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Technical Department
Africa Region
FOREWORD

During the period 1991-1992, the World Bank conducted a Regional Study on the Development of Cooperatives and Other Rural Organizations. The main conclusions have been published in Technical Paper No. 199, as a synthesis of the lessons learned from all over Sub-Saharan Africa.

This Divisional Paper complements the Regional Study. While the approach, may be different, the concern is the same: understanding and learning from the experiences of local people who have been trying to examine the course of their own development, reflecting on their achievements, and also the challenges.

This study has drawn heavily from six country studies. Ghana, Kenya, Niger, Nigeria, Senegal and Uganda. In each country, the study has worked closely with local cooperative officers, senior Government officials and NGOs. The outcomes have been widely discussed in specific workshops on cooperative development in the country, or in negotiations for preparing fresh support for the cooperative sector.

Not all the details from each country study could be accommodated within the framework of the Regional Study. For this reason, the Environmentally Sustainable Development Division of the Africa Technical Department (AFTES) is publishing summaries of the six country studies.

The summaries illustrate the practical challenges faced by cooperatives and other rural organizations. They also demonstrate the differences that exist in the cooperative sector between the six countries in question.

We hope that those who contributed to the studies will recognize their main concerns, and will be able to use these summaries; we hope that readers from other African countries will learn from these examples, and will use these cases to stimulate investigations in their own countries. Such use will validate the basis for these studies: the importance of and the need to provide feedback to the countries involved in the study in a form that might be directly useful to the countries themselves.

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Environmentally Sustainable Development Division
Technical Department
Africa Region
April 1993
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**ACRONYMS**

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<tr>
<th>Abbreviation</th>
<th>Full Description</th>
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<tbody>
<tr>
<td>ADP</td>
<td>Agricultural Development Project</td>
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<tr>
<td>CB</td>
<td>Coffee Board</td>
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<td>CBK</td>
<td>Cooperative Bank of Kenya</td>
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<td>CCD</td>
<td>Commissioner for Cooperative Development</td>
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<td>CFA</td>
<td>Cooperative Finance Agency</td>
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<td>CFN</td>
<td>Cooperative Federation of Nigeria</td>
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<td>CIS</td>
<td>Cooperative Insurance Services Ltd.</td>
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<td>COCOBOD</td>
<td>Ghana Cocoa Board</td>
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<td>CODEC</td>
<td>Cooperative Development and Education Center</td>
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<td>ČSD</td>
<td>Cocoa Service Division</td>
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<td>DOCD</td>
<td>Department of Cooperative Development</td>
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<td>ERP</td>
<td>Economic Recovery Program</td>
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<td>FACU</td>
<td>Federal Agricultural Coordination Unit</td>
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<td>FAO</td>
<td>Food and Agricultural Organization of the United Nations</td>
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<td>FASCOM</td>
<td>Farmers' Agricultural Supply Company</td>
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<td>FCD</td>
<td>Federal Cooperative Department</td>
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<td>FDAC</td>
<td>Federal Department of Agricultural Cooperatives</td>
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<td>FMAWRRD</td>
<td>Federal Ministry of Agriculture, Water Resources and Rural Development</td>
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<td>FSC</td>
<td>Farm Service Centers</td>
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<td>GCC</td>
<td>Ghana Cooperative Council</td>
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<td>GNAFF</td>
<td>Ghana National Association of Farmers and Fishermen</td>
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<td>GOG</td>
<td>Government of Ghana</td>
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<td>GTG</td>
<td>Government-to-Government (collaboration)</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>KCC</td>
<td>Ker, ya Cooperative Creameries</td>
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<td>KNCDP</td>
<td>Kenyan/Nordic Cooperative Development Program</td>
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<td>KNFC</td>
<td>Kenya National Federation of Cooperatives</td>
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<td>KPCU</td>
<td>Kenya Planters Cooperative Union</td>
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<td>KShs</td>
<td>Kenya Shillings</td>
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<td>MOA</td>
<td>Ministry of Agriculture</td>
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<td>MCOE</td>
<td>Ministry of Cooperative Development</td>
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<td>MTADS</td>
<td>Medium Term Agricultural Development Strategy</td>
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<td>MTM</td>
<td>Movement-to-Movement (collaboration)</td>
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<tr>
<td>NACMDC</td>
<td>National Agricultural Cooperative Management Development Center</td>
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<td>NACMO</td>
<td>Nigerian Agricultural Cooperative Marketing Organization</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>SACCO</td>
<td>Savings and Credits Cooperative</td>
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<td>SAP</td>
<td>Structural Adjustment Program</td>
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<td>SCC</td>
<td>Swedish Cooperative Centre</td>
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<td>SCIP</td>
<td>Smallholder Coffee Improvement Project</td>
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<td>SOE</td>
<td>State Owned Enterprises</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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USD United States Dollar
ABSTRACT

This document presents six case studies from Ghana, Kenya, Niger, Nigeria, Senegal and Uganda. Each report summarizes the main findings and recommendations of a review of cooperatives and other rural organizations in the country.

The overall objective of each report was to generate information on the present status and development potential of agricultural cooperatives and other rural organizations. Most of the reports provide an overview of the cooperative sector, and then give details on the support services available for the cooperative sector, and the difficulties faced in this sector.

In the case of Senegal, the document reflects an analysis conducted by the Federation of NGOs (FONG), on the theme of the development of cooperatives and other rural organizations. FONG called a meeting to discuss the issue, and offered comments on the prerequisites for beneficiary participation, the development of rural organizations, and the legislative framework conducive to the development of rural organizations. The summary is a translation of the FONG report.
1. GHANA: REVIEW OF COOPERATIVES AND OTHER RURAL ORGANIZATIONS

Summary by H. Porvali

INTRODUCTION

This report summarizes the main findings and recommendations of a review of cooperatives and other rural organizations. The study was carried out in 1991 at the request of the Government of Ghana (GOG) by a team comprising Messrs. P. Hussi from the World Bank (team leader), with O. Lindberg, L. Skaaret, P. Warmka, A.K. Anyimadu and K. Owusu Baah as consultants. The overall objective of the review was to generate information on the present status and development potential of agricultural cooperatives and other farmer organizations so as to facilitate the design of policy and institutional reforms, as well as support measures which may be needed to strengthen these organizations. The specific tasks of the review mission were to (a) identify the development issues in the cooperative sector and to come up with sound policy advice for consideration by GOG; (b) identify technical and financial constraints to the development of efficient, financially viable and self-sustainable cooperatives or other farmer organizations; and (c) to facilitate the design of technical and financial assistance proposals which the government and the cooperative movement could consider for presentation to donor agencies.

Since the introduction of the Economic Recovery Program (ERP), cooperatives and informal groups have been widely discussed in negotiations between the government and the World Bank. The Medium Term Agricultural Development Strategy (MTADS) points out that grassroots organizations will be important in the privatization objective, specially in the marketing of agricultural inputs and products, as well as in providing cohesive groups suitable for extension work and joint borrowing and mobilizing savings. The review was conducted within the framework of this strategy and focused primarily on agricultural cooperatives. It also covered—to the extent relevant information was available—other types of formal and informal rural organizations.

THE COOPERATIVES

Overview of Cooperative Development and Structure

The cooperatives have during the last three decades gone through a turbulent period marked by frequent shifts in government policy. In the early 1960s, cooperative apex organizations were dissolved and their assets and functions transferred to parastatals. This decision was partly reversed a few years later. The whole period thereafter has been characterized by experiments with various types of cooperative structures and cooperative-like farmer organizations promoted by government in order to ensure the availability of marketing and supply services to farmers and other groups. Inconsistent government policies and the promotion of a variety of organizations
to carry out government-initiated programs, have led to a proliferation of cooperatives which typically are too small to be viable and capable of organizing efficient services for their members.

Out of a total number of 10,585 registered cooperatives, only some 1,000 were in operation at the end of 1989. Most are small in terms of membership, as well as volume of activities. There are four main types of primary societies:

(a) *Agricultural Service Cooperatives.* There are 5,000 registered societies in this category, but only a few hundred are active. Those which are in operation include societies handling food crops, fish, livestock, poultry and palm oil. The cocoa cooperatives, which until the early 1960s formed the backbone of the cooperative movement, ceased to operate when the government took over their assets and transferred their functions to the Cocoa Board (COCOBOD);

(b) *Industrial Cooperatives.* This category of cooperatives consists mainly of distillers’ and bakers’ societies, which in 1989 accounted for more than half of the active cooperatives in Ghana. The relatively high rate of sustainability of these cooperatives is explained by their role as channels for government allocation of rationed production inputs (sugar and flour) and, in the case of distillers’ cooperatives, by their legal mandate to handle the marketing of distilled alcohol;

(c) *Non-Agricultural Service Cooperatives.* These include transport, consumers, petrol filling stations, pharmaceutical cooperatives, and a variety of others. More than 3,000 such societies have been registered, but only some 200 are active.

(d) *Financial Sector Cooperatives.* This category comprises approximately 250 active credit unions, offering savings and loan facilities to their members.

**Government and Cooperatives**

Government has during most of the post-independence period (1957) played a central role in the promotion of cooperatives, which have been perceived as important channels for government-sponsored development programs and services. Many cooperatives, which now are moribund, were created as part of such programs. The use of public resources for support to cooperatives has provided a justification for government supervision of the movement through the Department of Cooperatives (DOC). The extensive government involvement in the affairs of the cooperatives has not been conducive to the development of a self-sustaining cooperative movement.

Current (1991) government policy recognizes the role which cooperatives and other rural organizations can play in the privatization program, especially in agricultural marketing and in the provision of financial services to smallholder producers. The strategy embodied in the MTADS focuses, as far as cooperatives and other rural organizations are concerned, on the following areas: (a) strengthening of cooperatives to enable them to assume a greater role in the privatization of the marketing of agricultural inputs; (b) strengthening of the societies in the cocoa growing areas to enable them to become cocoa buying centers for the COCOBOD; and (c) strengthening of women’s groups involved in grain marketing and processing.

The Cooperative Societies Decree of 1968 provides the legal framework for the registration and operation of cooperatives. It gives the Registrar of Cooperatives extensive powers to direct
the administration and business operations of the societies. The legislation of 1968 is outdated and is certainly out of step with the current privatization program which appears to recognize cooperatives as private organizations. As experience has shown, the authority given to the Registrar under the Decree to direct and control the cooperatives, could seriously erode their capacity for self-management and successful business operations.

DOC, with a staff of 370 technical officers, has two basic functions, a regulatory control function, and a promotional and development function. The first function includes (a) registration of cooperatives; (b) arbitration and settlement of disputes; (c) audit, inspection and inquiries; (d) cancellation of registration and liquidation of societies. These tasks are carried out through inspections, annual audits, scrutiny of annual budgets and, in some cases, countersigning of cheques issued by cooperatives. The promotional and development functions of the DOC include member education and staff training, preparation of cooperative development plans and projects, and compilation of information on cooperatives. The main part of the training is conducted by the Cooperative College, which operates under the supervision of the DOC.

The effectiveness of the DOC is impaired by insufficient budgetary allocations for travel, training and education and other support activities. The overall impression is that the DOC is unable to discharge its duties as defined in the present legislation, and that its impact on the performance and development of cooperatives leaves much to be desired. Its activities center around audit and inspection, but it has little to offer in the important areas of business and management development, and training and education.

The Cooperative Movement

The cooperative movement is characterized by a fragmented, multi-tier structure. At the primary level, cooperative societies are normally single-purpose or single-crop, each with a relatively small membership and, consequently, a low volume of business. All the major types of primary cooperatives have formed district unions which, in turn, have come together in Central Unions at the regional level. These central unions constitute the membership of 17 specialized national associations, few of which have any significant activities.

The National Associations, together with some specialized national cooperatives (e.g. the Cooperative Bank) form the membership of the Ghana Cooperative Council (GCC), which is the apex body of all cooperative organizations. The GCC is represented at the regional and district levels through Regional and District Cooperative Councils. Their function is to promote and coordinate the development of cooperatives in their respective areas, but due to the lack of resources, their activities are insignificant and their contribution to the promotion of cooperatives negligible.

In reality, the large majority of cooperative organizations do not exist as actively operating units. The active cooperatives are mainly those involved in distilling the local gin (akpeteshie), the credit unions, the bakers' cooperatives, and a small number of agricultural service cooperatives, which handle input and output marketing. Because of the weak foundation at primary level, most secondary, tertiary and national cooperatives are weak as well. The vast majority of the district and regional unions are dormant, with the exception of those formed by distillers' and bakers' cooperatives. The picture is much the same with the national cooperative associations. Only a few of them have the capacity to provide meaningful services to their affiliates.
The agricultural service cooperatives, which at the time of independence formed the backbone of the movement, are today practically extinct. The erstwhile extensive structure of regional unions has all but disappeared. Their activities have been taken over by COCOBOD in the cocoa sector and by private traders in food crop marketing. What remains is mainly the Ghana Cooperative Marketing Association operating in conjunction with a small number of semi-active unions and primary societies; the Ghana Cooperative Poultry Farmers Association providing input supply and output marketing services to approximately 25 primary societies with some 5,000 members; the newly-formed Ghana Cola Marketing Association composed of 23 primary societies; and a small number of independently operating service cooperatives, most of which have been formed or reactivated with assistance from donor-funded projects.

A new type of agricultural service cooperative has emerged in recent years with the assistance of international donor agencies. An example is the pilot project in the Upper West Region, where farmers have organized themselves into cooperatives to take over Farm Service Centers (FSCs) which have been operated by the Farmers' Agricultural Services Company (FASCOM), a parastatal company established for distributing farm inputs. The largely positive experience gained from this scheme indicates a potential for cooperative involvement in the privatization of services which so far have been provided by State Owned Enterprises (SOEs).

As can be noted from the preceding summary, the cooperatives play a very marginal role in the distribution of inputs and in the marketing of produce. This is also the case as regards the provision of production credit and other financial services. The cooperative banking system is insolvent and lacks resources for significant lending to cooperative societies. The cooperatives have not been able to accumulate funds for lending from internal sources and are often not considered creditworthy by financial institutions. In a few cases where external donors have made funds available for seasonal credit schemes, reasonably successful lending programs have been implemented by selected societies.

In the absence of a viable cooperative structure capable of serving the needs of agricultural producers, other service channels have emerged, often actively promoted by government. Distribution of seeds and fertilizer were public sector monopolies until 1989. This situation, which was a major impediment to the development of cooperative activities, is now changing. Recent measures easing import restrictions, improving access to foreign exchange, removing price subsidies, and privatizing the retail network for input supply have led to an improvement in the efficiency of the distribution network. Government is now encouraging private sector participation in farm input supply. Action already taken includes the closing down of the parastatal Ghana Seed Company which had a monopoly in the importation and distribution of certified seed and the decision to privatize the two Farmers Agricultural Supply Companies which were government-owned companies.

Cooperative involvement in input supply and marketing activities for cocoa and coffee is restrained by the monopoly position of the COCOBOD which through its extension wing is responsible for the importation and distribution of fertilizer to cocoa and coffee farmers. All stages of cocoa and coffee marketing are also under the control of COCOBOD, which is responsible for crop purchases from farmers, and for transport and export through its appropriate subsidiaries.

The marginal involvement by farmer cooperatives in the provision of support services to farmers is partly a result of past government policy, which emphasized the role of SOEs and
parastatals in input and output marketing and which, because of subsidies and other market regulations, made private sector involvement unfeasible. Apart from these policy-related constraints, there are serious internal weaknesses in the cooperatives preventing them from penetrating the market and providing competitive services to their members. A summary of lessons learned from past experience is given in the subsequent section which summarizes the main reasons behind the demise of the cooperative movement since the 1960s, when it was among the most successful in Africa.

Reasons for Failure of the Cooperatives — Lessons Learned

Although there are several examples of successfully operating cooperatives—notably the distillers' societies and the credit unions—the overall picture which emerges from the study of the agricultural cooperative sector is bleak. This is supported by the fact that only about 4 percent of the registered farmer cooperatives is in actual operation and that their market share of input distribution and output marketing is negligible. Several factors have contributed to this situation:

(a) *The erratic policy environment.* As already mentioned, the cooperatives have in the past been exposed to frequent and sometimes drastic changes in government policy. These policy shifts and the subsequent interventions into the operations of the cooperatives have disrupted progress: in extreme cases, these have led to the liquidation of viable cooperatives and confiscation of their assets. Transfer of functions from the private sector to parastatals—such as the transfer of the cocoa and coffee buying activity from the cooperatives to the COCOBOD—has contributed to the reduction of the level of activities of the cooperatives. The lesson learned from past experience is that cooperatives, like any other private business enterprise, must be allowed to operate in a stable and predictable business environment without undue restrictions.

(b) *The top-down cooperative development approach* which has been applied by successive governments and which still is embodied in the cooperative legislation. Cooperatives have often been seen as instruments for implementation policies and development schemes rather than being recognized as private institutions formed and managed by their members to meet their felt needs. Intervention by the authorities, through the DOC, into the management of the cooperatives has militated against the objective of building a self-sustaining and member-controlled cooperative movement. Administrative regulations originating from the Cooperative Societies Decree have not been conducive to ensuring the kind of flexibility in decision-making which is necessary for efficient business operations. Although the Cooperative Department, within the limits of its resources, has provided some useful training and promotional support, the overwhelming impression is that the strict regulatory framework defined by the legislation is counterproductive, especially in the market-oriented economic system which is now emerging in Ghana.

(c) *Objectives no longer relevant.* Over the years, some types of cooperatives have turned moribund for this reason. A case in point is the consumer cooperative movement which was created at government initiative to distribute rationed commodities. It thrived as long as the scarcity of goods and the controlled distribution system existed but has since lost its justification. The bakers' cooperatives, which derived their
strength from their ability to obtain flour for their members in times of scarcity, may soon face the same situation unless they can adjust to the new market environment.

(d) *The fragmented cooperative structure*, which at the grassroots level consists of single-purpose or single-crop societies, which often are too small in terms of business turnover to be commercially viable. This structural weakness is further accentuated by the organization of the various types into a heavy multi-tier structure which is expensive to operate and which—with the weak foundation of primary societies—in most cases has turned out to be unsustainable. Cooperatives at all levels should be encouraged to amalgamate into larger units in order to become financially and operationally viable.

(e) *Insufficient member participation and commitment*. The cooperative movement has a poor reputation because of frequent instances of mismanagement, misuse of funds by management committee members and staff and, generally, poor member services. Many farmers seem to view the cooperatives with suspicion and are reluctant to participate in primary society activities and to contribute share capital. A further factor which may explain the lack of enthusiasm for cooperatives is the experience in the past when cooperatives were dismantled through government decree and had their assets confiscated.

(f) *Poor business management skills* among staff and committee members of cooperatives. This is the result of two main factors: first, a poorly-designed and inadequate program for training of staff and elected representatives, and, second, the small size of the cooperatives which makes them unable to pay competitive salaries and thereby attract adequately qualified personnel.

(g) *Lack of appropriate accounting and internal control systems* which would facilitate sound management of business activities and prevent dishonest practices.

(h) *Undercapitalization of most cooperatives* due to low share capital contributions by members and low business volume and profitability. The cooperatives are unable to generate sufficient funds for investments and for development of their activities. The financial constraints are further aggravated by the failure of the cooperative banking system to meet the financing needs of the societies. Equally significant is that the cooperatives, due to their unsatisfactory commercial performance and their history of business failures and mismanagement, are often regarded as high-risk borrowers by financial institutions.

A program for the revitalization of the cooperative movement must draw on the lessons of the past and recognize that a sustainable and viable cooperative movement cannot develop in a policy environment which restricts its freedom to operate in a business-like manner. A liberalization of the Cooperative Societies Decree, as well as deregulation of prices and markets are necessary prerequisites for cooperative business enterprises to prosper. The cooperatives must be allowed to compete on equal terms with other private sector enterprises without being subjected to administrative and other requirements which hamper their competitiveness. Another major lesson is that the cooperative movement must take action to eliminate its own internal weaknesses, first, through rationalization of its fragmented structure and, second, by creating a vastly increased capacity for management training and business development. Changes in
cooperative legislation and policy and establishment of a movement-based training and management development capability should be the two main elements in a strategy to revitalize the cooperatives in order to enable their members to benefit from the opportunities created by the ongoing economic reforms in the country.

A task force appointed by the government in 1987 recognized many of these weaknesses in the cooperative movement and recommended a program for reactivation of the cooperatives. The program designed by the task force has as its objective to establish financially self-reliant and effective cooperatives which are capable of improving upon the socio-economic conditions of members and of contributing significantly towards the implementation of national goals. The program contains several useful components, e.g. liquidation of moribund societies, amalgamation of small primary societies into viable units, training of promotional staff of the DOC and cooperative staff training and member education. The program pays less attention to the need for liberalization of government policy and cooperative legislation in order to reduce the movement's dependence on the DOC.

Cooperative Development Needs and Potential

The most promising potential, as well as the most obvious need, for development of cooperatives is in the agricultural sector. Under the ERP, the Government has embarked on a program for removing subsidies on inputs and reducing public sector involvement in input delivery and output marketing. These policy changes offer new opportunities to the private sector, including cooperatives and other farmer organizations, to develop services to farmers. One of the objectives of the MTADS is to achieve increased self-sufficiency in the production of food crops. To reach this objective, the productivity and efficiency of smallholder farming sector needs to be substantially improved through an effective input supply, output marketing and financial services system. Efficiently operating cooperatives can play an important role in this regard.

The planned withdrawal by the COCOBOD from distribution of inputs and an eventual reduction of its role in crop marketing calls for the creation of alternative institutions to meet the needs of cocoa and coffee farmers. The cooperatives played in the early 1960s a prominent role in input and output marketing. This indicates their potential to assume responsibility, alongside with other private sector enterprises, for part of the activities which now are carried out by the COCOBOD.

Although the general economic policy framework now provides an opportunity and a need for revitalization of cooperatives and other farmer organizations, it is evident that the existing organizations are poorly equipped to take advantage of the new situation. Several issues will have to be addressed in order to eliminate the present constraints so as to enable the cooperatives and other rural organizations to evolve into viable and self-reliant institutions able to meet the needs of their members in an open and competitive economy. The principal issues which require attention can be grouped into five categories:

(a) The government policy for promotion of cooperatives, including cooperative legislation and the promotional and supervisory role of the Department of Cooperatives;

(b) The structure of the cooperative movement;
(c) The business management capability of the cooperatives;

(d) The availability of financial services for investments and seasonal credit for members; and

(e) The need for a movement-based organization for promotion of cooperatives through training, education, business consultancy and other support services.

A Medium-Term Strategy for Revitalization of Cooperatives

The main elements of the cooperative development strategy recommended in the review are, in summary, as follows.

*The formulation of a government policy* explicitly recognizing cooperatives as private, member-controlled organizations. This would contribute to the removal of the unfavorable reputation which the cooperatives have gained due to the history of interventions by earlier governments. It would be an inducement for members to take an active part in the management of the societies and to contribute share capital for their development. Being in line with internationally recognized cooperative principles, it would also increase the prospects of the movement being able to attract support from foreign NGOs and other donor organizations. Finally, it would be in line with the privatization policy of the government and the declared policy of promoting genuine grassroots organizations.

*Revision of the Cooperative Societies Decree and redefinition of the functions of the DOC.* This would be a logical consequence of the suggested policy. The role of the DOC would change from that of a body controlling and directing the cooperatives and having responsibility for training and promotion to being a registration authority. Its main task would be to ensure that the formal requirements for the registration of cooperatives as corporate bodies are met and that they operate in accordance with the law. At least for the time being, the DOC should retain its responsibility for the annual audit of cooperatives. In a longer time perspective, however, measures should be taken to transfer the audit function to the movement.

*Building of a capacity within the movement for promotion, training and business development.* The cooperative movement is presently not in a position to assume responsibility for the functions carried out by the DOC. Reduction of the role of DOC should therefore be a gradual process which should be combined with measures to create the necessary capability within the movement. The review recommends the establishment of a Cooperative Development and Education Center (CODEC). CODEC would be an autonomous body within the movement with the objective of providing cooperatives with training and business consulting services. It would consist of four units:

(a) The Cooperative Systems Development Unit which would design management and service systems for the cooperatives. This would include accounting, recording and business management systems, as well as procedures for the provision of marketing, input supply and seasonal credit services to members of primary societies. In the area of output marketing, for instance, the Unit would research the business potential, design guidelines for the marketing operations, and develop recording and internal control systems. The Unit would also deal with issues related to the overall
cooperative structure with the view to recommending a structural set-up which is commensurate with the needs of the members and which eliminates the weaknesses inherent in the present fragmented multi-tier organization of the movement.

(b) *The Development and Education Unit* which would support implementation of the business management systems through training and advisory assistance to cooperatives. This would be done by:

- a field unit of Cooperative Development and Education Officers who would work directly with the primary societies as business development advisors and trainers responsible for implementation of systems designed by the Systems Development Unit; and

- the Cooperative College which would be responsible for management training of staff and management committee members of cooperative societies.

(c) *The Personnel Policy Unit* which would develop policies and guidelines for staff recruitment and personnel development.

(d) *The Public Relations Unit* which would keep the public informed about cooperative development issues.

It is evident that CODEC cannot initially be fully financed by the cooperative movement. To solve the financing constraint, the Center will during an initial period of several years need support from the government and/or external donors. Government support is recommended to be given through secondment of staff to the Center. A reduction of the staff of DOC (and a transfer of officers to the Center) will be possible if the proposed redefinition of the functions of the Department is implemented. Donor support will be needed for equipping the Center, for the erection of a new cooperative college, and for technical assistance.

The establishment of CODEC as a fully operational organization covering the whole country should be seen as a medium to long-term objective. In the short term, a less ambitious approach may have to be adopted in view of the substantial resources needed to make the Center fully operational. It is recommended that the Center starts its operations through establishment of the Systems Development Unit, an upgrading of the training program of the Cooperative College, and through deployment of field officers in a few districts which have good potential for the development of agricultural service cooperatives.

An important condition for revitalization of the cooperatives is that they have access to loan funds for the financing of necessary investments. Financing is also required for seasonal production loans to members. Presently, such financial services are not available to the extent required due to the poor liquidity and solvency position of the cooperative banking system. The Cooperative Bank needs to be recapitalized and action taken to strengthen its management so that it becomes a fully professional financial institution. One possibility which should be considered as regards recapitalization is the establishment of a cooperative development fund. The creation of such a fund should be reviewed in the context of the long-standing dispute between the cooperatives and the government concerning compensation for assets confiscated in the past. It should be considered whether the compensation claimed by the movement could be paid by the government into a fund and thereby constitute a source of loan financing to enable the
cooperatives to rebuild the physical infrastructure which they lost in the confiscation process. In addition to easing the financing constraints of the cooperatives, this measure would contribute to restoring the confidence of cooperative members and accentuate the credibility of a new government policy recognizing cooperatives as private organizations which will not be subject to the same kind of intervention as in the past. Meanwhile, the availability of financial services to cooperatives and their members need to be secured through improved collaboration with the national level banking institutions, such as the ADB.

The preceding recommendations imply a far-reaching reform of the cooperative development approach and institutional arrangements. In view of this, it is important that the recommendations are subjected to a critical review and that an implementation plan is worked out. As a first step in this process, a national seminar of movement representatives, government officers, and selected donor representatives should be conducted. The objective of the seminar would be to review the feasibility of the recommendations and suggest possible changes before the review report is formally presented to the government.

The main recommendations, first for review by the national seminar and thereafter for implementation, if approved, are in summary.

(a) Formulation of a government policy on cooperatives and other rural organizations.

(b) Revision of the cooperative legislation to reflect the new policy.

(c) Redefinition of the tasks of DOC in the light of policy and legal changes.

(d) Review of the possibility and modalities of settling the dispute concerning compensation for assets confiscated in 1961 and, in that context, the possibility of establishment of a cooperative development fund.

(e) Implementation of the CODEC concept, initially in selected areas of the country.

(f) Formulation of a pilot project for reintroducing cooperatives in the cocoa sector, covering a limited number of primary societies and the national association.

(g) Formulation of a pilot project for rehabilitation of selected cooperatives in the non-cocoa sector for improved performance in distributing farm inputs, marketing of produce, and provision of production credit.

(h) Conduct of a study for formulation of a scheme for improvement of the financial services available to members of cooperatives and other farmer groups.

(i) Introduction of procedures for improved coordination between donor organizations involved in promotion of cooperatives and other farmer organizations, and with government and local NGOs.

(j) Formulation of technical assistance packages for donor consideration.
OTHER RURAL ORGANIZATIONS

Community associations form a significant part of rural life in Ghana. The main objective of these associations is typically to improve the standard of living of their members by engaging in various types of income-generating activities, which often include agriculture. There is a great diversity of such organizations. Systematically compiled information on their number and activities is not available, and it is therefore difficult to analyze their performance and impact. It would appear, however, that non-cooperative groups are gaining ground among Ghanaian farmers. This is partly due to the poor reputation which the cooperatives appear to have among farmers because of the checkered performance of cooperative societies in the past, but also because of farmers' perception of cooperatives as organizations controlled by government authorities.

The type of non-cooperative groups which are most relevant to this study are those which could be called "Production Related People's Organizations." They have been established—often with assistance from government departments, international donor agencies or NGOs—mostly for improving their members' access to farm inputs and production credit. One example of donor-supported groups are those established under the Sasakawa-Global 2000 Agricultural Project. This project promoted, in collaboration with the Ministry of Agriculture (MOA), a large number of groups through which extension services, farm inputs and production credit were provided. In the period between 1987 and 1989, the number of groups increased from a few thousand to nearly 60,000. This rapid expansion, without adequate preparations, resulted in a deterioration of their performance; loan recovery rates dropped from over 90 percent to about 40 percent. Despite these setbacks, the Project has demonstrated that there is a genuine need to organize farmer groups, especially for the purpose of joint procurement of inputs and for the administration of seasonal credit.

The agricultural extension strategy of the Ministry of Agriculture recognizes the need for cooperatives and other grassroots organizations as a means of facilitating extension work. At the same time, the ministry stresses the importance of transferring commercial activities—such as input distribution from it to such rural organizations. Within the framework of this strategy, a committee was appointed to plan for the establishment of a national farmers organization. The main recommendation of the Committee was that cooperatives and non-cooperative farmer groups should be promoted side by side. Both sectors should come together for coordination purposes under a new organization called the Ghana National Association of Farmers and Fishermen (GNAFF). The GNAFF would have offices at regional and district levels in addition to the headquarters in Accra and its purpose would be to serve as a "united group capable of effectively championing the cause of farmers at the grassroots level," and to "ensure the free and fair distribution of inputs to farmers." Initially, the staff of GNAFF would be provided by the government through secondment. Through this new organization, agricultural cooperatives would become the ministerial responsibility of MOA. Sufficient information is not available to facilitate an assessment of the proposed organization. The recommendations by the Committee, however, raise several questions concerning its viability and also concerning the role of MOA in relation to that of DOC.

The mission recognizes the need for group action among farmers, through cooperatives or other types or groups, for organizing joint services. Group promotion should, however, be carried out within the framework of a government policy which defines the division of functions between various government agencies and which, above all, recognizes the character of grassroots
organizations as member-controlled bodies which are expected to operate in a financially sustainable manner without the need for government subsidies.

In many areas of economic activity, there are groups which operate successfully without receiving promotional or other assistance from the government or from donor organizations. One example is the Susu system which encourages savings. Susu collection is prominent among merchants, craftsmen and market traders and involves daily collections for the full month, with savings returned to the saver at the end of the month. The impact of the Susu system on small-scale farmers is difficult to determine, as subsistence farmers generally produce little surplus for sale and therefore often have limited ability to save. For the formal financial system, however, the Susu groups can offer a good opportunity to increase deposit mobilization.

When formulating a policy on cooperatives and other rural organizations as recommended in the study, government should recognize that both types of organizations have merits. No specific type of organization should be imposed, but group members should be allowed to opt for the type of organization which they regard as most suitable. Cooperatives and other formally registered groups have certain advantages when the volume of business activities reaches a significant level. Being registered entities with a formal legal status and management structure, they are able to enter into contracts with business partners. The interests of members and business partners are also better protected as a registered group than as informal organizations. On the other hand, registered organizations have to maintain an administrative set-up which often is too cumbersome for small groups with few business activities and therefore unable to employ full-time management staff.
INTRODUCTION

The Kenyan cooperatives are often mentioned in international cooperative fora as being among the most successful in Africa. With a membership of over 2 million people, representing more than one-third of the households in the country, the societies play a prominent role especially in agricultural marketing and in provision of savings and credit facilities. A case in point are the coffee marketing cooperatives which serve half a million members and handle the primary marketing of two-thirds of the total coffee crop in the country.

A distinct feature of the Kenyan cooperative set-up is the close involvement of the government in the promotion and control of the cooperative societies. Because of the crucial role which the cooperatives are expected to play in the development of agriculture as well as other economic activities, the government seeks to ensure the emergence of viable and efficient societies. The 1964-70 National Development Plan stated that the government would "assume a greater role in supervising cooperatives on financial and managerial matters." It was, furthermore, announced that "it is hoped that these supervisory powers will only have to be exercised for a short period, after which a viable, responsible and articulate movement, able to govern itself, should emerge" (Government of Kenya 1964, p. 84). More than a quarter of a century later, this still remains government policy, but there are few indications that the supervisory role of the government is being reduced.

To be able to tackle the development needs of the cooperatives in conformity with the above-mentioned policies, the government approached the Nordic countries in 1965 with the view to obtaining technical assistance. This led to the establishment of the Kenyan/Nordic Cooperative Development Program (KNCDP) which still is in operation and under which over 600 man-years of technical assistance has been provided. The bulk of the assistance has been channeled through the Ministry of Cooperative Development (MOCD). However, in recent years, there has been an increased recognition by the Nordic countries that the government-to-government (GTG) approach is to a certain extent incompatible with the objective of promoting a member-controlled cooperative movement and that it, in fact, may have facilitated an undesirable degree of government intervention in the activities of cooperative societies. In 1988, the concept of movement-to-movement (MTM) was introduced in an attempt to channel an increasing part of the assistance directly to the Kenyan cooperatives with the participation of the cooperative movement in the Nordic countries.

These three issues, that is, the perceived success of the coffee marketing cooperatives, the effects of the government intervention on the activities of cooperatives, and the design and impact of the Nordic assistance are the main topics of this report. More precisely, the report aims at:
Identifying factors which have influenced the performance of the coffee marketing and supply cooperatives in terms of sustainability, efficiency and member service capability.

Assessing the impact of the extensive government supervision and control of the cooperatives, especially in relation to the objective of promoting member-controlled and efficient societies.

Reviewing the experience gained under KNCDP in promoting cooperatives through the input of technical assistance for organizational and managerial development.

As an introduction to the analysis of these issues, the report gives an overview of the Kenyan cooperative structure.

The review is an input to the World Bank Regional Study on Cooperatives and Rural Organizations, the overall objective of which is to help improve the effectiveness of Bank assistance to rural development in strengthening the role of genuine, member-controlled forms of rural organizations, so that they can contribute their full potential to the provision of various services to farmers and facilitate the growth of the private sector. The last part of this report therefore relates the findings of the review of the Kenya cooperatives to some of the hypotheses formulated for the Regional Study.

OVERVIEW OF THE COOPERATIVE SECTOR

Historical background

The first cooperatives in Kenya were established at the beginning of the twentieth century by European settlers. It was not until the 1950s, however, that a significant number of agricultural marketing societies were formed by small-scale African producers. This development followed a decision by the colonial government to reverse the policy which earlier had prohibited African farmers from growing export crops, such as coffee and pyrethrum. By the time of national independence in 1963, close to 300 primary societies—the great majority of which were coffee marketing cooperatives—had been brought into operation.

The reasons for creating cooperatives were mainly technical. It was necessary to establish local coffee factories and other facilities for the primary processing of the small quantities delivered by the smallholder farmers and for administration of the input supply, payment and transportation functions. It was also during this time that the agricultural extension service was expanded, and the cooperatives were seen as suitable channels for providing the emerging producers with the necessary know-how for production of high-quality coffee. The Cooperative Department, which had been formed in 1946 within the then Ministry of African Affairs, played a leading role in the promotion and supervision of the new societies.

This early period is significant because it established the foundation for the cooperative policy framework which was adopted by the new government after independence and which basically still remains in force. The salient feature of this policy is that cooperatives are perceived as instruments
for the implementation of government policies and development schemes and therefore subject to close supervision and control by the government authorities. At independence in 1963, the government thus basically continued the same policies as those initiated in the 1950s. The economy in the rural areas would be transformed by integrating the smallholder farmers into the cash economy and by increasing their productivity through improved agricultural extension, marketing and production credit arrangements. Cooperatives were to play an important role in implementation of this strategy under the guidance of the Department of Cooperative Development (DOCD).

Cooperative development in independent Kenya has gone through three distinct phases after independence:

- In the period 1963-66, a rapid increase in the number of registered societies took place. A substantial number of settlement cooperatives were formed under the government-sponsored settlement schemes through which land purchased from European farmers was distributed to indigenous Kenyans. The objectives of these societies were to provide marketing and farm input supply services and to administer members’ repayment of loans granted by the resettlement authorities.

- Another major category of new societies registered immediately after independence were the farm purchase cooperatives. Their objective, as the name implies, was to acquire and manage large-scale farms in order to generate income for their members in the form of dividends on share capital investments. Most of these farms have since been sub-divided among the members and many of the original farm purchase cooperatives have either been dissolved or reorganized into agricultural service cooperatives.

- During the initial post-independence period, there was also a significant increase in the number of agricultural service societies, mainly coffee, dairy, pyrethrum and cotton cooperatives. Thus, in a relatively short time, the total number of cooperatives in the country had more than doubled to nearly 1,000 with a membership of some 600,000 people.

The period 1967-72 can be regarded as a cooperative consolidation and "institutional engineering" period, in which the government, through the DOCD, played a dominant role. The sudden growth of the cooperative movement had brought on a series of management problems which were caused by the acute shortage of adequately trained staff in the societies and lack of experience among cooperative leaders.

The government's response to the mounting management problems in the cooperative movement was to assume a further increased role in the supervision of cooperatives. In 1966, a new cooperative legislation was introduced which gave the government extensive powers to intervene in the management of the societies. With technical assistance from the Nordic countries, DOCD embarked on an extensive management systems development and training program coupled with a restructuring of the cooperative movement.

The main characteristics of cooperative development since 1972 can be summarized as follows.
A continued emphasis on the development and implementation of standardized management systems coupled with an extensive staff training and member education program with the aim of improving the management and operational efficiency of the cooperatives.

Development of a regional and national cooperative support structure consisting of district unions and national organizations (such as the Cooperative Bank of Kenya).

A substantial growth of the number of primary societies and a diversification of the cooperative movement into non-agricultural activities. In the agricultural sector, there has been a substantial increase in the number of societies involved in the marketing of other than export crops. This reflects an attempt by the government to expand the cooperatives into less developed agricultural areas of the country and to use them as instruments for supply of farm inputs and production credit in order to increase production and incomes.

A further expansion of DOCD—which was upgraded to a full ministry in 1973—in terms of staff resources, and a strengthening of the administrative mechanisms for promotion and supervision of the cooperative societies.

Structure, activities and performance of the cooperatives

The organizational structure of the movement

According to statistics compiled by the Ministry of Cooperative Development (MOCD) (see Table 2.1), the cooperative movement consisted as at the end of 1989 of 2.5 million members, 4,000 active primary societies, 51 district unions, 10 country-wide secondary or tertiary cooperatives and, at the apex level, the Kenya National Federation of Cooperatives (KNFC). The annual business turnover of the primary societies and the unions was K.Sh. 7 billion. (US$ 233 million).

The main activities of the primary cooperatives in the agricultural sector are primary collection and processing of crops or animal products produced by their members, supply of farm inputs and administration of production credit. The level of activities vary greatly, however, depending on the stage of development of the individual societies.

The primary agricultural cooperatives are typically affiliated to district or regional unions which provide them with centralized services in the fields of farm input supply, marketing, accounting, savings and credit, staff training, and member education. As in the case of primary societies, the magnitude of the union services show considerable variations. The most comprehensive range of services is provided by the unions in the coffee-growing areas, whereas in other parts of the country the unions are often practically defunct and unable to give meaningful support to their affiliates.

The non-agricultural societies are sometimes affiliated to these unions, but the normal pattern is that they have formed their own specialized secondary cooperatives at the national level. This is, for instance, the case with the credit unions and the housing cooperatives.

There are ten specialized nation-wide cooperative organizations, the most important of which are: (a) Kenya Planters Cooperative Union which handles the processing of coffee from cooperatives
as well as large-scale producers; (b) Kenya Cooperative Creameries which has a dominant position in the dairy industry and which receives milk from cooperatives as well as directly from individual producers; (c) Kenya Grain Growers Cooperative Union which is the major importer and distributor of fertilizers in the country; (d) Kenya Union of Savings and Credit Cooperatives which extends training, accounting and financial services to the credit unions; (e) Cooperative Insurance Services which handles the bulk of the insurance requirements of the cooperatives; and (f) the Cooperative Bank of Kenya which is the central financial institution of the movement and the fifth largest bank in the country.

KNFC, the national apex cooperative, functions as the spokesperson of the cooperative movement and extends printing, auditing and training services to the primary societies and unions. Despite its status as apex body, it has only some 10 percent of the cooperatives as its members and plays a rather marginal role in promoting cooperative development.

It is beyond the scope of this report to attempt an analysis of the entire cooperative set-up in view of the focus of the study on the coffee societies, the effects of the government supervision and control of the movement, and the design and impact of Nordic assistance to the Kenyan cooperative sector. However, a brief account of the primary societies and the district unions is given here.

The primary societies

The development of the number of active primary societies and their membership in the period 1967 to 1989 is summarized in Table 2.1. For the purpose of analyzing the growth of the various types of cooperatives, the agricultural societies have been divided into three categories (a) export crop marketing which includes coffee, pyrethrum and cotton; (b) animal product marketing cooperatives, which category mainly includes dairy and ranching societies; and (c) other agricultural societies, the majority of which are involved in the marketing of food crops for domestic consumption, but which also may have marketing of export crops as well as animal products among their activities.
# Table 2.1: Number and Membership of Active Primary Societies by Type of Main Activity

<table>
<thead>
<tr>
<th>Type of Society</th>
<th>1967</th>
<th>1981</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Societies</td>
<td>Members ('000)</td>
<td>Societies</td>
</tr>
<tr>
<td>Export Crop Marketing</td>
<td>215</td>
<td>367</td>
<td>243</td>
</tr>
<tr>
<td>Animal Produce Mktg.</td>
<td>104</td>
<td>85</td>
<td>114</td>
</tr>
<tr>
<td>Other Agricultural</td>
<td>386</td>
<td>102</td>
<td>631</td>
</tr>
<tr>
<td>Total Agricultural</td>
<td>705</td>
<td>554</td>
<td>988</td>
</tr>
<tr>
<td>Urban SAACOs</td>
<td>56</td>
<td>12</td>
<td>736</td>
</tr>
<tr>
<td>Other Non-Agricultural</td>
<td>79</td>
<td>11</td>
<td>198</td>
</tr>
<tr>
<td>Total Non-Agricultural</td>
<td>135</td>
<td>23</td>
<td>934</td>
</tr>
<tr>
<td>TOTAL PRIMARY SOCIETIES</td>
<td>840</td>
<td>577</td>
<td>1,922</td>
</tr>
</tbody>
</table>


The table shows that the main area of cooperative growth has been in the non-agricultural sector. The urban SACCOs (Savings and Credit Cooperatives formed by salary and wage earners) which in 1967 accounted for only 7 per cent of the active cooperatives and 2 per cent of the membership, had by the end of 1989 captured a 48 per cent share of the number of societies and a quarter of the total membership.

In the agricultural sector, there has been a fivefold increase between 1967 and 1989 of the membership of the group "other agricultural societies." This is considerably above the rate of increase of the membership in the marketing cooperatives handling the three export crops already referred to and is, as already mentioned, a reflection of the government policy of promoting agricultural development in less developed areas through cooperative credit and input supply programs.

The attempts to diversify the activities of the agricultural cooperatives into marketing of other crops than coffee, cotton and pyrethrum have not been particularly successful. A crude measure of success of the various types of cooperatives is their rate of survival. Data compiled in a study of the agricultural cooperatives in Kenya (Gyllström 1988, pp. 110, 125, 138), show a higher survival rate for export crop cooperatives than for other agricultural marketing cooperatives. The survival rates, defined as the percentage of registered societies that continue to operate during a certain period without being liquidated or going dormant, are as follows:
Table 2.2  Survival Rate of Various Types of Agricultural Service Cooperatives

<table>
<thead>
<tr>
<th>Type of Cooperative</th>
<th>1946-62</th>
<th>1963-70</th>
<th>1971-83</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Percent</td>
</tr>
<tr>
<td>Coffee Marketing</td>
<td>80</td>
<td>89</td>
<td>94</td>
</tr>
<tr>
<td>Cotton and Pyrethrum Marketing</td>
<td>83</td>
<td>73</td>
<td>85</td>
</tr>
<tr>
<td>Other Agricultural Marketing</td>
<td>25</td>
<td>51</td>
<td>58</td>
</tr>
<tr>
<td>Total Agricultural Cooperatives</td>
<td>41</td>
<td>64</td>
<td>72</td>
</tr>
</tbody>
</table>


There are several factors which explain the high survival rates of the coffee, cotton and pyrethrum cooperatives. The most important determining factor is that these cooperatives operate in a protected market environment with a virtual monopoly status. In the case of coffee, for instance, smallholder producers are by law obliged to deliver their crop through a cooperative society.

In spite of the fact that a diversification—in terms of number of societies and membership—of the cooperative movement into new agricultural marketing as well as non-agricultural activities has taken place during the 1980s, export crop cooperatives continue to account for the bulk of the business turnover of the primaries. This can be seen from Table 2.3 which gives the turnover in million of K. Shs. for 1983 and 1989 (two years for which comparable figures are available) of various types of cooperatives and their share of the total turnover.

Table 2.3: Business Turnover by Type of Cooperative — 1983 and 1989

<table>
<thead>
<tr>
<th>Type of Society</th>
<th>1983 Turnover</th>
<th>1989 Share Percent</th>
<th>1989 Turnover</th>
<th>1989 Share Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Crop Marketing</td>
<td>1,812</td>
<td>67</td>
<td>3,462</td>
<td>56</td>
</tr>
<tr>
<td>Animal Produce Marketing</td>
<td>131</td>
<td>5</td>
<td>699</td>
<td>11</td>
</tr>
<tr>
<td>Other Agricultural</td>
<td>464</td>
<td>17</td>
<td>907</td>
<td>15</td>
</tr>
<tr>
<td>Total Agricultural</td>
<td>2,407</td>
<td>88</td>
<td>5,068</td>
<td>81</td>
</tr>
<tr>
<td>Credit Unions</td>
<td>236</td>
<td>8</td>
<td>1,010</td>
<td>16</td>
</tr>
<tr>
<td>Other Non-Agricultural</td>
<td>77</td>
<td>3</td>
<td>147</td>
<td>2</td>
</tr>
<tr>
<td>Total Non-Agricultural</td>
<td>313</td>
<td>12</td>
<td>1,157</td>
<td>19</td>
</tr>
<tr>
<td>TOTAL PRIMARY SOCIETIES</td>
<td>2,720</td>
<td>100</td>
<td>6,225</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: MOCD Statistics Unit.
The cooperatives play a dominant role in the primary marketing and processing of the three export crops already mentioned. According to information published by MOCD they handled in 1985 60 per cent of the coffee crop, 95 per cent of the cotton crop and 87 per cent of pyrethrum flowers produced in the country. Their share in marketing of other crops is, on the other hand, considerably lower. It also appears as if the cooperatives, despite their strong numerical growth in terms of number of societies and membership, actually lost market share in the period between 1971 and 1983 (more recent figures are not available). The cooperatives’ share of the total value of smallholder gross marketed production fell from 48 per cent in 1971 to 43 per cent in 1983. If coffee is excluded, the decline is even more pronounced, i.e., from 25 per cent in 1971 to only 10 per cent in 1983 (Gyllström 1988, p. 157).

**The district cooperative unions**

According to the official statistics of MOCD, there were 51 district-based cooperative unions in operation at the end of 1989 with a combined annual business turnover of K.Shs. 791 million (US$ 26 million). With one or two exceptions, all of these unions are agriculturally based. It is estimated that approximately half of the agricultural societies are affiliated to them.

As regards their performance and activity pattern, there are great variations between the individual unions. Those operating in the coffee areas do generally provide their affiliates with a comprehensive range of support services, which include:

- **Savings and credit facilities** which are administered through union banking or credit sections. These sections serve more than 600,000 members of primary societies. At the end of 1989, total savings amounted to K.Shs. 1 billion (US$ 35 million) and the loans granted to members to K.Shs. 547 million (US$ 19 million). Although they account for less than 10 percent of the total lending in the agricultural sector (K.Shs. 8.2 billion in 1990), they are often the only source of production credit for the smallholder farmers.

- **Bulk procurement of farm inputs**, which are distributed to members through the primary societies or through retail outlets operated by the unions.

- **Accounting and management support services.** The unions normally maintain the books of account of their affiliates and assist them in the management of their activities.

- **Staff training and member education.** The unions conduct local training of primary society staff and members of the management committees of the societies. In addition, they also organize member education events.

- **Crop transport.**

In addition, several unions have gone into agro-processing with the view to providing their members with improved market cutlets, for example, maize and milk.

The unions operating outside the coffee areas have in most cases failed to develop into viable service organizations for their member societies. A majority of these unions have had, during the 1980s, to curtail their activities for a variety of reasons, including poor management of the
government/donor-sponsored smallholder savings and loan schemes. This has resulted in non-repayment of loans and loss of members' deposits, and thereby in loss of members' confidence in the unions. Losses in the farm input supply activity and, generally, lack of business skills among union staff and management committee members have also contributed to the downfall of the non-coffee unions.

GOVERNMENT INVOLVEMENT AND ITS IMPACT ON COOPERATIVES

The policy and legal framework

Background

The government's ambition to promote, guide and control cooperatives, has its origin in their role as institutional channels for provision of technical and material resources to the smallholder agricultural sector. Immediately after independence, the emphasis of the rural and agricultural development policy was on the redistribution of land previously owned by European farmers. The settlement cooperatives became the major instrument for the implementation of this policy. Later, in 1969 and the early 1970s, increased emphasis was placed on efforts to promote agricultural production for export. In this context, the cooperatives dealing with marketing and the primary processing of export crops became particularly important and the focus of government support and control measures. In the 1970s, when the official development policy increasingly turned its attention to the less developed regions of the country, cooperatives were again seen as a feasible institutional instrument for the channeling of production credit and farm inputs to the small farmers in order to increase production and incomes. As stated in the cooperative development policy of 1975, "Cooperatives will increasingly be powerful tools in mobilizing the natural, human and financial resources for national development. Their vital role as agents for opening up less developed areas has been recognized and will be enhanced" (Government of Kenya 1975, p. 5).

The central role which the cooperatives in independent Kenya have occupied in the official development strategy has caused the government to intervene in their affairs. They have been integrated, often as agents of parastatal boards, into a regulated marketing and input supply system. In this set-up, the cooperatives have had to conform to certain standards in their operations, and the promotional and controlling powers given to the Commissioner for Cooperative Development (CCD) in the Cooperative Societies Act have been extensively used for that purpose.

It is important to realize that the operations of the cooperatives are significantly influenced not only by the provisions of the Cooperative Act, but also by various agricultural marketing and pricing regulations. As already mentioned, such regulations have in the past sometimes worked to the disadvantage of the cooperatives by preventing them from conducting their operations in a businesslike and financially viable manner. In other cases again, they have seemingly been advantageous for the cooperative societies by protecting them from competition from other marketing intermediaries. That the latter case, i.e. the protected status of cooperatives, probably has been to the disadvantage of the members, will be discussed later in this report.

Main features of the current cooperative development policy and legislation

Within the framework of its objectives of providing food security for the rapidly growing population and increasing the supply of export crops (Government of Kenya 1986, pp. 62 and 63), the government attaches great importance to the development of agricultural service cooperatives. It
is stated in the Sessional Paper that "the programs for crop intensification and expansion will depend in important ways upon the further development of the cooperative movement". (Government of Kenya 1986, p. 85). It was envisaged that the seasonal credit programs administered by the movement would be expanded and that the participation of the cooperatives in input supply, marketing and agro-processing enhanced.

The government policy on cooperatives is further elaborated in a MOCD policy paper which also contains detailed strategies for the development of the institutional structure of the movement together with elaborate guidelines for its involvement in the various sectors of the economy. The paper generally reflects the already-mentioned concept of government promotion and control of cooperatives. This is exemplified by the declared ambition to "review and modify the existing movement structure" with the objectives of ensuring that: (a) the structure consists of viable economic units capable of providing the services needed by members; (b) the structure is such as to facilitate proper integration and modernization of the national economy; (c) the structure exploits the economies of scale to ensure the highest possible returns and benefits to the individual members; and (d) each resultant sub-sector has an apex organization.

Compared to the two earlier policy papers of 1970 and 1975, the new policy appears to imply a cautious shift towards a more market-oriented and liberal approach to cooperatives. It is, for instance, stressed that financial viability will be the only criteria for the formation of cooperative unions and that cooperatives must justify their existence by being efficient and capable of providing adequate services to their members. The policy paper also recognizes that cooperatives are privately-owned business enterprises organized and managed by their members. It defines the role of the government as being, firstly, "to register the cooperatives so as to bring them into existence as legal entities and, secondly, to assist the cooperatives to achieve the objectives for which they were formed" (Government of Kenya 1986, p. 31).

When related to the actual role and activities of MOCD and other government authorities in the cooperative sector, the paper appears to be somewhat ambiguous. Although the cooperatives are recognized as private organizations, there are numerous instances of government intervention which have compromised the character of the cooperatives as business enterprises as well as member-controlled organizations. However, as will be discussed later, the promotional and management support activities of MOCD have also had a positive impact on the development and performance of the cooperatives.

The Cooperative Societies Act of 1972 gives the Commissioner for Cooperative Development (CCD) a wide mandate to promote and control the societies. Apart from having the exclusive rights of registration, dissolution and compulsory amalgamation of societies, the CCD has powers to prescribe accounting and internal management procedures; approve budgets; monitor the financial performance through submission of quarterly financial statements by the societies to the CCD; audit the cooperatives; approve remuneration, salary or other payments to staff or members of a society; approve the hiring and dismissal of graded staff; dictate a society's mode of organization and activity orientation and to control financial transactions through the counter-signature of payments.

The Ministry of Cooperative Development

The activities of MOCD fall into two major categories: first, the statutory functions of supervision, registration, liquidation and audit of the societies, as well as the settlement of disputes between cooperatives or between societies and their members; and, second, the promotional functions
which include preparation of cooperative development policies, plans and promotion schemes, design
and implementation of accounting and other management systems for the cooperatives, and
organization of staff training and member education activities.

The prime objective of the MOCD is to develop "cooperatives into viable, self-sustaining
business entities with responsible leadership and competent management capable of fulfilling the
aspirations of their respective members." The activities of the Ministry are in the current policy
paper enumerated as follows.

- To formulate policy in order to ensure that the growth of the cooperative sector is
  in keeping with the overall national development policies.

- To register societies.

- To evaluate the viability of existing cooperatives with a view to recommending to the
  members the reorganization of societies to enhance operational efficiency for the
  benefit of members.

- To advise cooperatives on better management for higher productivity and better
  returns to members.

- To design suitable management systems to be used by cooperatives in order to
  facilitate the achievement of the objectives for which the cooperatives were
  established.

- To arrange for the audit of the cooperatives and for ad hoc inspection in order to
  ascertain the proper use of cooperative resources.

- To plan and implement educational and training programs for the enlightenment of the
general membership and for imparting knowledge and skills to management so that
they can improve the quality of services to members.

- To supervise and oversee generally the operations of cooperatives to ensure that
members' interests are served in the best way possible.

The involvement of government in the management of cooperatives is, according to the policy
justified by:

- The economic importance of the cooperatives to the nation.

- The inability of the members themselves to control and direct their cooperatives due
to inadequate education and lack of business acumen.

- Lack of commitment and know-how with the consequent misuse of members' funds
and other resources.

For field promotion and supervision of the cooperatives, the ministry has staff at the
divisional, district and provincial level. The staff establishment of MOCD has increased rapidly as
can be seen from the figures below.
Table 2.4:  Staff establishment of MOCD 1963-91

<table>
<thead>
<tr>
<th>Year</th>
<th>Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963</td>
<td>163</td>
</tr>
<tr>
<td>1973</td>
<td>619</td>
</tr>
<tr>
<td>1983</td>
<td>1 869</td>
</tr>
<tr>
<td>1991</td>
<td>2 578</td>
</tr>
</tbody>
</table>


The rate of growth of the staff establishment of MOCD has been much higher than that of the cooperative movement itself and is not reflected in a real expansion and diversification of the agricultural cooperatives. This in itself brings into question the effectiveness of the promotional activities of the ministry.

Assessment of impact of government involvement and effectiveness of MOCD

There can hardly be any doubt that government policy and the extensive involvement by MOCD in the management of the cooperatives are incompatible with the aim of building democratically controlled farmers' organizations. Centralized government control over the cooperatives together with the role of the cooperatives as channels for government-sponsored credit and input supply schemes within a regulated agricultural marketing set-up has evidently had the following negative effects on the cooperatives.

- Appropriation by the government authorities of all important decision-making powers in the cooperatives has not been conducive to the emergence of a committed leadership. Cooperatives have, to some extent, taken on the character of semi-government institutions, in which the ultimate decision-making powers rest with the officers of MOCD. This seems to have contributed to deficiencies which retard the development of cooperatives, i.e. poor member participation and control, low share capital contributions, and mismanagement.

- The MOCD administrative regulations which govern the operations of the cooperatives are often not compatible with the flexibility required for running the cooperatives as business enterprises. Quick decisions cannot be taken in response to a changing market environment. This is one of the factors explaining the relative lack of success of cooperatives trading in an open competitive market (such as marketing of non-regulated food crops).

- Related to the preceding point is the observation that the standardized operational procedures and institutional arrangements, which are the hallmark of the management systems designed by MOCD, are sometimes too rigid. They do not sufficiently take into account the operating environment and internal management capabilities of the various types of societies. Small societies have to conform with management
procedures which are too complex for them to handle and which may not be justified in view of the volume of their activities.

- The mutualist self-help character of the cooperatives has been diluted by the longstanding government policy of using the cooperatives as channels for implementation of agricultural development schemes and for channeling of (often subsidized) credit and farm inputs to farmers. Formation of cooperatives for the purpose of obtaining government-sponsored credit has been a typical feature of the expansion of cooperatives into less developed areas. Not surprisingly, the repayment rates under these credit schemes have been far from satisfactory as the loans received are regarded as "government money."

- The regulated agricultural marketing and pricing system—which is now gradually being dismantled—has affected the cooperatives in several ways. In the case of the coffee cooperatives, the compulsory membership by smallholder coffee farmers of a coffee society has enabled these societies to sustain and develop their activities and member services. There are, however, increasing indications that this has not necessarily been to the advantage of the members as the societies—in the absence of competition—has had few incentives to maintain a satisfactory degree of efficiency. The case of cotton has already been mentioned. The powers given to the Cotton Board to fix trading and processing margins of cooperatives—which it did, but at a very low level—resulted in the financial collapse of most cotton unions and societies in the 1980s.

It must be recognized, however, that the policy of intervention and the promotional and supervisory activities of MOCD have also positive effects.

- Through technical assistance from the ministry, new service activities have been developed in the primary societies and district unions, especially in the coffee areas. The best examples of this contribution are the successful Cooperative Production Credit Scheme and the Cooperative Savings Scheme which are largely based on local mobilization of resources for lending.

- The design and implementation of recording, accounting and other management systems by the Ministry of Cooperatives has resulted in an improvement of the management performance of the more advanced cooperatives although they, especially in the case of small and newly formed societies, have had the undesirable side-effects mentioned earlier.

- The training facilities provided by the Cooperative College and, currently, under the decentralized training program of the ministry, have contributed to an upgrading of the management performance of the cooperatives.

- MOCD has played an important role in safeguarding members' interests by intervening in societies in which mismanagement and misappropriation of members' funds have taken place.

Whether these achievements—especially when weighed against the negative effects of government involvement in cooperatives—justify the continued existence of a large cooperative
ministry with its present functions is highly questionable. As was argued earlier, there has not been any significant growth and expansion of the cooperatives (with the exception of the SACCOs where MOCD has played a rather marginal role) during the time when MOCD grew fifteenfold in terms of staff resources.

The conclusion drawn here is that the policy framework and cooperative legislation need to be liberalized to provide for a more independent, member-controlled cooperative movement. The powers of intervention by the ministry need to be reduced and its functions redefined. The primary function of the ministry should be registration of societies which fulfill the formal legal requirements; dissolution of societies which fail; ensuring that the registered cooperatives operate in accordance with the law; and settlement of disputes between societies and their members.

The question which arises from the preceding is, of course, how to organize the promotional, management support and training activities which in the present system are carried out by MOCD. To a certain extent, there is already an alternative, movement-based institutional framework consisting, for instance, of the Kenya Union of Savings and Credit Cooperatives which is capable of promoting and assisting SACCOs; the Cooperative Bank which already has started to support the further development of savings and credit activities in the agricultural cooperatives; and the district unions which, in the more developed areas, have the capability to assist their affiliates and promote the formation of new cooperatives. Recently, the movement has taken the initiative to develop its own specialized organization for cooperative training and education.

THE COFFEE MARKETING COOPERATIVES

The Institutional Framework of the Coffee Sub-Sector

The key institutions in the coffee industry are (a) the Coffee Board of Kenya (CB) which has regulatory and export marketing functions; (b) the Kenya Planters Cooperative Union (KPCU), the main activity of which is the milling of parchment coffee; (c) the Cooperative Bank of Kenya (CBK) which handles the produce payments from the Board to the smallholder coffee farmers; (d) the cooperative unions which provide their affiliated societies with accounting, farm input supply, and banking and credit services; (e) the primary societies which are responsible for the primary collection and processing of coffee cherries, retail distribution of inputs, and administration of production credit; (f) MOCD which supervises and controls the operations of the unions and the primary cooperatives; and (g) the Ministry of Agriculture which provides extension services to coffee growers.

The entire coffee sub-sector is closely regulated through the provisions of the Coffee Act. As prescribed in the Act, the Coffee Board exercises control over the industry by licensing coffee growers, processors and marketers of coffee. Growing of coffee without a license is prohibited as is the establishment of coffee pulperies for primary processing. In order to grow coffee, a smallholder farmer must be a member of a coffee cooperative and market the coffee cherries through the society. KPCU, which serves smallholder growers as well as coffee estates, is presently the only licensed miller in the country. All coffee for export is sold through Kenya Coffee Auctions Ltd. in which CB has a majority interest.

Coffee is, along with tea, Kenya’s major export commodity. It is the objective of the government to promote an increase in coffee production from its present level of approximately 120,000 tons to 350,000 tons by the end of the century (Government of Kenya 1986, p. 67). This is to be achieved through an expansion of the acreage under coffee, introduction of high-yielding
varieties, improvement of the coffee payment system and introduction of other measures which provide the farmers with incentives to increase production and productivity, and continued support to the cooperative movement in order to ensure effective services to smallholder farmers.

That the primary cooperatives and unions play a central role in the coffee industry is demonstrated by the fact that their members account for three-quarters of the coffee hectarage and two-thirds of the total production of coffee in the country. In view of this, and because of the importance of coffee in the national economy, considerable efforts have been made by MOCD to ensure that the cooperatives operate efficiently.

Activities of the Coffee Cooperatives

As coffee cherry is bulky in relation to clean coffee, local primary processing is necessary. For smallholder coffee growers it makes sense to organize this kind of activity collectively, and the cooperatives have therefore established coffee pulperies which receive and process the coffee berries into clean coffee. After processing, the coffee is delivered to KPCU for further processing and for marketing under the auspices of the Coffee Board. The primary marketing function of the societies is thus rather simple as they have a reliable outlet for the crop through KPCU and CB.

Processing and marketing are the main activities of the primary societies. In addition, they also normally sell production inputs to their members through stores for resale operated in connection with the pulperies. A further service provided by the societies is the granting of loans to members from funds obtained from the banking or credit section of their unions.

The services of the unions to their affiliates have already been mentioned earlier, i.e. bulk procurement of farm inputs, administration of the credit and savings program on behalf of the societies, handling of members' coffee payments, writing of the books of account of the societies, staff training and member education, and, generally advisory assistance in management of the primaries.

Some key data on the development of the primary coffee cooperatives and smallholder coffee production are presented in Table 2.5.

Table 2.5: Data of Primary Coffee Cooperatives

<table>
<thead>
<tr>
<th></th>
<th>1982</th>
<th>1986</th>
<th>1989</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Societies</td>
<td>169</td>
<td>184</td>
<td>193</td>
</tr>
<tr>
<td>Number of Members</td>
<td>451,000</td>
<td>586,000</td>
<td>592,000</td>
</tr>
<tr>
<td>Business Turnover (in millions of K.SHs.)</td>
<td>1,507</td>
<td>2,680</td>
<td>3,256</td>
</tr>
<tr>
<td>Share of Total Coffee Marketing (percent)</td>
<td>NA</td>
<td>60</td>
<td>70</td>
</tr>
<tr>
<td>Smallholder coffee hectarage</td>
<td>NA</td>
<td>117,700</td>
<td>115,800</td>
</tr>
<tr>
<td>Yield in Kilos per Hectare</td>
<td>635</td>
<td>581</td>
<td>675</td>
</tr>
</tbody>
</table>

Source: MOCD and CB, Government of Kenya.
Performance of the coffee cooperatives

Four criteria are used here to assess the performance of the coffee cooperatives. They are (a) the survival rate of the societies; (b) the market share of the coffee cooperatives in their major activities; (c) member service capability; and (d) management performance and efficiency.

The coffee cooperatives consistently show the highest survival rate of any type of societies. According to Gyllström's study (1988), the survival rates of the coffee societies and those of other types of agricultural cooperatives developed as shown in Table 2.6 during the three periods covered by the study.

Table 2.6: Survival of Coffee Cooperatives

<table>
<thead>
<tr>
<th></th>
<th>1946-62</th>
<th>1963-70</th>
<th>1971-83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Cooperatives</td>
<td>80 percent</td>
<td>89 percent</td>
<td>94 percent</td>
</tr>
<tr>
<td>Other Agricultural Cooperatives</td>
<td>30 percent</td>
<td>58 percent</td>
<td>66 percent</td>
</tr>
</tbody>
</table>

The success of the coffee cooperatives in terms of sustainability is explained by several factors.

- They operate in a protected market environment with a secure market outlet. This gives them a distinct advantage over many other types of cooperatives which work in a competitive situation and have to find markets for members’ produce.

- They are located in the more developed areas of the country and derive their membership from the most progressive segment of the smallholder farming population. Their management performance is positively influenced by these factors.

- The efforts by MOCD in management systems design and implementation has improved financial management and internal control and has reduced the rate of failure of, especially, the coffee cooperatives which, due to their volume of business and general stage of development, have been well placed to take advantage of the more sophisticated systems.

In terms of market share, the coffee cooperatives have been highly successful as far as output marketing and provision the production credit are concerned. Apart from a negligible volume of coffee sold by small producers on the parallel market, the coffee societies handle the entire coffee crop from the smallholder sector. This is, of course, not surprising as it is explained by the simple fact that they have a marketing monopoly based on the Coffee Act. As regards production credit to farmers, figures on market share are not available. It is clear, however, that their market share, when it comes to credit for coffee production, is close to 100 per cent. The linkages between output marketing, credit, and produce payments through the societies/unions have ensured a high rate of loan repayment and accumulation of funds (members’ savings) for lending. They also have a dominant position in farm input supply, although not as pronounced as in output marketing and provision of credit.

The member service capability of the societies and unions is reflected in the comprehensiveness of their activities as enumerated in the previous paragraph. It is difficult to assess
the quality of these services. Although the coffee societies, at least in comparison with other types of agricultural cooperatives, function reasonably well, there are two major areas of weaknesses.

- The quality of cooperative coffee has declined considerably during the 1980s due to deficient coffee factory management and failure by the cooperatives to maintain and upgrade their processing facilities.

- The yield per hectare in the smallholder sector is considerably below that of the coffee estates. This can, to some extent, be attributed to problems in the distribution of inputs through the cooperative system and, as will be discussed later, to declining rates of payment for coffee delivered by members.

Appropriate management systems have been introduced in practically all primary coffee societies and unions. Although they are sometimes criticized for being too elaborate and complex—which is true in many small non-coffee societies with less diversified activities—they are well-adapted to the needs of the societies. Management, defined as the ability to maintain recording, accounting and internal control systems, is well-developed in the majority of coffee cooperatives. This is an important factor explaining the stability of the societies and their success in administering a rather comprehensive range of member service activities.

Good management, judged from an administrative point of view, is not necessarily synonymous with high efficiency. During the last few years, the coffee cooperatives have come under increasing criticism for not being cost-efficient and for giving their members a low rate of payment for coffee delivered. That the payment rates have been falling in recent years can be seen from the figures in Table 2.7 which show the development in five societies in one of the coffee-growing districts (payment to members as a percentage of gross sales of coffee by the cooperatives).

### Table 2.7: Payment Rates in Five Selected Societies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mathira FCS</td>
<td>87</td>
<td>86</td>
<td>77</td>
<td>82</td>
<td>60</td>
</tr>
<tr>
<td>Mukurweini FCS</td>
<td>83</td>
<td>88</td>
<td>77</td>
<td>84</td>
<td>47</td>
</tr>
<tr>
<td>Othaya FCS</td>
<td>85</td>
<td>88</td>
<td>82</td>
<td>88</td>
<td>68</td>
</tr>
<tr>
<td>Tetu FCS</td>
<td>82</td>
<td>86</td>
<td>79</td>
<td>86</td>
<td>63</td>
</tr>
<tr>
<td>Mweiga FCS</td>
<td>-</td>
<td>-</td>
<td>68</td>
<td>63</td>
<td>47</td>
</tr>
</tbody>
</table>

| Percent | District Average | 85 | 87 | 78 | 85 | 57 |

*Source: Nyeri District Cooperative Union, Nyeri, Kenya.*

These figures are not fully representative of the situation in the whole country because the cooperatives in Nyeri District are among the largest and most progressive and have higher payment rates than most other societies. What they illustrate, however, is a falling trend. This trend is reported to apply to the large majority of coffee cooperatives. The decline is partly explained by the falling world market prices but also by the failure by coffee societies to cut their costs in response to the new market situation.
Information obtained from the World Bank-sponsored Smallholder Coffee Improvement Project (SCIP) indicates that the cooperatives, on average, have higher operating costs than coffee estates in comparable activities. It has also been observed that members payment through the cooperatives are often subject to long delays. The high operating costs of the cooperatives (as compared to the estates), declining payment rates and the delays in processing payments indicate that the efficiency of the coffee societies is not satisfactory. In response to this situation, a parallel, illegal market for coffee cherry has started to develop whereby smallholder growers sell their production to coffee estates. Another response has been reduced production.

To deal with the problems mentioned, a new payment system was recently introduced which is designed to eliminate the delays and to limit the deductions by cooperatives from members' payments. This action, which in itself seems to have been justified, follows the same interventionist blueprint which for so long has been characteristic of the government's role in relation to cooperatives. Operational efficiency and business performance is sought to be achieved through administrative directives.

The basic constraint to efficiency in the smallholder coffee sector is the legal monopoly which the cooperatives have been given in marketing and which leaves the management of the societies with insufficient incentives to improve performance. Introduction of a multi-channel marketing system would give the growers alternatives which they do not have at present. Cooperative societies which do not achieve a satisfactory degree of competitiveness and efficiency would, justifiably, be forced out of the market.

The impact of a liberalization of the coffee marketing system would be significant. One effect would be a reduction of the number of coffee cooperatives, notably among the less efficient societies. It may be argued that a liberalized market could lead to unfavorable bargains for small-scale farmers. Should that prove to be the case, the need for cooperatives would be obvious to the coffee farmers without the societies having to be promoted, supervised and controlled by the government. A substantial number of the existing coffee cooperatives have the capability of surviving and developing in a competitive market environment. Not all societies are inefficient and some would be able to compete in an open market. Their strength is in the diversity and integrated nature of their services.

The overall conclusion is that the coffee cooperatives have many successful characteristics. Paradoxically, their success, but also the efficiency problems which affect many of them, seem to originate from the same basic factor, i.e. their monopoly status in coffee marketing.

**NORDIC ASSISTANCE TO THE COOPERATIVE SECTOR**

**Background and activity orientation of Nordic assistance**

The Nordic donor agencies, have, since 1967, played a significant role in the development of the cooperative sector in Kenya. Under the Kenyan/Nordic Cooperative Development Program (KNCDP), the input of technical assistance staff has amounted to more than 600 man-years and the total support budget to approximately US$ 50 million, including the current program period which extends to 1993.

The first five-year agreement between Kenya and the Nordic countries was entered into in 1967 and covered four main activity areas.
* The construction and operation of a Cooperative College for advanced training in cooperative principles and management for cooperative personnel and leaders.

* The operation of provincial cooperative training centers for short courses for personnel and leaders as well as for coordination of member education activities.

* The stationing of advisers in the field for the purpose of supporting DOCD in its efforts towards improved management of cooperative organizations.

* Assistance to DOCD at the central level in planning of cooperative development.

The first program period followed immediately after the wave of registration of cooperatives which took place after independence with political, more than technical, support from the government within the framework of its policy of African socialism. The deployment of a large number of technical assistance personnel (more than fifty Nordic advisers) had a stabilizing effect on the management of the mushrooming cooperative movement. Assistance, during the first years, took on the character of a "rescue operation." It is evident that technical assistance played an important role in saving the young cooperative movement from collapse.

Soon, a more systematic activity pattern of Nordic assistance developed. This pattern which, with few variations was maintained until the mid-1980s and which still to a large extent characterizes the program, consisted of a set of interrelated activities which had two basic objectives:

* Development of the technical capability of MOCD to promote and supervise the cooperative movement.

* Development of the management and operational performance of the cooperatives through the design and implementation of management systems and training and education programs.

The core activities supported by KNCDP were during the 1970s and most of the 1980s.

* Training programs for movement and MOCD staff with the aim of improving management skills, and education for ordinary members in order to enable them to take an active part in the operations of their societies.

* Design and implementation of standardized recording and accounting systems.

* Development of rural banking services through the Cooperative Production Credit Scheme and the Cooperative Savings Scheme. This has included technical assistance to the Cooperative Bank as well as the district/regional unions.

* Technical and financial assistance for the promotion of weak societies in less developed areas;

* Development of (as stated in the 1974-77 plan of operation) "tools for the Commissioner to practice the daily and short term management and long-term development of the cooperative movement"; and
• Assistance to the apex cooperative organization, KNFC, to enable the Federation to establish itself as a recognized apex and service organization of the movement.

The focus of the KNCDP-promoted activities have been, and still are, on the agricultural service cooperatives. An experimental deviation from this was the efforts in the early 1980s to assist in the promotion of non-agricultural societies in the rural areas, including small-scale industrial and handicraft societies and consumer cooperatives. This experiment ended in failure and was discontinued.

The activities of the current program period are similar to those of the past and include movement staff training, management systems development and implementation, support to weak cooperatives in less developed areas, assistance for the further development of rural savings and credit activities, and support to the cooperative apex organization. In one significant aspect, however, it differs from the earlier periods. The concept of movement-to-movement (MTM) collaboration is recognized as a feasible model for cooperative development assistance and the plan of operation explicitly states that the MTM programs will be expanded and diversified and expanded during the agreement period. This change of emphasis reflects a growing realization among the Nordic donors that the assistance, which in the past was channeled entirely through MOCD, had the undesirable effect of expanding ministerial bureaucracy and strengthening central government control over the cooperatives.

KNCDP has a number of distinct features which, as will be discussed subsequently, have had a pronounced impact on its performance, positive or negative. These include (a) the long period of assistance—a quarter of a century; (b) the comprehensive coverage of the agricultural cooperative sector; (c) the emphasis on "institutional engineering" through assistance in the development of management systems, field implementation and training; and (d) the fact that KNCDP during most of its life span has worked entirely through MOCD within the framework of the interventionist and regulatory strategy of the Kenyan authorities.

Impact of Nordic cooperative development support

Successive evaluations of KNCDP have pointed out its overall positive contribution to cooperative development in Kenya. A workshop reviewing the 1986 evaluation enumerated the main achievements of the KNCDP as being (a) the standardization of accounting procedures throughout the movement; (b) the rapid growth of cooperative credit and banking; and (c) the development and implementation of training and education programs. These achievements, which were assessed to have contributed to the management and service capability of the cooperatives, were attributed by the evaluation to (a) the substantial scale of the program and the long span of years over which it had spread; (b) the concentration of aid from one donor source which has contributed to consistency and standardization; and (c) the large input of technical assistance provided by Nordic staff with appropriate skills (Government of Kenya 1986b, pp. 6-8).

The 1986 evaluation also identified a number of "problem areas" which included (a) the tension between the (Nordic) concept of cooperatives being business enterprises and the tendency of the government to use them as vehicles for rural development; (b) the extensive involvement of MOCD in the cooperative movement; (c) the widespread malpractice and self-seeking—often linked to political manipulation—that is found in many cooperatives; and (d) the role of the cooperatives in relation to other private enterprises in activities where the latter may be better placed to serve farmers more efficiently (Government of Kenya 1986b, pp. 9-10). Although mentioning the issues under (b)
and (c) as problem areas, the evaluation did not, however, regard them as serious impediments to cooperative development. On the contrary, government involvement was seen as a means of protecting members' interests against corrupt practices and mismanagement.

The achievements mentioned by the evaluation report reflect the "organizational engineering" orientation of KNCDP. Management systems development, training and other similar activities have been given the highest priority and KNCDP has largely confined itself to finding technical solutions to the management problems of cooperatives. There is no doubt that the program has been successful in reaching its institutional development objective and that it, in the more progressive cooperatives, has contributed to improved management performance and service development.

Development of "weaker cooperatives" has been among the specific objectives of KNCDP, especially during the 1980s. This activity has included, apart from technical assistance, financial support for recurrent expenditure as well as investments. The results have been disappointing. The attempt to promote small-scale industrial and other types of non-agricultural cooperatives in less developed areas was discontinued because of the failure by the societies to achieve financial viability. Similarly, the financial support which was extended to weak cooperatives during the early part of the current program period has been curtailed due to its poor impact on the development of the societies.

The common features of the weak agricultural societies are the low value of members' marketable production, the seasonal nature of their activities, and usually a low membership. Their low business volume affects their ability to maintain the management structure and systems required of a cooperative. This seems to explain the failure of the societies to respond to the support of the KNCDP, especially when compared to the success achieved in large societies in the coffee areas.

KNCDP has contributed to the rapid growth of MOCD by channeling the bulk of its support through the ministry. The economic stagnation of recent years has made it increasingly questionable whether the extensive promotional and control machinery of the state can be maintained and, indeed, whether the expenditure is justified in view of the limited results achieved. The major criticism voiced against the government-to-government model of Nordic assistance is, however, that it runs counter to the Nordic concept of cooperatives as being member-controlled organizations. As put in rather stark terms in Gyllström's study of the cooperative sector (1988), donor support has "in reality contributed to the creation of a structure in which societies and unions are reduced to mere appendices to a central government bureaucracy."

It can be argued that the KNCDP in the past did not pay sufficient attention to the policy framework for promotion of cooperatives. Preoccupied with the aspect of "institutional engineering", it failed to stress sufficiently the need for liberalization of agricultural marketing and pricing policies as well as cooperative legislation as prerequisites for the sustainable development of democratically controlled and efficient cooperatives.

Experience of the movement-to-movement approach

In response to the criticism against the GTG approach, the Nordic countries have recently put increasing emphasis on direct support to the cooperatives. The current program has a MTM component which is administered by the Swedish Cooperative Centre (SCC)—an organization formed and partly financed by the Swedish cooperatives with the objective of providing assistance to cooperatives in developing countries. At present, MTM assistance under KNCDP is given to the Cooperative Bank of Kenya (CBK) and KNFC.
MTM means the development of direct institutional links between the Kenyan and Nordic cooperatives for the purpose of enabling the recipients to take advantage of the experience of their counterpart organizations in the Nordic countries. CBK has received assistance from the Danish savings banks in the development of training programs for its senior management staff and has also adopted staff management and certain banking procedures used by the Danish banks. Similarly, CBK's Training Centre has initiated contacts with the Banking Institute of the Finnish Cooperative Bank. A further example of MTM support—although not forming part of the KNCDP—is the collaboration between the Cooperative Insurance Services Ltd. (CIS) and the Swedish cooperative insurer, Folksam. This has contributed to the development of the technical aspects of CIS's insurance business.

The experience gained from MTM collaboration in Kenya shows that it is a feasible means of promoting the business management of more developed cooperatives. Such cooperatives have the capability to take advantage of technical inputs from Nordic cooperatives which typically are large business enterprises with an advanced level of management. The Nordic experience is less applicable to cooperative organizations which are at an early stage of business development.

One of the problems in expanding the MTM approach is that the Nordic cooperatives operating in a highly competitive market on the basis of strict profitability criteria—are usually not prepared to provide subsidized development assistance. Even the more advanced cooperatives in Kenya regard the consulting fees charged by their Nordic counterparts as prohibitive. So far, this problem has been solved through funding from the development aid budget of KNCDP/SCC. Another constraint has often been that the Nordic cooperatives are unwilling to release key staff for longer periods of assignment in developing countries.

There is potential for further development of MTM activities. This could, for instance, in the case of the new cooperative formed to develop computerized management systems, include a more extensive support arrangement based on a management contract between the Kenyan and a Nordic cooperative (e.g. the computer center of the Swedish farmers' cooperatives). This would, however, to a large extent have to be financed from development grants.

THE KENYAN EXPERIENCE VERSUS THE HYPOTHESES FORMULATED FOR THE REGIONAL STUDY

Introduction

The regional study proposal contains more than forty hypotheses relating to the macro-policy and legal framework for cooperatives and informal organizations, the characteristics of sustainable farmers' organizations, and the effectiveness of various mechanisms for donor assistance to cooperatives and informal groups. The discussion here of the validity of the hypotheses is restricted to those issues which appear relevant in the context of the Kenyan cooperatives.

Macro-policies and legislation

Hypothesis: Cooperatives are more likely to function successfully in an environment that does not restrict the scope of business operations in the private sector and does not impose overly complex regulatory practices.
Comment: The experience of the coffee cooperatives indicates that the regulated nature of the coffee marketing system, giving the societies a monopoly status, has actually contributed to their sustainability. It has also ensured a high business volume which has enabled the societies to maintain a reasonably good management structure and to mobilize funds for development of other services than output marketing. At the same time, however, the protected status of the cooperatives has reduced their efficiency. The regulations may thus have been to the advantage of the cooperatives as institutions, but not necessarily to the members who probably would receive better services in a competitive market environment.

Hypothesis: There is a negative correlation between the degree of government administrative control and the economic success of farmers’ organizations.

Comment: Although it is difficult to verify this statistically, the Kenyan experience strongly indicates that the hypothesis is correct. Elaborate procedures for approval by MOCD of expenditure and major business decisions have not been conducive to the commercial operations of those cooperatives which operate in a competitive market.

Hypothesis: Government-imposed requirements that cooperatives undertake functions peripheral to their primary business activities are likely to have a negative impact on their performance.

Comment: This review has not identified examples of peripheral activities having been imposed on cooperatives to the extent that this would have affected their performance. On the other hand, it is the conclusion of the review that the use of cooperatives as mere channels for implementation of government-sponsored development schemes and for distribution of (often subsidized) inputs has been detrimental to the emergence of member-controlled and sustainable cooperatives.

Hypothesis: Cooperatives involved in the marketing and processing of export crops will experience a higher degree of government intervention than those involved in other activities.

Comment: This is true in Kenya as evidenced by the extensive government involvement in the control of export crops such as coffee and pyrethrum. The regulations are, to some extent, based on historical factors and on international agreements. In the case of coffee, the existing regulations can be traced back to colonial times when the cooperatives were introduced as a means of maintaining the quality from emerging smallholder producers. Kenya, being a signatory to the (now defunct) international coffee agreement has had to impose regulation on coffee growing in order to comply with the agreement.

Hypothesis: Reforms in agricultural and/or business policy may create favorable opportunities for revision of cooperative legislation and restructuring of the cooperative sector. Comment: The interventionist government policy in the cooperative sector is intertwined, not only with agricultural development policies, but also with the system of control through a monolithic political system. The introduction of a more liberal political system, which has been announced, can be expected to have a profound influence on the cooperative development concept and will probably create an opportunity for revision of the cooperative legislation. Furthermore, the already initiated reduction of the role of parastatals will create a need as well as a potential for those cooperatives which are able—in competition with other private sector organizations—to perform functions earlier
handled by the government parastatals. A case in point is the Cotton Board, the regulatory powers of which have recently been reduced to the advantage of cooperatives.

**Characteristics of genuine, effective and sustainable organizations**

*Hypothesis:* Spontaneous informal group movements arise to fill the vacuum left by inefficient state-initiated farmers' organizations and cooperatives.

*Comment:* This has not occurred in coffee marketing due to the restrictions in the Coffee Act (although a small parallel market has developed in some areas of the country). For the marketing of milk, informal groups have been formed for joint transport to the dairy plants of KCC. This is not only a response to the high marketing charges of the cooperatives, but also a means of avoiding repayment of loans taken from the primary societies.

*Hypothesis:* Organizations created from outside the group may work temporarily if they provide a needed service, but they may not be sustainable. Farmers' organizations are more likely to be sustainable and successful if their members join voluntarily and share a common purpose.

*Comment:* The largely unsuccessful efforts to support weak societies in the non-coffee growing areas and to use them as channels for credit and farm inputs seem to verify this hypothesis. Funds brought in from external sources are apparently looked upon as government grants with the consequence that they are not managed prudently. Low rates of loan repayments and diversion of loan funds to other activities have been common. Although membership of the cooperatives referred to here is voluntary, they represent a mode of induced participation. Farmers join the societies for the purpose of obtaining externally provided benefits.

*Hypothesis:* Rural organizations are more likely to demonstrate cohesiveness and active member participation when the members have common bonds outside their economic purpose, such as ethnic homogeneity or geographic proximity.

*Comment:* Leaving the issue of proximity aside—which is a rather obvious advantage, especially in agricultural service cooperatives—there are few indications that a "non-economic" common bond would be an important factor for successful cooperatives. The most important prerequisite for success is that societies make economic sense to members. Active participation is induced by the economic importance of the cooperative to the members.

*Hypothesis:* Cooperatives with well-planned business activities can operate efficiently without subsidies and pay commercial rates of interest.

*Comment:* The Kenyan experience clearly shows that this is the case. Subsidized loan and input supply schemes, which earlier were common, have gradually been phased out without significant negative effects on the cooperatives.

*Hypothesis:* Cooperatives organized by the government for the sole purpose of ensuring input delivery or marketing of cash crops may collapse for both social and economic reasons during a shift to privatization, if they did not have a genuine social basis and a viable business objective in the first place.
Comment: A shift to privatization is certain to affect those societies which are now operating in a protected market, e.g. the coffee cooperatives. Low payment rates to coffee farmers have caused discontent among members of many societies and has led to the emergence of a parallel market for cherry coffee. If a multi-channel marketing system would be introduced, the less efficient societies are bound to lose business and would possibly collapse.

Hypothesis: To the extent that members perceive that credit obtained through their cooperatives is provided by government or via donor financing rather than from commercial sources, they feel less of an obligation for its repayment.

Comment: Loans from government or donor sources are often perceived as grants. This affects the rate of loan repayment negatively. The best loan schemes in terms of repayment rates are those which are, at least partly, financed from members’ savings.

Mechanisms for effective donor assistance

Hypothesis: Donor-financed cooperative development activities channeled through government Cooperative Departments tend to reinforce state control over cooperative activities.

Comment: This has proved to be the case under KNCDP which has contributed to a strong expansion of MOCD and to the creation of administrative routines which have provided added means of control.

Hypothesis: Technical assistance provided by an autonomous institution is more effective than that provided by government. Advice and support through international associations of rural organizations are more likely to be acceptable to farmers, who fear government control.

Comment: The experience of the MTM support in Kenya relates, at least partly, to these hypotheses. The point which should be stressed is that MTM is especially appropriate in providing assistance to advanced cooperative activities, such as the operations of the Cooperative Bank of Kenya. In such cases, cooperatives can benefit directly from the business systems and experience of their counterpart organizations in more developed countries. As regards the effectiveness of autonomous institutions versus. that of government departments in providing support to cooperatives, it should be noted that cooperatives have organized their own hierarchical support structure which functions reasonably well in the coffee cooperatives (unions formed to serve the primaries) and in the SACCOs.

Hypothesis: The continuing involvement of experienced rural organizations specialists, combined with a systematic training effort, makes it more likely that the component will reach its objectives.

Comment: The experience of Nordic assistance points to the importance of technical assistance in the development of management systems and training programs in order to improve the management performance of the societies and to facilitate the introduction of new activities, such as savings and credit programs. The lesson learned is that the support needs to be comprehensive and that it needs to extend over a long period to achieve a sustainable impact. But the Nordic experience also shows that cooperative development support cannot achieve a fully satisfactory impact if it is restricted only to technical institutional development aspects. The assistance can be fully productive only if given in a policy environment which is conducive to the development of competitive and
business-oriented cooperatives which make economic sense to their members and which therefore attract their participation in terms of management control and financial contributions.
REFERENCES


3. **NIGER: THE COOPERATIVE DEVELOPMENT PROJECT**

*Summary by Lyle Brenneman*

Known as the Niger Cooperative Development Project, the program has become widely recognized as an effective approach to cooperative development. In a country where all the familiar constraints and problems of African cooperatives are fully present, the project has demonstrated an impressive level of success. From the original 14 cooperatives that elected to affiliate with the project when it was initiated in 1985, the number participating had increased to 208 as of mid-1990. The same approach is now being replicated in Mali as well.

**The Project Approach**

This growth is all the more noteworthy when it is realized that the project provides no grants, gifts or subsidies and that a cooperative must both apply to affiliate with the project and complete a formal contract in which it agrees to fulfill its obligations. The only tangible benefits offered are the project’s practical, skill-oriented training and access to non-subsidized credit through a commercial bank. The approach focuses on the provision of training and technical support for the development of viable, village-based (and village-initiated) economic activities. This approach, built on the assumption that local cooperative members, including those who are not yet literate, are capable of developing and operating their own economic activities, represents a striking contrast to the typical top-down approach of Niger’s state-initiated cooperative system.

The project focuses on developing and reinforcing the ability of cooperative members to *select, structure, implement and manage* their own economic activities. To avoid skill monopolies by a few, training is extended to the general membership as well as the leaders and employees. This means that the training is provided in the local language and includes the basic functional literacy skills essential for understanding the cooperative’s business activities and holding leaders accountable. Functional literacy is considered an important element for continued cooperative development. The literacy training takes place in 333 village literacy centers in cooperation with the government literacy service. In mid-1990, 4,660 cooperative members were involved in literacy training and plans were being made for the cooperatives to establish an additional 147 literacy centers.

**The Implementation Process**

The key to the implementation of this approach is the development of a team of competent trainer/consultants who are themselves fully convinced of the ability of cooperative members to identify and manage their own economic activities. Much care and attention is given to the selection and training of the trainer/consultants (known throughout the project area by the French term "assis-
tants"). The content of their training is directly tied to the methods of intervention to be used, and periods of formal training are alternated with field work to link theory directly to the needs of the cooperatives.
The affiliation of a cooperative with the project is entirely voluntary, and the request for assistance must originate with the cooperative itself. Once the relationship is established, an open meeting is held with the general assembly of the cooperative to explain the approach of the project and hear the views of the members. As the established cooperatives generally consist of several villages (the branch village units are known as "groupements mutualistes" or mutual associations), the next step in the process is a meeting with each of the village units. If the cooperative decides to participate, a contract, clearly delineating the terms and responsibilities of each party, is concluded between the cooperative and the project.

Following the establishment of the contractual relationship, a second series of meetings is held with the cooperative for the purpose of helping the members analyze their strengths, weaknesses, needs and potential. During these meetings, the members begin to identify possible economic activities and establish an order of priority for the activities proposed. An initial economic activity is selected, evaluated for its feasibility, discussed and approved by all of the village groups. If a loan is necessary, a business plan and a formal loan application are prepared and submitted to the bank. The persons selected by the members to fill management and supervisory roles are then provided with specialized training geared to the operation and management of the specific economic activity selected. As part of the training, the participants design and develop their own record keeping and accounting documents in their own language.

Credit is at full market rates. Rather than directly operating a credit program, access to credit from a commercial bank is provided through a program of loan guarantees. The objective of this arrangement is to enable a direct, long-term relationship to be established between the cooperative and a commercial bank. For almost all of the cooperatives involved in the project, applying for financing for their initial economic activity was their first experience with a commercial banking institution.

**Table 3.1: Commercial Bank Lending to Cooperatives**
(as of December 1989)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of cooperatives using guarantee fund</td>
<td>97</td>
</tr>
<tr>
<td>Number of loans made to date</td>
<td>169*</td>
</tr>
<tr>
<td>Total amount of loans to date (in millions CFA francs)</td>
<td>355.2</td>
</tr>
<tr>
<td>Loan repayment rate (percent)</td>
<td>0.4</td>
</tr>
</tbody>
</table>

*The size of the loans ranges from CFA Francs 500,000 to 10,000,000. US $1 = 280 CFA Francs (1989)*

The Changing Roles and Outlook of the Cooperatives

*From Buying Agents to Businesses*

As in many African countries, Niger's cooperatives were established by the government as instruments of its rural development policy. Their primary role was to serve as buying agents for parastatal marketing organizations, purchasing produce from their members and serving as convenient collection points for the parastatals. As the official pricing structures included no profit margins for the cooperatives, they functioned only as channels through which their members were able to market
their crops. Lacking any viable economic activities and functioning only seasonally at the direction of official marketing services, the cooperatives had little to offer their members and, in turn, the members felt no real involvement with their cooperatives.

The members described their (pre-project) cooperatives as having structure, but no real purpose and no influence with the government agencies that were supposedly put in place to assist them. Officers of the six cooperatives examined reported that their produce had been regularly collected by the UNCC (*Union Nigérienne de crédit et de coopération*), the cooperative apex organization) but no margins were provided to the cooperatives and no information was ever provided about the final sales price. In theory, the UNCC established patronage refund accounts for each cooperative, but refused all requests for information or to make the accounts accessible. When the UNCC was dissolved by the government, these accounts proved to be non-existent.

Problems stemming from excessive government control threatened the continued operation of the project throughout much of the first two years of implementation. Faced with the possible closing of the project, however, the government allowed it autonomous status, and moved it out from under the direct control of the Department of Cooperatives. Since taking this step, the government has gradually moved to allow greater autonomy and freedom of action to other types of non-governmental organizations. In contrast to the authoritarian approach that had been characteristic of the government-sponsored cooperative system, the approach of the project places its emphasis entirely on member initiative and member control.

Although successful economic activities, increased incomes and higher savings levels are important indicators of success, they are but partial measures of the overall impact of the project on the cooperatives and their members. An assessment of the project’s impact by the cooperative members themselves indicates that it has provided new skills and new motivation. When asked to compare the present status of their cooperatives to the pre-project period, the leaders were unanimous in declaring that their organizations had no viable economic activities before their affiliation with the project.

Leaders of the Chadakori cooperative stated that because the only activity of the cooperative was to buy member produce for the UNCC, "We knew how to buy the produce, but we knew nothing at all about how to sell it and make a profit." On the other hand, the Chadakori cooperative had a particular advantage that most of the other cooperatives did not have, a higher rate of literacy among the leadership:

"We were fortunate in that we had more people who were literate than many of the other cooperatives. Several of us had some literacy skills, but before our affiliation with the project, we had nothing on which to use them, we had no way of putting these skills to work. Now, we decide on our own economic activities, we sell our own produce, we know our costs, and we know our profits. Our capacities, our outlook have undergone a great evolution."

The great majority of business activities undertaken have produced positive results. Losses, when they have occurred, have almost always been because of factors beyond the control of the cooperative, such as harvests affected by climatic conditions and problems resulting from government-imposed pricing structures. The high success rate is due, in large measure, to the careful market analysis and the thorough preparation undertaken before beginning the business activity. In addition, as several of the leaders pointed out during the field interviews, the fact that the cooperative
financed the activity by means of a loan from a private bank impressed upon them the necessity of making the enterprise succeed.

While the largest volume of bank lending is for the marketing of crops, (millet, cowpeas, rice and onions), it is also the area of greatest risk. After experiencing initial successes, some of the cooperatives suffered losses that caused them to look more closely at the risk-profit ratio. The FEMALE Cooperative, for example, marketed paddy rice during the 1986-87 season. This was the cooperative's first economic activity and it made a sizeable profit, part of which was used to finance the start-up of its consumer shop. Its second attempt with paddy rice (the 1988-89 season) was not as satisfactory, although it was able to repay almost all (97 percent) of the bank loan. A further examination of the market potential caused the cooperative to decide against trading in paddy rice for the 1989-90 season.

In contrast to the traditional marketing of food crops, the Guesselbodi Cooperative operates a forestry management project as its major economic activity. Of more recent origin than the other cooperatives affiliated with the project, it was established in 1986 as a forestry cooperative to collaborate with the forestry service in the planned exploitation and regeneration of the Guesselbodi forest. Project staff provided fifteen days of management training to ten leaders of the cooperative before it became operational in February 1987, and the project assigned a member of the field staff to work with the cooperative.

The cooperative controls the cutting of wood and the gathering of grass fodder in the 5,000 hectare forest. The controlled area is divided into ten parcels, only one of which is selectively cut each year on a rotating basis. Permits are issued for both firewood and fodder grasses to control access to the cutting areas. These permits, sold by the cooperative, allow only limited amounts to be harvested. The woodcutters harvest and sell the wood to the cooperative which, in turn, sells to both traders and individual consumers. Most of the fodder (grasses and some leafy shrubs) is harvested for local use. Profits are divided between the forestry administration (75 percent)—in theory, to be reinvested in the forest—and the cooperative (25 percent).

As another example of business activity, the area of the Roukouzoum Cooperative had gained a reputation for the production of high quality onions, a reputation that regularly attracted a number of private traders who would purchase the production of the cash-short farmers at low prices and make quick, high profits (300 to 500 percent) selling in Niamey or exporting to neighboring countries. With guidance from project staff, the leaders of the cooperative analyzed onion marketing, organized producers, constructed expanded versions of the traditional thatched onion storage sheds to accommodate larger volumes of stock and, with a loan from the bank, significantly expanded its onion marketing activity. This has proven to be a highly successful undertaking. Substantial profits have been made each year except one, when a large amount of the onions were spoiled before they could be sold. The cooperative permits limited returns to members, which enables it accumulate funds to invest in other activities.

Building on Experience

Once the cooperatives experienced success in their initial economic activities, the members gained self-confidence and developed a new readiness to examine other potential business ventures or expand the current activity. The project has encouraged inter-cooperative visits for a sharing of experience and the exchange of ideas about marketing and business operations. A new
business awareness has led cooperative leaders to look at the activities of private traders with an eye to competing effectively with them in order to provide greater returns to their members.

In early 1987, members of the Chadakori Cooperative suggested to their leaders that there was need for a pharmacy in the village because the government dispensary was often out of even the most basic and most frequently prescribed medications, requiring the villagers to travel long distances to obtain medicine. With profits from the consumer shop, the cooperative opened its pharmacy in July 1987. Although the cooperative’s leaders had looked upon the pharmacy primarily as the provision of a needed social service, it has consistently shown a small profit and the concept was quickly adopted by a number of neighboring cooperatives.

**Year-Round Business Activities**

Most of the economic activities of the cooperatives include one or more of the following: the operation of consumer shops; sales of agricultural inputs (including plants and seeds); the marketing of rice, millet, cowpeas, and onions; and the management and exploitation of forest areas (controlled cutting and sale of firewood and fodder). Other activities include seed multiplication, livestock raising and livestock fattening. Some of the cooperatives have practiced collective farming (champs collectifs), on plots reserved for that purpose, to produce food crops or raise cash for group activities such as launching a consumer shop or providing food during training programs.

Based on the belief that cooperatives should operate throughout the year in order to keep up the interest and participation of their members, the project approach encourages the development of at least three different economic activities. As the marketing activities are essentially seasonal, many of the cooperatives chose to establish small consumer shops, often funding them out of profits from other activities. Many of Niger’s rural villages lack a substantial consumer shop and people often find it necessary to travel long distances to obtain common items of daily need. This lack of basic consumer goods has made the shops a popular economic activity, although a number of the cooperatives have found that business volume is not large and that care must be taken to avoid losses. For purposes of management and accounting training, the consumer shops provide continuing opportunities throughout the year. To supervise the shop operations, a committee of control is established within each cooperative. In general, the consumer shops require more frequent banking transactions, which provides the cooperative leaders with increased familiarity with bank services and bank officers.

**Expansion to Other Cooperatives**

The progressive expansion of project benefits was part of the initial project plan. In the first stage of implementation, 14 cooperatives were selected to participate and serve as models for the testing of the project approach. The goal of the first phase, however, was the expansion to 210 cooperatives by the close of 1989. Although, upon evaluation, that rate of growth was felt to be too rapid to maintain sufficient in-depth contact with all of the cooperatives and a lower total was proposed, by mid-1990, expansion seemed to be gaining momentum and the number of cooperatives affiliated with the project had grown to 208, again raising concerns about spreading project resources too thinly. At the mid-point of 1990, the project had a total of 39 field staff (assistants) working with an average of 5 to 6 cooperatives each, which may include as many as 40 to 50 village groups.

The expansion of the project from cooperative to cooperative has been spontaneous. As the word of successful economic activities in one cooperative spreads to other villages, requests begin
to come to the assistants to visit and discuss the project. Often, the initial contacts the assistant may have with the new cooperative are informal. The high level of motivation of the field staff (the cooperative assistants) has been a key element in project expansion. Because the assistants received so many requests from other cooperatives for assistance and inclusion in the project, it was necessary for them to become more selective in expanding to new groups.

The Issue of Sustainability

All of the assistants working in a particular department are called, in the terminology of the project, a "collective" (collectif) and much of the project administration is decentralized to these groups. At times, a collective meets to discuss particular issues and sometimes forms teams to work on specific problems. As the project looks to the future, to the defining of a local organization that can carry on the activities beyond the life of the project, these collectives may serve as the nuclei around which self-supporting cooperative training and technical assistance services can be developed.

The question of sustainability, however, is perhaps more properly applied to the cooperatives themselves (and their economic activities) than to the project itself. The skills transferred to the members of the cooperatives have strengthened their capacity to explore any type of economic activity and, if they determine it to have economic potential, to develop a business plan and put it into operation.
4. NIGERIA: REVIEW OF AGRICULTURAL COOPERATIVES AND OTHER FARMER ORGANIZATIONS

Summary by H. Porvali

INTRODUCTION

This report summarizes the main findings and recommendations of a review of agricultural cooperatives and other farmer organizations in Nigeria. The review was conducted in September-October 1991 with the overall objective of generating information on the present status and development potential of cooperatives and other rural organizations in the agricultural sector so as to facilitate the design of policy and institutional reforms, as well as technical and financial support programs, which may be needed to strengthen these organizations. The specific tasks of the review mission were to (a) identify the development issues and come up with sound policy advice for the Nigeria Government's consideration; (b) identify technical and financial constraints to the development of efficient, financially viable and self-sustainable cooperatives and other farmer organizations; and (c) facilitate the design of technical and financial assistance proposals which the government and the cooperative movement could consider for presentation to donor agencies.

The cooperative movement in Nigeria and other farmer organizations have—as part of the private sector—the potential to provide several benefits. They could: (a) bring in more agricultural inputs and produce marketing services to the rural communities, particularly in remote areas not served by other private sector operators; (b) increase competition in the agricultural service sector, thus preventing elite-based oligopolies from developing; (c) provide savings and credit services to smallholders; (d) provide a cost-effective way to meet some of the service needs of the smallholder farming community; and (e) provide an avenue to articulate smallholders' needs and views to political decisionmakers. Farmer organizations could contribute to achievement of the objectives set in the 1987 government statement on agricultural policy. These objectives include self-sufficiency in basic food commodities, and increased agricultural production for export and for use domestically as industrial raw materials. The institutional and policy reforms which are being implemented under the Structural Adjustment Program (SAP) accentuate the need for the development of farmer-based service organizations to fill the service gaps left as a result of the reduction of government involvement through state-owned enterprises.

COOPERATIVES AND THE STATE

Cooperative Development Policy

Cooperative policy and legislation in Nigeria has since the colonial period been based on the concept of government control of cooperatives. The cooperative movement has been seen as a useful tool to increase agricultural production and to handle the distribution of commodities and services. The cooperative legislation introduced in 1935 was used to regulate the activities of cooperatives. Based on this legislation, the office of the Registrar was created and a Cooperative
Department (CD) formed to oversee the operations of societies. This tradition, as well as the promotional and supervisory machinery, was inherited by independent Nigeria.

The emphasis given by the government to the development of cooperatives has varied to a great extent since independence. There has been no clear and consistent policy on cooperatives. The movement has been shaped by the tendency of the federal and state governments to use cooperatives as tools to implement their policies. Frequent changes of policy emphasis have had a strong, and often detrimental, impact on the structure and operations of the movement. Many cooperatives have been formed in response to government policies of providing subsidized services to members. When these policies were reversed, such cooperatives lost their justification and became obsolete. Government involvement in cooperative development has often gone beyond designing policies. Government has been involved, not only in the promotion of cooperatives, but also in their daily management. A good number of primary societies, as well as unions and state federations, are staffed by government employees. In general, the government has treated—with good intentions—the agricultural cooperatives as tools for implementing its rural development policies rather than as voluntary organizations formed and managed by their members for the promotion of their own welfare.

Although overall government policy now emphasizes privatization and liberalization of the economy, this shift still remains to be translated into concrete policy reforms in the cooperative sector. The National Rolling Plan 1991-93 represents, however, a step in a less interventionist direction. The plan underscores the need to reduce state control over cooperatives and to give more freedom and responsibility to the movement. It defines the role of government as being to give necessary assistance to registered cooperatives through the provision of financial aid, as well as infrastructural and institutional support, with special emphasis on training and awareness programs.

A more comprehensive document outlining a policy (not yet officially endorsed) is "The Draft Development Plan for Agricultural Cooperatives in Nigeria." The document underlines the need for strengthening the cooperatives so that they can assume increased responsibility for farm input supply, provision of production credit, output marketing, storage and processing. The plan generally proposes a central role for the government in the promotion of cooperatives.

Government policies have had, and continue to have, a profound impact on the cooperatives. On the one hand, they have led to the formation of a large number of primary societies and an extensive structure of unions and federations. On the other hand, they have been ineffective if judged against the objective of promoting efficient and self-sustainable cooperatives. The frequently changing policy framework and government interventions into the operations of cooperatives have, in general, hampered the emergence of genuine, member-controlled societies. There is therefore a need to adopt a clear policy based on the fundamental cooperative principles of mutuality and voluntary association, and non-interference by the government in the business operations of cooperatives. The new policy should recognize the need for a gradual transfer of responsibilities for promotion and training to the movement itself. It should also emphasize that, although the purpose of a cooperative enterprise is to provide services to members, it has to be run on sound commercial principles. The government should limit its role to providing a conducive economic environment which allows the cooperatives, as well as other types of farmer organizations, to compete on equal terms with other private business enterprises. The Draft Development Plan for Agricultural Cooperatives in Nigeria would provide a good basis for the preparation of a new policy.
Cooperative Legislation

The legal framework governing the operations of cooperatives consists of the federal Cooperative Societies Decree of 1948, as well as laws enacted in each state. A draft National Cooperative Law on Cooperative Development in the Federal Republic of Nigeria was completed in March 1986, but it has not yet been approved.

The present federal law contains detailed regulations on the formation and operations of cooperative enterprises. It gives extensive powers to the Registrar to influence the management of cooperatives and thus poses limits to the independence of the movement. The new draft legislation recognizes the basic cooperative principles and the character of cooperatives as organizations operating for the benefit of their members. This implies a desire to promote a member-controlled cooperative movement. Basically, however, there is no major departure from the interventionist approach reflected in the old law. The proposed legislation permits, depending on interpretation, excessive involvement by the state in the affairs of the cooperatives. The minister/commissioner responsible for cooperative development would be able to exert considerable influence on the daily management of cooperatives, ranging from enforcing regulations regarding the admittance of members and determining the maximum number of shares held by a members, to the appointment and removal of management committee members.

The lessons learned from Nigeria and from other countries with a similar policy and legal framework, show that a tightly regulated environment is not conducive to the development of cooperatives. The success of the movement depends to a large extent on the motivation and committed participation of members. A high level of motivation can be created only if members genuinely feel that they own and control their societies. If cooperatives are formed at the initiative of outsiders, and if they lack the authority for self-management, members tend to perceive cooperatives as alien to their interests. Another lesson learned is that civil servants are often not competent to direct the business operations of cooperatives and that the law therefore should not encourage the management of societies by officers of the Department of Cooperatives.

In view of the lessons learned (which several African countries have taken note of by revising the cooperative legislation), an amended federal cooperative law should be promulgated in Nigeria. It should avoid detailed regulations and permit greater flexibility to the societies to adjust to their specific needs. The more detailed provisions should be accommodated in the by-laws of each society. Although the new law should aim at easing government control considerably, it is evident that government support will be required during a transitional period. There is a need to protect members against financial losses caused by unskilled or unscrupulous management committee members and staff. Therefore, an active and legitimate role for the government in supervising the cooperatives is foreseen for some time. However, when drafting the new law, the need for transferring more responsibilities to the movement itself should be recognized. The handing over of functions to the movement should be implemented gradually. In the first instance, the audit and training services should be made the responsibility of the cooperative movement.

Role of Governmental Organizations

At the federal level, the cooperatives fall under the jurisdiction of two departments, i.e. the Federal Cooperative Department (FCD) and the Federal Department of Agricultural Cooperatives (FDAC). In addition, most states have a Department of Cooperatives. FCD is responsible for the registration and supervision of national cooperatives, promotion of central labor cooperative
organizations, cooperative education and training, and disbursement of federal and foreign assistance
to the cooperative movement. The main functions of FDAC include the formulation of national
policy on agricultural cooperatives, promotion, coordination and inter-departmental cooperation,
liaison with various national and international bodies, and training activities for agricultural
cooperatives. The main functions of the State Cooperative Departments are the registration of state-
level cooperatives, inspection and supervision of societies, and conduct of training and education
activities. In many states, the staff of the departments are extensively involved in the actual
management of cooperatives. Societies and unions are often established at the initiative of
Cooperative Department staff.

The efficiency and impact of the federal and state-level cooperative support departments
are impaired by poor coordination between the various agencies, inadequate operational funding, lack
of performance criteria and staff incentives, and deficient work planning and monitoring. Within the
framework of an overall policy to gradually reduce the role of the federal and state cooperative
departments, the following actions are recommended to streamline their operations.

(a) A deliberate effort should be made to identify activities which can be
transferred to cooperative movement organizations at all levels and a plan
for implementation of the transfer should be prepared in conjunction with
the cooperatives concerned.

(b) Efficiency and impact should be enhanced through concentration on
essential tasks. Major emphasis should be placed on measures which
improve the self-management capacity of viable cooperatives. Support to
moribund societies, as well as promotion of new cooperatives should be
given low priority.

(c) Improved work planning procedures, staff incentive schemes, and
resource allocation criteria should be implemented in the cooperative
departments. The activities and organization of the departments should
be guided by the demand for services by the cooperatives. The possibility
of the departments charging a fee for support services should be
reviewed.

(d) In order to improve coordination and the efficient use of available
resources, it is recommended that federal level cooperative development
activities should be the responsibility of one department covering all types
of cooperatives. Considering the predominance of agricultural
cooperatives, the ministry responsible for agriculture and rural
development would be the most logical umbrella for the department. This
department should concentrate on policy issues, coordination of support
services to cooperatives, development of management and accounting
systems, registration of cooperatives covering more than one state, and
implementation of federal training programs.

The lessons learned from the history of past involvement in cooperatives
indicate, in summary, that the main factors that have hampered the emergence of an efficient,
viable and self-sustainable cooperative movement are the following:
(a) The general economic policy environment, which until recently was characterized by extensive government regulations of prices and markets and by an emphasis on parastatal enterprises. Restrained by this environment, the cooperatives failed to develop commercially viable activities.

(b) The inappropriate cooperative development policy and legislation, which was based on a perception of cooperatives as government—controlled entities. In many cases, this compelled the cooperatives to operate as channels for the implementation of government programs, which were designed with general agricultural and rural objectives in mind without necessarily taking into account the business aspect of the cooperative enterprises.

(c) The close involvement by government departments in the management of cooperatives. This seems to have led members to view the cooperatives as closely associated with the government and must have affected their commitment to participate in the management and financing of their cooperatives.

In addition, there are internal constraints within the cooperatives which have retarded the growth of the movement. They are discussed in the subsequent paragraphs.

**STRUCTURE, ACTIVITIES AND PERFORMANCE OF THE COOPERATIVES**

**Overall Structure**

There is hardly any systematically compiled information available at the national level on the cooperative movement in Nigeria. Estimates of the current number of cooperatives vary widely, ranging from 17,000 to 40,000. No reliable figures are available concerning total membership or business turnover. There are clear indications, however, that a large number of cooperatives are becoming dormant and that their volume of activities in some states are on the decline.

At the state level, the common structure of the movement is a three-tier system. The primary societies are affiliated to secondary cooperatives (unions), which in turn are members of state federations. The state federations have, together with some other major cooperatives, formed the Cooperative Federation of Nigeria (CFN). It can be observed that many secondary and tertiary cooperatives play only a marginal role in providing services to their affiliates. In spite of this, primary cooperatives are in practice compelled to be members of these organizations. It appears that many unions and federations have been formed without due regard to their viability, the need for services to be provided to their affiliates, or the availability of trained manpower and other resources. It is common that unions are managed by civil servants and that their affiliated societies show little interest in their secondary and tertiary organizations.

CFN, the national apex cooperative, does not have the resources to provide leadership and services to the movement or to act as an efficient spokesperson of cooperative interests. An increased capability to do so would be essential in the Nigerian situation, where a substantial part of the constraints facing the cooperatives needs to be tackled at the policy level in dialogue with the federal
and state governments. This calls for a strengthening of CFN so as to enable it to play its advocacy role efficiently. The revitalization of CFN—and its affiliates in the states—is also important in the context of the transfer of promotional functions from government departments as proposed in the review mission's report. The key issue is the financing of the expanded services to be provided by the federal and state—level federations. The basic principle must be that costs of services provided to affiliates (such as auditing and consulting services) are to be met by the users. This may not be possible in the short term. Therefore, some external support is justified, along with increased annual subscriptions from the movement.

The rigid secondary cooperative structure which has been promoted in most states based on "automatic" or compulsory membership—often without due regard having been paid to need or viability—should be reconsidered. It should be left to the primary societies to determine the most appropriate structure in view of their felt needs. The basic cooperative principle of voluntary membership should be implemented.

**Agricultural Cooperatives and their Activities**

According to a recent survey of the cooperative sector, there are nearly 29,000 cooperative societies in Nigeria with a around 2.6 million members (these figures exclude Gongola State and the Abuja Federal Territory). The biggest group among the societies are the Farmers Multipurpose Cooperatives which account for one-third of the total, followed by the Produce Marketing Societies (16 percent) and the Group Farming Cooperatives (12 percent). In all, there are 18,000 agro-based primary societies.

The main activities of the agricultural cooperatives include input distribution, provision of production credit and, to a lesser extent, produce marketing.

**Produce Marketing and Input Supply**

As regards output marketing, the market share of cooperatives is quite insignificant. The trade in agricultural produce is almost fully in the hands of private traders. Lack of working capital, poor business acumen and management deficiencies have prevented the cooperatives from taking advantage of the market opportunities created by the withdrawal of government participation. An exception is cocoa marketing, in which the share of the Association of Nigerian Cooperative Exporters and its affiliates in western Nigeria is over 50 percent.

The role of cooperatives in input distribution varies from state to state and depends on the type of commodity. Government and the parastatals have retained a central role in the distribution of fertilizer. The role of cooperatives as fertilizer marketing agents is negligible. They are more active in dealing with other inputs. While they constitute a relatively important outlet for agrochemicals in the export crop regions of the country, they have almost no share of the agrochemicals used for food crops.

In spite of the present limited role of cooperatives in agricultural marketing, the cooperatives have a potentially important role to play. The movement has an extensive network of unions and primary societies through which a large number of farmers can be reached. So far, this network has been underutilized due to financial and managerial weaknesses and because of the restrictions imposed by the regulated fertilizer distribution system. In the case of fertilizer, the cooperatives should be allowed to participate fully and should be given adequate allocations for sale.
to their members. They should also be allowed to cover their expenses by determining their own sales margins.

The newly-formed Nigerian Agricultural Cooperative Marketing Organization (NACMO) could become important in agricultural marketing in Nigeria. Although it presently operates with a relatively small business turnover, its operations are profitable. The magnitude of its marketing activities is, however, below expectations to date. This is due to its exclusion from the fertilizer trade, its poor financial position and the weak links with its affiliates. If the cooperative movement is to be seriously involved in the agricultural trade, an efficient apex organization at the federal level is a necessity. NACMO should therefore be allowed to become a full agent in the fertilizer trade in order to ensure the availability of fertilizer for distribution through the cooperative set-up to members. NACMO should also serve the agricultural cooperatives as a market intelligence, monitoring, consultancy and advisory center.

A greater involvement of primary cooperatives in marketing, with the support of their unions, and state and federal federations, would provide an alternative channel for farmers to sell their produce and procure inputs. This would introduce an additional element of competition in the market place and contribute to increased efficiency. Before this can be done, a training program is required both to teach cooperators the necessary managerial skills, as well as to introduce more business-oriented attitudes in the operations. Efficient marketing would also require adequate storage facilities to allow members to benefit from seasonal price fluctuations. A scheme for financing of the marketing operations needs to be conceived and implemented.

Financial Services

In the African context, Nigeria's banking system is well-developed with a widespread branch network. However, the formal banking system serves mainly the urban clientele and the large-scale farming sector. Due to high transaction costs and risks, the commercial banks are reluctant to lend to smallholder farmers. A recent FAO survey estimates that only 10 percent of lending to small-scale agriculture originates from the formal banking system. The bulk of the borrowing requirements are met by rural moneylenders, and various types of savings and credit groups.

In order to meet the credit needs of cooperatives and their members, a cooperative financial structure has been established in some states. In the states where a cooperative financial structure exists, it consists, at the top, of a specialized federation for financial services Cooperative Finance Agency (CFA). Its main task is to raise funds for the granting of loans to unions and societies, which in turn lend to individual members. The CFAs have performed very poorly as financial agents for the cooperatives. Their available resources have continuously declined and in some states lending operations have come to a standstill. The standard of their management is often unsatisfactory and the average loan recovery rate between 40 and 50 percent.

Most active primary agricultural cooperatives operate simple savings schemes and issue loans from accumulated funds to member farmers for personal needs and production purposes. Although the situation varies between states, the level of savings activities in rural cooperatives is generally low. Some societies have obtained loans directly from commercial banks for their own investments or for lending to members. While these projects are few and still in their infant stages, their application on a larger scale could be a key element in programs for improvement of the supply of credit and banking services to small-scale farmers.
The reasons for poorly-developed cooperative savings and credit activity in most states can at least partly be linked to the initial motives behind the formation of cooperatives. In the drive to establish cooperatives, the emphasis has clearly been on the credit element. The primary motive to cooperate has been, and still is, the promise of cheap credit from external sources. Little emphasis has been on education to motivate farmers to save through their cooperatives in order to reach a higher level of financial independence. With the collapse of many externally-funded credit schemes, the interest in cooperatives has decreased and confidence in rural cooperative societies as reliable financial agents is currently quite low.

The present policy of the Nigerian government to withdraw from direct involvement in credit operations, as well as the reluctance by commercial banks to lend for smallholder agricultural development due to high transaction costs, creates a need for effective farmer organizations to act as intermediaries between banks and borrowers. While the prevailing situation would call for programs to increase the supply of credit through cooperatives and other farmer organizations, the relatively weak management and poor motivation in nearly all cooperative organizations involved is a major obstacle. A viable cooperative financial system cannot be set up without serious efforts in the areas of education, motivation, management development and skill training. In the first instance, a few pilot programs of cooperative savings and credit operations should be planned, the necessary manuals produced and training organized.

Neither the past performance of the cooperative financial system nor the generally low volume of cooperative operations in Nigeria can facilitate the formation of new cooperative banks at the state level. Instead it is recommended that incentives be provided to existing financial institutions of different types to lend to smallholder agriculture through cooperatives and other farmer groups. This, together with increased emphasis on savings mobilization, would improve the availability of credit and would serve to link primary societies more closely with the monetary economy. Discussions should be reopened with the Nigerian Agricultural and Cooperative Bank to find more favorable collateral requirements for cooperatives.

Other Activities

In addition to the core activities of marketing and financial services, rural cooperatives are involved in a large variety of activity areas ranging from small-scale agro-processing to consumer goods retailing and from travel agency operations to livestock production. All these activities are carried out on a modest scale. A major activity is group farming, which in the past was strongly promoted by the government. The policy of promotion of joint production by members led to the formation of several thousand group farming societies. The declared aim of promoting such cooperatives was to promote the introduction of modern farming methods.

Management Performance of Cooperatives

As the preceding overview shows, the performance of most agricultural cooperatives is rather disappointing. Their business turnover is small, and they play a very limited role in many key areas where cooperatives normally should provide services to their members, i.e. provision of marketing and financial services. This is partly due to government policies, but also due to management and structural weaknesses. Most primary societies are too small to be financially viable and to invest in infrastructure. Many of them are not able to pay salaries to their employees. Due to this and because of inadequate resources for training, there is an acute shortage of qualified staff.
As a result of inefficiency, the cooperatives suffer from a poor image among members, financiers, business partners and the public at large.

The attitudes of members, committee members, and staff of cooperatives, as well as policymakers and civil servants, have to change in such a way that cooperatives are recognized as business enterprises which must be financially viable in order to provide sustainable services. At the same time, improved operational procedures and management systems need to be developed and introduced. These systems could be uniform, but should be flexible enough to take into consideration the requirements in various types of cooperatives. Uniform systems would have the advantage of enhancing efficiency in training and monitoring.

The primary societies need assistance in their efforts to improve their management. Ideally, this assistance should come from within the movement. In this respect, CFN is in a key position. CFN, together with its affiliates at the state level, could assist in providing audit and training services. In the area of training, the Federations should develop and execute training programs together with the state federations. The proposed National Agricultural Cooperative Management and Development Center (NACMDC) should incorporate CFN into its management. Ultimately, it should be merged with CFN. In close collaboration with the government institutions concerned, CFN should carry out a manpower survey in order to identify training needs in a systematic manner. However, before the Federation can assume these responsibilities, it needs institutional strengthening through skill development, technical assistance and equipment.

Special attention should be given to measures which facilitate timely audit of cooperatives. At present, there is a huge backlog of audits because of the lack of sufficient capacity in the Cooperative Department and state federations and because of time-consuming audit procedures. Presently, neither the Department of Cooperatives nor the cooperative federations have the capacity to undertake the audit of all cooperative organizations. One way of speeding up the audit work would be to introduce modern audit methods. Training of staff would improve their efficiency. The Institute of Chartered Accountants of Nigeria has expressed its willingness to assist in designing and running special training programs for auditors of cooperatives. CFN and the state federations should initiate collaboration with the Institute in order to strengthen their auditing capacity and with the view to gradually taking over the responsibility for auditing from the Department of Cooperatives.

Training is another key element in any effort to improve the performance of the cooperatives. There are presently several institutions providing certificate and diploma-level training for cooperative staff. They include three federal and six state cooperative colleges. The cooperative movement itself organizes some training activities, mainly in the form of short courses for staff and committee members. Both CFN and the state federations are active in this area, but their involvement is on a very small scale due to shortage of funds. On-the-job training is the responsibility of the state cooperative departments, but their capacity to perform this task is very limited.

Not being based on a proper manpower development plan, the present training efforts appear to be of an unsystematic ad-hoc nature. The preparation of such a plan, based on a cooperative manpower survey, is called for with the view to mapping out training needs and designing programs which meet the identified needs. The plan would also be important for coordination between the various institutions involved in cooperative training. An important step to facilitate coordination would be the establishment of a Board of Cooperative Education, which has been proposed under the European Community (EC) Nigeria Project. In the context of a strategy to
create a self-reliant and sustainable cooperative movement, more responsibility for training activities should gradually be transferred to the movement. The plans to move the responsibility for implementation of the EC-Nigeria training activities to the CFN are positive measures in that direction.

OTHER RURAL ORGANIZATIONS AND WOMEN IN DEVELOPMENT

Working together is a common tradition in the Nigerian rural community. There are two major types of groups. First, those which have been formed for general community development and, second, groups which have the provision of direct economic benefits to individual members as their objective. Organizations belonging to the first mentioned category include Community Development Associations, Village Development Unions, Age Grade Associations, and various religious associations involved in community development work. Most common among groups concerned with the promotion of economic activities for the benefit of their members are Group Farms, Farmer Associations, groups formed for joint farm work, and Youth Associations for agricultural production. Others are Women's Associations, traditional Savings and Credit Groups, and various professional associations, which are active in other economic activities than agriculture.

The best-known informal groups are those dealing with savings and credit activities. Members of these groups normally share a strong common bond; same neighborhood, civil status, profession, gender, etc. Although they are informal groups, their management structure and administration can be rather sophisticated.

State Cooperative Departments have actively tried to promote the transformation of some types of groups into cooperatives. This would indicate that the informal groups are seen only as a temporary arrangement and that they, over a period of time, will become registered cooperatives. This pressure on groups to form cooperatives is of doubtful merit, especially as it takes away resources, which would have been needed for the supporting existing cooperatives.

Undoubtedly, the various unregistered groups will continue to play a role in the rural communities. To increase their role in agricultural support services, that is, input supply, produce marketing, and savings and credit, etc. support from various external aid agencies would be useful. Before any meaningful action can be taken to plan the development of the informal sector, more accurate data on the operations of the groups need to be collected. The government should also formulate a policy on informal groups. Perhaps the proposed policy document dealing with cooperatives should be expanded to cover informal groups as well.

Most traditional groups cannot be expected to become anything different from what they are at present. Many informal groups may be best suited to operate as they are, that is, without being urged to register as cooperatives. The registration of cooperatives should only be considered if the groups have a significant volume of business and, most important, if the members desire to form a formal cooperative.

Women play a vital role in the agricultural sector, both in production and marketing. Therefore, it would be logical to expect them to be active in agro-based cooperatives. The general situation, however, is that women play a rather marginal role in cooperatives (with the exception of cooperatives formed specifically by women), at least in relation to their overall participation in activities related to agriculture. Promoted mostly under the Better Life Program, the number of registered women's cooperative societies has increased dramatically. According to the latest
information, there are 8,245 such cooperatives with farming and small-scale agro-processing as their main activities. Other activities include handicrafts, saving and marketing. Most women’s cooperatives have been formed recently and it is therefore difficult to assess their viability. However, major problems can be expected within a couple of years because the majority of women’s cooperatives were formed without having technical or business management skills to run their affairs.

**OUTLINE OF A PROGRAM OF ACTION**

**Action by Government Authorities and Movement**

The major areas of action recommended by the review mission are summarized in the following matrix.

<table>
<thead>
<tr>
<th>Problem Area</th>
<th>Action to be taken</th>
<th>Responsibility</th>
<th>Timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>No policy paper on cooperative development and the role of government</td>
<td>Redrafting the policy paper, basing it on current knowledge of cooperative development factors.</td>
<td>FCAD and FDC in consultation with the movement and with assistance from the EC-Nigeria Project</td>
<td>Completion of draft by the end of 1992. Processing during first half of 1993.</td>
</tr>
<tr>
<td>Outdated cooperative law which restricts freedom of cooperative activities and encourages government involvement.</td>
<td>Revision of the draft cooperative law, basing it on the new policy paper.</td>
<td>Committee comprising FCD, FDAC and CFN. To be drafted by consultants familiar with recent development of coop. law in Africa.</td>
<td>Draft to be completed by mid-1993 and processed by end of 1993.</td>
</tr>
<tr>
<td>Development efforts lack direction and coordination, and search for resources because there is no long-term plan.</td>
<td>Based on the new policy, preparation of a 5-year cooperative development plan.</td>
<td>CFN ar-4 NACMO with the help of consultants and in collaboration with FDAC and FCD.</td>
<td>Start three months after work on policy paper; completion in 6 months, after which national conference for approval.</td>
</tr>
<tr>
<td>Limited resources for cooperative development work.</td>
<td>Based on cooperative policy paper, call for round table meeting of potential development agencies.</td>
<td>Federal Ministry of Finance, at the initiative and in collaboration with CFN, NACMO, FDAC and UNDP.</td>
<td>January 1993.</td>
</tr>
<tr>
<td>Expiring EC Project; the present agreement is only to the end of 1993.</td>
<td>Accelerated preparation and processing of plan for a next phase of the project.</td>
<td>EC staff in collaboration with CFN, FCD and FDAC.</td>
<td>Immediate start based on cooperative sector review by World Bank.</td>
</tr>
<tr>
<td>Expired ILO project at the end of 1992.</td>
<td>Request by the government to ILO to start a new phase, and accelerated preparation of project documents.</td>
<td>Request: FCD and FDAC on the initiative of NACMO. Plan: ILO team, in liaison with NACMO.</td>
<td>As soon as possible, basing the documents on the sector review by the World Bank.</td>
</tr>
<tr>
<td>Limited credit and other support services; the available resources have not been used.</td>
<td>Completion of consultant recruitment under MSADP III for first state, and extension of the activity to others.</td>
<td>Respective state ADPs with the help of FACU and approval by the Bank; CFN and FDAC to be kept informed.</td>
<td>As soon as possible.</td>
</tr>
</tbody>
</table>
Restrictive regulations on fertilizer distribution. Government guidelines exclude cooperatives from fertilizer trade.

Consolidated application by the movement to FMAWRDD to allow cooperatives to set margins and to obtain allocation of fertilizer.

CFN, organizing the state federations.

As soon as possible but latest by September 1992.

Harmful directives by Government; e.g. cooperatives structures are required to be uniform and farmer groups are promoted as coops regardless of size and viability.

Repeal the directives.

FDAC and FCD, at the initiative of CFN.

As soon as possible.

No manpower development plan and inadequate knowledge of training needs.

Preparation of manpower development plan based on training needs survey.

CFN, with the help of EC or other assistance agencies.

As soon as possible; the action is not dependent on other measures proposed.

Lack of coordination in cooperative training.

Preparation of an adequate plan for EC support for establishment of a Cooperative Education Council.

CFN with the help of EC project staff; to be processed with the help of FDAC and FCD.

As soon as possible; the establishment of the Council is not dependent on other actions.

Technical and Financial Assistance Proposals

While there are numerous Nigerian staff in the cooperative movement with sufficient training and substantial experience, they are not enough to tackle the substantial task involved in building a viable and efficient cooperative movement. Additional resources are needed to supplement their efforts. Technical assistance packages for agricultural cooperatives are proposed as follows.

(a) **Cooperative Training and Education.** A program is needed to upgrade the activities of cooperative training institutions and extend training activities to the field. In practice, this proposal means the extension and expansion of the present EC project and transfer of more responsibility to CFN.

(b) **Material Production.** Mass production of training materials, manuals, guidelines, standard documents, and forms for cooperatives to ensure that lack of materials would not be an obstacle to effective training and keeping of the necessary records in the cooperatives.

(c) **Cooperative Marketing.** The ILO/UNDP-financed project in this sector should continue with another expanded phase. It should include support for further strengthening of NACMO, development of marketing procedures and operating systems, and marketing training and advisory support primary and intermediary cooperatives.

(d) **Cooperative Policy and Law.** Revision of the draft cooperative policy paper and the draft cooperative law would require a small technical assistance project. The experience gained from a similar exercise in Namibia, with the assistance of the International Cooperative Alliance and the Swedish Cooperative Center, could be useful.
(e) **Accounting and Audit.** External assistance should be solicited to improve the unsatisfactory accounting situation in cooperatives. Such an assistance program would include the standardization of accounting procedures and records, suitably modified for different types of cooperatives through a pilot program.

(f) **Rural Credit.** The funds available under the World Bank-assisted Multi-state Agricultural Development Projects II and III should be used for designing a credit program. As project resources are limited, bilateral assistance should be sought to augment project funds. The informal groups which Technoserve has helped to develop offer another avenue to develop rural credit.

(g) **Cooperative Data Bank.** CFN should be assisted to develop a cooperative data bank; an exercise which CFN already has initiated. Bilateral support—including procurement of computers and development of processing programs—should be sought to help in developing this activity.

Financial assistance is recommended for the following purposes.

(a) **Education Facilities.** Although the number of cooperative training institutions is sufficient, they need physical rehabilitation. A rehabilitation project should be directed to selected cooperative training institutions and linked to the education project proposed earlier in this section.

(b) **Marketing facilities.** FACU and the World Bank are in the process of identifying a Rural Marketing Project. This project should be designed to include development of facilities for the cooperatives to enable them to participate in produce marketing.

(c) **Cocoa Marketing.** To become a more important factor in cocoa marketing, the cocoa cooperatives and their apexes need to have physical facilities. The needs for investments in primary storage and processing units should be studied.

(d) **Small-scale Agroprocessing.** Technology needs to be developed and replicated for home and village-level agro—processing. IFAD is already providing some support in cassava processing. Similar development activities are needed for other food crops as well.
5. SENEGAL: COOPERATIVE DEVELOPMENT ISSUES FROM AN NGO PERSPECTIVE

INTRODUCTION

The Management Board of the Fédération des Organisations Non-Gouvernemental du Sénégal (FONGS), consisting of 37 delegates of member associations representing more than 2,031 village groups (or around 100,000 active members), met at Thiès on April 12, 1992 from 0900 to 1830 to review the document entitled: "Regional Study on Cooperatives and other Rural Organizations." This document, dated October 22, 1991 and produced by the World Bank (Agriculture Division, Technical Department, Africa Regional Office), was given to the president of the FONGS in Washington during a seminar organized by the World Bank so that the opinions of members of the FONGS could be obtained.

This document, distributed to all members of the Management Board fifteen days beforehand, constituted the agenda for the Thiès meeting.

The members of the Management Board began by expressing their acknowledgement of the World Bank's constant interest in the FONGS in recent years.

When discussion of the document began, some members expressed some reservations regarding their readiness to undertake the review, given the atmosphere of "relative tension" prevailing between Senegal and the Bretton Woods institutions during this period of structural adjustment; furthermore, the accusatory nature of the document (as regards the limitations of the cooperatives) upset some participants, who believed that the past history of the cooperatives was very familiar to everybody, including the World Bank, and therefore that its opinion was no longer of much interest.

However, after considerable procedural discussion, it was decided to forward to the World Bank the gist of the analysis already made by the member associations at their meetings with the partners, and specifically to recall:

- The contexts in which the associations were created.
- The responsibilities they have had to assume throughout their development.
- The difficulties they have encountered (both internal and external).
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- The lessons they have drawn, in terms of organization, in order to strengthen themselves.

- Their expectations vis-à-vis the government and the other partners (principles of partnership).

While not avoiding the issues in the World Bank document, the Management Board in its deliberations was required to take positions on the following issues:

- Its interpretation of participatory development, which the document discusses implicitly.

- The limits of the cooperative movement, which the document stresses, and the specific nature of other formal and nonformal rural structures.

- The ways in which donors (especially the Bank) could assist "authentic" organizations to improve their activities (possibly by managing efficient systems to supply the services needed to develop the agriculture sector).

UNDERSTANDING DEVELOPMENT AND THE VITAL NEED FOR BENEFICIARY PARTICIPATION IN ORDER TO ACHIEVE IT

To summarize a number of ideas expressed in different ways, the FONGS regards development as a process that enables better use to be made of local knowledge and resources in order to promote:

- The restoration of the equilibrium between man (sic) and his environment.

- The development of new skills among the local population.

- An enhanced awareness of the need to plan and work together to build a fruitful interdependence through consultation and exchanges of information.

This notion of development requires a transformation of social structures and attitudes so as to achieve sustainable progress in the economic, social and cultural domains. Consequently, it seems obvious to the FONGS that development cannot take place without the participation of those concerned, since people cannot be "developed" in spite of themselves; development actions can only succeed insofar as the population is actively involved, or, in other words, to the extent that the population assumes ownership of the actions in question.

In the past, however, large projects were initiated without this assumption of ownership really being permitted. Through these projects, Western assistance (including the World Bank) made tools available to African countries without bothering to find out if they could use those tools. Thus, cooperatives, for example, were set up on their behalf that turned out to be much more instruments for controlling the rural population than the kind of real development structure that the people wanted.

Furthermore, it is evident that the approach to development in the past was purely a matter of economic calculation, thereby revealing a lack of understanding or even a contempt for the nature of
man (sic), who was regarded as of secondary importance. No real effort was made to invite the local population to assume their responsibilities in the process.

In the rural sector, particularly, cooperatives were put together as if from kits in order to stimulate a certain kind of rural development based on a mobilization strategy devised by the authorities, anxious to preserve their prerogatives in the area of planning and executing rural development. These cooperatives were also complemented by a series of supervisory organizations that covered every technical or economic function.

In brief, everything was put in place and regulated to the point where the rural population did not even have to think. In such circumstances, was there any real scope for true participation by the local population? All past experience leads one to believe that the edifice thus constructed was designed to impoverish the rural population, not only in economic but in social and cultural terms as well.

THE LIMITS TO THE ORGANIZATION OF THE RURAL SECTOR IN COOPERATIVES AND THEIR CONSEQUENCES

In brief, the discussions indicated that the problems of cooperatives in Senegal are reflected in:

- The disintegration of group solidarity, the foundation of the cooperative system, because of the delinquent payers.

- The proliferation of fraud and embezzlement, made easier by the poor management skills of those running the cooperatives.

- The crumbling of the cooperative spirit, in that many of the cooperatives were controlled by political leaders and other influential figures.

Senegal's experience with cooperatives has made it very clear to everybody that:

- The cooperatives were too large to function as the expression of the solidarity felt by their members.

- Management of the cooperatives was regarded virtually as an administrative exercise, there being few training programs to enable members to take on their own responsibilities.

- Loans were granted in a slack and almost automatic fashion; furthermore, they benefited only an elite group of farmers, often poor payers, to the detriment of the great majority.

Given their form of organization and their exclusive focus on cash crops, the cooperatives undermined social relations and modes of production.

- Part of the labor force was diverted from foodcrops to cash crops.
The latter crops were for the most part controlled by the head of the household, since the production factors and various services were made available exclusively to the head of the household.

Women were practically ignored by the cooperative system.

The market economy approach to production encouraged by the cooperatives put attitudes, and consequently behavior, under very severe pressure.

Group solidarity is no longer very important.

The individual no longer enjoys the protection of the group and consequently looks to his own defense, at the expense of his honor, which has ceased to have any importance.

It was in this context of economic, social and cultural crisis, caused by the deficient organization of the rural world and intensified by repeated droughts, that new initiatives, such as that represented by the member associations of the FONGS, were to develop.

THE CONTEXT IN WHICH THE ASSOCIATIONS WERE CREATED

In brief, as already mentioned in the preceding section, the FONGS noted that the 1960s and 1970s featured cooperatives in which the rural producers were theoretically owners but lacked any responsibility. 1973 was the year of the drought and the large-scale arrival of NGOs. The first generation of autonomous rural organizations appeared, with the support of the NGOs, but the legal framework and administrative environment did not favor their expansion. However, favorable political conditions, including a multi-party framework and scope for pluralist expression, were to lead to the definitive development of these organizations over the next two decades.

Adjustment programs were introduced in 1979/1980, leading to the disengagement of the state. A gap was thus created and expressions such as "the empowerment of rural population" through a "transfer of responsibilities" became familiar, but there was no associated transfer of resources to enable the associations to perform their role.

The rural population is becoming:

- Concerned (there are still some shadowy areas as regards the new agricultural policy),

- Dissatisfied with the initial measures taken in the agricultural sphere (rural credit, land tenure law, marketing of products, etc.).

- Critical (because the state and the donor community persist in ignoring them in the context of negotiations regarding their future: Structural Adjustment Loans).
THE ESTABLISHMENT AND DEVELOPMENT OF THE ASSOCIATIONS AND THE CHALLENGES FACING THEM

The autonomous (in relation to the cooperatives) associations were established in very different ways, but their various origins can be categorized in four major groupings.

- **Some associations established on a regional basis** and then joined by other entities so that they could consider issues together.

- **Associations that joined together to confront common hardships** (e.g. Amicale du Walo, set up in the river valley to react to the abuses of the Société d'Aménagement Economique et de Développement).

- Associations either sponsored by NGOs or organized by one lead group

- The final category of associations consists of groups that organized themselves in federations to strengthen their representativeness (sic) at the local level (in order to join the FONG3).

During their existence these associations have also developed in rather different ways.

- The associations established on a regional basis began by organizing themselves and establishing structures which they used to sensitize the local population and promote development activities. These associations encountered certain difficulties. In particular, they were confronted by the disengagement of the state, and the need to take over wide-ranging responsibilities coincided with the time when the associations were at their weakest as a result of problems created by the NGOs providing financial assistance, which in turn "split" and "divided" them, etc.

- The associations established to face common hardships moved, once this hardship had been overcome, toward gaining control over land tenure and developing entrepreneurial activities (multiplication of GIE at Amicale du Walo and Ententes de Koumpentoum). These associations had to develop a negotiating capability with the local and regional authorities, as well as with donors (external NGOs).

- The associations sponsored by NGOs, and others learned as they developed how to assume responsibility for a specific field [training of young farmers by Maisons Familiales Rurales (MFR)] for example and by others in the area of environmental protection research into production systems, etc.

- Now these associations want both to assume a new identity (following the withdrawal of the sponsor) and expand their area of responsibility (having started with a specific field, they now want to exercise their responsibilities in all social and economic spheres).

- The final category of associations, which went from groups into federations of groups, is facing the problem of exercising management powers at this new, i.e. federation, level.

Despite the different circumstances surrounding their origin and development, these associations are all striving to achieve three essential objectives:
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- Earn their "daily bread," i.e. to achieve food self-sufficiency.
- To have their identity and values recognized.
- To make the most of their resources (whether human, natural or financial).

In the view of the FONGS, these three objectives are closely connected and any support that does not take them fully into account may do serious harm to the associations.

Seven challenges were identified as facing the associations, namely:

(i) **Economic management.** The FONGS notes that there is a problem of the management of growth and the need for a certain accumulation. Initially, most of the institutions invested in nonproductive assets; now, economic activities must lead to the accumulation of wealth so as to enable the associations to make progress, in economic, social and cultural terms.

(ii) **Land management.** A number of associations are concerned about the need to save and/or protect their natural resources (leached soils in the peanut basin, advance of the saline tongue in Casamance and overpopulation, which is leading to overexploitation of land).

Other associations are concerned about securing titles to the lands acquired and improving them (development of irrigated lands in the Walo in the north).

(iii) **Control of power,** in light of the danger of an appropriation of power by the leaders of the associations. There is also the issue of management of power in relation to the world outside the associations, and finally that of the participation of the associations in national political life.

(iv) **Managing changes in values.** The changes already referred to (accelerated assumption of economic responsibility by the associations following the disengagement of the state) have also undermined the basic values of the farmers' movement. For example, in the Walo, the notion of solidarity was easily expressed in the form of an association, but the decision to engage in business operations entailed the adoption of values such as competitiveness and profitability. Consequently, the Walo is now torn between solidarity and the individualism required by entrepreneurial activities.

(v) **Managing the new solidarity.** How are profitable activities to be made to support the nonprofitable ones? How are associations to mutually strengthen each other by exchanging skills and products? etc.

(vi) **Managing partnership.** Management of relations with partners (donors, authorities, various resource persons); management of relations between the groups in a federation and of relations between the association and the FONGS.

(vii) **Development of a farmer planning capacity** to promote true popular participation in development.
CHARACTERISTICS OF AN AUTHENTIC, EFFECTIVE AND VIABLE ORGANIZATION

Drawing on the experience they have gained both in the cooperatives and in the associations they established, the members of the FONGS identified the following characteristics of an authentic, effective and viable organization. In such an organization:

(a) The power of decision belongs exclusively to all its members (or their representatives) and is equitably divided among them, whatever their condition (male or female, dignitary or small farmer, young or old).

(b) All the members participate effectively in its management and benefit in a real sense from its advantages.

(c) The functional structure is predominantly horizontal and there is a constant concern to promote communications (which must be regarded as the "lifeblood of the organization").

(d) All the members are fully conscious both of their rights and their responsibilities.

(e) All the members believe in the organization because they recognize themselves in it.

(f) The members feel united in their diversity.

(g) All the members feel involved in both the organization’s successes and failures.

(h) The members can have confidence in it.

(i) It is a democratic organization that watches vigilantly over the constant renewal of its various bodies and promotes the freedom of expression of its members.

(j) It is constantly developing the knowledge and know-how of its members, and establishes the conditions for sharing this knowledge and knowhow among the largest possible number.

(k) It is constantly seeking to make the best use of its resources, in line with the real needs and abilities of its members.

(l) It is always receptive to innovation.

In brief, an authentic and viable organization should be permanently working to:

- Promote wide communication and expression among its members
- Develop the knowledge and know-how of its members
• Ensure that its activities originate among its members in order to develop their skills
• Develop exchanges of every kind
• Foster and support activities that strengthen its members’ autonomy
• Ensure the renewal of its component bodies
• Ensure that its members’ rights and duties are enforced.

MACROPOLICIES AND LEGISLATIVE FRAMEWORKS CONDUCIVE TO THE DEVELOPMENT OF RURAL ORGANIZATIONS

Legislative Frameworks

All the participants recognized that rural problems stem above all from the inappropriate legal frameworks that have been imposed since independence.

• Difficulties arise in the first place because the basic values of the rural organizations were poorly reflected in these legal formulations, very often either imported or concocted by "culturally rootless" civil servants;

• Theoretical analysis produces further difficulties insofar as the real objectives pursued by the associations can rarely be achieved within this legal framework.

• In practice, these difficulties are compounded by all the requirements of this legal framework (need for written documents, economic rationality, new assumptions of responsibilities, etc.).

All these requirements frequently turn out to be beyond the capacity of rural organizations when their appearance is not accompanied by any plans for measures to enable them to overcome the difficulties thus created. For example, in what way does the law on associations (inspired by the French law of 1901 on nonprofit organizations) reflect the basic values that are dormant in the subconscious of every Senegalese farmer? Have the objectives pursued by the cooperatives taken proper account of the farmers’ way of life and know—how?

Has the introduction of the law on economic interest groups on top of that pertaining to associations not created a great deal of confusion both in theory and practice, for rural organizations? Has there been a proper assessment of all the consequences of the significant changes caused by the replacement (desired by the authorities) of the spirit of interindependence (sic), which hitherto had infused the rural organizations, by the business approach and its associated profit-making requirement, which does not mesh with this solidarity? (The former is based on distribution, while the latter can only be achieved through accumulation.)

All things considered, the inappropriateness of the legal framework governing rural organizations stems initially and primarily from the total absence of consultation with these associations before these laws are drafted and promulgated. The evidence indicates that a legislative framework that promotes the development of rural organizations is one which has emerged from within these organizations, or, in other words, which reflects as far as possible the cultural values embodied by these organizations and aims to achieve objectives that are understood and accepted by the rural population. The FONGS
consequently believes that rural organizations (whatever their nature) must, as a prerequisite, be closely associated with any legal reforms affecting them, in order to minimize the risks of mistakes.

Types of Macropolicies Conducive to the Development of Rural Organizations

The members of the FONGS believe that the rural sector has specific features that must be taken into account by any macropolicy reforms if they are really to assist rural organizations.

The members of the FONGS note first that, even in the so-called developed countries, *economic calculation* is performed in a somewhat different context in the rural sector from that of other sectors.

Four major constraints must always be considered by political and economic decisionmakers:

- *Unpredictable natural events* are much more significant in agriculture than for other forms of production (in the industrial or commercial sectors); irregular rainfall and attacks of grasshoppers or rodents are constant occurrences in the rural world (and there almost no effective means of defense). Furthermore, while other random events often only affect certain firms or localized sectors, natural disasters generally affect a zone, an entire country, or even a subregion, damaging production (at least for a specific crop) on a vast scale. The repercussions of natural disasters on predominantly agricultural economies can therefore be catastrophic.

- *Slow production process:* Technological innovation cannot do much to change the fact that agricultural production is governed by the natural cycles of plant or animal growth, or to alter the rhythm and length of the seasons. Capital accumulation will necessarily occur more slowly than in other sectors.

- *Economic life* in the rural sector is still linked to the traditional conception of social organization, of *man's place in society and the scale of human values in general*. These values are clearly different from those which have been promoted in recent years, i.e. individual economic success, material profit, and the subjection of nature to man's purposes. These notions still have only a very modest place among the values of our societies, even if, unfortunately, they are gaining ground everywhere. Without ignoring economic progress, the members of the FONGS believe that it is important to take account of the positive values embodied by the rural population.

- *The creaming off by the modern sector of the rural sector's human resources.* The most vigorous and best-trained elements among the rural population are being sought by the modern sector in the towns. Nowadays, in rural areas, one often finds only uneducated aspirations, which highlights the importance of education and training to infuse a spirit of progress into the rural world, not just from an economic point of view but also from the political, social and cultural standpoint.

This is a vital issue for the FONGS, since until education and training are provided other resources will go on being largely wasted if they continue to be placed in the hands of incompetent human resources.

In brief, the kinds of macropolicies and legislative frameworks conducive to the development of rural organizations are those which encourage associations and their empowerment; in other words,
policies and frameworks that make the effort to involve the associations in their introduction, with a view to enabling those associations to assume their responsibilities.

The leaders of the FONGS believe that the answers to these questions regarding the position and role of cooperatives and other rural organizations, both formal and informal, can only and should only emerge from a comprehensive exchange of ideas at a forum bringing together all the parties concerned, that is:

- Cooperatives
- Other formal and informal rural organizations
- Technical and political institutions of the state involved in the rural sector.

PRINCIPLES AND MECHANISMS FOR PROVIDING EFFECTIVE SUPPORT TO RURAL ORGANIZATIONS

In the light of the foregoing, the members of the FONGS identified a set of principles of partnership, in the form of questions to be discussed with any organization wishing to support the strengthening of rural organizations. These principles are:

*Regarding the capacities of farmers’ organizations*

- Cannot the financing of actions and of actors be separated?
- Can associations be strengthened through the reinforcement of intermediate organizations (particularly federations of groups)?
- Can one learn usefully from successes, mistakes and failures, by making use of monitoring/evaluation, participatory action-research and broad consultation with associations?
- Might it be accepted that this kind of support, which aims to build on the efforts of the associations in order to help them develop, is expensive, and could there consequently be agreement to help finance it?
- Could it be agreed that institutional support, in order to be effective, must be provided on a consistent basis?
- Could it be agreed that the federations' capacity to question and make proposals to the state should be strengthened?

*Regarding support for investments*

- Could one investigate the possibility of greater farmer participation in the study and execution of investment programs?
- Could these programs be qualitatively improved?
Could mutual farmer/partner commitments be clarified and compliance with them strengthened?

Could the concerted application of monitoring/evaluation and research be emphasized?

**Regarding support for credit**

Could it be agreed that support is needed for farmers to learn about credit?

Could support be provided for the FONGS or any other rural federation in negotiations for a more appropriate system of agricultural credit in Senegal?

Could new, complementary kinds of banking services for the rural population be investigated, using the lessons of experience?

Could other, related areas (economic, social) be addressed so as to make better use of credit?

**Regarding losses and disasters**

Could there be a concerted strategy between partners and farmers to reduce the latter's vulnerability to losses and disasters?

Could steps be taken to deal with substantial damage in a responsible and interdependent fashion?

**Regarding subregional integration**

The Western countries divided nations into micro-states. The rural population finds it difficult to feel a sense of "belonging" to these creations and would welcome greater flexibility in the circulation of goods and persons.
INTRODUCTION

It is a common misconception that cooperatives in Africa were initially set up and run by the state. The history of the cooperative movement in some African countries, notably Tanzania and Uganda, invalidates that assumption. They were not state instigated but were set up as a result of members' own initiatives. People felt that because they were poor, they had to come together to improve their economic conditions. They also realized that they were being exploited. In Uganda, the successful cooperatives developed spontaneously. When government tried to establish cooperatives, it usually failed.

Another fallacy is that cooperatives are business enterprises only. While cooperatives have to succeed in business before they can render other services to their members, it would be wrong to restrict their role to business activities. Cooperatives with sufficient resources can help in the improvement of social infrastructure. In India, for example, they built roads, libraries, etc. The same is true of one of the district cooperative unions which has been able to build roads, schools and dispensaries as a means of improving member welfare.

In Uganda, some unions, for example the Bugisu Cooperative Union, successfully undertook infrastructure development at its own initiative without involvement by government. This shows that the perception of development activities having to be initiated and controlled by the state is not correct. In cases where government has used cooperatives to meet state—defined development needs, there have always been serious implementation problems.

TYPES OF MACROPOLICIES AND LEGISLATION THAT FACILITATE THE GROWTH OF COOPERATIVES AND OTHER RURAL ORGANIZATIONS

The following are the types of policies which either may serve to promote or constrain the development of cooperatives and other rural organizations.

- Policies that relate to the marketing and distribution of inputs or factors of production.
- Pricing policies.
- Taxation policies.
- Trade policies.
There are many examples from Uganda of the impact of government policies on the development of cooperatives.

- Until recently, cooperatives enjoyed a monopoly in the primary marketing of major export commodities as assembling agents for state marketing organizations. Even today, cotton seeds belong to the Lint Marketing Board and not to the farmers who produce cotton. Cooperatives until recently, were also denied participation in the final marketing of their products.

- Cooperatives were governed by prices fixed by the state and had to sell their products within the framework of a regulated market.

- Cooperatives had to procure farm inputs and consumer goods from the open market despite the fact that prices for their products were controlled by the state. This led to unfavorable terms of trade for the farmers.

- Cooperatives were subjected to heavy taxation through export taxes and corporate tax.

Government has recently implemented a number of policy reforms measures which have had a positive impact on the development of cooperatives. They include:

- Liberalization of domestic and export marketing of coffee. Ten unions are already involved in the marketing of coffee and five unions are direct exporters.

- Liberalization of foreign exchange markets and implementation of a forex retention scheme which allows exporters of non-traditional crops to retain the foreign exchange earnings in full.

- Abolition of administered prices.

- Deconcentration of the burden of taxation from coffee to other products.

The Ugandan experience suggests that the following considerations be made in the area of macropolicies so as to facilitate the growth and performance of cooperatives.

- There should be a complete and genuine liberalization of trade.

- Farmers should be free to determine the prices below which they would not sell their products.

- There should be regular surveys to determine the economic welfare and the terms of trade facing the producers. Where necessary, government should intervene by building infrastructure and formulating policies that reduce the impact of adverse terms of trade.

- Excessive taxation of export products handled by the cooperatives should be abolished.
CHARACTERISTICS OF GENUINE, EFFECTIVE AND SUSTAINABLE FARMER ORGANIZATIONS

The elements of a genuine cooperative organization include the following.

- Established to meet needs and objectives determined by its members.
- A clear definition of membership.
- Member-controlled and accountable to the members.
- Performs in accordance with the objectives for which it was established and in a beneficial way.
- Has an adequate management and operational structure for the fulfillment of its objectives.

An organization bearing the title "cooperative" must by definition have been established by its members to meet their social and economic needs in accordance with a set of principles and practices agreed upon by members. In the case of the Ugandan cooperative movement the cardinal principles promoted by the Uganda Cooperative Alliance (UCA) are member-control, member-user and member benefits.

The essential features of member-control are:

- Regular election of leaders through democratic election procedures.
- Participation by members in defining by-laws and rules governing their cooperatives.
- Empowerment of members, for example, through education and training so that members can exercise their powers and rights.
- Conduct of regular meetings of members to enforce performance control and accountability by staff and leaders to the membership.
- Use of general meetings of members as policy fora for defending the interests of the cooperatives and their members.
- Hiring and firing of employees on the basis of objective criteria.

In Uganda, difficulties have often been experienced in exercising member-control. There were, for instance, no rules for the hiring and firing of employees. Such action was based on directives issued by the government department of cooperative development. Democratic member-control was also difficult because of sectional interests based on, for instance, clan and religion. In some cases cooperatives have been used as springboards into politics. Enforcement of accountability based on the control by members of the performance of their societies has been only partly possible. This is due to ignorance among members as to how to appraise the performance of employees and leaders.
In addition to being member-controlled, cooperatives must also be effective, i.e. they must be able to accomplish the tasks related to their objectives by producing the expected results. Indicators of effectiveness include the following.

- Ability to provide competitive services which meet the demands of the members.
- Financial performance as reflected in the ability of the cooperatives to distribute bonus and dividend, build infrastructure, offer bursaries, and increase their assets.
- Rate of patronage by members of the services offered by the cooperative.
- Solidarity and cohesiveness of the membership as reflected in the ability of the cooperatives to retain members and increase their membership.
- Ability to survive when economic conditions become adverse.

Sustainability is another important criterion to be used when evaluating the success of cooperatives. It is construed here as the ability of a cooperative to uphold or improve upon the level of performance so far attained. The basic facets of sustainability are financial and technological, as well as relating to human resource development. Preconditions for sustainability include:

- Effective internal organization and performance, and effective internal control.
- Enabling environment.
- Capability and willingness to adapt to change and to develop competitive ability.
- Member loyalty.

The Uganda Cooperative Alliance has carried out a study among primary society members in order to assess their perception of their cooperatives. The overall conclusions were (a) that ordinary members do not exercise a sufficient degree of control over their societies; (b) that they find it difficult to appraise the performance of staff and leaders; (c) that the contents of the by-laws are often unknown to the members; (d) that members generally appreciate the services provided by the cooperatives, but expect the societies to do more for them; and (e) that some cooperatives have found it difficult to meet the competition from private traders allowed to operate under the liberalized marketing regime.

MECHANISMS FOR DONOR ASSISTANCE

The following need to be considered by donors in fostering the growth and sustainability of cooperatives and other rural organizations.

- Support should be demand-driven rather than supply-driven. Donors should consult the intended beneficiaries of a project on their priorities.
Members, leaders and functionaries should participate in the identification, formulation and evaluation of donor—supported projects.

Project appraisal should be done by those not involved in the early stages of project development, and they should consult with the end-users when conducting the appraisal.

The donors should identify local talents to be used in project identification, formulation, appraisal and evaluation.

Donors should boost the allocation for capacity-building and direct benefits to the target groups by reducing the technical assistance component of projects. The success of technical assistance should be gauged by its impact in building local capacity.

Technical conditions include the number of members and very few other requirements. It would be important here to stress the commonly accepted cooperative principles—voluntary association for mutual benefit—and the fact that the cooperative society should form an economically viable unit in its proposed area of business.

The application procedure and the actual registration could then be covered. An issue which should be taken up is the question of registration of a probationary society or "pre-cooperative" as it is often called. This seems to be a common practice in many countries, but has also caused many complications, especially if the probation period is a long one, e.g. two years. Perhaps a better solution would be to try and improve the procedure for reviewing the applications so as to be able to make the final registration immediately. At the same time, the procedure for the dissolution of the cooperatives should be made more simple and used more commonly, in order to be able to cancel the registration if the society no longer meets the requirements of a registered cooperative. The question of name, evidence of registration and the address should be dealt with in this connection as well. Again, in the case of the application, all requirements should be so clear that it is not necessary to say "as the Registrar may require."

Another important issue to be covered at this point is the types of cooperatives which can be registered, i.e. primary, secondary, tertiary, and the national apex. It should be made quite clear that the formation of all the cooperatives above the primary level should be formed by the voluntary decision of the primary/secondary/tertiary cooperatives, in the same way as the primary society is formed by individual members. Association or affiliation in the secondary or tertiary society should also be voluntary and if a cooperative society does not want to join, it should be allowed to remain outside. Similar voluntarism has to be followed in the possible amalgamation and division of societies. It should not be necessary to spell out all the details regarding the amalgamation and division of societies in the law; the actions required can be specified in the by-laws. The roles and powers of the Registrar and the Board of Directors of the apex organization need to be clearly stated so as to avoid unnecessary confusion as in some cases it may be difficult to decide whose word is final. Even though it is commendable to delegate as many functions as possible to the cooperative movement, and to its apex body, the final word regarding adherence to the law should be with the Registrar or possibly with the minister responsible for cooperative development. In some cases, it may be necessary to take matters to the court of law if a solution cannot be reached otherwise.
The society's functions, duties, and obligations is the next group of matters to be covered. This is a grey area in most cooperative laws as a variety of issues are covered, but many of them in a very confusing way. Some of the issues are related to the relationship between the society and its members, some again to the relationship between the society and the Registrar of Cooperatives. Many of these issues need very detailed review before including them in the law, and if included, in the way they are presented. Restrictions on borrowing, lending, transactions with non-members, investment of funds, payment of dividend or bonus, as well as the society's obligation to provide training, are easier to understand. But it should be stressed again that if certain restrictions are considered necessary, they should be spelled out preferably in the law instead of leaving them to the discretion of the Registrar. A good example of this is the area of transactions with non-members — either cooperatives are allowed to deal with non-members or they are not. Why should the Registrar be able to make exemptions to the rule prohibiting or allowing such transactions? Additional issues which could come under this section relate to the supervision and inspection of the society's affairs, although that could be part of the government's role, and remuneration of the society's officials. The latter aspect could actually be removed from the law and left to the society to decide. If considered necessary, the law could include some guidance for misbehavior of staff and misappropriation of funds.

By-laws

By-laws should be given a much more significant role in regulating the operations of the cooperatives and the issues related to them should be presented more logically in the law. First, the by-laws have to be prepared and presented at the time of registration after which they can be amended, if the society so wishes. It should not be up to the Registrar to propose and, possibly using force majeure, make amendments unless there has been a change in legislation which requires changes in the by-laws.

Accounts and audit

Accounts and audit is one of the most important aspects to be covered by the law. The presentation should again be logical, first to describe the requirements related to the keeping of books, records and accounts and then going into the preparation of final accounts and their auditing. It should be borne in mind that all societies may not have exactly the same level of book and record-keeping. Unnecessary requirements should be avoided. It is very important to stress that the primary responsibility for having the final accounts prepared and audited is with the society itself.

Members

In reviewing this issue, it should be clearly stated as to who can be a member of a cooperative society. Then, one can go to the privileges and obligations of the members. There may be a need to take a position about the holding of shares and their transfer, voting, membership in several cooperative societies, member's liabilities, particularly in case of his/her death.

Role of the government

This is the crucial issue which has been widely discussed and argued, particularly over the last five to ten years. Even if there is a desire to change the situation when revising the
cooperative law, it is difficult to do so knowing that a cooperative department exists and that it should have certain functions. It is therefore of utmost importance that the policy on cooperative development be formulated before going into revision of the legislation. The policy should define in clear terms the role of the movement and that of the government. Despite efforts to achieve more liberal cooperative laws, there are still too many sections where the final decision has been left to the Registrar, even in cases where the law could have been more definite or where the matter could have been left to the cooperative bodies to decide.

The law should briefly describe the government structure dealing with cooperatives and list the duties of relevant officials. However, it may not be necessary to go into great details explaining "how" things are done, it should be adequate to say "what" is to be done by the government officials. The powers vested in the Registrar of Cooperatives should be very critically reviewed when revising the cooperative legislation, with the overall aim of giving more independence and autonomy to the cooperatives themselves. As mentioned earlier, there are often many cases where there is no need to have the Registrar decide on various points; these can be articulated in the law. There are also some occasions where the Registrar is not in a better position to decide than anybody else. A good example of such a situation could be quoted from the Uganda Cooperative Statute 1991: "When, for the purpose of this section, any question arises as to the age of any person, that question shall be decided by the Registrar, whose decision shall be final."

The duties of the Registrar of Cooperatives could ideally include the registration, arbitration, inquiries and liquidation of cooperatives, and in general terms, ensuring that the cooperative legislation is adhered to by the cooperatives. Promotion, development, education and training, and even auditing could and should, at least eventually, be handled by the cooperatives themselves. Mismanagement of cooperatives and fraudulent behavior of concerned officials would automatically come up during routine inspections and audits, and such officials should be treated in the same way as any other person in the country.

Arbitration, inquiries, liquidation, dissolution

This section covers a variety of issues but they are grouped together here for two reasons. First, they are normally considered the duties of the Registrar of Cooperatives, and second, many of them could possibly be covered by other existing legislation in the country, without having to have a special ruling in the cooperative law. For example, in the case of the liquidation and winding-up of a cooperative society, many provisions of various sections of the Companies Act are being followed. It might be worthwhile to see whether there really are essential differences in the procedures requiring such an extensive coverage of the matter in the cooperative legislation.

All the disputes involving cooperatives should be settled, as far as possible, within cooperative movement and by cooperative bodies. As mentioned before, there must be legislation in every country covering the settlement of different types of disputes in the courts of law. One should not try to artificially invent duties for the Registrar of Cooperatives, and reassign duties which everybody agrees should be handled by the cooperatives themselves.
It is considered essential to formulate a policy on cooperatives before starting the revision of the law. In some cases where this approach has been followed, the composition of the team assigned to the task has not perhaps been the right one. For example, in Ghana the initial review of the situation and drafting of recommendations was made by a team consisting only of local people, many of whom had very little knowledge of cooperatives even in their own country. The cooperatives themselves were not satisfactorily represented.

Professor Hans Muenckner stressed the same issues in his presentation at the Cooperative Seminar in Helsinki, Finland, in May 1992, when he said:

"Instead of piecemeal amendment of the colonial cooperative legislation and attempts to import new foreign models of cooperative legislation to replace the colonial patterns, it is recommended to opt for a new approach and to take measures to develop an authentic model of cooperative legislation which the cooperators could accept as their own law. For this purpose, a process of participatory law-making should be initiated (if necessary with the financial assistance of a donor agency)." (Muenckner 1992, pp. 15-16).

Professor Muenckner has identified seven steps in such a process but the practical example of Namibia could be quoted here. Perhaps Namibia is a good example also in that, cooperative-wise, very little existed before undertaking the present exercise. This process was initially intended to have three distinct phases before the documents were presented for final approval by the country's governing bodies. In the first phase, basic material regarding cooperatives in the country was gathered by a team consisting of representatives of the emerging cooperative movement and the relevant government departments and they were assisted by the International Cooperative Alliance (ICA). In the second phase, the same group came together in a local workshop to consider the issues to be addressed in the draft policy paper and in subsequent legislation. For the next phase, the intention is to have the drafted documentation reviewed by an even wider international audience. The World Bank has also been invited to that meeting. It is understood, however, that the government is already receiving external assistance in drafting the legislation, while the status of the policy statement is not known.

This participatory approach in law-making is highly recommendable, but the participation should not be limited to local people and organizations. It is very important for a country to invite specialists from outside the country in order to have access to the latest developments in this area from other parts of Africa, and even from other regions. Otherwise, there is a danger that one may end up with virtually the same legislation as before. It is also a fact that cooperative development in most SSA countries will require some external assistance for quite some time to come. Therefore, it is important to have the donor agencies which might be interested in supporting future related activities, participate in the process of reformulating the policy and redrafting the legislation.
REFERENCES