banking” must not form part of the name of any society registered under the Act.\textsuperscript{201} The Director may also refuse to register a society whose objects are wholly charitable or benevolent\textsuperscript{202} and may of course not register a society whose promoters do not wish to follow co-operative principles in its entirety or object to official control. The Director has sixty days within which to dispose of an application for registration of a society.\textsuperscript{203} When the Director refuses to register a society, the society may within sixty days from the notification to it by the Director of his refusal to register the society, appeal against the refusal to the Minister or Commissioner responsible for Co-operatives.\textsuperscript{204} In some states

\begin{thebibliography}{99}
\bibitem{189} Ibid
\bibitem{190} Co-operative Societies Law (Oyo State) Cap 35 section 6(4)
\bibitem{191} Co-operative Societies Law (Ekiti State) Cap 35 section 6(4)
\bibitem{192} Co-operative Societies Law (Delta State) Cap 35 section 6(4)
\bibitem{193} Companies and Allied Matter Act,2004 section 36(1); see also \textit{Lasisi v Registrar of Companies}. (1976) 7 SC 73.
\bibitem{194} Ibid section 36(2)
\bibitem{195} Co-operative Societies Law Ekiti State Section 6(4)
\bibitem{196} Under the Companies and Allied Matters Act section 27 (5), the memorandum shall be signed by each subscriber in the presence of at least one witness who shall attest to the signatures
\bibitem{197} Calvert, H. \textit{op. cit.}, p.132
\bibitem{198} Section 5(1)
\bibitem{199} Calvert, H. \textit{op. cit.}, 133
\bibitem{200} See for example section 30 of CAMA
\bibitem{201} \textit{Hendriks v Montagu} (1881) 17 Ch. O638: \textit{Niger Chemists Ltd v Nigeria Chemist} [1961] All NLR 271
\bibitem{202} Section 3(5)
\bibitem{203} Section 3(6)
\bibitem{204} Snaith, L. \textit{op. cit.}, p.33
\bibitem{205} Section 5(3)
\bibitem{206} Section 5(2)
\end{thebibliography}
law, the period within which to make the appeal is one month from the date of such refusal. The Ekiti State equivalent is silent on the period within which the appeal to the Commissioner should be made and only provides that, where the Director refuses to register a society, an appeal shall lie to the Commissioner.

While we commend the vista for appeal against denial of registration as contained in both the Act and the states’ law, must take a further step to align with the Act in providing for a time frame, within which an application for registration ought to be disposed of. Section 5(3) of the Act contains the commendable ‘innovation of a time frame in the following form: “The Director shall within sixty days dispose of a publication for registration by a society”.

The appropriate authority to whom one applies is the Minister in charge of Co-operatives or corresponding Commissioner in the State who are also executive members of cabinet, whether federal or state whose independence or impartiality as arbiters could be called to question. Ideally, the court or an independent ombudsman could be shouldered with this responsibility to guarantee a measure of fairness to all parties. Furthermore, neither the law nor the Act make provisions as to what the appropriate authority should do with the appeal or how he should deal with it and the status or effect of the outcome of his dealings therewith, but it has been suggested that, the law maker must have intended that, the appropriate authority shall consider the appeal of the appellant and the reasons given by the Director for the refusal to register the society and to make a pronouncement thereon, either upholding the Directors decision not to register or setting same aside and directing the Director to register. In comparable provisions relating to registration of companies, Professor Gower opines that, the functions of the Registrar of Companies in deciding whether or not to register a company are administrative, rather than judicial, but a refusal to register can be challenged by judicial review.

1.9 Certificate of Registration

On the registration of a co-operative society, the Director or Registrar issues a certificate authenticated by his seal, which shall be conclusive evidence that, the society mentioned in the certificate has been duly registered, unless it is proved that the registration has been cancelled. The phrase ‘duly registered’ in section 7 of the Act, apparently means that, section 5(1) of the Act has been complied with in its entirety so that, the certificate is a conclusive evidence that, the provisions of the Act have been duly complied with. The certificate is a conclusive answer to an objection relating to registration and at once enables a society to enter into contracts. It is also prima facie evidence that, all the provisions of the Act have been duly complied with and it is conclusive evidence of society’s corporate existence. Such a certificate would suffice against a claim to income tax. The certificate would also serve to exclude evidence that, a society was not really co-operative or was not what it claimed to be. It would thus, serve to deprive courts of jurisdiction in certain cases and confine malcontents to resort to the Director or Registrar under section 37 or the Act. But, where it is proved that the registration of the co-operative society described in the certificate of registration has been cancelled, in accordance with the provision of section 38 of the Act, then the aforesaid conclusive evidence of registration shall stand rebutted. Where the registration of a society is cancelled by an order made under

---

205 Section 7 of Oyo State, Osun State and Delta State Co-operative Societies Laws.
206 Section 7(1) Ekiti State Co-operative Societies Law, 2010.
207 Emiason, op. cit., p.133
209 Unlike the elixir provided by CAMA section 72 altering the status of pre-incorporation contracts, the common law position still governs co-operative societies and as such, a society cannot enforce a contract made on its behalf prior to its registration, nor can it ratify a contract after registration, because the society as the principal when the contract was made cannot ratify a contract made on its behalf when it was not in existence. Kelner v Baxter, (1866) L. R. 2C. p.174; Newborne v Sensold Ltd. [1954] 1 QB 54.
210 Calvert H. op. cit., 135
211 It has been submitted earlier that, any statute which seeks to exclude the jurisdiction of the regular court is unconstitutional and therefore void. But, there is no problem with a statute which provides for submission first to forum domesticum before resorting to the regular court.
212 “Section 38 - Cancellation of registration of a society due to lack of membership. (1) The Director may by order in writing, cancel the registration of a primary society if, at anytime, it is proved to his satisfaction that the number of the members of the society has been reduced to less than ten or in the case of an industrial society, to less than six and the order shall take effect from the date it is made. (2) If the Director after holding or making an inquiry or conducting an inspection under section 37 of this Act or on receipt of an application made by not less than three fourths of the members of the registered society, is of the opinion that the society ought to be dissolved, he may make an order in writing for the cancellation of the registration of the society. (3) A member of a registered society may, within two months, from the date of an order made under subsection (2) of this section appeal against the order to the Minister or Commissioner, as the case may be (4) where no appeal is lodged within two months from the making of an order cancelling the registration of
section 38 of the Act, the society shall cease to exist as a corporate body from the date on which the order took effect or the date of dissolution, provided that, any right, interest or power conferred on the society under the Act, is deemed to be vested in any liquidator appointed for that society by the Director.  

1.10 Effect of Registration of a Co-operative Society

The most important legal feature of a body corporate is its dual nature as both an association of its members and a person separate from its members.  This is often called, the artificial entity theory of corporate personality, which employs the ‘fiction’ theory to ascribe legal personality to an amorphous or incorporeal entity known as a company.  That separate person, though artificial (that is, produced by human artifice rather than occurring, naturally), is treated by law as being, as far as possible, a person with the same capacity to engage in legal relationships as a human person. As confirmed by Karibi-Whyte, I. S. C. inter alia, “… legal personality recognised at law can only be given by the state through its laws by way of statute or other recognised law.”  

In Olaniyan & Ors. v University of Lagos, Oputa, J.S.C declared that, where a corporation is given or has acquired its powers at common law or by custom or charter, then, it is “a person at common law and may do anything which an ordinary person can do”. The leading case on the fundamental importance of separate personality is Salomon v A. Salomon and Co. Ltd. Mr. Salomon had conducted his boot making business as a sole trader, and he sold it, to a company incorporated for the purpose called, A Salomon and Co. Ltd. whose only members were himself, his wife, a daughter and four sons. These seven individuals were the subscribers to the company’s memorandum and took one pound share each. The business was sold to the company for over £39,000. Part of the purchase price was used by Mr. Salomon to subscribe for a further £20,000 shares in the company, but £10,000 of the purchase price was not paid by the company, which instead issued Mr. Salomon with a series of debentures for £10,000 and gave him a floating charge on its assets as security for the debt. Unfortunately, the company’s business failed and the company went into liquidation.

In an action brought by a debenture-holder on behalf of himself and all the other debenture-holders, the court of first instance, presided over by Vaughan Williams J. agreed with the liquidator that, the company was formed by Salomon and the debentures were issued in order that, he might carry on the business and take all the profits without risk to himself, that the company was the mere nominee and agent of Salomon; and that, the company or the liquidator thereof was entitled to be indemnified by Salomon against all the debts owing by the company to creditors other than Salomon. On appeal, the judgment of Vaughan Williams J. was affirmed by the Court of Appeal, which was of the opinion that, the issue of debentures to Salomon was a mere scheme to enable him to carry on business in the name of the company with limited liability, contrary to the intent and meaning of the Companies Act, 1862 and further to enable him to obtain a preference over other creditors of the company, by procuring a first charge on the assets of the company by means of such debentures and because of Salomon’s fraud, a constructive trust should be imposed under which the company should be deemed to have operated the business as trustee for Mr. Salomon, who should therefore, indemnify the company for the debts incurred in carrying out the trust. Thus, the Court of Appeal, disowned from the view taken by Vaughan William J. that the company was to be regarded as agent of Salomon, by considering the relations between them to be that of trustee and cestui que trust; but this difference of view of course, did not affect the conclusion that the right to the indemnity claimed had been established. On further appeal to the House of Lords, the apex court rejected the approach of the court of first instance, when Lord Herschell said:

In a popular sense, a company may in every case be said to carry on business for and on behalf of its shareholders; but this certainly does not in point of law constitute the relations of principal and agent between them or render the shareholders liable to indemnity the company against the debts which it incurs.

society, the order shall take effect on the expiry of that period and where however an appeal is presented within two months, the order shall not take effect until it is confirmed by the minister or the commission, as the case may be (5) Where the Director makes an order for the cancellation of the registration of a society under subsection(1) and (2) of this section, he may make such further orders as he may think fit for the custody of the books and documents and the protection of the assets of the society until the order cancelling the registration takes effect. (6) No registered society shall wind or be wound up except by an order of the Director or of a court.”

---

214 Section 39
217 Gani Fawehinmi v Nigeria Bar Association (No.2) [1989] 2 NWLR (PT.105) 588 at 633
218 [1985] All NLR 363 at 383
219 [1897] AC 22
220 Subnom Broderip v Salomon [1895] 2Ch. 323
221 Ibid at p.333
222 Salomon v Salomon, supra at p.43
The stance of the Court of Appeal was rejected by the House of Lords which held that, there was nothing at all in the Act to show that, what Mr. Salomon had done was prohibited. Indeed, Lord Macnaghten pointed out that, in an earlier case,223 Gifford, L. J. had said that, it was, the policy of the Companies Act to enable business people to incorporate their businesses and so avoid incurring further personal liability. Lord Macnaghten said:

When the memorandum is duly signed and registered… the subscribers are a body corporate capable forthwith to use the words of the enactment, ‘of exercising all the functions of an incorporated company’. Those are strong words. The company attains maturity on its birth. There is no period of minority – no interval of incapacity. I cannot understand how a body corporate thus made ‘capable by statute can lose its individuality by issuing the bulk of its capital to one person, whether he be a subscriber to the memorandum or not. The company is at law a different person altogether from the subscribers to the memorandum; and though it may be that after incorporation the business is precisely the same as it was before, and the same persons are managers and the same hands receive the profits, the company is not in law the agent of the subscribers or trustee for them. Nor are the subscribers as members liable in any shape or form, except to the extent and in the manner provided by the Act. That is I think the declared intention of the enactment.224

The principle has been incorporated in the Companies and Allied Matters Act.225 A co-operative society possesses most of the attributes of a company.226 Under the co-operative societies legislation in Nigeria, it is not only a body co-operate on registration, but also enjoys perpetual succession and has a common seal.227 It can enter into contract, hold movable and immovable property, invest funds and dispose of the surplus and institute and defend suits and other legal proceedings and can do all things necessary for the purpose of its constitution.228 Like a company, a co-operative society may be registered with or without limited liability229 and hold and dispose of its property in the same way as a company can do.230 In particular, a society shares most of the characteristics of a company, with regard to allocation of shares, right of members to dividend and the appointment of a liquidator on dissolution. The administrative structure of a co-operative society is also akin to that of a company in many respects and so are many features of the two. Both a company and a co-operative society are managed by their members’ general meeting and an elected body of executives called respectively “board of directors”231 and “governing committee.”

1.11 Conclusion

Responsibility for co-operative formation and registration in Nigeria is entrusted in officials of a specialized government agency or department headed by a Director of co-operative societies. We observed that the scope of the functions and the powers of the Director, approximate to the power of life and death over a co-operative society and therefore, the occupant of the office must be more than a lawyer. The office requires knowledge of economics, accounting, statistics, history, agriculture, politics and culture, but the law, both federal and state, is silent on the qualification and experience for the post. The law does not also make any conscious effort to provide a mechanism for questioning decisions made by the appointee. The enormity of the statutory powers of the Director cannot be considered as an adequate compromise between co-operative autonomy and government control. Co-operative societies are based on member support and require some measure of autonomy in decision making and self-responsibility in order to work on their own, rather than to be administrative units under a government agency.

It is also noted that qualification for membership of co-operative societies are sometimes based on ownership of land which we observed, may work negatively against low income earners and especially women in cultures, where women are not allowed to own land. The Act also provides that a society shall be registered as a limited liability

223 Re Baglan Hall Colliery Co. (1870) LR 5Ch. App. 346 at 356
224 Salomon v Salomon Supra at p. 51. For the background to Salomon v A. Salomon & Co Ltd which is probably the most famous case in company Law, see G. R. Rubin “Aron Salomon and his circle” in Essays for Clive Schmitthoff, ed. John Adams (Abingdon: Professional Books, 1983 pp 99 - 120
225 Section 37 of the Companies and Allied Matters Act, 2004. See also CABI v COBEC (Nigeria) Ltd [2004] 13 NWLR (Pt. 948) 376
226 Emiola, Corporation Law, Ogbomosho; Emiola (Publishers) Ltd p.78
227 Section 6 (1) (a)
228 Section 6(1) (b)
229 Section 2(1) (a); section 4 Co-operative Societies Law (Oyo State)
230 Section 42
231 Companies and Allied Matters Act , section 63 (1) (3)
society only, while its State equivalent allows for registration with or without limited liability. The merits and demerits of limited liability and unlimited liability society were considered, with the jury deciding in favour of either. Unlimited liability is best suited and practically ideal for the operation of mutual trust and mutual supervision entailed in running a society, whose members have mutual knowledge of each others’ affairs by living in close proximity. Limited liability is preferred where there is less need of mutual knowledge of each others’ affairs, the area is large, the number of members is greater and the whole transactions of the society can be carried on, on a grander scale. It was also noted that, the Director of co-operatives is mandated to register only societies, whose object is the social and economic betterment of their members in conformity with co-operative principles. But just like its States counterpart, co-operative principles are not defined nor the principles stated. Individual Directors are thus, left to proffer their own definitions of what these principles are. This we observed may lead to capricious exercise of discretion.

Although, federative structure of co-operatives is envisaged by the law, by making inter-co-operative collaboration mandatory with attendant, socio-economic advantages, it is noted that, most secondary societies are promoted by government, with their functions virtually usurped by the Director of co-operatives, who wields the powers of giving directives, approving or otherwise forbidding decisions by co-operatives and their secondaries. Advantages of secondary co-operatives include, offering promotional services to the primaries, bridging the gap between primary societies, for example in the case of credit societies, co-ordinating between co-operatives of high liquidity and those of low liquidity, providing audit and supervisory services, providing training and educational services, cheaply and effectively handling public relations and advertising centrally for primary societies and representation in dealing with third parties, especially regarding primary legislation and other legal matters and playing the role of spokesperson at national and international level of governance.
The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage: http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

Academic conference: http://www.iiste.org/conference/upcoming-conferences-call-for-paper/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar