

Agrodok 38

Farmer-controlled economic initiatives

Starting a cooperative

Reitse Koopmans

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Foreword

Many farmers' organizations in developing countries see it as their task to support business initiatives, such as the development of an agricultural cooperative or an agri-business owned and used for the benefit of their members. These business initiatives are undertaken in order to create solutions for common problems, for example in the processing and marketing of primary agricultural products and in gaining access to credit.

The organizations provide support by creating adequate conditions for the members to start and develop such a farmer-controlled economic initiative or by actively pursuing the development of an economic enterprise itself. In the latter case, the business should preferably be established as an individual legal entity and be operated under separate management.

Much has been written and published about the development of cooperatives. However, many of these publications are rather academic. They are hardly or not at all accessible for farmers who are involved in setting up a cooperative enterprise. With the publication of a practical manual for the development of agricultural cooperatives, Agriterra would like to introduce a new tool for agricultural organizations in developing countries. The manual can also be used as background information or input for each AgriPool (see usefull adresses: Agriterra) mission aimed at setting up, developing and monitoring farmer-controlled economic initiatives.

Cooperatives can be organized in different ways; there is no prescribed model or unique way that leads to success. This is because of the great variety in economic, institutional, social and legal conditions among various countries. The manual -therefore- cannot be more than a guide to support farmers' groups through the difficult process of starting a cooperative business and to help them finding their way and make their own choices in developing a successful enterprise.

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1 Introduction

Agricultural cooperatives have a long history of successes and failures both in the developed and the developing world. Certainly in the Netherlands, but also in other countries of Western Europe, the formation of agricultural cooperatives has played a major role in the development of agriculture during the last 150 years. The result is that within the EU countries agricultural cooperatives have a market share of about 50% of the entire turnover in the agricultural sector.

These cooperatives were usually initiated by small farmers, owners of family farms, as a response to their weak position in the market. By joining forces they could improve this position and obtain better prices and services for the purchase of inputs and credit and the marketing of produce.

In developing countries, cooperatives for agricultural and rural development were introduced in pre-independence times. There were some success stories, but there were also many failures. One of the reasons for failure was that often the cooperative concept was misused for ideological or political purposes. Governments and parastatals tried to influence and control cooperative development from above and often for their own purposes. This resulted in many poorly developed or unsustainable cooperatives. Some developing countries are still faced with the remnants of these state-controlled 'pseudo-cooperatives'.

Cooperatives should be seen as private business organizations with primarily economic objectives. It is not an easy task to organize and successfully develop a cooperative. Market conditions, government policies and the legal environment should be conducive for such a development. Moreover, strong leadership and management capabilities should be available, together with sufficient financial resources. These are all factors which are often scarce in developing countries.

It is a widespread misunderstanding that cooperatives are a typical instrument for developing the poor. History has shown that cooperatives are not the most suitable institutions for the development of the poorest farmers. This is because these people are often the least able to finance and organize a cooperative. Usually medium and somewhat larger farmers take the initiative for developing a cooperative in order to overcome certain deficiencies in the market. However, once the cooperative has passed its pioneering phase, the smallholders and poorest farmers can join and reap the benefits from this affiliation.

Under the influence of current trends in market-oriented reform, privatisation, decentralisation and participation, cooperatives are currently being rediscovered as a suitable organizational structure for realizing economic initiatives of farmers. Agricultural cooperatives in which the members both participate and contribute can thus become powerful instruments for the development of the rural economy.



Figure 1: Drying coffee beans in a rural cooperative in Vietnam (AEC)

The potential of independent and genuine cooperatives as a tool for rural development is increasingly recognized by many governments, donors and non-governmental organizations. Governments, however, no longer interfere with the development of cooperatives, except by creating and facilitating a supportive legal and economic environment.

2 What is a cooperative?

2.1 Description

Cooperatives are member-controlled associations for producing goods and services in which the participating members, individual farmers or households, share the risks and profits of a jointly established and owned economic enterprise.

Usually a cooperative is established by farmers in response to unfavourable market conditions, which is a shared problem. This could be a problem related to the marketing of produce resulting in low farm-gate prices, to the supply of good-quality and reasonably priced farm inputs, such as seed and fertilizer, or to the supply of sufficient and cheap credit. By establishing a cooperative enterprise, farmers hope to rectify this problem, increase their farm income and strengthen the economic position of their farm. The cooperative enterprise they establish is jointly owned and used by the farmers, who actively participate in the provision of resources for the cooperative (labour, capital and produce) and in decision-making (rules, regulations and management). The members of the cooperative share in the produced benefits and risks.

2.2 Characteristics

Cooperative organizations have a number of characteristics in common:

- Cooperatives are *voluntary organizations open to all persons* able to use the services and willing to accept the responsibilities of the membership, without social, gender, racial or religious discrimination. Cooperatives are free to define ‘persons’ in any legal way they choose. Primary cooperatives usually choose only to admit individual persons. Cooperatives at other than the primary level are often owned by other cooperatives (federations).

- Cooperatives are *democratic organizations controlled by their members*, who actively participate in setting the policy of the economic enterprise and making major decisions. Members decide what form the cooperative will have, what the purpose of the business will be and the activities undertaken. The organization is a genuine member-owned business driven by the needs and priorities set by the members.
- The members of the cooperative *contribute equitably to the capital* of the cooperative. Usually they receive limited compensation, if any, on the invested capital subscribed as a condition for the membership. However, in return they can make use of the services and other advantages provided by the cooperative. Surpluses generated by the cooperative are usually re-invested in the cooperative for further development or set aside as a reserve. Members share potential *benefits and risks on an equitable basis*, which means proportionately to the use made by the members of the cooperative services.



Figure 2: Small cooperative shop selling farm input supplies (Agriterra)

- Cooperatives are *autonomous and independent organizations* controlled by the members and they are as independent of government and private firms as possible. The role of governments is restricted to creating a supportive and enabling environment for the formation of cooperatives, for instance by creating an adequate legal framework. Whenever cooperatives enter into agreements with other organizations including governments or when they raise capital from

external sources they do so on terms ensuring democratic control by their members and safeguarding their independent status.

- Cooperatives provide *education and training* to their members, elected representatives, managers and employees in order to strengthen managerial and operational capabilities of the staff and members of the organization. This is important in order to build up bargaining power vis-à-vis the government and agro-industrial and trade conglomerates and to widen the options for income-generating activities. Another objective of education and training is to provide the members with better control over the local agricultural production factors. *Good information*, both internally and externally, is also essential for good communication between the cooperative and its members on one side and the authorities, opinion leaders and general public on the other.
- By *cooperating with similar organizations* at local, regional or national level and by participating in cooperative structures, the cooperative organization can often better serve its members' interests. The smaller cooperatives in particular can make use of additional services of other cooperatives, make better use of economies of scale (through bulk purchases) or reduce operational costs and risks by combining activities.
- Cooperatives working at the bases mobilize local resources and develop a *concern for community*. Usually cooperatives are organized community-wide and the members share local or regional problems. Cooperatives, by themselves, cannot be expected to entirely resolve these problems, but they can contribute significantly to their resolution. They can assist people capable of helping themselves to escape poverty, create employment, or assist in distributing resources on a fair base. Through the cooperative the members can develop a forum to discuss environmental concerns or find possible solutions for socio-cultural problems.

2.3 Differences between cooperatives and other business organizations

Cooperatives are *economic organizations* just like other business organizations. Most business organizations are investor-oriented firms. They are owned by shareholders, who have invested capital in an economic initiative. Cooperatives are owned by the members/users of the organization. Other major differences between cooperative businesses and investor-oriented firms are summarized in table 1.

A cooperative is a *user-oriented firm*, designed to maximize the long-term qualitative and quantitative benefits for the participants. For example, a producers' cooperative involved in the marketing of farm products will pay the members a fair price for their products according to market realities. In practise the cooperative will thus reward good quality (high revenues per unit) and increased productivity (low cost per unit) for the individual members and discourage poor quality and low productivity.

An investor-oriented firm is *profit driven* and will try to minimize the cost of farm produce, which they consider to be an input for their activities. They will pay the farmers the lowest negotiated price for their agricultural produce. By purchasing at a low price and selling at a high price, eventually after adding value (collecting, processing, marketing, distributing, etc.) the investor-oriented firm will try to maximize profits.

Also, the cooperative can generate added value for farm products by *initiating new activities further along the business chain from producer to consumer*. Processing of primary products, for example, could generate extra income for primary producers that otherwise would lead to excess profits of investor-oriented businesses.

For example farmers could start a joint storage and processing and packing unit for a certain crop. These activities could increase the productivity of the primary producers (the farmers) considerably and could be an important source of additional income for them.

Table 1: Differences between cooperatives and investor businesses

	Cooperative Business	Investor Business
Purpose	Service (user) driven	Profit driven
Ownership	Ownership vested in members.	Ownership vested in capital.
Owners	Member-users.	Investor owners of capital.
Voting	Differentiation from 'one man, one vote' principle to voting proportionate to each member's turnover/use.	Number of votes depends on number of shares owned.
Management	Management responsible to members.	Management responsible to capital.
Shareholding	Choice of shareholding or non-shareholding. If shareholding, constant value and limit on proportion held.	Changing value of shares and no limits on shares owned.

2.4 Business principles and sustainability

A cooperative is a member-controlled enterprise, which is only differently organized compared to the common type of investor-oriented firm. Like any other enterprise, the cooperative must be operated and managed on the basis of sound economic principles. This is essential in order to enable the cooperative to compete in the market and to be sustainable in the long run.

Business principles that are applied in cooperatives are the following:

- The cooperative delivers goods and services to its members at cost price (*the cost price principle*). This means that for instance a supply cooperative delivers supplies to farmers at cost price plus a so-called 'mark up' to cover running costs of the cooperative and a net surplus. The net surplus is used to cover unforeseen cost and risks, to build up financial reserves and to pay bonuses or interest to the members. Only part of the net surplus should be considered as 'profit'. The profit is often kept as a *reserve fund* for future investments or used as so-called *appropriation profit* to replace borrowed capital by the cooperative's own capital. This is important since many new cooperatives in developing countries have difficulty in finding sufficient capital of their own.



Figure 3: Open air meeting of members of an agricultural cooperative in Peru (Agriterra)

- The cooperative allocates the proceeds and costs of all transactions and members' rights and duties, including liabilities and voting rights according to the economic principle of proportionality (***the proportionality principle***). Various interpretations of this principle are used. It is important that a solution be selected that is based on practical considerations and not as a matter of principle. Usually in agricultural cooperatives the principle of proportionality is based on each member's turnover of goods or the use made of the services. Voting rights are sometimes based on the 'one man-one vote' principle, especially in banking and insurances cooperatives. In many agricultural cooperatives, however, proportionality is based on turnover or use made of the cooperative. For agricultural and rural development it is extremely important that both smallholders and large farmers in a region can participate on a fair and proportional basis. The 'one man-one vote principle' can be an obstacle for large farmers to join, since they bear relatively more risk but have no

greater say. With full participation of both large and small farmers representing different farm sizes and stages of agricultural development in a region, the smallholders easily benefit from the advantages of being a member of a strong cooperative organization. Such a broad-based cooperative will also increase the chances of finding sufficient funding and achieving good governance.

- Risk-bearing capital will have to be exclusively provided by the members of the cooperative (*the self-financing principle*). The cooperative cannot attract venture capital from outside investors, because this would create a conflict of interest with the members. This means that the cooperative will have to reserve sufficient net financial surplus (appropriation profit) for solvency and continuity and growth of the firm in accordance with sound financial planning.

Mobilizing capital is often difficult for cooperatives, but this becomes easier with the more assets (land, buildings, capital) the cooperative owns. A cooperative with sufficient institutional and member capital can safely borrow funds from banks or other sources.

3 Why farmers are interested in cooperatives

There are several reasons for farmers to start an agricultural cooperative. Often (but not always) a group of farmers initiates a cooperative in response to an economic problem that has a negative impact on them. The problem could be a lack of sufficient agricultural marketing outlets, non-availability of agricultural supply or storage services or the absence of credit facilities. They also realize that they share a problem that they *cannot solve individually*.

Sometimes farmers would like to take advantage of an opportunity that requires more resources or capital than they can individually supply. This could be undertaking a new activity in the region, such as production of a new crop, that requires substantial investments or specialized production or storage activities which are not yet available. Examples could be dairy production, cultivation of potatoes, orchards and various processing activities.

Jointly the group of farmers realizes that apart from self-help *no reasonable alternatives* exist for the purchase of the goods and services they require, for instance through support from relatives, the private sector, local institutions or governmental resources. Moreover, they will have noted that there is broad support in the region for their ideas.



Figure 4: Dairy cooperative in Eastern Europe (IAC)

Most important is that the group has recognized the advantage of jointly finding solutions for their problem instead of trying to find individual solutions. Each of the participants must see clear *advantages* in investing in joint economic initiatives instead of investing the same resources in their own farms. The proposed collective organization should be able to operate more efficiently than the individual farmers in performing certain services. For instance it could be difficult and risky for a single producer to finance, organize and operate a business, but collectively this might be accomplished very efficiently.

Strength of cooperatives

A hundred years ago nearly every village in the Netherlands had its own input supply cooperative, because by buying the inputs jointly farmers could get the farm inputs they needed for a lower price and with a guaranteed quality. Traders often cheated farmers by supplying sub-standard quality of fertilizer, realizing that individual farmers were not able to control the quality. In the village Nieuw Helvoet farmers needed potash fertilizer with 40% K_2O for their potato crop. The farmer who was elected as secretary of the cooperative asked all members how much fertilizer they needed and then tendered among traders to ensure delivery of the quantity needed for a sufficiently low price. The tender document included a provision that the cooperative would take a sample of the product and would send it to a government laboratory for testing. If the laboratory discovered that the fertilizer contained less than 40% K_2O the price would be decreased accordingly. The members were informed at what time the boat with fertilizer would arrive in the harbour and were asked to come to collect and pay for their order. This made it impossible for the traders to earn extra money by cheating farmers. If a farmer was elected to the board of the cooperative, this increased his status in the village. If it was discovered that he tried to make some extra money through corruption, he would lose this status completely. So this never happened in this village.

This means that each farmer realizes that by becoming a member of a cooperative he or she can make use of the advantages of the cooperative such as getting a good market price for his or her product and having access to other goods, services, markets and credit. These *benefits should outweigh the duties of membership*, such as the required contribution to the cooperative in the form of labour, land, equipment and capital.

Buying goods or services through the cooperative should have clear advantages for the members over purchasing them elsewhere. Consequently, in the event the members of a cooperative decide to deliver goods and services to non-members - this might be done to increase the turnover and the economies of scale - the members should receive certain benefits e.g. in the form of discounts, which non-members do not get.

3.1 Advantages of cooperatives

In order to be attractive, the cooperative must offer advantages to the members compared to the alternatives.

Some of the advantages of cooperatives are that they can:

- offer lower prices for farm inputs by making use of economies of scale, e.g. by purchasing in bulk and negotiating lower prices of inputs than individual farmers could achieve;
- offer good market prices to producers for selling their products, thus increasing farm income;
- reduce uncertainties in the availability of inputs: through the cooperative the farmer can get a guaranteed supply and quality of inputs;
- reduce uncertainties concerning prices;
- undertake new activities further along the chain (e.g. processing and marketing) and thus increase productivity of the member-producers giving added value to their products which otherwise would only benefit other businesses;



Figure 5: A cooperative owned threshing machine (Agromisa)

- offer (new) services that are locally not yet available or provide access to external resources and services;
- avoid linked markets, e.g. when purchase of inputs or the marketing of produce is linked to provision of loan facilities;
- increase competition and transparency in the market and thus break trade monopolies and obtain better buying and selling prices for their members.

New activity: producing milk for ice cream

Cooperatives involved in marketing and processing can play a useful role by informing their members of changes in the market and enabling them to meet the changing demand. Along with economic growth in Chennai (Madras), India, the demand for high-value dairy products, e.g. ice cream, increased considerably. The local dairy cooperative can only produce these products when they start with clean milk that is free of bacteria. Therefore, they taught their members in the villages around Chennai how to produce and store clean milk. The cooperative paid a higher price for milk that contained few bacteria. This was quite profitable both for the producers and for the cooperative.

Members of a cooperative are not only clients but also owners of the cooperative organization. They can participate in the formation and steering of the organization and help to ensure that members will get the proper services and goods that cover their specific needs. Moreover, they are also entitled to a fair share in any surpluses the cooperative enterprise achieves. Non-members do not have these advantages.

3.2 Types of cooperatives

There are many types of cooperatives, such as service cooperatives, marketing cooperatives, financial cooperatives, workers' cooperatives and consumer cooperatives. Many cooperatives are *single-purpose cooperatives*, for example the fertilizer supply cooperative mentioned in the text box above. Other cooperatives have developed into multi-purpose enterprises that offer a wide variety of services to their members such as a broad supply of farm inputs, agro-processing and storage facilities, marketing and credit supply.

There are cooperatives at all levels (local, regional or national) and in all economic sectors. They vary from primary cooperatives organized at village level with ten or more members up to large regional or national cooperatives, usually federations of primary or secondary cooperatives with many thousands of ‘members’.

In this manual we will restrict ourselves to primary agricultural cooperatives, organized at local or regional level. Examples of typical agricultural cooperatives are the following:

- cooperative for input supply (purchase of seeds, fertilizer, machinery, artificial insemination, etc.)
- cooperative for collecting and processing of farm products (cooling, sorting and grading, storage, ginning, dairy production and other agro-processing activities)
- cooperative for marketing of products
- cooperative for banking, credit supply and insurance

4 What is needed to form a cooperative?

One of the conditions for starting an agricultural cooperative is that there be a group of *motivated farmers*. Unlike an investor-oriented firm, cooperatives are not looking for a business opportunity that will provide the highest return on investment, but they seek a joint economic undertaking that supports their farm activities and could generate additional farm income. The economic motivation to form the cooperative, however, should be based on the same considerations as starting any other new business.

The potential members discuss their needs and common interests in forming a cooperative and they explore possible alternatives to solve their problems. When they decide to pursue a cooperative business, they will discuss the purpose and scope of the activity and the potential advantages for the members.



Figure 6: Farmers' meeting (ICRA)

It is important that one or more *effective leaders* with sufficient charisma are identified at an early stage. Leaders are the driving force in cooperative endeavours. They will achieve compromises among participants by taking into account both the interests and the needs of the members, which are often short-term interests as well as long-term commercial goals (sustainability and reducing risks) of the cooperative enterprise.

For development of the cooperative, the potential members need to understand and *accept the social and economic principles* of doing business in a cooperative organization. The owners therefore should assess the viability and potential benefits of the new business and agree that there are adequate returns to offset the risks taken and the cost incurred. The understanding and acceptance of member ownership and control is fundamental to a decision to form a cooperative and the group needs to be convinced about the desirability and practicality of the cooperative form of business. Women often play an important role in making the decision of whether or not to join a cooperative. It is important to involve women as much as possible already in the initial stages of the discussions in order to get their support and full participation.

Setting up a cooperative enterprise is often a time-consuming and complicated process. Structure and management of the organization should correspond with the capabilities and *resources of the members*. If the members have little experience with cooperative activities and organizational capabilities are restricted, it is better to start with a relatively simple single-purpose cooperative (e.g. one that provides farm supplies for a common crop).

To be a member of a cooperative it is also *necessary to be committed to the organization and be an active user of the cooperative's services and products*. There is no value in having non-committed members, who are not active users. Inactive members undermine the cooperative and should not participate. Members should actively participate at three levels in the cooperative organization:

- in the provision of resources (capital, labour, delivery of produce)
- in the decision-making processes of the organization (as a member)
- in the produced benefits by sharing in the surplus generated by the enterprise and the provision of interest on shared capital, making use of the joint facilities and services.

These issues and related questions should all be discussed prior to the establishment of the cooperative, including the criteria and rules for active membership.

Existing and future *market conditions and opportunities* should be thoroughly studied, since they will largely determine the success or failure of the cooperative. The cooperative enterprise could achieve economies of scale through better utilisation of personnel, equipment or other resources as well as by the sharing of the financial burden or risk management.



Figure 7: Lack of infrastructure and efficient means of transport often is a handicap for individual farmers (Indonesia) (AEC)

The operation should be economically viable and the cooperative should be well positioned in the market so that it will be able to compete with other providers of similar goods and services. The basic setup of the enterprise and the required resources (land, labour and capital) have to be studied. The applied technology and organizational requirements will have to be determined and possible alternative solutions have to be found.

The *technical and economic feasibility* of the undertaking should be evaluated. Potential risks, such as technological, political, organizational, financial and market risks, will have to be analysed and basic strategies be designed to overcome and manage these risks. A *business plan* (long-term and short-term) will have to be made and the required level of investment determined.

During this stage reliable advisers or trusted consultants could play an important role by advising the members of the cooperative, doing market research and/or conducting a feasibility study. The high level of risk associated with starting a new enterprise demands that decisions be taken on the basis of the best information obtainable.

In the given environment and market conditions, the cooperative has to select and *develop its organizational structure* in the most practical and efficient way to achieve its goals. There are no blue-print models for an appropriate organizational structure and for the business methods selected. These will be determined by the members. Each cooperative has to develop its own autonomous structure depending of the commercial objectives of the organization and the market conditions in which the enterprise operates.

It is imperative that any cooperative effort has the required motivated, experienced and dynamic leadership. An effective board of directors teamed up with *qualified professional management* is essential for success. In Chapter 6 the development of a cooperative structure including a board of directors and management is discussed in more detail.

The management and board of directors should have - within their mandate- sufficient freedom to operate the enterprise in the best interests of the members, especially in periods when external (market) conditions may require flexible management structures and rapid adaptation. Well-informed members and full transparency are of course prerequisites.

State bureaucracy versus autonomous development

After Bangladesh gained independence, its new government promoted development of state-controlled cooperatives. Dairy production was considered an ideal extra source of income for small farmers who were mainly cultivating rice. A state-controlled dairy cooperative was established for producing and marketing fresh milk, yoghurt, butter and other dairy products. The cooperative initially was successful in expanding milk production and raising the income of farmers. However, in the early nineties the situation drastically changed as a result of trade liberalisation when large amounts of cheap milk powder were dumped on the Bangladeshi market. Run by uninterested civil servants accountable to the government and not to farmers, the state cooperative could not quickly adapt to the new situation and it was making large losses. The government withdrew and an independent board of directors was elected. The transition to a genuine farmer-owned cooperative was a difficult one. But through professional management together with a commercial business approach the cooperative expanded in a few years from 4300 to 40,000 members. Farmers' incomes were raised ten-fold, lifting the household earnings of about 300,000 people to well above the poverty line. The income from dairy production is now reliable and constant and the cooperative in the year 2000 paid a total of US\$ 1.5 million in dividends to producers.

The presence of an *enabling and supportive legal environment* is essential. This means that there are no legal, administrative or political barriers for groups of farmers to elect their own leaders and to establish a cooperative organization. Cooperatives also should have the freedom to organize themselves in the most appropriate way - that is comparable to other investor-oriented business organizations. They should not be hampered by special rigid legislation or bureaucratic rules that apply to cooperatives but not to non-cooperative businesses.

This means that the cooperative must have the freedom to market the goods produced and delivered by the members, to earn profits on sales and distribute the net returns to the members. Furthermore, the members of the organization should be allowed to decide on future policies and new activities undertaken by the enterprise. Legislation on cooperatives should preferably be elementary or related to the framework only, leaving scope for the members to regulate their own cooperative business.

It should be noted that many developing countries still have very rigid and tutelary legislation on cooperatives left over from the past, which is often harmful and counter-productive for the successful development of economic cooperative enterprises. In such cases it could be worthwhile to consider other organizational options. More details on how to set up statutes and by-laws of cooperatives are given in Chapter 6.

Framework legislation on cooperatives

Countries like Denmark and the Netherlands have large and strong cooperatives. In both countries agricultural cooperatives have an aggregate market share of more than 50% of the entire turnover in the agricultural and agribusiness sector. Amongst them are some of the leading companies in the dairy, fruit and vegetable, meat, animal feed and credit/banking sectors. However, both countries have only framework legislation for cooperatives, which is comprised of very concise legal provisions. The legal approach in both countries is not to prescribe how cooperatives should regulate their affairs, but to require that they do so. This is to ensure that both members and third parties have basic rights and certainties in the matters regulated by the cooperatives. This approach has proved to be very successful and stimulating for cooperative development.

Newly formed cooperatives usually require a significant amount of capital. This could come from three sources: (i) the members, (ii) net surpluses generated by the cooperative and (iii) external sources. Member finance is the most important source, especially in starting up the cooperative.

With a sufficient share of member financing it is also easier to attract external financing (e.g. loans). Often it is difficult to raise sufficient funds from the members. A potential challenge is that expected financial returns are only generated after some time, when the cooperative is fully operational and is achieving profitability. This might take a number of years. Members thus must be willing to postpone their returns on investment and be patient. More on financing of cooperatives is presented in Chapter 7.

5 Cooperative management

5.1 Organizational development

Cooperative organizational development is based on two principles:

- putting members first, so that all the goals achieved ultimately benefit the members;
- maintaining an entrepreneurial approach in identifying and pursuing business opportunities.

The management of the cooperative has the difficult task of finding a balance between operational success and member satisfaction, which is often focused on the short term. Combining both short-term economic success and long-term sustainability can best be achieved if the members develop a well-defined vision, clearly formulated objectives and a phased strategy for business development.

Once approved by the (potential) members, the strategy for business development will be worked out in a Business Plan that will include the detailed planning of activities, budgeting and financial-economic planning. The Business Plan will also include a strategy for organizational and human resources development, which should be implemented in harmony with the development of business activities.

Such a plan will also include indicators for monitoring and evaluation of achievements. Continuous monitoring is essential in order to adjust



Figure 8: In vegetable production also quality inspection is important (IAC)

targets in time once the business is in full swing and unexpected developments might occur.

Finding the balance

The cases of two farm supply cooperatives in a Latin American country illustrate this problem.

The first cooperative sold everything its members needed, in all varieties and sizes. Nothing was ever out of stock. The society's warehouse was open all day, every day. A large, well-trained staff was available to instruct members in the use of all the products. The cooperative would deliver any quantity of supplies to the members' farms, if requested. Prices charged to the members were very low. Members were not required to pay until harvest time.

The second cooperative was very different. It only stocked the most popular items and never more than a single variety. Members had to collect supplies themselves and to pay immediately in cash. The warehouse was open only on working days and then only for a few hours. Members had to know exactly what they wanted and how to use it, since there was no staff to advise them. Its prices were fairly high. Furthermore, because the cooperative wanted to keep stocks as low as possible, it often ran out of important items.

Both co-operatives failed. The first cooperative provided every possible service to its members but the cost was far too great. It soon ran out of money and had to go out of business. The second cooperative had very low costs and was very efficient. But it failed to meet its members' needs and they were forced to buy supplies elsewhere. The cooperative soon went out of business because its sales were so low. This example shows that both principles, 1) to satisfy members' needs, and 2) to keep costs as low as possible, are equally important! A farm supply service cannot survive unless it does both. The management of a farm supply cooperative must find the correct point of balance so that members' needs can be satisfied and costs controlled.

5.2 Development of an organizational structure

The organizational structures of cooperatives are partly determined by law (most countries have a cooperative act or other relevant legislation) and partly by the cooperative itself. There cannot be a single blueprint for all cooperatives and each cooperative has to develop its own structure to suit its specific situation and objectives.

In each cooperative there should be a structure in place to ensure effective and ultimate control by the members, including the right to:

- draw up/change the by-laws and rules of the cooperative;
- decide on general and business policy issues;
- take decisions regarding election/appointment and dismissal of the board of directors, the supervisory board;
- approve of the operational plan, the budget and financial accounts, the general conduct of business and management of the cooperative.

In most countries the law prescribes some system of external auditing. This, however, should not replace internal control mechanisms. Large-scale cooperatives need more complex organizational systems to ensure that all member interests are represented.

Selection of leaders and steering committee

The formation of a cooperative usually starts with the identification of leaders to represent the group. A steering committee is formed that often coordinates several working groups of potential members appointed to study opportunities or to work out various organizational aspects. The steering committee assumes a number of important responsibilities such as: determining the initial feasibility of a cooperative, building trust among potential members and selecting advisers for the group.

Steering committee members should have good business sense, an understanding of the problems to be addressed, as well as some knowledge of cooperative organizations. They should be respected members of the community and be viewed as credible sources of information. Many potential members will base their decision to join the new cooperative on the credibility of the steering committee. Steering committee members are expected to be responsive and articulate in answering questions from potential members and other stakeholders.

In many cases, members of the steering committee will go on to serve as the interim board of directors for the cooperative until the formation process of the cooperative is completed.

The general meeting of members

The general meeting of members is the supreme organ of the cooperative. This means that the general meeting makes all basic decisions regarding the structure and operation of the cooperative. However, in the early stages of cooperative activities, members may not always be in a position to participate effectively in the decision-making process, because of lack of understanding and experience (of both members and leaders).

In such situations it is often advisable to organize discussion seminars prior to the general meeting in order to ensure that members participate actively in meetings and are able to make effective and informed contributions. At these seminars, members could be informed in detail and discuss the issues on which decisions need to be made at the general meeting. In such a seminar it would also be possible to invite 'resource persons' such as bank officials and local decision-makers, who are in a position to analyse issues from all sides. Thus, members can be informed extensively but left to form their own opinions.



Figure 9: Meeting organized by a village cooperative with female members of a rural cooperative in Thailand (AEC)

Another aspect which should receive sufficient attention is that female members of the cooperative play an adequate role in decision-making. Social and cultural barriers might restrict the participation of women in all stages of the process, but measures should be taken to ensure that their opinions and voices are heard and that they actively participate in taking important decisions.

The board of directors

In the cooperative's first (formative) general meeting, members will appoint the cooperative's first management board or board of directors. The board of directors is responsible for running the cooperative. It should consist of at least two members who can be asked to act on behalf of the cooperative either jointly or individually. It is advisable that they act jointly to guarantee control of the management. The statutes should spell out whether the board can act and take decisions only on the explicit authority of and with the approval of the members, or whether the board can act more independently, thus acting on behalf of the members without having to consult them on every issue.

The members of the board of directors may carry out the board's activities as their main work, as a part-time job, or as an honorary occupation depending on the size of the cooperative and amount of work involved. In many cooperatives the functions can be carried out on a part-time basis with perhaps one or two paid clerks to assist the board. As the business and needs of the members expand, however, more and more time will be needed and it may become necessary to employ a full-time manager.

The supervisory board

While the board of directors is responsible for running the cooperative, the purpose of the control or supervisory board is to exercise the members' control over the decisions made by the board of directors. The functions of the supervisory board should also be laid down in the statutes. The supervisory board should consist of at least three members elected by the general meeting.

The manager

As the business operations expand, it may become necessary to recruit a full-time, qualified manager. This should be a talented professional manager with sufficient experience and capabilities to balance the need to achieve the cooperative's objectives (the joint business and long-term interests) with the needs of individual members. The impor-

tance of selecting a suitable manager of the cooperative cannot be over emphasized.

The role and level of involvement of the leadership change throughout the process of formation of a new cooperative. In the early phases of development, leaders have a high degree of involvement in promoting the concept and forming the steering committee. Once a manager is hired, the role of the manager increases as a number of responsibilities are shifted from the steering committee to the manager. Although many organizations delay the hiring of a manager until the cooperative is fully operational and running, it may sometimes be advantageous to hire a manager earlier in the process to assist in member recruitment, securing funding and in overseeing construction activities.

6 Statutes and by-laws

6.1 Statutes

The results of the discussions held during the formation of a cooperative need to be written into cooperative statutes or by-laws. These are the interpretation of the cooperative law for that particular cooperative. Statutes regulate not only the existence of a cooperative, but also the direct relationship between the cooperative society and its members. They are the internal legislation of the cooperative.

Cooperative movements, governments or other institutions often make available a set of model statutes that can serve as a guide to help the founding members formulate statutes for their specific cooperative.

However, model statutes are intended as guidelines only and they should not be imposed on the founding members. New cooperatives often accept model statutes without discussing their contents section by section which means that members do not understand the meaning of the statutes or whether they are needed for their particular cooperative. This should be avoided.



Figure 10: Instruction for members of a potato-growers cooperative in Colombia (Agriterra).

If statutes are not properly discussed, it may happen that a few members create and impose their own rules and run the cooperatives according to their own style and for their own benefit. This is likely to result in some members being unhappy with the results and apathetic about their involvement in the cooperative.

Outside resource persons may be needed at this stage, particularly someone familiar with the process and the legal requirements. Sometimes an experienced staff member of a federation of cooperatives may be able to play a useful role by advising the new cooperative in this matter. The statutes are the most important basis for the legal relations between the members and the cooperative and consequently should be as detailed as possible. Cooperatives are free, within the limits of the cooperative law, to make statutes regarding all matters necessary for the functioning of the cooperative organization and for achieving its objectives.

6.2 By-laws

By-laws are a set of written operational rules that are based on the statutes and needed for proper functioning of the cooperative. As the name suggests, by-laws are like laws with some provisions considered as contracts that define the rights and responsibilities of members, directors, and management. Directors, in particular, are responsible for ensuring that the cooperative adheres to the by-laws. However, by-laws perform two additional functions. First, they implement charter rules by describing in more detail how cooperative affairs will be directed to ensure that laws will not be violated. Second, by-laws address issues not specifically spelled out in laws or the articles of incorporation, but which are necessary to make the cooperative an effective, well-designed organization.

7 Finance

7.1 Distinctive features of cooperative finance

The need for finance in a cooperative is no different from that in commercial companies, yet the role it is given in determining the success or failure of the organization is different. Part of the difference stems from the fact that cooperatives represent people-centred organizations, as opposed to capital-centred commercial companies.

Although cooperative members are frequently referred to as shareholders, their liability is either linked to the share capital they contributed, or has been limited even further to the value of just one or two shares. Equity capital (ownership capital) must be determined in the statutes. It may be written into the statutes that the equity capital can be paid in instalments rather than all at one time. A minimum sum (or percentage) should, however, be fixed.

The statutes should also make provisions for any statutory reserves required by law, and any other reserves (voluntary reserve fund) thought necessary.

The surplus earned by the enterprise, rather than being divided between investments and dividends as it would happen in a commercial company, is usually distributed in three ways:

- some goes to the members as a kind of interest paid on the basis of the capital they have invested in the cooperative;
- some is paid as a bonus or a discount and serves to reimburse the members according to their trade volume with the cooperative;
- some is retained as institutional capital to replace borrowed capital in order to finance the growth and development of the organization.

Distribution of any net surplus needs to be decided by the general meeting.

7.2 Sources of cooperative capital

The finance needed for development and growth of a cooperative can come from three sources:

- the members themselves
- net surpluses generated by the cooperative
- external finance such as loans from banks

The best source of financing for a cooperative is from members. The more financing members provide, the less the cooperative business will need to borrow from other sources.

Usually, cooperatives sell common and preferred shares to members to raise capital. The common shares are usually tied to voting rights. Preferred shares also can be sold to outside investors and members. Although owners of preferred shares have no voting rights, this stock carries less risk than common shares. Members of the community in which the cooperative is to be located may purchase preferred shares to keep the cooperative as a local business.

The capital created through the retention of surplus (appropriation profit) earned represents a commitment by members who otherwise would have had that portion of surplus allocated to them. It is called the institutional capital, and does not cost the cooperative any interest.



Figure 11: Storage of rice seeds in an input supply cooperative in Indonesia (AEC)

Members' participation in the financing of the cooperative should not

however be restricted to share contributions and payments into the reserve. Members can be induced to make larger contributions towards the financing of the cooperative where it is seen to be to their benefit, for example, by paying them a form of dividend on members' money which exceed the statutory requirements.

Participation of larger and small farmers preferred

Cooperative organizations in Zambia have a membership composed largely of rural smallholder agricultural producers. Given their limited economic means the mobilization of shared capital by the members has been insufficient. As a result the economic basis of the rural cooperatives is very weakly developed and the prospects of these cooperatives are bleak. It is very desirable for development of strong cooperatives that farmers with a wide range of different-sized farms and stages of development work together in the same organizations. With full participation of larger farmers, better governance and funding prospects often become available. Social coherence of course is a precondition for this. Under polarized or feudal conditions cooperation will be difficult anyway.

How much debt capital the cooperative can borrow (e.g. from banks) depends on how much risk (equity) capital members initially invest, cash flow, quality of management, and the degree of risk in the venture. Members should contribute equity capital amounting to at least half the total capital requirements. But, it usually takes several years of operations to reach this goal.

Long-term credit is the usual way of acquiring part of the money to finance land, buildings, and equipment. The period of the fixed asset loan depends on a number of factors, but it is usually related to the facility's projected life. The Steering Committee should explore various sources of long-term loans and recommend the source that can supply the financing best suited to the proposed cooperative.

8 Potential pitfalls

New organizations are vulnerable in their formative years. Some recommendations for new cooperatives to avoid potential pitfalls are the following:

- **Lack of clearly identified objectives and strategy:** A new cooperative should not be formed just for the sake of forming one. The potential member-users must identify and formulate a clear vision, purpose and goals of the undertaking, including an approved strategy to reach these goals.
- **Inadequate planning:** Detailed plans for reaching the defined goals and purpose of the cooperative are important. In-depth surveys (e.g. through questionnaires and farm surveys) of the potential member-users' needs coupled with business feasibility studies are often necessary. The organizational process should be stopped if there isn't sufficient interest from potential member-users or if the set up is not economically sound or too risky.
- **Failure to use experienced advisers:** Most persons interested in setting up a cooperative have no experience in cooperative business development. Using resource persons experienced in cooperative development can save a lot of time and expense.
- **Lack of leadership:** Calling on the services of experienced resource persons cannot replace leadership from the organizing group. Decisions must come from the potential member-user group and its appointed leadership. Professional resource persons should never be involved in decision-making.
- **Lack of member commitment:** To be successful the new cooperative must have the broad-based support of the potential member-users. The support of lenders, lawyers, accountants, cooperative specialists, and a few leaders won't make the cooperative a business success.
- **Lack of competent management:** Most cooperative members are busy operating and managing their own farms and lack experience

in cooperative management. Experienced and qualified management could be hired to increase the chances for business success.

- **Failure to identify and minimize risks:** The risks involved in starting a new business can be reduced if identified early in the organizational process. Careful study of the competition, government regulations, trends, environmental issues, and alternative practises helps to reduce risk.
- **Poor assumptions:** Often, potential member-users and cooperative leaders overestimate the potential volume of business and underestimate the costs of operation. Anticipated business success that ends in failure places the organizers in a 'bad light'. Sound business assumptions tempered with a dose of pessimism often proves to be wise.
- **Lack of financing:** Many new businesses are under-financed. Inefficiencies in start-up operations, competition, complying with regulations and delays often are the causes. Often, the first months of business operations and even the first years are not profitable, so adequate financing is important to survive this period.
- **Inadequate communication:** Keeping the members, suppliers and financiers informed is critical during the organization and early life of the cooperative. Lack of or incorrect information and insufficient transparency create apathy or suspicion. Directors and management must decide to whom and how communications are to be directed.

Considerable time and effort are spent in starting a new cooperative. Avoiding the pitfalls experienced by others helps to increase the chance of success.

9 Guidelines for establishing a cooperative

The second part of this manual provides guidelines for establishing an agricultural cooperative. There are many different types of cooperatives possible and therefore it is not possible to provide standard ‘prescriptions’ on how to start a cooperative. Moreover, economic, cultural and legal environments may vary considerably in each situation, each requiring a specific approach and solutions.

In the following pages we focus on the initial preparatory steps of cooperative development when the objective, structure and set-up of the cooperative enterprise are discussed and established. At this stage many questions will come up which should be answered. Usually this is the most critical phase in determining the success or failure of the initiative.

10 Eight steps for cooperative development

The formation of a member-controlled agricultural cooperative is a complicated and often time-consuming process in which many actors (stakeholders) are involved. The best way to proceed is to undertake systematic and step-by-step preparation before starting the real business. These steps (see Table 2) form a kind of critical path that should be followed prior to the ultimate decision of the members to start the cooperative.

In many respects, cooperatives resemble other businesses. They have similar physical facilities, perform similar functions, and must follow sound business practices. In this respect the preparations are the same as for every other type of enterprise active in the market. As an organization, however, a cooperative is distinctly different and more complex to start.

The main differences compared to other agri-businesses are found in the cooperative's purpose (to benefit the members), the ownership (member-owned), the control (member-controlled), and the distribution of benefits (to users/members). This means that the prospective members jointly have to develop and agree on the idea and plans for setting up a cooperative business. Starting a cooperative therefore is an interactive learning process of the initiators and other stakeholders including potential member-farmers, initial leaders, community members, lenders and suppliers or customers.

The complexity involves developing agreement on the vision, the mission, and the feasibility of the proposed agricultural cooperative. In addition, a high level of trust and confidence in the initial leadership and advisers has to be developed. Without an adequate level of trust among the potential members in the emerging cooperative organization, it is difficult to secure the needed member commitment required

to finance and support the agricultural cooperative once it is operational.

Use of advisers and/or consultants during the process is recommended to compensate for the lack of experience and to provide support in studies and in commercial, organizational, financial and legal issues. In this way potential pitfalls can be avoided. The advisers are to be carefully selected on the basis of their professional knowledge, experience and trust. They could play a major role in advising and explaining to the members the often rather complicated technical, institutional or financial matters, which may surface during the decision-making process.

The initial phase requires a step-by-step approach before the group arrives at its ultimate decision to start the enterprise. A critical number of member-owners must agree to move ahead with the decision to participate before the business can start. Raising sufficient finances, to serve as institutional and working capital, is essential, but can be complicated.

The entire process can be rather time consuming. It usually includes the organization of many formal and informal meetings as well as considerable effort in coordinating the large group of individuals and organizations. Leaders must demonstrate a combination of expertise, enthusiasm, practicality, dedication, and determination to see that the project is completed. Involving farm leaders, advisers, and professionals, as well as organizational support from others can facilitate the process.

There is no hard and fast recipe for forming a cooperative or a list of steps that work for all situations. With that in mind, the eight steps common to the formation of new cooperatives are presented in the following chapters. The table on the following page summarizes the sequence of events leading to the formation of a cooperative and the activities to be taken and by whom.

The sequence of activities should be considered as an iterative process. Activities associated with each step must be completed before it is advisable to proceed to the next phase. However, often it is advisable to go back to the previous step in light of new information. Revision of earlier preliminary decisions might be needed and the process should be partly repeated on the basis of the new facts. The group needs beforehand to agree on what criteria constitute a green light at each step before moving to the following one or what criteria might constitute a red light meaning it is time to abandon the process and explore other options.

The ultimate goal of starting a cooperative can only be reached once eight preliminary objectives have been accomplished. The group must:

- 1 develop the idea for a *joint economic initiative* after agreeing that there is a common problem to be solved or a promising opportunity;
- 2 *build consensus* for the enterprise by interesting potential members;
- 3 identify potential leaders, select a *steering committee* and prepare plans;
- 4 implement surveys and studies to investigate the *feasibility* of the enterprise;
- 5 work out an *institutional structure* and reach an adequate level of trust among potential members;
- 6 *secure commitment* from members;
- 7 secure commitment from *other key stakeholders*;
- 8 *assemble the staff and assets* to start up the cooperative enterprise.

Table 2: Eight steps for development of a cooperative

	Step	Activity	By whom
1	The initiative	<ul style="list-style-type: none"> - Work out proposed initiative - Define critical questions - Explore market/economic need - Discuss/agree on scope and nature of business - Study economic and social aspects of problem 	Core group Potential members Advisers/consultants
2	Building consensus	<ul style="list-style-type: none"> - Agree problem can be addressed by co-operative - Study organizational alternatives - Hold initial meetings to review detailed proposal - Discuss and agree on cooperative approach - Create initial budget 	Core group Potential members Community members Advisers/consultants
3	Establishing a steering committee	<ul style="list-style-type: none"> - Identify leadership - Establish steering committee - Install working groups - Agree on time table and tasks - Assign tasks 	Core group Potential members Advisers/consultants
4	Surveys and studies	<ul style="list-style-type: none"> - Member survey - Market survey - Conduct feasibility study - Agree on feasibility and inform stakeholders 	Core group Potential members Advisers/consultants Lenders
5	Institutional design	<ul style="list-style-type: none"> - Prepare institutional design - Prepare draft statutes and rules (by-laws) - Raise initial capital 	Core group Potential member Legal adviser
6	Securing member commitment	<ul style="list-style-type: none"> - Develop detailed business plan - Establish legal identity - Create interim board of directors - Set up books/accounting system - Conduct member-equity drive and sign-up - Formation meeting 	Interim board of directors Members Advisers/consultants Accountant Lawyer
7	Involving other stakeholders	<ul style="list-style-type: none"> -Secure necessary financing - Retain manager - Formalize relations with customers/suppliers - Launch cooperative 	Interim board of directors Members Lenders Manager Customer/suppliers
8	Starting up the enterprise	<ul style="list-style-type: none"> - Hold general meeting - Elect directors - Establish committees - Secure necessary assets - Hire staff 	Members Board of directors Manager Staff Accountant

Step 1: Developing the initiative

The first step in the process to develop a cooperative is to work out the ideas, by collecting information, clarifying the need and purposes of a cooperative and pulling together a core group committed to the idea. Usually the core group consists of individuals who are faced with the same type of problem. They have discussed the problem and possible solution by developing a joint economic initiative. One or more individuals take the lead and act as initiators of the initiative.



Figure 12: Farmers meeting (SNV)

Before preparing detailed plans, the core group needs to define and agree on the scope and nature of the business. This means working out the precise circumstances and background of the problem or opportunity and to define the economic activity and how this will solve their problem. The key issue for the core group is also to discuss whether or not a cooperative organization is the best way to address it. This should be followed by an exploration of whether the economic initiative is viable.

At this stage a number of critical questions have to be defined and answered. Typical questions to be answered are the following:

- What will be the nature of the cooperative enterprise?
- What benefits will the cooperative provide for its members?
- What markets will it operate in, what will its standing be within those markets, and what will be the scope of its activities?
- Who will be its members, how many will there be and what kind of relationship will they have with their cooperative?
- What position will the cooperative hold in the minds of its members, its customers and its other stakeholders?
- How will it be led and managed, and how will the members participate in these processes?
- How will the activities of the cooperative be financed?
- What approaches, methods of working and systems will be used? What technology will be used?

Much attention will be paid to the economic motivation to form a cooperative. Comparing the expected returns with the expected costs involves a detailed analysis of the performance of the proposed business.

Once the group agrees on the scope and nature of the business and has studied the costs/benefits of the enterprise, the process can move on to the next step, building consensus among the key stakeholders on the cooperative approach.

The main activities in this first phase are summarized in the box below.

Step 1: Developing the initiative

- *Work out proposed initiative*
- *Define critical questions*
- *Explore relevant market/economic need*
- *Discuss/agree on scope and nature of problem/business opportunity*
- *Study economic and social aspects of problem*

Step 2: Building consensus

After the core group has explored and established the nature, scope and viability of the business in a series of initial meetings, preparations are made for approaching (potential) members of the cooperative in a public meeting. This requires thorough preparations in the form of a more detailed inventory of opportunities and risks of the undertaking and an inventory of possible institutional alternatives. Other legal and organizational options (e.g. establishing a business, company, association or partnership) should be considered if relevant. There are several important questions that the group must answer at this point.

- 1 Will forming a cooperative create the right organizational structure to solve the group's problem?
- 2 How will a cooperative address the identified problem or seize the potential opportunity?
- 3 How do the relative strengths and weaknesses of a cooperative compare with those of other available alternatives?

The discussion at this point should begin with a review of what cooperatives can and cannot accomplish. In general, forming a cooperative cannot correct imbalances in overall supply and demand. Creating a new cooperative of producers will not improve the prices they receive for products if there is a general oversupply of those very products.

Also, other factors such as the likelihood of conflicts between members should be considered. Therefore, it is important first to analyse whether or not the problem can be solved more effectively by a cooperative or by a private business enterprise or otherwise (see box on next page).

However, if the farmers forming the cooperative have some unique product that allows them to capture a market niche in which they have a particular advantage, a new cooperative may be the solution.

Machinery cooperatives in the Netherlands

In the Netherlands the joint use of machinery and agricultural implements through machinery cooperatives was never successful because of many conflicts that arose between members who needed the machinery at the same time. Machinery services provided by private contractors appeared to be a much better solution for land preparation and harvesting operations. Also, informal arrangements between neighbours or family members are widely applied. Clear arrangements over the use of machinery between several neighbouring farmers worked often better and could avoid conflicts.

Another example would be a group of farmers attempting to cut purchasing costs of inputs by combining purchasing power in order to get significant discounts from suppliers. Depending on the type of goods or services, there may already be a supplier willing to work directly with individual farmers to achieve a discount. On the other hand, through a cooperative the group may be able to generate sufficient buying power to negotiate an even greater discount or gain access to markets that are otherwise unobtainable.

Once the core group is convinced that a cooperative is the best organizational form to realize their objectives, they have organize a *public meeting* to determine whether there is enough support for establishing a cooperative. A cooperative must be formed and registered in accordance with the provisions of local legislation. Getting started also means understanding the legislative framework for cooperatives.

At the meeting, the core group will present its preliminary findings - what is the perceived common need, why a cooperative will meet that need and the benefits and limits of cooperatives. Building consensus for the economic initiative of a cooperative is the objective of this meeting. The key is not whether there is sufficient interest, but whether there are sufficient individuals and organizations willing to join and support the cooperative as active members – beyond the membership of the core group.

Clarity is also necessary as to what kind of cooperative is being formed because this will critically influence who are its members, the

eligibility for membership and how the cooperative will function. This should, of course, be obvious - the formation of any cooperative is based on the mutual need of its members.

At the public meeting there has to be plenty of time for discussion so that everyone who wants to can express their views and ask questions. The opinion of women should be sufficiently heard and their potential role as active members and potential leaders of the cooperative should be adequately discussed. Good moderation of the discussions for instance by a professional outsider/trainer, visualization and, above all, attentive listening should result in a fairly good appreciation of the differences or similarities in perception and at the same time help to identify key persons in the cooperative. It may be clear that the minutes of this meeting must be recorded. All questions, insights and agreements should be written down and distributed to the participants afterwards for agreement.

Once the members agree to the proposals, a budget should be created to finance initial activities.

The main activities during the second step are summarized in the box below.

Step 2: Building consensus

- Agree that by forming a new cooperative the identified problem/opportunity can be addressed
- Study organizational alternatives
- Hold initial meetings to review scope and nature of a cooperative solution
- Discuss and agree on cooperative approach in a public meeting
- Create initial budget

Step 3: Establishing a steering committee

Formation of a steering committee is the next step in creating a cooperative. The composition and qualifications of committee members should not be taken lightly. The steering committee will assume a number of important responsibilities such as:

- 1 selecting and evaluating advisers to the group
- 2 determining the initial feasibility of a cooperative
- 3 building trust among potential members

In many cases, members of the steering committee will go on to serve on the interim board of directors for the cooperative.

The steering committee members need to be available to see the project through to full development. Those considering becoming a member of such a committee should realize that a significant amount of time, energy, and commitment will be required. They will also have to have an unselfish attitude and often no expectation of immediate financial compensation for a lot of hard work. Committee members should be representative farmers in the area and together form a demographic cross-section of the potential membership.

Steering committee members should have good business sense, an understanding of the problems to be addressed, as well as some knowledge of cooperative organizations. They should be respected members of the community and viewed as credible and trusted sources of information.

Many potential members will base their decision to join the new cooperative on the credibility of the steering committee. It will be next to impossible for each potential member to thoroughly examine all the ramifications of organizing a new cooperative. That responsibility falls on the steering committee. Steering committee members are ex-

pected to be responsive and articulate in answering questions from potential members and other stakeholders.

Once the steering committee is established in a public meeting, the tasks to be undertaken in the next stages (studies and institutional design) will be defined. Working groups of potential members will be formed to undertake or follow up on these assignments. Detailed task descriptions for the working groups will be made to facilitate coordination. Once the timetable is made and agreed upon, the group can then proceed to the next phase of development.

During this phase of cooperative development, the steering committee, having answered the basic questions on whether there is a need for a cooperative and whether forming a new cooperative is the most desirable option available, now embarks on building trust among the potential members. This trust will be essential in laying the groundwork for securing member commitment to join and support the cooperative. The whole steering committee becomes the initial champions for the proposed cooperative.

Although member recruitment is listed as the sixth step in forming a cooperative, laying the groundwork for the membership needs to begin when the steering committee first meets. Many cooperatives in the



Figure 13: Processing of maize at a cooperative in Thailand (AEC)

process of being formed hold several meetings for potential members, conduct surveys of them, mail regular updates to them, and collect initial down payments on membership fees. All of these activities provide a good indication of the level of interest in, and commitment to, the cooperative.

The main activities during the third step are summarized in the box below.

Step 3: Establishing a steering committee

- Identify leadership
- Establish steering committee
- Install working groups
- Agree on time table and tasks
- Assign tasks

Step 4: Surveys and studies

At this point, the group through the leadership of the steering committee will have to work out the details of the proposed cooperative operations. An in-depth feasibility study is usually needed to determine whether the proposed cooperative can become a viable enterprise.

The purpose of a feasibility study is to examine critical opportunities and obstacles that might make or break the formation of the cooperative. These critical issues include:

- the number and interest level of potential members
- market issues (Can the cooperative get better prices, better quality or better services than potential members currently get through other means?)
- operating costs
- availability of financing

There are many other factors that help determine feasibility such as:

- member willingness to join and support the organization
- expected returns to members from the cooperative, and
- the group's decision-making capability

Also, previous experiences (successes and failures) of similar cooperatives in the region should be taken into consideration. An in-depth analysis of the potential impact of the proposed cooperative's operations on members should be carried out.

The steering committee either conducts a feasibility study including a *market and member survey* itself or hires a consultant to carry out the studies. In some cases, governments, local institutions or foreign donors may provide financial or technical assistance in carrying out a feasibility study. Initial payments by potential cooperative members may also be used to help cover the cost of a feasibility study.

The committee should evaluate whether there are opportunities to work with existing cooperatives to avoid duplicating efforts or building costly excess capacity when increased utilization of existing capacity would be the best approach. Alliances or joint ventures with other cooperatives may provide a good economic alternative for potential members rather than having the proposed cooperative itself undertake costly operations or invest in new plants or assets which may already exist.

A key step in building trust among potential members is a thorough evaluation of the economic feasibility of the proposed cooperative enterprise. There are many aspects of a feasibility study that apply to any type of business such as determining demand for products to be marketed or estimating savings obtainable through alternative purchasing strategies, economies of size and logistical considerations.

Other questions include:

- What is the critical volume of business needed to be profitable?
- Is there a critical degree of participation required to serve a specific area?
- What is needed to attract a sufficient volume of business from members?
- Are there sufficient qualified leaders willing to develop and direct the cooperative?
- Can a balance be found between member needs and cooperative profitability?

A survey of prospective members can be a useful activity in determining feasibility. The survey can help to determine the willingness of potential members to join and support the cooperative. Through interviews and questionnaires useful information can be obtained concerning the characteristics of potential members and their wishes:

- location of prospective members
- size and type of farm
- area under different crops/number of livestock and need for services
- willingness and possibility to invest in a cooperative business

- willingness to patronize the proposed cooperative business
- willingness to accept the proposed membership rules and responsibilities
- attitudes towards cooperative businesses in general

Also, the question should be answered of whether or not the members will be obliged to do all their business in the relevant area with the cooperative. In the negative case, members are free to also do business with private or cooperative competitors, which could decrease the turnover of the cooperative and lead to lower margins.

Most attempts at organizing voluntary associations involving many individuals require some kind of external support. This support could come from individuals or organizations that have no direct financial interest in the new cooperative but that support the goals of the group. Similar organizations such as a federation of cooperatives could also play a major role in this stage. Also, professional farmers' organizations could support new cooperatives in their initial stages by providing support in facilitating steering committee meetings, assisting the group in finding resources or funding, and acting as a catalyst to pursue potential opportunities. Specialized help in legal and financial matters could also be obtained through such organizations, if needed.

The main activities during the fourth step are summarized in the box below.

Step 4: Surveys and studies

- Member survey
- Market survey
- Conduct feasibility study
- Agree on feasibility and inform stakeholders

Step 5: Institutional design

When the studies and surveys show that starting a cooperation is feasible and that there is sufficient interest, the steering committee should work out the design of the organization.

The organizational structure of a cooperative is partly determined by law (cooperative acts, tax laws, land law, banking law, company acts and other relevant legislation) and partly by the cooperative itself, depending of its nature and specific situation.

There cannot be a single blueprint for all cooperatives. Each cooperative has to develop its own structures to suit its objectives and to adjust the cooperative to the local culture and social structure. During this process, a range of elements need to be considered to ensure relevance, efficiency and flexibility.

From the members' point of view, the structure of the organization should be such that it creates benefits for them. Cooperatives need to offer the best cost-benefit package to their members compared to the alternatives. Members expect goods and services from the cooperative which are relevant to their own enterprise, and they expect to obtain these at comparable prices.

With regard to organizational development, the following key issues should be reflected in the organizational design:

- How can the cooperative grow, innovate and further develop along with potential changing needs and circumstances?
- How will it know what members expect?
- How can it combine the goals of meeting the members' needs and operational efficiency?
- How can the cooperative be financed?

Every cooperative has to include a structure that ensures that the effective and ultimate control of the cooperative remains in the hands of the members (the general meeting). This body will have the power to:

- draw up and change the by-laws
- decide on general and business policy issues
- elect/appoint/dismiss the board of directors and the supervisory board,
- approve the operational plan, the estimate of revenue, the adoption of the balance sheet and the general conduct of business and management.

In most countries, the law prescribes some system of external auditing. This, however, cannot replace internal control mechanisms, since external audits often give insufficient information. Internal reporting should indicate whether members' interests are being taken care of efficiently and future prospects of the cooperative are being considered.

The results of the discussions on the above points need to be written into cooperative statutes or by-laws which are the *interpretation* of the cooperative law for that particular cooperative. Statutes regulate not only the existence of a cooperative, but also the direct relationship between the cooperative society and its members. They are the internal legislation of the cooperative. Cooperatives are free, within the limits of the cooperative law, to make statutes regarding all matters necessary for the functioning of the cooperative organization and for achieving its objectives.

Often governments or institutions make available a set of model statutes, which can be used as a guideline only. The founding members will need to formulate the statutes of the cooperative themselves. Outside resource persons such as a legal councillor may be needed at this stage. It may be practical to form a sub-group to gather the information needed and draft the statutes, which can then be discussed by all the founding members.

The by-laws or rules state how the cooperative will conduct its business. Cooperatives, like any other organization, need a framework of rules of behaviour. These rules should ensure that the enterprise remains under the control of its members, and they govern the relationship between members and the management and staff of the cooperative and third parties. A cooperative can start with very basic by-laws and refine them after the business plan has been developed. As the organization develops, however, some rules may become redundant and it may then be necessary to change them or adopt new ones instead.

Cooperatives vary strongly in the amount of capital they need to get up and running. The business plan should include the amount and type of financing needed by the cooperative and a strategy for getting it. The steering committee and its advisers are responsible for implementing this strategy.

Virtually all cooperatives require some level of member financing, usually in the form of stock purchases or membership fees. Member financing not only provides equity for the cooperative, it also provides a financial base that makes other investors, particularly banks, feel more secure in investing their funds in the cooperative.

In addition to member equity, most cooperatives need to borrow money to get started and to maintain their operations. Loans can come from banks and other financial institutions. Other loan sources are local, state and federal government programmes, and various private for-profit and non-profit organizations.

The main activities during the fifth step are summarized in the box below.

Step 5: Institutional design

- Institutional design
- Prepare draft statutes and rules (by-laws)
- Raise initial capital

Step 6: Business plan and securing member commitment

The next phase of new cooperative development involves securing enough commitment from potential members to create a viable organization. Usually a number of activities is required prior to obtaining the final member commitment, such as analysing potential risk, completing a detailed business plan, determining the required level of each member's investment, defining members' rights and responsibilities, assessing the need and skills for management/staff, and projecting the required level of and sources for financing.



Figure 14: Demonstration at a dairy cooperative in the Nile Delta in Egypt, (AEC)

If the feasibility study results are favourable, the steering committee prepares or commissions someone else to prepare a detailed business

plan. The business plan is a more in-depth version of the feasibility study. It serves two primary purposes:

- 1 to provide a blueprint for the development and initial operation of the cooperative
- 2 to provide supporting documentation for potential members, financial institutions and other investors.

A typical outline of a business plan includes an executive summary, a description of the enterprise, a market analysis, research and development related to the company's product or service, a marketing and sales plan, a description of the organizational structure and key personnel and financial data. The plan would include many of the components of a business plan developed for any type of firm. However, in the case of a cooperative, there are additional considerations that should be addressed in a well-balanced plan.

A key step in securing member commitment is *describing and analysing the potential risk* associated with starting a new cooperative venture as well as presenting strategies that the proposed organization will utilize to manage those risks. The risks can be in different fields: market, technology, construction, operations, organization, financial and government policy.

The business plan describes what *business strategies* the cooperative will adopt to address the potential risks to be encountered. Financial projections should be built on several scenarios reflecting the impact of various member actions, such as when a given percentage of members does not meet their obligations. What level of losses or prices might members be willing to tolerate? What happens if a significant number of members overproduces or finds more attractive alternatives? The question should also be answered of whether there is sufficient flexibility in the business plan to be able to adjust timely to changes in the economic and social environment. In this regard it should be mentioned that a cooperative is often less flexible than a private company.

A good business plan also provides a set of *financial projections* based on the best knowledge available by presenting pro forma financial statements including operating statements, balance sheets and cash flow statements for at least three years.

A sensitivity analysis should be carried out to determine how changes in key variables, such as availability of supplies, prices, interest rates, and government policy, might affect the business plan between the time required to secure member commitment and the actual start-up of the cooperative business.

A well-qualified adviser or consultant who has experience related to both cooperatives and the agricultural sector can be an invaluable resource in writing the plan. The manager, if hired at this point in the process, would play an active role in its creation.

The management structure should be spelled out in the plan to ensure that an effective decision-making capacity is designed. The plan should identify what management skills will be required to implement the plan. An appendix to the plan should include the adopted or proposed articles of incorporation and by-laws as well as other pertinent legal documents such as membership agreements or equity instruments.

The detailed business plan will be discussed in a meeting of the potential members in which an interim board of directors will also be elected who will have the mandate to finalize further legal and financial preparations, including the equity drive.

The cooperative *equity drive* includes a description of the total expected benefits to members such as projected prices paid to or by members, new markets, patronage refunds or cost savings. Other projected benefits that might be presented to encourage potential members to join and invest in the cooperative are: market/supply security, increased bargaining power, or more control over their economic destiny.

It is critical that the steering committee members demonstrate a thorough understanding of the business plan. It might be beneficial also to involve key external stakeholders such as advisers, lenders, potential customers or management in the meetings with potential members. Presentations from consultants involved in conducting the feasibility study or writing the business plan can add to the credibility of the plan and convince members to join.



Figure 15: Women selling chicken (IAC)

A separate presentation or meeting might be advisable to present plans to lenders who are being approached to provide financing to the cooperative and/or to potential members.

At this phase in the development of the new cooperative, it is essential that members commit to becoming actual owners of the proposed enterprise. The necessary level of member financing has already been determined. A high level of confidence in the success of the proposed cooperative has been established among potential members. A thor-

ough feasibility analysis has indicated that the operation is economically feasible and a detailed business plan provides a clear picture of the strategies that will be adopted to operate a successful business.

At this point, potential members will be ready to act and sign up without the need for a lot of last-minute promotion and education. Members of the steering committee play a vital role in this process. They build confidence in the proposed cooperative by signing up first.

When the steering committee feels that enough members have joined the cooperative, the first general membership meeting (formation meeting) is convened. At this meeting, the members elect a board of directors to replace the steering committee. Cooperative by-laws will be approved to replace a set a provisional rules. The main activities during the sixth step are summarized in the box below.

Step 6: Business plan and member commitment

- Develop detailed business plan
- Establish legal identity
- Create interim board of directors
- Set up books/accounting system
- Conduct member equity drive and sign up
- Formation meeting

Step 7: Involving other stakeholders

Any successful starting cooperative relies on many stakeholders other than members, such as management, employees, lenders, suppliers and customers. These must commit their support to the cooperative for it to succeed.



Figure 16: Vegetable wholesale market in Pengzhou County, Sichuan Province, China (LEI)

A key stakeholder in the organization is the manager. For some lenders, competent management is the most important factor they look at in making a loan decision. New cooperatives usually require a uniquely qualified individual to balance the needs of the cooperative business with the needs of individual members. The new manager should be fully familiar with the business world but also sensitive to

the workings of a membership organization. This person needs to be involved in or be able to carry out all other activities such as hiring additional staff and acquiring the necessary plant or equipment.

Any new business needs to be adequately capitalized. Usually the amount of capital provided by members is not adequate to fully finance the new cooperative business. Depending on the level of risk associated with the start-up cooperative and the amount of member equity raised, lenders may be interested in providing debt capital as an additional source of financing.

There are two basic approaches to utilizing debt financing for starting up the cooperative. The first is that loans are normally secured at the cooperative level and are paid back from the cooperative's cash flow. The second is that members may also seek individual loans to purchase equity in the cooperative and be individually responsible for paying off their individual loans. This approach may be effective in situations where members have significant business assets of their own to use as collateral and interest expenses can be absorbed by members.

The main activities during the seventh step are summarized in the box below.

Step 7: Involving other stakeholders

- Secure necessary financing
- Retain manager
- Formalize relations with customers or suppliers
- Launch cooperative

Step 8: Starting up the enterprise

After all of the preliminary phases of the development process have been accomplished, the cooperative can open its doors for business. Several activities remain to be done.

The new cooperative will need to obtain any permits or licenses required to conduct business. If employees are hired, employer requirements must be fulfilled, including arrangements for withholding taxes and social security deductions. Membership records need to be established to document the volume of business for each member and the amount of equity investment or credits. The board must select a bank to handle the cooperative's accounts as well as an auditor.

The recruitment of personnel is listed as the last step in the formation process because the cooperative is not final until the necessary financing has been obtained. However, some starting cooperatives identify key potential personnel much earlier in the process, for example in the feasibility study or business planning stages. One or more key persons can be hired as consultants at an early stage with the mutual intent that they will work for the cooperative once it is formally established. This approach also has the effect of making investors feel more comfortable about financing because proposed management staff have been identified.

The main activities during the eighth step are summarized in the box below.

Step 8: Starting up the enterprise

- Hold general meeting
- Elect a board of directors
- Establish committees
- Secure necessary assets
- Hire staff

Useful addresses

International organizations:

Agricord

AgriCord is the international alliance of agri-agencies. Agri-agencies are Non-Governmental Organizations for Development Co-operation with structural links to the farmers' and rural members' organizations in their home countries. This means all of them are funded or steered by organizations of farmers, rural women, young agrarians, co-operatives and agri-businesses. They maintain structural relations of with these rural people's organizations and the economic or professional institutions they participate in. AgriCord only co-operates with farmers' and rural members' organizations in developing countries. Other stakeholders (NGOs, government, universities etc.) are only relevant in a rural people's organization led activity as a matter of alliance and support. AgriCord respect and promote the natural international linkages and co-operation between rural people's organizations.

Link: www.agricord.org

Address: AgriCord, PO Box 247, B-3000 LEUVEN, Belgium

Tel +32 16 244705, Fax +32 16 242136/87

Email: info@agricord.org

International Federation of Agricultural producers (IFAP- Paris)

IFAP was established in 1946 to secure the fullest cooperation between organizations of agricultural producers in meeting the optimum nutritional and consumptive requirements of the peoples of the world. It works to improve the economic and social status of all who live by and on the land.

Link: <http://www.ifap.org/>

International Cooperative Alliance (ICA- Geneva)

The ICA group founded in 1895 is an international non-profit organization, which seeks to create and save jobs through the development and strengthening of employee-owned and community-based busi-

nesses. Their website includes information on starting a cooperative. ICA specialized organizations have been set up as the centre of expertise for specific sectors. They exchange experiences, promote and also develop cooperatives world-wide.

Link: <http://www.coop.org/>

International Cooperative Agricultural Organisation (ICAO)

The International Cooperative Agricultural Organisation (ICAO) is the democratic organization representing agricultural cooperatives and farmers world-wide. The ICAO, founded in 1951, is a specialized organization of the ICA. This organization represents 47 agricultural cooperative organizations in over 38 countries. Agricultural cooperatives account for 36% of the total number of cooperative societies represented by ICA member organizations

Link: <http://www.agricoop.org>

International Labour Organization of the United Nations (ILO, Geneva)

The work of the Cooperative Branch of ILO includes providing policy advice to ILO Member States, technical cooperation, organizing international meetings, producing documentation and information to increase public awareness of cooperatives and promoting cooperative values and principles. A series of training manuals have been developed under the MATCOM programme (1978-2001) on management and operation of agricultural cooperatives and the common problems encountered.

Link: <http://www.ilo.org/coop>

Coopnet Update

In 2000 Coopnet Update was launched by the ILO's Cooperative Branch, within the framework of the ILO/DANIDA Programme on cooperative development in rural areas. Coopnet Update promotes the development of cooperative enterprises and, in particular, of their human resources.

Link: <http://www.coopnetupdate.org>

Committee for the Promotion and Advancement of Cooperatives (COPAC)

COPAC is a successful and on-going partnership between representatives of the cooperative movement (ICA), farmers' organizations (IFAP) and the United Nations and its agencies (FAO, ILO and UN). Members work together on equal terms to promote and coordinate sustainable cooperative development through policy dialogues, technical cooperation and information and concrete collaborative activities.

Link: <http://www.copacgva.org>

Cornell University (USA) - Cooperative Enterprise Program

The Cooperative Enterprise Program (CEP) operates within the Department of Applied Economics and Management in the College of Agriculture and Life Sciences at Cornell University, USA. The objective of the programme is to enhance the performance of existing cooperative businesses and facilitate the development of emerging cooperative enterprises through teaching, research, and outreach. Programme initiatives are aimed primarily at senior management and boards of directors of cooperatives with an emphasis on finance, management, strategic planning, and marketing.

Link: <http://cooperatives.aem.cornell.edu/aboutcep/index.htm>

Plunkett Foundation (UK)

The Plunkett Foundation is an educational charity based in Oxford, UK, which supports the development of rural enterprises world-wide. The foundation draws on 80 years of practical experience working with partners from the public and private sectors to promote and implement economic self-help solutions to rural problems.

Link: <http://www.plunkett.co.uk/index.htm>

The University of Wisconsin Center for Cooperatives (USA)

The University of Wisconsin Center for Cooperatives (UWCC) was established in 1962 as the International Cooperative Training Center. Funds to establish the UWCC were provided by a grant from USAID.

The Center is specialized both in international and national cooperative education.

Link: <http://www.wisc.edu/uwcc/index.html>

Food and Agricultural Organisation of the United Nations (FAO, Rome)

The Food and Agriculture Organisation of the United Nations was founded in 1945 with a mandate to raise levels of nutrition and standards of living, to improve agricultural productivity and the condition of rural populations. Today, FAO is one of the largest specialized agencies in the United Nations system, with 184 member countries, and the lead agency for agriculture, forestry, fisheries and rural development. It has published a number of useful publications on marketing of agricultural products. Recently FAO also published a useful manual for trainers in agricultural cooperative development.

Link: <http://www.fao.org/>

Organizations in the Netherlands

National Cooperative Council (NCR)

The National Cooperative Council for agriculture and horticulture (NCR) is the umbrella organization of nearly all cooperatives in the agribusiness sector in the Netherlands, as well as the Cooperative Rabobank and mutual insurance companies. Its mission is to promote cooperative entrepreneurship. The NCR is a valued participant in government, political, agro-industrial and scientific networks.

Link: <http://www.cooperatie.nl/>

LTO Nederland

LTO Nederland is the umbrella organization for five regional and sixteen sectoral agricultural and horticultural organizations in the Netherlands. The main objective of the organization is to achieve sustainable development of the agricultural and horticultural sectors in the Netherlands and a strong economic and social position of its farmers and entrepreneurs. LTO represents the agricultural sector and its various regional and sectoral organizations in national socio-economic devel-

opment planning and in policy matters affecting the agricultural sector. The organization participates in numerous national and international agencies and forums.

Link: <http://www.lto.nl/>

Agriterra

Agriterra was founded in 1997 by the Dutch farmers' organizations LTO-Nederland and the regional LTO organizations, the Dutch rural women's organizations and their federation (CPVO), the National Co-operative Council for Agriculture and Horticulture (NCR) and the Dutch Agricultural Youth Organization (NAJK). Agriterra's goal is to promote, facilitate and support lasting cooperation linkages between rural people's organizations in the Netherlands and in developing countries. Agriterra cooperates with farmers' organizations in Africa, Asia, Latin America and Central and Eastern Europe. This cooperation is not through governments or intermediaries but direct: from farmer to farmer, from rural woman to rural woman, from co-operative society to co-operative society.

AgriPool is the non-commercial employment office of Agriterra for experts from rural people's organizations, being farmers unions, organizations of rural women and young agrarians and co-operatives. Upon registration, Agriterra screens and judges your application in order to determine the kind of mission that could suit you best. However, your recruitment for any mission depends of course on the requests from rural people's organizations for assistance. Please consult the vacancy announcements on www.agripool.org.

Link: <http://www.agriterra.org/>

Address: Agriterra, Willemsplein 43-II, 6811 KD Arnhem, The Netherlands, Tel: +31 - 26-44 55 445, Fax: +31 - 26-44 55 978.

E-mail: agriterra@agriterra.org

Rabo International Advisory Services BV (RIAS)

RIAS, a subsidiary of Rabobank Group, the Netherlands, was established in 1989 to transfer Rabobank's experience and technology in banking and finance, cooperative development and agribusiness into the international arena, especially the emerging markets of Central and Eastern Europe, Africa, Asia and Latin America. RIAS provides consulting services, management support and twinning activities related to three main areas: i) banking, ii) restructuring and development of agribusiness companies and iii) development of cooperative business organizations in both agriculture (processing, marketing and input supply) and banking. This advice comprises all the essential organizational, financial and legal aspects of cooperatives.

Link: <http://www.rabobank.com/rias/projects.html>

Wageningen University Research Centre Library

The Wageningen University and Research Centre has a desktop library which is freely accessible and has shortcuts to numerous other agricultural libraries in the Netherlands and abroad.

Link: <http://library.wur.nl/desktop/portals/index.html>

Agromisa

Agromisa was established in 1934 and is linked to the Wageningen University and Research Centre. The main activity of the organization is to exchange knowledge information on small-scale sustainable agriculture and related topics. The target group is the underprivileged population in rural areas. Agromisa's main objective is to strengthen the self-reliance of the target group and to improve their livelihood by sharing experience and knowledge.

Link: <http://www.agromisa.org/>

Further readings

MATCOM: Cooperative management training: Training manuals
<http://www.ilo.org/public/english/employment/ent/coop/publ/>

MATCOM (1985), Material and techniques for cooperative management training, Trainers Manual: Supply services, ILO, Geneva. ISBN 92-2-105021-1
(<http://www.ilo.org/dyn/empent/docs/F1731188075/0083.pdf>)

MATCOM (1985), Material and techniques for cooperative management training, Trainers Manual: Marketing of agricultural produce, ILO, Geneva. ISBN 92-2-102983-2
(<http://www.ilo.org/dyn/empent/docs/F1889932520/0039.pdf>)

FAO (2001), Agricultural Cooperative development, A manual for trainers, consisting of 8 modules:

Module 1 - Understanding cooperatives

Module 2 - Participation training & learning

Module 3 - Communication

Module 4 - Organizational development

Module 5 - Cooperative management

Module 6 - Tools for planning and organizing cooperative activities

Module 7 - Participatory appraisal, monitoring and evaluation

Module 8 - Accounting

(<ftp://ftp.fao.org/docrep/fao/005/X0475E/X0475E00.pdf>

and http://www.fao.org/sd/2003/IN07023_en.htm)

FAO (1997), Mobilizing capital in agricultural service cooperatives, Rome (Prepared by Rouse, J, Pischke, J.D.von, Bonitatibus, E. and Cook, J.F.)

(<http://www.fao.org/DOCREP/003/W5069E/W5069E00.HTM>)

Rabobank International (2000), Cooperatives and cooperative banks, their contribution to economic and rural development.

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AEC: Arcadis Euroconsult. www.euroconsult.nl, www.arcadis.nl

IAC: International Agricultural Centre, www.iac-agro.nl

ICRA: International centre for development oriented research in agriculture, www.icra-edu.org.

LEI: Agricultural economics research institute, www.vegsys.nl and www.lei.nl

SNV: Netherlands Development Organization, www.snvworld.org