



**Global
Forum**
on Food Security
and Nutrition

Enabling rural cooperatives and producer organizations to thrive as sustainable business enterprises

Summary of discussion no. 82

From 12 July to 6 August 2012



Global Forum on Food Security and Nutrition

About the Document

This document summarizes the results of the online discussion "Enabling rural cooperatives and producer organizations to thrive as sustainable business enterprises" held on the Global Forum on Food Security and Nutrition (<http://www.fao.org/fsnforum>) from 12 July to 6 August 2012.

The following summary aims at providing readers with a general overview of the discussion, including the list of all references shared.

For the full text of all contributions and further background information please refer to the discussion page: <http://www.fao.org/fsnforum/forum/discussions/rural-cooperatives>

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I. Overview

The discussion *Enabling rural cooperatives and producer organizations to thrive as sustainable business enterprises* was held on the FSN Forum (<http://www.fao.org/fsnforum>) from the 12 July to the 6 August 2012 and was facilitated by John Rouse and Janos juhasz.

For the full text of all contributions please refer to proceedings: http://www.fao.org/fsnforum/sites/default/files/file/82_cooperatives/PROCEEDINGS_82_Rural_cooperatives.doc

54 contributions were shared by participants from 25 countries. The majority of contributors took part from Africa (43%) followed by Europe (28%), Asia(17%), Latin America and the Caribbean (6%) and by North America and Southeast Pacific (4% and 2%).

Participants represented several different sectors and types of organizations: non-governmental organizations (26%), independent consultants (26%), financial institutions (13%), private sector(13%), academic and research (9%), UN and intergovernmental organizations (9%), technical cooperation (4%) and government (2%).

During the course of the discussion members shared their experiences as to why cooperatives often fail to be successful and to thrive as viable commercial enterprises and proposed ways to move forward.

Main aspects on which participants touched upon where:

- The need for cooperatives to stem from an existing and perceived common goal of its members instead of being formed top-down for political reasons.
- The promotion of increased rural member savings and member share capital contributions to finance growth of the cooperatives business enterprise.
- The need to further strengthen the business running capacities of cooperative members and of the management.
- The pros and cons of vertical integration of cooperative business structures within or alongside existing agricultural product value chains was also discussed.
- The introduction of new laws and policies that give value to and encourage the mobilization of cooperative member capital and savings to strengthen cooperative self-reliance.
- The potential role that ICT technologies could play in strengthening rural cooperative business self-reliance and successful market integration.

II. Factors limiting the success and sustainability of cooperatives

Without the necessary support especially in the initial stages of formation, cooperatives may fail. Many members of cooperatives are poor rural farmers without the requisite agricultural knowledge, financial resources and assets for use in agricultural production. To allow cooperatives to build the necessary human and technical capacity it is therefore necessary that the government and the civil society provide support and guidance.

It is, however important to ensure that the support given to cooperatives does not create dependencies. In the cases in which cooperatives rely entirely on organizational and financial support provided by governments or NGOs, little incentive is given to them to develop their own means of mobilizing internal capital and thus to develop financial sustainability. As a consequence these cooperatives often face great difficulties when the supporting projects end. In extreme cases this dependencies can lead to cooperatives that only last as long as a project, state program or supporting NGO.

Being confined mostly to their communities without having useful contacts beyond is another restraining factor for many cooperatives as it limits their human social and financial capital.

When lacking linkages with buyers, input suppliers and all those aspects necessary across the value chain, cooperatives cannot properly access markets and achieve good prices for the crops, thus undermining long term sustainability.

Illiteracy, the geographic isolation of many rural cooperatives and the farmers' and managers' lack of business skills are further major constraints to developing cooperative self-reliance.

Another danger lies in cooperatives extremely large and bureaucratic entities. These large cooperatives will have difficulties in keeping a participatory approach to their business and their procedures of internal governance can become very similar to those of investor owned companies with certain partners taking over the organization.

Common problems faced by many cooperatives are:

- overdependence on outside assistance;
- the lack of organizational structure, action plan and business plan;
- the lack of funding: little mobilization of internal and external resources;
- lack of a technical-organizational supervision and follow up of rural cooperatives;
- the ignorance of opportunities, rights, advantages and duties in their respective environments;
- difficult access to inputs and credit;
- difficulties selling produce;
- export taxes;
- rights to exoneration on imports not applied.

III. Ways forward

As cooperatives are essentially a group of people organizing themselves, it is important that their creation stems from a common goal perceived by all members. Cultural, gender and sociologic aspects play an important role in ensuring that the group forming the cooperative engages in a dialogue with key individuals such as community players, local & central government, the private sector and NGOs to ensure that the cooperative moves efficiently in a common direction.

In order to create the necessary environment for cooperatives to thrive in, the government and players of the private sector need to recognize cooperatives as being an important component of the national industry and a key player in the development of the country. Both the public and the private sector must play their part in ensuring that cooperatives have access to credit, markets, extension services and input as well as that they can operate within a favorable legal framework.

It is also important that governments and donors understand that the promotion of sustainable cooperative businesses is a long-term process that requires technical assistance over a longer period than the typical two or three year development project allows.

Rural cooperative development projects need to be as comprehensive as possible, tackling rural savings, business development, investments, capacity and include an element for supporting the self sustainability of cooperatives, including the development of a collective asset base as well as the development of capacity for business analysis and risk taking.

It is also necessary to invest in strengthening the technical and organizational capacities of new cooperatives in order to give them the skills to provide services to their members and to become properly part of the agriculture infrastructure.

This is particularly important as the improvement of business skills of cooperative members is vital to assure their credibility as actors in the national food industry vis-à-vis their business partners. These improvements should not be limited to the cooperatives management but should instil a general atmosphere of entrepreneurship also among the participating farmers and producers.

To achieve this, farmers need to be able to access training facilities and efforts should be combined among donors, implementers and farmers to make all information readily accessible in local languages and in a form that can be easily understood. It should also be ensured that news regarding new pertinent legislation and opportunities for business incentives reach all members of the cooperative to warrant that they are operating with the legal framework while at the same time taking maximum advantage of the existing business environment.

In this context it is noteworthy that the use of mobile phones is becoming a cheap and easily accessible means of information. It can help informing fellow cooperative members of market prices or can be used to inquire on the availability of inputs. The employment by some cooperatives of electronic databases which enable them to follow efficiently the record of their members in terms of honoring undertakings to repay credit and to deliver agricultural products also helps them to strengthen their economic robustness.

A stronger integration with existing agricultural product value chains was seen as potentially further increasing the chances of cooperatives to succeed. Cooperatives should not only seek advances in increasing production but also try to improve markets, build relationship

with buyers, seek certifications and participate in good agricultural practices (GAP), product development, packaging, agro-processing and place emphasis on value addition.

IV. Examples of promising models

The following promising examples shared by participants may need some further investigation into their longer term financial sustainability.

The establishment of **Agriculture Business Centres (ABCs)**, under the The Smallholder Commercialization Programme (SCP) currently being implemented in Sierra Leone with the support of FAO, is intended to boost small-scale farmers' productivity and improve access to agricultural support services (inputs, post-harvest technologies, extension services and technical advice) and rural markets. The ABCs are farmer owned multi-purpose form of cooperatives providing rural communities with a place to trade goods and services and acting as an interface between farmers and service providers, thus enhancing access to markets and technologies.

The Government of India, realising the problems faced by cooperatives and societies, legislated the **Producer Company (PC)**, amendment IX-A of the Indian Companies Act 1956, as a sustainable local community enterprise institution of, for and by the smallholder farmer/ and rural producers. The PC has the features of an enterprise and will be driven by the cooperative and societal spirit of the community. This local institutional intervention, staffed by professionals, serves as a single window through which their members (smallholder farmer/ rural producers) will transact with various external forces by taking over the risks and responsibilities, viz., management, finance, banking, imparting knowledge/ training and capacity building, product development, factor market, capital market, research-extension services, value addition, delivery of government programmes, logistics, etc.

Rural SACCOs (Savings And Credit Co-operatives) are more commercially inclined than Rural Cooperatives which unfortunately in many cases seem to be stuck as being social enterprises, who don't seem to grasp well concepts of 'doing business'. Rural SACCOS on the other hand, being commercially driven are innovative to create business for the benefit of their members. They consider their members as investors, too who want to earn profit. As a result they have adapted and developed business networks outside the traditional cooperative movement which they tap into, and leverage more resources for their members.

V. Facilitators final recommendations

Based on the contributions received and on their previous experience with FAO in promoting cooperative developments, the facilitators drafted a number of important recommendations to FAO member countries and to FAO:

Recommendations to FAO member governments:

1. More objective case studies of successful rural cooperatives need to be conducted so that government, donors and NGO agencies promoting cooperatives gain a better understanding of the key internal (member capitalization, business management and member governance) and external (legal, policy, financial and extension and training) conditions that have influenced that success.
2. Financial and technical aid to cooperatives and rural producer organizations should be tied to the assisted cooperative's or producer organization's achievement of well-defined, measurable self-sufficiency indicators.
3. New advancements in ICT can play an important role in bridging communication gaps between producer cooperative members and their leaders, in improving producer access to important market information regarding market demand, product quality and prices and in assisting cooperative managers and leaders to develop network linkages that increase the cooperative's market power and policy leverage in markets and in policy making forums at national, regional and international levels. ICT can help bridge communication gaps. Appropriate ICT is the answer.

Recommendations to FAO:

1. Given the need to promote more vibrant, self-reliant and sustainable rural cooperatives that will support more equitable and sustainable rural development, FAO should give serious consideration to re-establishing a special technical unit on cooperative and producer organization development, staffed with experienced personnel in the field of cooperative business and producer organization development.
2. FAO should urgently re-establish one or two full-time positions for officers in charge with the responsibility of cooperative and producer organization development
3. To accomplish the above two tasks, FAO will have to mobilize additional budgetary resources from interested donor country partners (capital and human) so that once again it can become a respected and valued authority on agricultural/rural cooperative development.
4. FAO's approach to cooperative and rural producer organization development should be down-to-earth, realistic and practical. The organization should not enter into high-level academic discussions on principles and definitions. Rather it should focus on the selection and promotion of tangible, efficient and sustainable business solutions for and training cooperatives and other rural self-help organizations.
5. To start with, FAO should carry out a stocktaking action on what it had done in the past and what it has to build upon in terms of ideas, programmes, projects, guides, training materials, etc.
6. Based on the above a draft, a cooperative development programme/work plan/road map should be prepared for discussion, revision and approval at an international workshop in late 2013 with the participation of all potential collaborating partners, counterparts, cooperative practitioners and experts.

Resources

- FAO website on cooperatives
<http://www.fao.org/partnerships/partenaires/organisations-de-producteurs-et-cooperatives/en>
- World Food Day 2012 – Agricultural cooperatives – key to feeding the world
<http://www.fao.org/getinvolved/worldfoodday/en>

Articles and reports

- AERI EL SHAMS Project
http://www.usaideconomic.org.eg/eg_system_db%5Cso16%20document%5Cpress%20clipping%5CELSHAMS%20Cultivating%20Mushrooms%20Sowing%20the%20Spores%20of%20Financial%20Freedom.pdf
- Agricultural cooperatives and globalization: A challenge in future?
http://www.ifmaonline.org/pdf/congress/09_Hansen.pdf
- Agricultural cooperative development. A manual for trainers
<ftp://ftp.fao.org/docrep/fao/005/x0475e/x0475e00.pdf>
- BMGF/WFL WFLO Appropriate Postharvest Technology Project
http://www.aiard.org/meetings/2010annual/presentations/mon_pm_04_Holben.pdf
- Building a Public-Private Strategy for Global Market Development: Refocusing Research and Extension to Serve Small-Scale Farmers in Egypt
http://www.fao.org/fsnforum/sites/default/files/file/82_cooperatives/swanson_article_AERI_linkages.pdf
- Capital Formation in Kenyan Farmer-Owned Cooperatives. A Case Study
<http://www.fao.org/docrep/003/X3138E/X3138E00.HTM>
- Computerizing agricultural cooperatives: a practical guide
<ftp://ftp.fao.org/docrep/fao/007/y5471e/y5471e00.pdf>
- Cooperatives: has their time come – or gone?
<http://www.fao.org/docrep/007/W3708E/W3708E00.HTM>
- EL SHAMS PROJECT (Enhanced Livelihoods from Smallholder Horticultural Activities Managed Sustainably)
http://www.usaideconomic.org.eg/eg_system_db%5Cso16%20document%5Cpress%20clipping%5CEL%20SHAMS%20Success%20Stories_Oct_05.pdf
- Good practices in building innovative rural institutions to increase food security
<http://www.fao.org/docrep/015/i2258e/i2258e00.pdf>
- Linking Egyptian Smallholders to EU Markets: A Case Study
http://www.fao.org/fsnforum/sites/default/files/file/82_cooperatives/Herlehy_AERI_lessons_learned_2007.pdf
- Linking smallholders to remunerative markets: how smallholder potato producers in a remote district of Uganda market their potatoes to NANDOS in Kampala
http://www.asareca.org/tuusi/index.php?option=com_tuusiviewbestpractice&tact=view&Itemid=42&project=41

- Module 8: Farmer Organizations Work Better with ICT
<http://www.ictinagriculture.org/ictinag/sourcebook/module-8-farmer-organizations-work-better-ict>
- New strategies for mobilizing capital in agricultural cooperatives
<ftp://ftp.fao.org/docrep/fao/007/y5469e/y5469e00.pdf>
- Nondominium: establishing consensus and collaboration for the Caspian nations
<https://blogs.ucl.ac.uk/resilience/2011/10/04/nondominium-establishing-consensus-and-collaboration-for-the-caspian-nations>
- Policies and Programmes to Support Farmer and Rural Organisations in Central and Eastern Europe.
http://www.fao.org/fsnforum/sites/default/files/resources/John_Mills_Paper_cooperatives_0.doc
- Producer Company (PC) / Institutional Producer Company (IPC): Empowering farming Communities
<http://www.fao.org/fsnforum/sites/default/files/resources/SM.PC%20doc%209%2012%2007.doc>
- Public Sector-Driven Cooperatives (PSDC)
http://www.fao.org/fsnforum/sites/default/files/resources/PSDC_4.pdf
- Rising Global Interest on Farmland: Can it Yield Sustainable and Equitable Benefits?
<http://www.responsibleagroinvestment.org/rai/node/692>
- Support for farmers' cooperatives in the cereals sector
<http://www.lei.dlo.nl/wever.internet/applications/leirapporten/images/spr/SFC%20Cereals%20Final%20rev%20draft.pdf>
- The European agricultural cooperatives, promoters of the unequal globalization
http://www.fao.org/fsnforum/sites/default/files/file/82_cooperatives/EU%20agricultural%20cooperatives,%20promoters%20of%20the%20unequal%20globalization,%20Solidarit%C3%A9.doc
- The group enterprise book. A practical guide for Group Promoters to assist groups in setting up and running successful small enterprises
<ftp://ftp.fao.org/docrep/fao/005/V9779E/V9779E00.pdf>
- The group promoter's resource book. A practical guide to building rural self-help groups
<ftp://ftp.fao.org/docrep/fao/003/T1965E/T1965E00.PDF>
- The group savings resource book. A practical guide to help groups mobilize and manage their savings
<ftp://ftp.fao.org/docrep/fao/005/y4094E/y4094E00.pdf>
- The inter-group resource book. A guide to building small farmer group associations and networks
<ftp://ftp.fao.org/docrep/fao/003/X9121E/X9121E00.pdf>
- The urban producer's resource book
<http://www.fao.org/docrep/010/a1177e/a1177e00.htm>

Institutions and Cooperatives

- Bangladesh Academy for Rural Development (BARD)
<http://www.bard.gov.bd>
- COA Producer Company Ltd
<http://www.chetnaorganic.org.in>
- European Farmers / European Agri-Cooperatives
<http://www.copa-cogeca.eu>
- Fonterra New Zealand
<http://www.fonterra.com>
- Navj Yoti producer organization
www.navajyoti.org
- ACCOSCA (African Confederation of Cooperative Savings and Credit Associations)
<http://www.accosca.org>