PRODUCER ORGANIZATION – DONOR PARTNERSHIPS
IN PROJECT IMPLEMENTATION IN AFRICA
RISKS AND PRECAUTIONS FROM A SOCIAL PERSPECTIVE

March, 2000

AKIS Discussion Paper

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Rural Development 2
Africa Region
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### List of Acronyms

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<tbody>
<tr>
<td>AFDI</td>
<td>Association Francaise de Developpement International in France</td>
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<tr>
<td>AKIS</td>
<td>Agricultural Knowledge and Information Systems Thematic Team</td>
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<tr>
<td>APL</td>
<td>Adaptable program lending</td>
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<tr>
<td>ARC</td>
<td>Agricultural Research Council</td>
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<tr>
<td>CBO</td>
<td>Community-based organizations</td>
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<td>CDI</td>
<td>Community development institutions</td>
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<tr>
<td>CECI</td>
<td>Canadian Center for International Studies and Cooperation</td>
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<tr>
<td>CIDR</td>
<td>Compagnie Internationale pour le Developpement Rural</td>
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<tr>
<td>CIRAD</td>
<td>Center for International Cooperation in Agricultural Research and Development</td>
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<tr>
<td>DANIDA</td>
<td>Danish International Development Agency</td>
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<tr>
<td>EIG</td>
<td>Economic Interest Groups</td>
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<td>FAO</td>
<td>Food and Agriculture Organization</td>
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<td>FNEC</td>
<td>National Federation of Herders in the Central African Republic</td>
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<td>GTZ</td>
<td>German Cooperation Agency</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>IRAM</td>
<td>Institut de Recherches et d' Application des Methodes</td>
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<tr>
<td>MFI</td>
<td>Micro-finance institutions</td>
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<td>NGO</td>
<td>Non-governmental organizations</td>
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<td>NRI</td>
<td>Natural Resource Institute</td>
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<td>ODI</td>
<td>Overseas Development Institute</td>
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<td>PO</td>
<td>Producer organization</td>
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<td>POSS</td>
<td>PO support specialist</td>
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<td>PRONATTA</td>
<td>National Program for Agricultural Technology Transfer(Colombia)</td>
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<td>SDC</td>
<td>Swiss Development Cooperation</td>
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<td>SDID</td>
<td>Societe de Developpement International Desjardins</td>
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<td>SEC</td>
<td>Strategic Extension Campaign</td>
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<td>SFG</td>
<td>Small farmers groups</td>
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<td>SFGA</td>
<td>Small Farmer Group Associations</td>
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<td>SIDA</td>
<td>Swedish International Development Authority</td>
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<td>SLA</td>
<td>Savings and loans associations</td>
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<td>WOCCU</td>
<td>Federation of World Council of Credit Unions</td>
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AKIS is the Agricultural Knowledge and Information Systems Thematic Team, composed of World Bank staff working in or interested in research, extension, and education programs. The overall team objective is to enhance the effectiveness of Bank support to agricultural knowledge and information system development and thus contribute to the Bank's objectives of alleviating poverty, ensuring food security, and improving sustainable management of natural resources. The AKIS team emphasizes policy, institutional, and management issues associated with agricultural research, extension and education, recognizing that other thematic teams will focus on technical issues. The Team mission is to "promote the development of sustainable and productive agricultural research, extension, and education systems in Bank client countries."

This "AKIS Discussion Paper" was prepared by Jean Delion based on experience with producers' organization development and is a contribution to the exchange of experience inside the Agriculture Knowledge and Information Systems. A first draft of the Paper was reviewed by members of the thematic team and by a thematic group on producer organizations (POs) in the French Ministry of Cooperation. The Paper draws on experience in 24 projects, mainly in Africa, but including a few from Latin America. The paper complements a workshop and other AKIS-supported work on strengthening producer organizations.

"AKIS Discussion Papers" are to disseminate views, experience, and ideas which may assist World Bank Team Leaders, national counterparts from Borrower counties, and other partners with preparation and implementation of projects to strengthen agricultural research, extension, and education programs. They attempt to disseminate lessons from innovative experiences in World Bank projects and elsewhere and make this information readily available for comment and use by project teams.

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Chairman
AKIS Thematic Team
Summary

Agricultural services projects and other rural development projects funded by the World Bank in Africa are changing, with the emphasis moving from technology transfer to community development and participation. Agricultural projects increasingly call for partnerships with private organizations such as producer organizations. Recent rural development projects funded by the World Bank illustrate the new trends in support to rural organizations. These projects are mainly agricultural extension and research projects, with some examples of natural resources management and rural finance projects. This paper looks at these projects and others funded by other donors or by non-governmental organizations (NGOs) to identify key issues in producer organization partnerships.

This paper considers experience with micro-finance institutions (MFIs) and community-based organizations (CBOs), but is focused mainly on Producer Organizations (POs) defined as “rural organizations whose members organized themselves with the objective to improve producers’ income, via production, marketing and local processing activities. POs are dealing with: (i) improvement of agricultural production practices (including livestock and fisheries); (ii) producers’ access to inputs and services including agricultural credit; (iii) marketing of agricultural production; and (iv) local processing of agricultural production and its marketing”.

In the 1960s and 1970s, rural development projects were implemented by public sector organizations and often financed parastatal development agencies and that supported agricultural cooperative development. Many of these agencies and cooperatives turned out to be inefficient bureaucracies and most folded by the mid-1980s and in the 1990s, the environment changed and many different kinds of POs began to emerge. Donors and governments began paying more attention to the private sector, local organizations, and beneficiary participation. Many projects now use small farmers groups (SFGs) as contact points and are moving toward community participation in the extension process. Although this trend is clear, modalities are still vague. This paper argues that most projects involving producer organizations (POs) do not pay enough attention to the social dimension of development of sustainable organizations.

Producer organizations play various roles in different project partnerships. In some, they serve as producers’ representatives, influencing sector strategy formulation and research agendas or managing rural development funds for sub-projects. In other projects, they implement specific activities, taking over rural development agencies or supplying extension services, production inputs, water, etc. Such projects do not have long-term capacity-building objectives and strategies for PO development.

There are substantial risks or negative effects from some project-PO partnerships. Project partnerships might increase POs’ dependency, reduce their capacity to become self-sufficient, and divert them from providing the basic services expected by their members. The short-term benefits of such partnerships might not outweigh the possible long-term negative impact on POs’ sustainability, especially with large projects that manage greater amounts of external assistance. In the past, large development programs with generous capacity-building objectives “contaminated” many POs that became dependent on the project subsidies.
Projects dealing with POs need to better understand the social features of those POs. POs are products and engines of social transformation. Capacity-building and organization development processes to support development of sustainable POs are complex. From a social development perspective, POs, like other rural organizations, are essential actors in the process of social change. Their collective forces give POs power to mobilize and to catalyze the energies of masses of rural populations. POs, just as other organizations, become sustainable only if backed by the social values and norms of the majority of the social groups concerned.

Projects can take several precautions to mitigate risks of negative effects of project-PO partnerships. First at the country, donors should take upstream precautions by appraising PO capacities and strategies in social assessments and sector strategy analyses. At the project level, development planners should avoid putting more emphasis on short-term objectives (i.e., “provision of inputs to farmers”) rather than on long-term capacity-building objectives (i.e., “building capacities of POs to provide fertilizers to farmers on a sustainable basis”). Project logical frameworks should emphasize capacity building and institutional issues as a condition for achieving sustainable results. Donors can also use specific instruments, such as “movement to movement” assistance, that are suited to the development of private, professional POs. More emphasis on helping POs establish and implement viable business plans to enter the market economy provides stability and sustainability to organizations. Finally donors should take more precautions when using subsidies.

This study concludes by emphasizing the risks attached to using subsidies. “Easy” assistance is a major risk when trying to develop sustainable POs. Development projects need to recognize that empowering sustainable producers’ organizations is a development end in itself and should be a major objective for many projects.
1. Introduction

1. The main argument of this paper is that many projects involving producer organizations (POs) do not pay enough attention to the social dimension of the development of sustainable organizations. This dimension includes transfers of powers and capacity building. Many projects underestimate the fact that POs are part of the social capital and that their development cannot be sustained when it is dependent on external support. A project-PO partnership can be very positive for a PO’s development, if enough attention is paid to capacity building and empowerment. If not, such a partnership could have negative impacts on a PO’s development. For instance, it could “contaminate” those POs with easy access to equipment and subsidies, it could divert them from their main objectives of providing efficient services to their members, and it could reduce their chances of becoming sustainable organizations. This paper uses examples from innovative projects that are taking precautions to mitigate these risks.

Types of projects and producer organizations examined

2. This paper refers to 20 recent rural development projects funded by the World Bank that illustrate new trends in the World Bank’s support to rural organizations. These are mainly agricultural extension and research projects, with some examples of natural resources management and rural finance projects. This paper also looks at projects funded by other donors or by non governmental organizations (NGOs), in Africa and in other regions, for possible alternative approaches. The appendix provides the list of projects referred to in this paper.

3. This paper mainly addresses the case of producer organizations, with a section on micro-finance institutions (MFIs) and occasional references to community development institutions (CDIs). The World Bank’s thematic groups on producer organizations and agricultural services focus on POs, which are defined as “rural organizations whose members organized themselves with the objective to improve producers’ income, via production, marketing and local processing activities. POs are dealing with: (i) improvement of agricultural production practices (including livestock and fisheries); (ii) producers’ access to inputs and services including agricultural credit; (iii) marketing of agricultural production; and (iv) local processing of agricultural production and its marketing” (AKIS 1998).1

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4. Many rural organizations are now specializing in one main activity. Donors have begun to recognize that rural organizations rarely succeed when they perform too many functions at the same time. The International Fund for Agricultural Development (IFAD 1998) emphasizes the need "to avoid mixing different kinds of functions: economic functions (inputs, marketing), community functions (equipment, public services) and financial intermediation functions (savings and loans) must be provided by different institutions. Input and marketing will be better provided by Producer Organizations, such as Economic Interest Groups (EIGs) that can federate into national federations or associations. Funding of community investments and services can stay with village associations and be supported by new local institutions or Local Investment Funds. Financial intermediation services must be provided by autonomous, specialized institutions."  

Evolution of POs and agricultural services projects in Africa

5. In the 1960s, most rural development projects were implemented by public government services. In the early 1970s, project implementation was entrusted to parastatal regional development agencies that supported agricultural cooperatives. In Africa, as in other parts of the world, many of these agencies and cooperatives turned out to be inefficient bureaucracies and most folded in the mid-1980s (P. Hussi and others 1993). In the 1990s, the environment changed a great deal and many different kinds of POs emerged, many very small and a few large). Donors and governments gradually began paying more attention to the private sector, to local organizations, and to beneficiary participation.

6. Riviera (1996) presented in detail the differences between two main approaches and the structural, financial, and managerial changes that were taking place. One approach put the emphasis on technology transfer to increase productivity, while another focused on the role of human development and education within the extension services, mainly to serve poor farmers. The emphasis on productivity presented the risk of focusing on the most productive farmers and promoting growth without equity. Extension projects trying to mitigate these risks now pay more attention to community development along with technology transfer and extension and research projects are turning to more participatory approaches for problem diagnosis, needs assessment, and problem-solving.

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An example is provided by the Strategic Extension Campaign (SEC) method promoted by the Food and Agriculture Organization (FAO) and based on participatory needs appraisal.

7. The World Bank initially followed the approach of increasing productivity and focused its agricultural projects in Africa on technology transfers without complementary investments in community and PO development. Agricultural services projects funded by the World Bank created contact groups simply for training purposes and Bank-funded projects invested little in capacity building of POs.

8. Since the mid-1990s, however, World Bank–funded projects in Africa have changing their approach. As described by Riviera above, they are starting to adopt more participatory approaches and are paying more attention to PO development. Some projects now use existing small farmers groups (SFGs) as contact groups and are moving toward community participation in the extension process. Venkatesen and Kampen (1998) stated that the extension services are moving closer to communities and their organizations. Although the direction is clear, the modalities are still vague, and for the moment, most agricultural services projects still do not directly support PO development.

9. Many World Bank–funded agricultural services projects in Africa currently include at least a few PO support specialists (POSSs), but their role is limited. When these POSS positions were introduced in projects in 1992-93, their function was not clearly defined. Today, in Chad, for example, there are 33 POSSs out of about 500 agriculture extension officers. These POSSs are supposed to assist the 11,000 small farmer groups in Chad, but they usually work at the district level and end up assisting about 20 SFGs each. They tend to concentrate on the large organizations, such as the Small Farmer Group Associations (SFGAs).

10. Other donors have different perspectives regarding PO development. The FAO and IFAD have focused on SFG development, offering continuous support since the 1980s. These donors have funded the operating costs of thousands of trainers and "animateurs" in many African countries, to promote various types of grassroots organizations, and have provided flexible funds to support SFG initiatives.

11. The FAO clearly puts these groups at the center of its assistance strategy. Small Farmer Groups are seen as a useful organizational mechanism for mobilizing collective self-help actions of small farmers to improve their economic and social conditions and those of their communities. This is the conclusion of FAO after more than two decades of direct project implementation experience in 17 countries. These SFGs are small in size, generally with membership of 5 to 15 members. They are informal with homogenous

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membership and a primary function of income generation (Rouse 1998). While donors contributed to the promotion of SFGs, many also developed spontaneously. In Chad, for example, of the 11,000 SFGs, the vast majority formed without any outside influence.

12. These SFGs are just the first organizational layer and the FAO is now involved with development of a second organizational layer of larger associations, such as SFG Associations (SFGAs). The SFGAs should provide greater economies of scale in accessing services and markets. The FAO, like all agencies involved in the federation of informal SFGs, acknowledges that this step is difficult: “Our experience in developing these higher level organizations has been more limited and is subject to examination and review” (Rouse, 1998).

13. This brief historical perspective shows that the World Bank and the FAO have had different views on the importance of POs. The World Bank’s approach has evolved and it now pays more attention to PO capacity building. But the World Bank still regards POs mainly as partners in achieving project objectives. Capacity building for sustainable POs is not generally a long-term objective in itself and the Bank has discovered that short-term partnerships can have negative effects on PO development.

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2. Examples of partnerships between rural development institutions and POs

**POs as producer representatives**

14. In the absence of elected representation mechanisms, rural development projects often ask POs to perform representation functions in various development committees. Such roles might be transitory and POs might bow out as soon as elected representatives can take part in these committees. Ghana, for example, has elected district committees that deal with resource allocation in local development projects and POs there are not directly involved.

**POs are invited to influence rural development strategies**

15. Many donors, including the World Bank, invite POs representatives to participate when preparing strategies for rural development, as when they ask POs to represent farmers and herders in local development committees preparing rural development strategies or action plans. Very often these committees include many participants, and PO representatives are isolated. In such cases, the PO representatives have little or no influence on the rural development strategies. In other cases, carefully designed participatory processes can make room for more meaningful participation by POs, thus enabling them to influence the rural development strategy and incorporate support for POs development. In Senegal, for example, when preparing an agricultural services and producer organization project, PO representatives were designated by elections and backed by federations of POs. Thus, they were able to influence greatly the design of the agricultural sector program and of a new rural development agency (described below).

**POs are invited to influence research programs**

16. Many research projects have invited PO representatives to influence research programs and make them more useful to farmers. This approach was well documented by the Overseas Development Institute (ODI) and by the Center for International Cooperation in Agricultural Research and Development (CIRAD). The World Bank has supported Research Users Committees in Mali and Burkina Faso since 1995. In some cases, these committees are merely consultative, while in others they are influential in establishing priorities for research programs and contracts with research institutions (box 1).

17. Poor farmers do not always see the value of participating in such committees. In South Africa, for example, “technological advances have been critical to maintaining the position of commercial agriculture . . . SAAU (an old organization of white farmers) is structurally incorporated into the agricultural technology system in South Africa at many points (the ARC [Agricultural Research Council], boards of ARC commodity research institutes, provincial committees). By contrast NAFU (initiated by black farmers) and other new farmers’ organizations currently accord low priority to technology issues. This might be quite rational: dedicating scarce resources to sitting on committees which tend
to generate only long-term and relatively indirect benefits does not make sense. Leaders are also rightly skeptical of the intentions of the "establishment" and hence of the value of investing in an area in which they have so far seen very little evidence of change. Furthermore, most members see issues other than technology—such as gaining access to land and irrigation water—as more pressing. One reason for this is that emerging farmers have had limited exposure to the benefits of technology" (Carney/ODI 1996).7

**Box 1. Research user committees**

- In Mali, in 1994, the POs were selected to represent producers in research user committees. In 1998, the producer representatives in these committees became elected members.
- In South Africa, two farmers’ unions, the SAAU and the NAFU, represent producers in the Agricultural Research Council and in its various committees.

18. Some national agricultural research institutions are setting up competitive research funds, which enable user committees to negotiate directly with research programs. In Senegal, Mali, Tanzania, Mexico, and Brazil, such committees can sign contracts for research with many types of institutions. This direct power allows POs to influence research programs and play a role as partners in research programs.

*POs are invited to take part in the allocation of flexible funds to local organizations*

19. A growing number of demand-driven rural investment funds have set up development committees with the power to select micro-projects and then allocate resources to them. The POs are invited to send representatives to present the producers’ voices in the planning and selection process. There are many variations of such committees (box 2).

*POs as actors to implement specific project activities*

20. Some innovative projects are exploring the possibility of giving majority shares to PO representatives on boards of new rural development agencies. Two examples, one from Côte d’Ivoire and one from Senegal, are presented below.

21. In Côte d’Ivoire, a new rural development agency, a parastatal firm with minority shares for the state, was created in 1996. The innovative institutional features of the agency are the outcome of a three-year design process (1995–98) influenced by the POs and other stakeholders. From a social point of view, a new “playing field” was created

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7Carney, D. 1996. *Farmers’ Organizations: Meeting the Needs of Resource-Poor Farmers?* Johannesburg, South Africa: ODI.
with new power sharing. Powerful POs were involved in designing the new institutional arrangements and were able to influence staff selection from the beginning. From a social perspective, this crucial step saw a real transfer of power take place.

**Box 2. Regional consultative mechanisms**

- In Cameroon, participants in Provincial Development Committees in a food security project are divided evenly among civil servants (administrative authorities and technicians), PO representatives, and NGO representatives.
- In Mexico, Regional Sustainable Development Councils involve representatives from communities and POs. NGOs representatives can only join if the POs admit them.
- In Colombia *nodos* (nodes) were established to facilitate communications between all development partners of PRONATTA at the district and province levels (PRONATTA 1998). These *nodos*, in which PO representatives play a significant role, are now influential in allocating the resources in a flexible rural development program supported by the World Bank.

22. In Senegal, POs will first have only minority shares in a new rural development agency; then, after three to five years, they should acquire a majority of shares. During the transition phase, the head of the new agency will hire all staff, and a commission, including the PO representatives, will screen candidates. This process will give some powers to the POs over the staff in the agency. Without this authority, PO representatives would not have much influence over the staff and their work and would not be able to enforce penalties for poor performance. It will take some time before the formal institutional reform translates into meaningful changes in staff performances.

*POs are invited to provide extension services and input supplies*

23. In many countries, governments are in the process of cutting expenditures and significantly reducing the number of civil servants, including agricultural extension staff. Budgets for operating costs are declining. Agricultural services are thus looking for ways to share extension costs with other partners (box 3). Some POs have long experience hiring extension staff. In Burkina Faso, for example, the federation of traditional Naam groups has hired extension staff and researchers since early 1980s. Other recent agricultural services projects are supporting partners, such as POs, NGOs, local councils, or private firms, that are playing a more active role in providing extension services and bearing part of the associated costs. In Senegal, decentralized institutions are able to use flexible funds to contract extension work with local organizations, including POs.

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**Box 3. Madagascar: An agricultural services project**

In Madagascar, local organizations are encouraged to hire and pay their own extension staff with the Bank-financed project supporting extension agents by providing motorbikes and subsidizing operating costs (Schorosch and Seck 1998). The project finances:

- 66 contracts implemented by NGOs, of which 39 for technical support, 22 for training and 5 for support to POs.
- 32 contracts implemented by local councils in eight of the agricultural regions of the country. These councils hire their own staff to mitigate the deficit of agents in their respective localities and unlike Government staff, these recruits are hired on a two years renewable term. This puts two extension systems into competition with identical resources at their disposal.
- 35 contracts implemented by POs (farmers groups) for seed multiplication and diffusion of insect and virus resistant rice varieties in two regions. Seeds produced in 1997 were distributed by 2,300 farmer groups to approximately 120,000 farmers.

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3. Project implementation partnerships can have negative effects on PO development

24. When projects invite POs to take part in project implementation, they often provide equipment, per diems, and other facilities. POs can hardly reject such proposals, which attract their best staff. This process, however, can divert the POs from providing the basic services requested by their members. For example, some agricultural services projects in Africa ask POs to give agricultural input supplies to the farmers. The projects provide attractive incentives and furnish equipment, operating costs, and training support. Such activities are labeled as a “POs institutional building component.”

25. In the mid-1980s, similar approaches achieved positive short-term results but failed in the long term: the POs quickly vanished when the projects ended. Although some POs involved were well organized and equipped, they failed because the farmers lacked the basic financial discipline to repay loans. Projects, therefore, should be cautious in inviting POs to participate in project implementation and should start by analyzing the POs’ strategies and exploring ways to mitigate the risks for the POs.

26. PO participation in development agency projects can be illusory, as the actual power of POs in these agencies might be only symbolic. In one case, an influential stakeholder took control of an agency with just one-third of its shares, playing with weak POs and providing facilities to its representatives. In another example, PO representatives sitting in a rural development agency become disconnected from their members and used their positions for their own advantage. The condition for effective representation lies in the PO’s capacity to control its representatives. There are many examples of central agencies where the PO members lost control of their representatives, who, in turn, did not control the management of central services (box 4).

Box 4. The National Federation of Herders in the Central African Republic (FNEC)

In the 1970s and 1980s, this federation was one of the most powerful federations of herders in Africa. It benefited from large grants for equipment and its operating costs. Such facilities attracted high-level outside managers, and the federation subsequently lost control of these managers. In 1996, one manager seriously misused FNEC resources. The deeply discouraged members lost trust in their managers and their organization. In a sense, the donors had “contaminated” the federation with too much money and the members had lost control. Many herders have since gone back to small local associations and want to avoid external influence as much as possible.
4. Sustainable development of POs needs to be supported by social changes

Values and cultures beyond rural organizations

27. Values and cultures deeply influence the activities of POs and set the framework of "a playing field" with the basic rules of social relations. Organizational models come from the values and norms of the society. New organizations indicate that new values and norms are emerging. As developing societies adapt to new economic and social conditions, they look for organizational models from developed societies and for advice from organization specialists. In many cases, imported PO models carry with them values and norms that are not accepted by all members (see box 5). In addition, while local producers might welcome such “imported models,” for their immediate benefits (i.e., access to credit or fertilizers), they do not necessarily “internalize” the models. Organizations developed with the support of external powers are like grafts: they look healthy and successful as long as they receive outside support. However, like all grafts, they must be compatible with the host’s organism, or they will be rejected as soon as the external support ends.

28. Task managers of large multilateral development agencies are “powerful external supports” for social change and can influence an organization’s development by proposing organizational models for their projects. At first, these models might seem effective when implementing specific project activities, but, in many cases, they are based on other societies’ values and norms. External influences are not problematic per se—indeed, most societies evolved from contact with groups outside their territories—but new organizations must mesh their behaviors with local values and norms.

Box 5. Conflict of an “imported organizational model” and traditional social norms

Savings and loans associations (SLAs) come from societies where such social values of "honor" are attached to debt repayment. In these societies, ordinary villagers, or SLA members, can exert strong social pressure on their friends or on traditional leaders to pay back their loans. In many traditional cultures in Africa, however, the members of an SLA would not be able to force a respected village leader to pay his debts. For the SLA model to be successful would require radical cultural changes in many developing societies. Such changes can only happen with education and many years of social change.
**Rural organizations as social capital**

29. The concept of social capital is defined by Grootaert as "the institutions, the relationships, the attitudes and values that govern interactions among people and contribute to economic and social development" (Grootaert, 1999). Serageldin and Grootaert (1998) note the evolution of the concept:

- The most famous and in some ways most narrowly defined concept of social capital is Putnam’s views of social capital as a set of ‘horizontal associations’ among people that have an effect on the productivity of the community (Putnam 1993). These associations include ‘networks of civic engagement’ and social norms. In this definition, the key feature of social capital is that it facilitates coordination and cooperation for the mutual benefit of the members of the association.

- Coleman (1988) puts forth a second, broader concept of social capital . . . as ‘a variety of different entities, with two elements in common: they all consist of some social structure and they facilitate certain actions of actors within the structure.’ This view of social capital captures not only social structures at large but also the ensemble of norms governing interpersonal behaviors.

- A third, still more encompassing view of social capital includes the social and political environment that enables norms to develop and shape social structures . . . it encompasses formalized institutional relationships and structures, such as governments, political regimes, the rule of law, court systems and civil and political liberties. There is growing evidence that social capital can have an impact on development outcomes, including growth, equity and poverty alleviation (Grootaert 1996).

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30. POs are a crucial part of the social capital. Rural people in developing countries are using POs as social mechanisms to adapt to the market economy. Without strong social capital, social groups cannot obtain large benefits from investments (box 6). I. Olson (1982) noted that "low-income countries, even those with a large resource base, cannot obtain large gains from investments, specialization and trade. These countries are limited by a lack of institutions that enforce contracts impartially and secure long-term property rights and by misguided economic policies."  

31. Evaluations of past development projects and recent studies confirm the importance of social capital: they highlight the difficulty of achieving meaningful results in development without changing local organizations. Dia (1996) pointed out the limitations of development projects when they do not take into account governance aspects. And a central argument of Picciotto and Wiesner (1998) is that institutional changes, including organizational changes, must be seen as part of the social process.

32. Development projects are paying growing attention to assisting social groups to adapt their social capital to their changing environment. This goes beyond just "creating adequate organizations to implement projects." It involves assisting social groups to analyze the changes around them, consolidate their strategies, and adjust their institutions to the new environment, or alternatively to seek to change their environment.

**Development through empowerment and conflict**

33. As noted above, social capital evolves as social actors compete for power. Institutional changes may be engineered and implemented from outside, backed by external powers, if projects are "overpowered" by external funds, access to information, or exceptional political power. This may be counter-productive for projects trying to build sustainable powers within local organizations and with objectives of "empowering" local organizations. Empowerment can be defined as "helping groups to increase their ability to influence the factors affecting their lives." Few projects, however, have precise indicators for this empowerment process.

34. Changes in social capital entail the loss and gain of power. As some groups fight for more power and others defend their powers, the process of social change is marked by conflicts. In the Sahel in the 1970s, the development of village associations was marked

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by fights between villagers and private cotton traders. Conflicts are crucial features of social life; they are at the core of the process of social change. Conflicts in organizations, therefore, are especially important.

35. Conflicts in organizations reflect general conflicts in societies (Crozier 1963). Social scientists must observe these conflicts in great detail, tracing the empowerment processes, the emergence of new actors, and the appearance of new values as engines of social change. Crozier points out that transforming organizations from outside, with an outsider’s rationale, is very difficult: “It is wrong to assume that human activities inside an organization can be rationally coordinated by using only economic stimulants . . . and by ignoring social factors.” Still, overlooking social factors is what many development projects are doing, when “institutional engineers” establish new organizations without much involvement of local forces and powers and without arrangements for conflict resolution. They impose social changes through economic stimulants, but these new organizations are not backed by changes in the social playing fields and by rules accepted by most of the actors (box 7).

**Box 6. Development engineers and conflicts**

In the past, discussing conflicts could bring development engineers too close to politics, and outside donors did not want to see reports dealing with social conflicts or political issues. Consequently, conflicts were not described as part of the process of social change. This approach is changing, as many donors, including the World Bank, are starting to conduct detailed social assessments that describe social conflicts as forces of social change.

Some development agencies recognize that social development needs to be supported by conflict analysis. For example, the International Institute for Environment and Development (IIED) recently published a study on conflicts between farmers and herders in the semi-arid Sahel and East Africa (Hussein Karim 1998). The study found that villagers viewed these conflicts as major issues in the development process. A strategy to develop POs in this context should not ignore this essential dimension. It would be hard to help social groups build POs without consideration of the conflicts around them, the necessary transfers of powers, and the resistance from groups around the POs.

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Layers of social capital

36. Many projects are now establishing their own “local organizations” as convenient vehicles to handle their activities. In some countries, there might be more than ten different “committees” in one village, with each committee set up for a specific program. The layers of organizations become a crucial feature of the social fabric. Some integrate larger layers at village, inter-village, district, provincial, or national levels. A social analysis can describe the main features of each layer, the exchanges among the members, the benefits they get from being a part of these organizations, the relations with other organizations, and so forth. This kind of analysis leads to a description of the “texture of the social fabric.” Based on this analysis, a social study can predict “the solidity of the social fabric” in supporting specific activities.

37. In project preparation, issues regarding POs or micro-finance institutions should be discussed in reference to the social texture supporting the groups involved. Social specialists involved in the early stage of project preparation can analyze, with the social groups concerned, the different layers of local organizations and go beyond such generic terms as “small groups.” Such analyses can foresee relationships between small groups and large professional organizations as based on different layers of social organizations.

38. Based on a clear understanding of the organizations involved, a participatory social analysis can clarify the place and role of different kinds of rural organizations at different levels. In one example (box 7), when different development programs were supporting different organizational models, a study clarified the fact that the two projects were in reality promoting organizations at different levels (first, second, and third layers). Strong organizations were in fact needed at each layer, even though some layers were not formally recognized. As a result, one network decided to work in consolidating the first layer (informal small groups with a high social cohesion to offer collateral guarantees) and the other network put more efforts at the third level, registering this level as the legal savings and loan association (SLA).

39. Some agricultural services projects are supporting various kinds of POs without a clear analysis of the layers involved. Producer organizations isolate some types of activities, but they all cover different layers of rural organizations, which might require different support. As in the micro-finance example above, the various layers of organizations might not evolve in a linear way. Many small farmer groups do not evolve into SFGAs. Some SFG members might graduate and access services through other types of POs or through impersonal market mechanisms. In each country, a better analysis (and understanding) of the different layers of POs is necessary to adequately plan project and donor support. This analysis also facilitates comparisons and evaluation of services provided to PO members.
Box 7. Madagascar: Highlighting the social differences between two types of organizations

In Madagascar, in 1993, two major micro-finance networks debated organizational strategy. In Marovoay, a French NGO (CIDR) was putting emphasis on organizing small groups of 20 to 50 members, with strong solidarity, even if they represented just one part of a village. In Toamasina, a Canadian NGO (SDID) was organizing larger groups of 150 to 200 members that could become viable SLAs.

A World Bank mission compared each scheme and found that each worked but that each was acting at a different level. The first project, in Marovoay, was right to emphasize small groups as the most effective level for ensuring strong social cohesion. The second project, in Toamasina, correctly focused on larger groups as the most effective level for building a viable SLA. The two NGOs had different priorities and were developing different layers of local organizations and for different purposes, but their "layers" were complementary, not contradictory (Delion 1993).

In 1998, another World Bank mission found it useful to prepare a simple grid, using generic names of local organizations, to clarify the two schemes’ differences and similarities from a social point of view (Delion 1998). The analysis showed that the two schemes were using the same names for very different social entities and each project mainly focused on one or two layers, but neglected another. The mission concluded that each project needed to do more at all levels and now both networks are working at all three layers.

Examples of other social factors underlying the development of rural organizations

40. Many development projects underestimate the social factors underlying the development of rural organizations, as was recently illustrated by evaluations of decentralization programs (Shah 1998). Shah’s work warns that simply identifying the right organizations is not enough and that helping them become efficient and sustainable is quite difficult. Shah points out that creating decentralized organizations and training their staff members did not bring the expected result. Some important issues regarding transfer of capacities, resources, and power were not clearly foreseen and without meaningful transfer of these authorities, Shah concludes that decentralization reforms

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"remain a field of dreams" that are full of good intentions but do not result in sustainable decentralized organizations.

41. Binswanger and others (1995) documented the potential and limitations of decentralization\textsuperscript{24} and emphasize the need for political and fiscal transfers and the importance of building sustainable local organizations. The World Bank’s Agriculture and Natural Resources Department (1995) summarized the lessons learned regarding decentralization: “Decentralization will fail if not accompanied by sufficient taxation powers or transfers from the center.” In addition, “decentralization is highly political in nature. Much depends on how it is put together. It has three critical elements: Political, fiscal and institutional.”\textsuperscript{25}

42. Similar indications come from recent evaluations of local development institutions, many of which have weak relationships with regional or national institutions. This failure to establish good relationships is a frequent problem. Many projects provide detailed support to isolated social actors and build sophisticated new institutions at one level, but do not link these institutions with other institutional levels.

43. As an example, in Nigeria a study of state, community, and local development, reports that little work is done on local organizations and their connections with decisionmakers at provincial or central levels (Francis 1996).\textsuperscript{26} Little attention has been given, to-date, to those institutional arrangements which articulate the needs of the poor. Francis concludes his study, recommending that “local capacities can be built through direct financial support or training and technical assistance to build managerial and other capacities.” This support does not just entail micro-grants or short training sessions, but rather, as Francis points out, transforming relationships between community organizations and local governments: “The attempt to establish ‘Community Development Associations’ to mediate between local governments and the community in Nigeria has not been a success. Precedents for new kinds of partnership between state and community, it seems, must be sought further afield.”\textsuperscript{27}


44. This kind of new partnership requires changes in the relationships among the various levels: (i) the “intended beneficiaries” and other groups around them, (ii) the managers of implementing agencies and their line ministries, and (iii) the very poor and other villagers (as they are all competing for access to grants or such facilities as water supply). These changes can be negotiated during a participatory social assessment. Social scientists can support the poor in analyzing the conditions affecting their lives and in consolidating their strategies to change these conditions, including the establishment of new institutions.

45. The emphasis in such approaches is clearly on enabling the poor to analyze their environments, or their social, economic, physical, and technical constraints; to adjust or consolidate their strategies; to prepare their plans; and to implement them. To support the process, a project can assist the poor in designing new institutions. They can go into details to propose new rules, law enforcement, attractive incentives, effective penalties, clear and socially applicable modalities for conflict resolution, and so on. This approach takes time and is quite different from short-term consultative or training sessions.
5. Examples of precautions to mitigate the risks in partnerships between projects and POs

Conduct social assessments at country and project levels

46. Social assessments could describe the status of the social capital and highlight conditions for organizational development. Such assessments should be conducted at the country level and should influence Country Assistance Strategies (CAS) prepared by the World Bank and borrowing countries every two or three years. These social assessments could provide a coherent social framework, describing organizational developments taking place, on which to base strategies to develop POs.

47. Such participatory social assessments should not be long theoretical studies. They could use existing studies, such as beneficiaries assessments, and could be conducted using approaches similar to the Rapid Rural Appraisal (RRA). A rural development strategy in a Sahel country could usefully incorporate the findings of a recent IIED study on conflicts between farmers and herders in the Sahel (Hussein 1998). Participatory social assessments could start at the local and regional levels, where they are easier to do. Community development and natural resources management programs already incorporate social issues when they help various groups consolidate strategies at the local level.

48. Similar, but more specific, assessments could be prepared at the project level. Some rural development projects, such as the Argentina Small Farmer Development Project (1997), already use detailed social assessments during their preparation. The assessments analyzed small farmers’ objectives, strategies, and opinions on the role of the institutions concerned. Twenty-two participatory workshops were organized to prepare a project dealing with 1.5 million rural people. This process influenced the organizational setting of the project, with an emphasis on the long-term objective of stimulating the process of social change rather than on the short-term objectives of building specific institutions.

Identify capacity-building objectives and indicators

49. Many projects put more emphasis on short-term objectives (i.e., “provision of inputs to farmers”) rather than on long-term capacity-building objectives (such as “building capacities of POs so that they can provide fertilizers to farmers in a viable and sustainable way”). A project’s logical framework should put more emphasis on capacity building and institutional issues as a condition for achieving sustainable results.

50. In Colombia, a project was to provide grants to support local organizations, but the project focused on capacity-building, long-term objectives rather than on the immediate objectives of delivering the grants and implementing micro-projects (box 3). In preparing the PRONATTA program, social specialists were involved in a participatory process with local organizations. They considered that allocating grants to local organizations and establishing new institutions to allocate these grants were only secondary objectives.

51. The social specialists and the local organizations involved in the preparatory process found that their major objective was to help the local actors gain self-confidence in their capacity to understand and influence their new environment. Thus the program focused on the process of social interactions. It initiated an interaction process in flexible consultative institutions (nodos) that would gradually develop decision-making power. This program avoided fixing precise rules for these nodos, in order to let the actors control the institutional development, and focused on the capacity-building side of the process.

52. Most projects dealing with POs should give priority to capacity-building and institutional development objectives. That process should translate into detailed monitoring and evaluation indicators. Such indicators could be qualitative indicators, such as reporting how the people involved see their own progress, against their criteria and objectives. Projects could monitor progress using a process approach of monitoring and evaluation (M&E), where the local organizations themselves use the M&E instruments as tools to assess their progress. Community-based natural resource management projects have adopted these processes, but rural development projects rarely employ them. Projects supporting the development of POs would find such processes quite useful.

**Use professional institutions to assist POs: Movement to movement partnership**

53. Some donors have been using long-term partnership strategies and asking experienced POs to “coach” emerging POs. These programs do not consider public servants in agricultural services or other ministries the best advisers to assist the POs in adapting to the market economy. The donors consider that many civil servants, too accustomed to working with subsidies, do not have “real” business and market experience. Bilateral donors from northern Europe and the International Labor Organization (ILO) thus promoted “movement to movement assistance” in the 1980s in which experienced managers and trainers from successful POs help the new POs find their path in the market economy.

54. These approaches use a kind of long-term partnership between experienced and emerging POs. Some experienced POs have created specialized branches—for example, the Grameen Trust in Bangladesh—to assist POs in other countries. The Association Française de Développement International (AFDI) in France, the Federation of World Council of Credit Unions (WOCCU), the Société de Développement International
Desjardins (SDID), and other federations of POs developed specific services to transfer their experience. Some NGOs, such as the Canadian Center for International Studies and Cooperation (CECI), Technoserve in the United States, Institut de Recherches et d’Application des Methodes (IRAM) and the Compagnie Internationale pour le Développement Rural (CIDR) in France, specialize in assistance to PO development. The risk again is that these experienced POs will take the lead and not really build local capacities. To limit this risk, projects can use contracts with objectively verifiable indicators for transfers of capacities. The World Bank is planning to develop such indicators in the year 2000. Such indicators are already used, for example, in microfinance projects, dealing with transfers to savings and loans associations.

**Help POs prepare viable business plans to enter the market economy**

55. In the 1970s and 1980s, support to POs and MFIs was measured in terms of "quantity" of funds and equipment provided, essentially as subsidies. Many POs and MFIs achieved meaningful results and provided important services to their members. They also achieved most of their objectives in terms of impact on production, processing, marketing, and socioeconomic development, but, when subsidies vanished, many of these POs and MFIs also vanished. No private firm immediately took over the services, which had been highly subsidized and were not economically viable at market conditions.

56. To avoid such risks, projects supporting POs should help rural organizations establish viable business plans for entering the market. A project can take time, in the beginning, to conduct a participatory diagnosis of PO activities, context, and strategy and thus help the rural organization gain a better understanding of its environment. Most PO members should be able to identify the constraints and opportunities for possible development and these members can prepare viable business plans based on their objectives (box 8).

**Box 8. Chad: Helping POs enter the market**

The PASR project in Chad (funded by French bilateral cooperation and the French development agency, CFD) has an important component for capacity building for POs with the objectives: “to strengthen POs’ capacities to analyze, to produce and to negotiate, in order to help them to negotiate with other actors; strengthen POs’ capacities in conducting a collective reflection with the members, in stimulating proposals from the members and in promoting technical and economical changes in the members’ activities (Baillet 1997).”

Specific project support includes reliable information for market analysis and assistance to plan realistic and viable activities. A French PO executing the project follows an approach of collaborative assistance of one producers’ organization movement to another.

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57. Other programs, such as the CECI in Côte d'Ivoire, Technoserve in Ghana, the SOCODEVI in Colombia, and the Institut de Recherche et d'Application des Méthodes (IRAM) in Mali, emphasize the capacities of POs to provide efficient services to their members under viable and sustainable conditions. Capacity-building indicators apply to members as well as to the POs. Members learn how to act in the market economy: they receive experiential learning, through preparing and implementing PO activities and develop their negotiation skills with donors and private firms.

58. The POs provide experiential learning opportunities to their members and their immediate services are not the ultimate objectives. After a few years, some POs cease activities and their members graduate and link with other organizations to take advantage of the market opportunities. Such POs are “transitory forms of social capital” followed by impersonal market mechanisms, as has been common in many societies. With “village banks” or savings and loans associations: many disappear or do not grow much after an initial development period, but members graduate and move to commercial banks or larger MFIs. These banks or MFIs accept the new customers (or members) based on their credit record acquired in the village banks or SLAs.

59. In the village banks model in South America, or in the food security project in Cameroon (box 9), the project objective was, from the beginning, to help members graduate and move to commercial banks. Success is measured by the number of former members who have graduated and are satisfied with the services from sustainable market mechanisms. With the help of village banks, a small group of women can invest in a handcart or a coffee producers’ organization can learn how to manage a small processing plant. The impact of the banks comes from this training in management and financial services. If such an experiential learning process is clearly identified as an objective from the beginning of a project, the project should use capacity development indicators to measure its achievements.

Box 9. Cameroon: Using micro-loans to train small groups on use of financial instruments

A food security project in Cameroon systematically used the following steps from 1990 to 1998. Initially, much time was spent helping small groups—often groups of women—develop business plans. Based on these plans, the small groups prepared training plans, which included visits to existing businesses similar to those they were planning. After this training and, sometimes, after changes to their plans, the groups prepared their projects, collecting pro forma bills, identifying technical support, and preparing formal loan requests. Emphasis was on helping the women’s groups, through experiential learning to insert themselves in the market with small investment loans. The 30,000 members involved “graduated.” Many continue to use what they learned in this process and have gone on to prepare other small investments and manage more small businesses.
Take precautions in the use of subsidies to POs

60. Most programs focusing on the capacity building of POs or MFIs use subsidies and other external support. They ensure the initiative is in the hands of the PO members and that tools are tailored to the operating environment with limited, short-term subsidies. Such programs use small grants for training and capital formation, and ask the POs or the MFIs to contribute to the costs right from the beginning. They take precautions to avoid “contaminating” the POs or MFIs with high salaries, luxury equipment, and easy money. From the beginning, POs are subject to conditions close to market terms.

61. As an example, the services centers in Mali or FONDOR in Cameroon asked POs to pay 20 to 30 percent of service costs during the first year and gradually increased this payment to 100 percent over the next three to four years. This is quite different from some agricultural services projects in which POs benefit from free training, per diems for travel, and access to micro-grants with minimal contributions, sometimes only in kind (as seen in Senegal and Cameroon).

62. An increasing number of agricultural services projects and rural investment funds offer small grants to support PO projects. This mechanism is widely used in social funds and in what are now called demand-driven rural investment funds (Piriou-Sall 1997). One of the first competitive rural development funds in Africa was the food security fund in Cameroon (box 10), which reached 3,000 groups in 52 districts of the country. Such funds are widely used in Mexico (PIDER) and in Brazil (Northeast Development Fund).

63. The World Bank could increase its lending through these funds, and central governments could release “gross lines” of funds without interfering directly in their precise allocations. Many outside partners, like Yunus from the Grameen Bank, are pushing the World Bank to move quickly in this direction (Yunus 1998). This type of funding would be a huge step in providing local organizations direct access to development funds. However, precautions must be taken to set reasonable contributions and to select only serious organizations that are able to contribute in cash and have good management records (box 10).

64. Flexible funds are easy to set up when elected local governments are in place and have required experience and capacities. In Africa, since few countries can meet these conditions, projects must identify temporary institutions, such as district development committees, capable of managing flexible funds. Flexible funds are appropriate financial instruments to support PO business plans and although funds required might be small, additional resources might be needed for training and fiscal controls. The development of


31 Pr. Yunus and a group of World Bank staff in March 1998 in Washington, D.C.
POs could be addressed as a business development activity, clearly different from immediate physical outputs.

**Box 10. Cameroon: A flexible fund for capacity building of POs**

In 1992 after a new law was passed governing rural organizations in Cameroon, a Fund for Rural Organizations (FONDOR) was established by a pool of donors, mainly the European Union (EU), France, and the ILO. It offered POs support to improve their accounts, conduct audits, and improve organization and training.32 FONDOR had a small secretariat in the capital, but the fund was not properly managed and control mechanisms were not enforced. Consequently, many artificial POs misused the fund. Still, the principles incorporated in this approach seem very promising. To be successful, more attention should be paid to the political context to ensure controls can be enforced, and “professional” managers must be appointed to apply strict criteria on allocation of funds, including thorough financial and organizational audits of the POs.

65. Allocation of funds to POs would be possible through autonomous components of rural development programs or through stand-alone rural support/capacity-building programs. These flexible funds could include lines for support to POs apart from lines for rural infrastructure or social investments. Such funds could cover audits, business plan development, training and small equipment, and capital development support for POs. As being tested in Senegal, fund managers could start a one- to two-year pilot phase to identify the mechanisms most compatible with PO needs before finalizing rules for flexible funds.

66. It is important to recognize that the POs and the MFIs can only grow over the long term. The World Bank now uses adaptable program lending (APL) to commit support (which is gradually reduced) to such long-term efforts. The impact of such long-term commitments has been well demonstrated by dedicated NGOs, which have coached POs over long periods, with some NGOs working in the same area for 20 to 30 years and gradually transferring powers to local institutions. Their results, as with the Mayo-Kebi Federation of Savings and Loan Associations in Chad or the CIDR in Mali, are impressive particularly in view of the relatively low costs.

67. Some donors have made long-term commitments for PO development: the German Cooperation Agency (GTZ), the Swedish International Development Authority (SIDA), the Danish International Development Agency (DANIDA), and the Swiss Development Cooperation (SDC) have been engaged in PO development for more than 15 years. Many POs themselves are concerned about long-term intentions of large

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agricultural services projects that support PO development. Clearly, support for PO development is a long-term objective that could be pursued using new World Bank instruments, such as adaptable project lending (APL).

68. In Madagascar, the World Bank prepared an APL for 1998–2004 as a follow-up to an earlier five-year pilot project. This project provides a clear long-term commitment to development of regional networks of SLAs in Madagascar. The program focuses on capacity building with no supporting line of credit and with a total program cost less than US$40 million over a 20-year period (1993–2013). Developing local institutions requires significant commitment to capacity building, but, if adapted to the social context, can produce important long-term results at a relatively low total cost.

6. Conclusion

69. The World Bank needs to learn how to provide more support to producer organizations and must adopt new approaches from the earliest stage. Projects should conduct social assessments with a thorough analysis of the social conflicts at stake, the different layers of social organizations, and the capacities of POs and service/training organizations. Participatory approaches are required from the beginning to enable POs to design support mechanisms that fit their needs. Their emphasis should be on capacity building involving adult education, functional literacy, and vocational training. Projects involved in such processes will need to use performance indicators for capacity building for members and organizations.

70. In addition, the World Bank must use movement to movement partnerships to provide necessary support to POs. It can devote more resources to institutions that provide training and advice to POs and, thus, create an enabling environment for long-term PO development. At the same time, the World Bank should not impose one dominant training institution as the sole provider of services. POs should be able to select the training institutions that offer the services they need. In some cases, PO members could influence training institutions, for example, by joining their boards. The World Bank will need to support development of a complex institutional structure for this enabling environment.

71. Further the World Bank might consider putting more emphasis on building viable POs and less emphasis on transferring services from agricultural services to POs. Agricultural services projects might need to allow some time before they ask POs to assume responsibilities for input supplies, processing, or marketing. Most POs first need to consolidate their business plans and cover their costs. To assist with these business plans, the World Bank might need to use private sector development approaches quite different from agricultural services development strategies of the past.

72. Finally, the World Bank should reassess the way it intervenes in social development processes with special facilities and large amounts of external funds. It must take precautions with use of subsidies when contracting with POs, as risks are high that
too much financial assistance, given too easily, will have negative consequences on the
development of POs.

73. Such risks surfaced as a major issue in a 1996 study in Africa by the Plunkett
Foundation for the Natural Resource Institute (NRI). This study concluded: "To avoid the
negative and counter-productive impact of disbursement-driven programs there may be a
need for some radical reform within the donor community with regard to program
formulation, design and monitoring. . . . Programs to promote rural enterprise should
focus on training, capacity building and the development of linkages between producers
and market intermediaries. NGOs, rather than government departments, are better
vehicles for implementing such programs. . . . Grants and/or subsidized loans to groups
should not be included in program design as these have clearly shown to undermine the
cooperative ethic rather than encourage it. . . . Criteria for inclusion of suitable NGOs
should include (a) a strong business orientation and commitment to private sector
development which precludes subsidized lending rates and grants, and (b) a participatory
approach."3

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Pr. Yunus and a group of World Bank staff in March 1998 in Washington, D.C.


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