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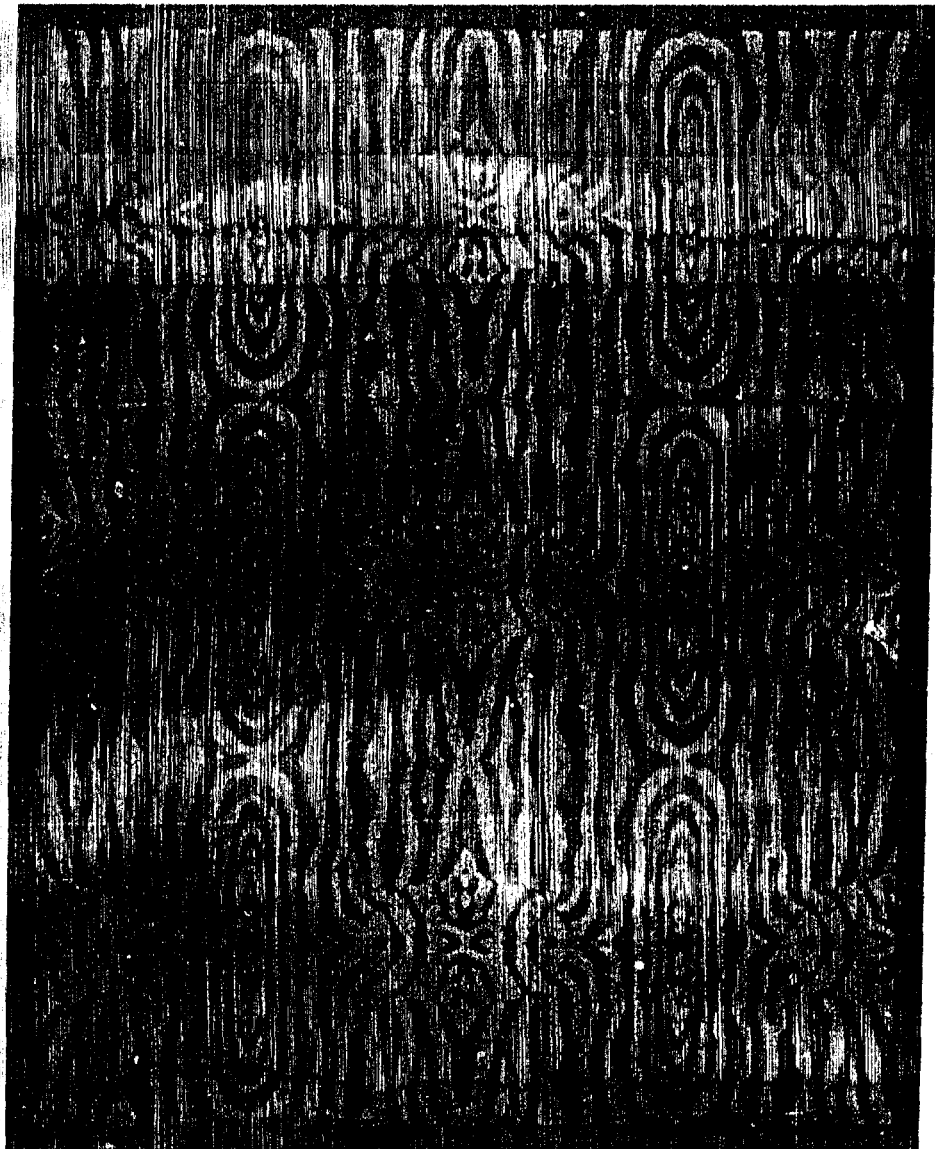


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INTERNATIONAL ECONOMIC DEPARTMENT, WASHINGTON, D.C.

The Development of Cooperatives and Other Rural Organizations

The Role of the World Bank

Pekka Hussi, Josette Murphy, Ole Lindberg,
and Lyle Brenneman



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The Development of Cooperatives and Other Rural Organizations

The Role of the World Bank

**Pekka Hussi, Josette Murphy, Ole Lindberg,
and Lyle Brenneman**

**The World Bank
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ABSTRACT

Formal cooperatives were first introduced in sub-Saharan Africa by colonial governments, often for the purpose of promoting production of cash crops by peasant farmers. After independence, many SSA governments adopted policies that further accentuated the role of cooperatives and other rural organizations in the agricultural sector. They became important channels for government-sponsored credit input supply and marketing programs, and often had to operate under close guidance and control by the state.

This study, shows that past efforts by governments to promote efficient and sustainable rural organizations have been constrained by inappropriate policies. Extensive government intervention has tended to reduce member participation and has militated against the objective of building self-sustaining organizations. Regulations of prices and markets have frequently prevented rural organizations from becoming commercially and financially viable.

In this report—based on an analysis of cooperatives and other farmer organizations in several SSA countries — great emphasis is put on the need for policy reforms to facilitate the development of sustainable rural organizations. In order to make cooperatives effective private sector enterprises, their freedom to operate without undue restrictions on their management and business activities must be ensured. This calls in most SSA countries for a change of cooperative policies and legislation, which in the past have perceived cooperative organizations as being within the public sector domain and subject to close control by government authorities. The World Bank can play a central role in this process by assisting governments in the identification of legislative, policy and institutional reforms which enable cooperatives and other rural organizations to evolve into efficient and sustainable organizations managed by their members and capable of providing competitive services.

Capacity-building is an essential element of action to promote the development of rural organizations. This study advocates that capacity-building measures, e.g., member education, staff training and management systems development, should be included in project involving cooperatives and other farmer groups. To the fullest extent possible, they should be planned and implemented through the beneficiary organizations themselves.

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FOREWORD

The agricultural sector remains the primary determinant in many African countries of whether the target of 4 percent economic growth, as established by the World Bank's report, *Sub-Saharan Africa: From Crisis to Sustainable Growth: A Long-Term Perspective Study*, can be reached. This ambitious goal will not be achieved without well-functioning systems capable of providing farmers with the services they need, including farm input distribution, output processing and marketing, and financial services. The development of genuine, member-controlled, and efficient farmer organizations could contribute to the creation of such systems. While many donors have attempted to facilitate the development of such organizations, it remains constrained by inadequate policy and poorly designed operations.

It is necessary and timely to take stock of the experience, both successes and failures, accumulated throughout Africa with various forms of formal and informal rural organizations, especially cooperatives. It is necessary because the difficulties highlighted in recent reviews should be addressed. It is timely because the current interest in the development of the private sector and the increased recognition of the importance of people's participation for sustainable development are incentives for governments to rethink their

positions towards existing and prospective farmer organizations.

This paper is the first result of a study initiated by the World Bank's Africa Region under the coordination of its Technical Department. Because of the extreme diversity of experience across the continent with formal and informal organizations, the study was undertaken in stages. This paper focuses on understanding the experience of cooperatives, the most formal of rural organizations, and on drawing lessons and preliminary guidelines for Bank staff and their counterparts. A focus on cooperatives was a logical first step, since many African governments and development agencies are rethinking their strategies and operational guidelines on formal organizations. But it is not sufficient by itself. Much work remains to be done to learn from the innovative approaches used by diverse informal groups and non-governmental organizations in Africa and elsewhere

We hope that farmer organizations in Africa and elsewhere will recognize some of their concerns and approaches in these pages and that they will view this paper as a means of learning from their experience so that dialogue is facilitated between the various actors.



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ACRONYMS

ACCOSCA	African Confederation of Cooperative Savings and Credit Associations
ADRK	Association de Développement de la Région de Kaya (Burkina Faso)
AFTAG	Africa Region Technical Department/Agriculture Division
AFTES	Africa Region Technical Department-Environment and Sustainable Development Division
CB	Coffee Board (Kenya)
CBK	Cooperative Bank of Kenya
CCD	Commissioner for Cooperative Development
CIS	Cooperative Insurance Services (Kenya)
CENADEC	Centre National de Développement des Entreprises Coopératives (Cameroon)
CIDA	Canadian International Development Agency
CLUSA	Cooperative League of the United States of America
CSC	Cooperative Service Center (Equatorial Guinea)
DCDC	Department for Cooperative Development (Kenya)
DCU	District Cooperative Union
EEC	European Economic Community
ENEA	Ecole Nationale d'Economie Appliquée (Sénégal)
FAO	Food and Agriculture Organization of the United Nations
FONADER	Fonds National de Développement Rural (Cameroon)
FONGS	Federation des Organisation Non-Gouvernementales de Sénégal
FY	Financial Year
GIE	Groupement d'Intérêt Economique
GTG	Government to Government (collaboration)
ICA	International Cooperative Alliance
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	International Labor Organization
INADES	Institut Africain de Développement Economic et Social
KCC	Kenya Cooperative Creameries
KNCDP	Kenyan/Nordic Cooperative Development Program
KNFC	Kenya National Federation of Cooperatives
KPCU	Kenya Planters Cooperative Union
M OCD	Ministry of Cooperative Development (Kenya)
MTM	Movement-to-Movement (collaboration)
NACETO	National Cooperative Training and Education Organization (Kenya)
NAMBOARD	National Marketing Board (Zambia)
NCBA	Niger Cooperative Development Program
NGO	Non-governmental Organization
OED	Operations and Evaluation Department of the World Bank
ONCPB	Office Nationale de Commercialisation des Produits de Base (Cameroon)
PAR	Participatory Action Research
PCU	Provincial Cooperative Union
PID	Pan-African Institute for Development
SACCO	Savings and Credit Cooperative

SCC	Swedish Cooperative Center
SCIP	Smallholder Coffee Improvement Project (Kenya)
SICA	Société d'Intérêt Collectif Agricole
SSA	Sub-Saharan Africa
SOE	State-Owned Enterprise
UCA	Uganda Cooperative Alliance
UNCAS	Union Nationale des Cooperatives Agricoles du Sénégal
UNCC	Union Nigérienne de Crédit et de Coopération
UNDP	United Nations Development Program
USAID	United States Agency for International Development
USD	United States Dollar
ZCF	Zambia Cooperative Federation

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EXECUTIVE SUMMARY

INTRODUCTION

In their efforts to assist African states in their economic development, donor organizations have provided significant amounts of financial and technical support for the promotion of rural organizations. Despite these efforts, cooperatives and other farmer groups have often failed to develop into viable, self-managed organizations capable of extending efficient services to their members. The disappointing results are to a large extent explained by an inappropriate policy framework. Following independence, the new governments in most African countries promoted rural cooperatives as part of a regulated, state-controlled agricultural marketing system. In many cases, cooperatives were not allowed sufficient margins to cover their operating expenses and could therefore not evolve into commercially viable business enterprises. At the same time, they were subjected to close control by government agencies. This compromised their inherent character as member-controlled organizations and discouraged member participation.

Recent initiatives by governments and donors to restructure African economies have included efforts to redefine the policy framework for, and the role of cooperatives and other farmer organizations. There is an emerging realization that cooperatives must be seen as private sector enterprises and that the primary role of government is not to control or regulate their activities, but to provide a conducive policy and business environment for their operations. This is a process which the World Bank, in collaboration with other donors and non-governmental organizations, can facilitate by assisting governments in

policy formulation and by supporting capacity-building in the rural organizations.

THE WORLD BANK EXPERIENCE

A World Bank Operations and Evaluation Department (OED) report covering the period 1965 to 1986 stated that agriculture projects including group participation often did not work because the groups were not committed to the project and acted more as an extension of the government than as organizations representing beneficiaries. The OED report and other studies have drawn attention to the following issues:

- Identification and formulation of project strategies often resulted from negotiations between Bank staff and government representatives without the involvement of the people and the rural organizations concerned;
- Inadequate analysis of institutional issues and the overly complex designs of components to be implemented by rural organizations contributed to unsatisfactory results;
- Sufficient capacity-building measures were not included to enable rural organizations to play their role in project implementation; and
- In some cases, when institutional strengthening was included in a project, it was directed to government departments and not to the rural organizations concerned.

These findings underline the need for comprehensive country-specific studies of cooperatives and other rural organizations as part of preparations for their participation in projects. They also accentuate the necessity of involving beneficiary organizations more extensively in project identification and formulation in order to ensure that projects conform with the priorities of the organizations themselves and that they take into account their implementing capabilities.

THE NEED FOR AN ENABLING ENVIRONMENT

In spite of recent liberalization measures, the policy framework in many SSA countries continues to be characterized by:

- An interventionist policy which gives government authorities a high degree of control over rural organizations and which compromises the self-reliant character of such organizations.
- A complex legal framework which inhibits the formation and operations of cooperatives and other formally registered groups.
- Regulations of markets and prices which restrain the commercial viability and business development potential of cooperatives and other farmer organizations.

As regards the role of government in the promotion and control of cooperatives and other rural organizations, a liberalized policy framework should include an explicit recognition by governments that cooperatives are private sector enterprises which are formed and managed by their members, and which are not subject to intervention by government authorities in their internal management.

Implementation of more liberal policies calls for a revision of the legal framework for

cooperatives and other formally registered groups. In practically all the countries reviewed, the current legislation gives extensive powers of intervention to government departments or ministries concerned with cooperatives. Existing laws are also overly detailed and complex. They cannot be readily utilized by the average citizen to set up and participate in a cooperative. The legal framework governing cooperatives should be changed to:

- Reduce the role of government agencies in the control and supervision of cooperatives, and allow the transfer of promotional and development functions to organizations created by the cooperatives themselves.
- Simplify the legal requirements for the formation and operation of cooperatives and other group-based business enterprises.

The following aspects should form the backbone of a strategy to create an appropriate business environment for cooperatives and to provide incentives for them to become competitive, efficient and commercially viable:

- Cooperatives must be free to determine their own lines of business without being directed by governments to involve themselves in non-viable activities.
- The trading conditions under which cooperatives operate should be such that they allow efficiently operating societies to realize sufficient returns to cover their expenses and to generate capital for the development of their activities.
- Cooperatives should not be subject to administratively imposed price controls, but should be allowed to determine their prices and margins

on the basis of the conditions in an open competitive market. They should not be promoted as part of a single-channel marketing system.

TYPES AND CHARACTERISTICS OF RURAL ORGANIZATIONS

There is a great variety of legal formats under which rural organizations can be formally registered, but there is also throughout the continent a variety of informal groups which are not registered at all. In many countries, cooperatives, despite past problems, remain the most widespread form of rural organizations.

When considering the type of groups to be involved in a rural development project, the advantages of various types of groups need to be considered. Cooperatives often have a comparative advantage in that they have a formal legal status, normally a minimum of administrative resources, and a physical infrastructure which enable them to participate in project implementation. Building on existing capabilities and resources rather than creating new organizations should be the preferred strategy. Cooperatives—and other types of formally registered groups—are often best suited for business activities which are carried out on a substantial scale and which require a permanent management structure and legal framework. In situations where the need for joint activities by group members is seasonal and the volume of activities small, informal groups may be a more cost-efficient alternative than cooperatives.

Whatever formal status rural groups may have, there are three basic conditions which must be met in order for them to have a development potential.

- There must be a felt need for association. Formation of rural organizations at the initiative of outsiders and as mere "conveyor-

belts" for goods and services has not proved to be a feasible way of promoting sustainable rural organizations.

- Groups must be based on member contributions and participation. Adequate share capital contributions are important as a means of financing business activities and as a reflection of member commitment and participation. When members have a significant financial stake in their organization, they tend to participate actively in an effort to ensure that the group operates efficiently.
- Groups must have a business potential, be competitive and must make economic sense to members by providing goods and services which are not available from other sources on more favorable terms.

If rural organizations involved in projects do not have these basic characteristics, activities implemented in collaboration with them are unlikely to be sustainable.

FUNCTIONS AND SIZE OF RURAL ORGANIZATIONS

Rural organizations are adaptable to a large variety of economic activities. Experience documented in this study indicates, however, that cooperatives function best when they focus their activities on the provision of commercial services, such as marketing and processing of agricultural commodities, supply of production inputs, provision of savings and credit facilities, etc. The track record of cooperatives formed for general community development activities is, on the other hand, discouraging. They have often proved to be unsustainable when implemented with donor support through organizations which do not have a strong financial foundation based on viable commercial activities.

There is considerable evidence that cooperatives with a high business turnover and a multi-purpose commercial activity pattern are more viable and sustainable than their smaller counterparts. The fragmented structure of small societies is an impediment to the development of a strong cooperative movement capable of serving the needs of members and competing effectively with other private sector enterprises. There are, however, some drawbacks associated with large, multi-functional groups. They call for management capabilities which are not readily available in rural areas, and they tend to reduce (due to large membership) social cohesiveness, which often is an important characteristic of rural groups.

The development of cooperatives into multi-functional societies is a long-term process and requires special efforts to develop sufficient management capabilities and to ensure the full participation of members. Capacity-building measures need to include at least the following basic components.

- Development and implementation of accounting, recording and other management systems which contribute to efficient internal control and which provide for the effective planning, execution and monitoring of business activities.
- Design and implementation of job-oriented staff training programs based on the management systems referred to above. The experience available from a number of cooperative development projects clearly show that training programs directly linked to standardized systems yield better results than general, non-specific training.
- Programs for the training of management committee members and the education of the general membership. This is an element which is necessary to ensure

committed participation by members and the development of adequate skills to enable elected leaders to run the affairs of the societies in a business-like manner.

COOPERATIVE SUPPORT STRUCTURES

One of the conclusions of this study is that cooperatives and other rural organizations need to build a capacity to assume responsibility for promotional and development functions which hitherto have been vested with government departments. However, the track record of secondary support structures is far from uniform. In some countries, secondary cooperatives were formed as part of the state-controlled cooperative structure and provided few services to their affiliates. In other cases, however, there is evidence that unions of primary societies have played an important role in the provision of commercial and promotional services to the primary societies. Practically all countries in the region have a national cooperative apex body established with the primary objective of functioning as a spokesperson of cooperative interests and to influence cooperative development policies and programs. In most countries, their impact has, to date, been negligible.

Secondary cooperatives have a potentially useful role to play in supporting the development of grassroots organizations and should therefore be considered as partners in the design and implementation of projects involving cooperatives. When, as advocated in this document, the state-controlled cooperative support and marketing structures are dismantled, the need for movement-based support organizations will increase. Donors can be instrumental in speeding up the process of reducing government involvement by supporting the transfer of functions previously vested in government departments and parastatal marketing organizations to secondary cooperatives or other types of autonomous organizations. It is essential,

However, the donor support to apex federations and cooperatives should be based on a clear analysis of the actual needs of the rural sector and of the requirements of the apex federations and cooperatives themselves.

- Donor support should be based on the recognition of the role of apex federations and cooperatives in the rural sector and on the need to provide them with the necessary support and resources to enable them to carry out their functions effectively and efficiently.
- The role of apex federations and cooperatives should be recognized in the rural sector and in the development of the rural sector and in the provision of services and resources to the rural sector.
- Donor support to apex federations and cooperatives should be provided in a manner that is consistent with the principles of self-reliance and self-help.

The following are the recommendations concerning the cooperative apex federations:

- The apex cooperatives have in the past failed to exercise their representative role due to constraints originating from the centralized political and economic system which during most of the post-independence period has characterized the majority of countries in SSA.
- The ongoing liberalization process gives the apex federations a potential to participate in policy formulation and to act as a more effective guardian of cooperative interests.
- The apex cooperatives need to upgrade their research, planning and monitoring capabilities. Donors can

be instrumental in this process by providing training facilities and technical assistance for the development of capacity in the apex federations to analyze policy issues and to present proposals for amendments of policies and legislation.

The formation of secondary and national cooperative structures must originate from the needs identified by the cooperative organizations themselves.

DONOR SUPPORT TO RURAL ORGANIZATIONS

Realizing that past efforts to promote rural organizations through government departments have often been ineffective and that they contradict the objective of developing autonomous, member-controlled organizations, many donors are changing their approach. An important innovation in recent years is the concept of movement-to-movement collaboration which aims at the creation of direct links between cooperative organizations in industrial and developing countries. The experience from movement-to-movement projects indicates that they have a number of advantages over the traditional government centered projects.

- They strengthen the independence and autonomy of cooperatives and other rural organizations.
- They are likely to be more relevant than government programs because they involve beneficiary organizations directly in planning and implementation.
- They expose cooperative and government policymakers to the concept of cooperatives as private sector enterprises and contribute thereby to the introduction of policy reforms.

- They are normally more efficient than assistance through governments because they are channeled directly to beneficiaries without intermediaries.
- They facilitate the direct transfer of business management know-how.
- They have the potential to promote trading relations and joint ventures between cooperatives in industrialized and developing countries.

OBJECTIVES AND STRATEGIES FOR WORLD BANK ASSISTANCE

By assisting in the development of sustainable rural organizations, the World Bank can contribute to the achievement of the following overall objectives.

- Enhancing people's participation in decisions and processes which affect their lives, and which provide them with a learning experience which can contribute to strengthen individual and group productive activities.
- Building the capacity of the private sector to compete in a market economy and to provide efficient services to rural communities.
- Improving governance and clarifying the respective roles of governments and the private sector through a legislative, policy and regulatory framework that provides minimal but transparent regulations

for private sector group activities.

The World Bank strategy to promote participatory development through rural organizations should build on the comparative advantages of the World Bank as a major lending institution. The Bank's advantage lies in its interaction with governments regarding policy and institutional reforms. This gives the Bank the opportunity to contribute to the emergence of a policy framework which is conducive to the achievement of the objectives enumerated. The Bank is also well placed to interact with official development agencies and NGOs and can thereby facilitate the harmonization of efforts to support the development of rural organizations. The role of the World Bank would thus be to:

- Assist governments in the identification of legislative, policy and institutional reforms which enable cooperatives and other rural organizations to evolve into efficient and sustainable organizations managed by their members and capable of providing competitive services.
- Collaborate with donors and rural organizations in the design and coordination of strategies and programs for support to cooperatives and other rural organizations.
- Facilitate capacity-building in rural organizations through direct support to, and in collaboration with, institutions involved in assisting cooperatives and other types of farmer associations.

1 THE FARMERS AND THEIR ORGANIZATIONS: MAJOR ACTORS IN DEVELOPMENT

CHANGING CLIMATE FOR RURAL ORGANIZATIONS

Tremendous changes are taking place throughout the world in the role that the state plays in decisions affecting the lives of citizens. Most of the countries in which the government had taken a major or omnipresent role in setting production capacities and controlling the economy are now moving towards a less centralized system in which initiatives by the private sector are encouraged. In Africa, this is reflected in efforts to decentralize and diversify the provision of inputs and services to farmers and in the dismantling of parastatal agencies.

These changes offer new opportunities for farmers to expand and strengthen their own organizations to reach their full economic and social potential. Organizations created by the people because of a common felt need can help their members both from a business point of view, as they enable private farmers to benefit from economies of scale and stimulate competition, and from a social point of view, since they encourage cohesion and cooperation at the community level.

African farmers have a long tradition of performing certain productive activities as a group rather than as individuals. Group endeavors ranged from informal mutual aid between neighbors to more systematic interactions within groups defined on the basis of age-class or kinship ties. Although one should not hold a naive view of an egalitarian, Utopian society, traditional rules did help define the rights and obligations of individuals and of society. These group endeavors took place as an expression of solidarity within a sub-set of the population, a mechanism to

ensure that no one in that sub-set became dangerously deprived, or (just as important), that no one became overly better off than the rest of the group. Rural inhabitants, who continue to maintain traditional exchanges of labor and various forms of group savings, are thus familiar with key principles of the associative movement and are often keen to find ways to build upon their traditional systems to address new opportunities and needs.

The main categories of formal and informal organizations currently active in Africa will be described in Chapter 2, but it is important to clarify here some key terms which are often misunderstood. While there is a general consensus among practitioners on the definition of the term "cooperative", it is often loosely (and inaccurately) applied to other forms of self-help groups. There is much less consensus, however, about the terminology applied to these other types of groups. For largely historical reasons, the terminology has evolved differently in different areas of the continent, a fact which sometimes hinders the exchange of experience from one country or one region to another, and can lead to incorrect conclusions about the appropriateness of one or another form of organization.

In this document, the word cooperative is used in its commonly-accepted technical definition, i.e. a legally recognized form of association of persons, owned by its members, whose main principles include voluntary membership to achieve a common end and equal voting rights for each member.

The term "other rural organizations" will be used in the broad sense of any group of individuals of rural people getting together,

formally or informally, for a common purpose. This includes terms like "Rural Women (or Farmers') Associations", "Farmers Organizations", "Peasants Organizations", "Small Farmers Groups", "Credit Groups", "Pastoral Associations", "Unions or Confederations of Groups", "Community Groups", and "Village Committees." A joint feature of rural organizations discussed in this report is that they are member-based. They differ in scope and management systems. Some emerged under government control, some others under the guidance of NGOs, and some without too much external support. One issue in this report is to appraise their performances, without a priori classification.

Formal cooperatives were first introduced in Africa during the colonial period, most frequently to provide their members with such services as the marketing of produce or the distribution of inputs. Following independence, the new governments tended to look upon cooperatives as instruments of rural development and helpful in implementing government policies. Membership was often compulsory and civil servants were frequently assigned to management positions. The extent of government involvement led the members to regard the cooperatives as state agencies rather than as their own organizations.

Governments also used cooperatives as channels for the provision of credit, often linked to the distribution of agricultural inputs. Typically, the cooperatives were extended credit by a government agency and, in turn, provided inputs on credit to their members. Because the cooperatives were largely unprepared to handle this type of responsibility, this has been one of their principal areas of failure. Governments also tended to set up cooperatives to serve the needs of official marketing agencies dealing with export crops. Membership was usually compulsory and farmers were required to market their produce through the cooperatives. These organizations were not genuine cooperatives in the sense that the term is used

in this study; they were not truly owned and controlled by their members, but simply served as buying points, providing the commercial link between the producer and the parastatal marketing board.

In their efforts to assist African states in their economic development, donor organizations provided significant amounts of financial and technical support for the promotion of cooperatives. The rapid expansion of cooperatives, without adequate preparation and without a full consideration of their basic principles and potential for economic viability, led to many problems and failures. However, for many countries, the essential developmental role assigned to the cooperatives rendered them too important to be allowed to die. Efforts to salvage them, however, usually resulted in greater government control and, in many instances, the cooperatives simply evolved into parastatal organizations.

Recent initiatives by governments and donors to restructure African economies have included efforts to restructure the cooperatives by eliminating subsidies and moving them fully into the private sector, as well as efforts to encourage a diversity of associative forms, as detailed subsequently. At a seminar on Donor Support for the Promotion of Rural Cooperatives in Developing Countries organized by the World Bank in 1990, the participants agreed unanimously that the donors' approach to cooperative development needed to be redefined and that this should be done in closest possible collaboration among the agencies involved (see Braverman and others 1991, for a summary and conclusions).

The problems experienced by the government-initiated cooperatives, which often resulted in significant losses of member assets, alienated large segments of the population from the cooperative concept, and in recent years other forms of associations and purely informal activities have multiplied. During the last decade many projects tried to channel services, inputs, or credits through

small groups or community committees. The results have been mixed. When government agencies have been involved in management, it seems that the farmers have often been kept away from these projects. While they took as many benefits as they could, they did not really contribute, nor pay back (in the case of loans). When volunteers from NGOs or missionaries were involved, they often managed the organizations quite efficiently for a few years, but the costs appeared to be quite high: the members did not really participate; and the rural organizations did not last long after outside assistance ceased. It would appear that members considered many of these organizations as foreign or outside institutions and because they were not really involved in designing activities, did not really care to make their contributions with respect to internal rules, managing the infrastructures, or paying back loans.

Though some rural organizations enjoyed the substantial participation of their members, and substantial management capacities were developed, they faced socio-economic constraints relative to land tenure, supplies, marketing, or credit facilities.

TRANSITION FROM STATE CONTROL TO A MARKET ECONOMY

Generally, cooperatives have been the most widespread type of formal rural organization, with the most complete network of institutional relationships, from local to international levels. Although the existing cooperatives may be the product of government initiative rather than genuine associations created by their members out of a common felt need, they may still provide a potentially effective framework for development intervention in the rural sector. In some of these countries, cooperatives have already entered a period of transition. As some governments have become more concerned about the costs of using cooperatives as de facto parastatal organizations and subsidizing cooperative activities, they have begun to take steps to allow for the

transformation of existing structures into self-managed, self-supporting, private sector entities. Many of the existing structures are not viable and will not survive the transition, but others may be able to reorganize, reduce costs, and adjust to the demands of a market economy.

Other African governments, for a variety of reasons, continue to exert control over cooperatives and subsidize their operations. The mental attitudes and the vested interests that have evolved during the post-colonial period are highly resistant to change. Because the cooperatives filled key roles in the marketing of produce or the distribution of agricultural inputs, there are often strong pressures against allowing them to become autonomous, with the consequent possibility of failure. In many instances, government officials responsible for the oversight of cooperatives also obtain significant benefits from the current situation and consider any change as detrimental to their own interests.

In those countries which have initiated a policy of privatizing the existing cooperative structures and allowing the development of cooperatives and other forms of organizations as private, autonomous businesses, the transition period offers new opportunities for strengthening the private sector and assisting rural development. Often, the existing cooperatives are the only formal institutions involved with serving the needs of rural farmers. To the extent that these rural cooperatives can be assisted to complete the transition to effective, private sector businesses, they can play an important role in improving rural incomes and contributing to agricultural development.

In recent years, emphasis has often been put on searching for new methodologies to engender genuine responsibility, participation, and self-reliance so as to evolve "sustainable" rural organizations. Emphasis was put on sensitization, preliminary experiences through initial savings, investment without outside support, and training. The whole mechanism

has been viewed as a learning process for farmers' empowerment through institution-building. Similar strategies had been tested in the 1950s and in the beginning of the 1960s: in Senegal, for example, in 1958, "animation rurale" had the socio-political objective of farmers' empowerment. Such organizations did not flourish at that time due to the high level of control of rural development by the government and parastatals.

In a few cases, such efforts demonstrated encouraging results by providing efficient services to the members, together with institution-building: they were able to increase analysis and management capacities, to develop self-reliance and responsibility, and to exert more influence on decisions concerning rural development in their areas. One example is the Association de Developpement de la Region de Kaya (ADRK) in Burkina Faso. This organization manages its own staff at the regional, district, and village levels and provides services to its members, in the form of agricultural supplies, technical advice, marketing facilities, and saving and credits. Most of the association's budget comes from members' contributions through grassroot groups, and farmers play important roles in the orientation and the control of the activities. The ADRK, has a strong influence on many decisions related to rural development in the Kaya region.

Other efforts succeeded in revitalizing traditional groups, who used their dynamism to confront new rural development problems. Again, an example is the Naams federation in Burkina Faso. It seems that some impetus for rural development can be drawn from those kind of traditional organizations, but they have to adapt to new activities, different, in many ways, from the institutions of the past (Gentil 1990).

Most international development agencies have demonstrated their interest in and their support for facilitating the development of such "self-reliant and autonomous groups." Much analytical work has been published on

pilot projects, and also over the last two or three years, in the form of strategy papers. Many cases illustrated what should not be done (not too much direction, not too much money, not too much involvement from outsiders, not too fast), but there are fewer indications on precise methodologies for providing this support. This study will provide some guidelines from various case studies, and summarize what appear to be the basic precautions to be taken when promoting these kinds of rural organizations.

HOW RURAL ORGANIZATIONS CAN CONTRIBUTE TO RURAL DEVELOPMENT

To the extent that they are member-owned and member-controlled businesses, well-operated rural organizations demonstrate a number of characteristics that can make them a positive factor in rural development. Formal organizations can:

- *Provide their members with the advantages of economies of scale:* By combining their resources, producers can obtain needed goods and services more efficiently and market them in larger volumes, thus giving them a stronger bargaining position in dealing with traders and processors.
- *Serve to link small-scale and medium-scale producers to the national economy:* By serving as channels for obtaining inputs and for the marketing of produce for their members, various forms of organizations can help to incorporate the smaller producers into the larger economy of the country.
- *Provide an element of competition that is often lacking in rural areas:* By providing an alternative to other commercial interests, farmers' organizations add an element of competition, which can serve to

hold down costs and improve market conditions.

- **Contribute to rural stability:** By providing an institutional permanence as self-help, community-based organizations, these groups can provide their services to their members over the long term. When collaborating with development projects, they can continue project-related activities after external assistance is concluded.
- **Form an effective means of channeling assistance to women:** Cooperatives and various forms of group activities undertaken by women have a strong record of success in Africa. Credit and savings associations, marketing and consumer cooperatives operated by women or primarily by women, have provided their members with significant economic benefits as well as experience in business management.

These characteristics of formal rural organizations indicate their potential for contributing to sustainable development. But their potential can be fully realized only if they are integrated into the development process as full partners, recognized as such both by their own governmental authorities and by the donor community. Associations which are intimidated or cajoled by either government or donors to take on a role in a particular development scheme as a channel for government services are not being given an opportunity to fulfill their economic and human potential.

THE WORLD BANK EXPERIENCE

Background

The World Bank has undertaken various studies to determine the types of organizations involved in its agricultural and rural

development projects, and the reasons for their successes or failures. An Operations and Evaluation Department (OED) Report, on *the World Bank Experience with Rural Development, 1965-1986*, stated that agriculture projects including group participation often do not work because the groups are not committed to the project or were created specifically for the project and consequently acted more as an extension of the government than as a organization representing beneficiaries. The report also stated (para 6.32) that "Beneficiary participation played a very limited role in the implementation of the Bank projects and virtually no role in project design." The report pointed out more specifically that institutional development suffered most when cooperatives and other similar organizations had been used for facilitating project implementation, but without developing their capacity to assume the management of the project functions when the project ends. In the absence of this institution-building aspect, the sustainability of the efforts started under the project was often very much in doubt.

A World Bank report on *Rural Cooperatives in World Bank-Assisted Projects (1986)* indicated that more than 50 percent of the Bank's agricultural operations in the 1970s and early 1980s involved cooperatives and other similar organizations. The study reviewed altogether over 100 projects at three different points of time, 1974, 1980 and 1985 and concluded that the institution-building process of cooperative enterprises had not always been adequately dealt with in Bank-financed operations. Cooperatives were often expected to perform additional functions, or to serve non-members, without sufficiently evaluating their institutional capacity to do so. Greater emphasis seemed to have been given to the physical infrastructure required for cooperative operations than to financial viability and the sustainability of such organizations.

The inclusion of rural organizations in project activities, whether explicitly identified

or as actors in project implementation, is monitored regularly in the Bank's database. Between fiscal 1983 and fiscal 1991, 230 agricultural projects with a component dealing with types of rural organizations (with a broader definition than used in the study just mentioned) were approved for Sub-Saharan Africa. The total Bank/IDA lending in these projects amounted to US\$3,388.1 million. Within the same period, a total of 251 agricultural projects was approved for the Africa Region, Bank/IDA lending amounting to US\$5,177 million. These figures clearly indicate the importance assigned to community and beneficiary participation in project activities.

At the same time, however, this data reveals great variation from year to year and between different types of organizations. The number of projects with farmer organization or cooperative components approved in any given year was highest in fiscal 1990 (39 projects) and lowest in fiscal 1984 (13 projects). About one-third of these projects involved cooperatives, the rest addressing other types of formal and informal organizations. There does not seem to be any clear trend as far as the number of cooperative components is concerned, but it could be noted that the increase in total numbers, from about 20 in fiscal 1983 to about 30-35 in the last few years, has been in the category of "other groups", i.e. non-cooperative organizations. In addition to these data, Project Performance Audit Reports and Project Completion Reports completed since July 1987 include 12 projects with lessons of relevance to rural organizations.

There are no free-standing cooperative or rural organization projects financed by the Bank. Most of the current 38 projects with some kind of reference to cooperatives or other agricultural/rural organizations included these aspects in the objectives and/or as a component of the project, but seemingly without a clear idea as to what they were intended to achieve. These components received very little attention during project

supervision, and have faded away. Only a few supervision reports mentioned the implementation of these components and raised the following issues: (a) unstable political situation in the country had delayed implementation, (b) implementation had been slow because the operation was considered very complex, (c) the government policy on cooperatives was not clear, and (d) coordination was lacking among the donors with respect to farmer organizations.

Eight projects currently under preparation or planned for 1993-96 continue to present the same problems. In a few cases, the proposed objectives for farmer organizations have been quite well formulated in the Executive Project Summaries but no specific project component has been developed which would make the realization of those objectives possible. Often the statements are very general and vague, e.g. "strengthening of producer organizations" or "strengthening institutional capacity of key participating agencies, including service cooperatives", etc. Whatever efforts are eventually made during implementation and supervision, this type of component will most likely fail as its predecessors did for a lack of clarity as to how the objectives are to be achieved, and a lack of specifics as to the actions needed to strengthen cooperatives and other rural organizations participating in the project. Safeguards will have to be taken, therefore, at the time of identification and formulation of projects, rather than waiting for project implementation.

Major Issues

In addition to the more general studies undertaken by the Bank, 25 current or recently completed projects were selected for more detailed review, with the aim of identifying some common issues for further consideration and for a better definition of the role that the Bank could play in developing and supporting various types of rural organizations. Before going into the detailed findings of this review, some points raised in a Bank report, *Institutional Development in*

World Bank Projects - a Cross-sectoral Review, 1990 are discussed briefly as useful background material for this analysis. According to that report, project sustainability and institutional development are positively correlated. The widening scope of institutional development work in Bank projects, however, has added to the complexity of institutional analysis and design. Although the paper reviews the salient features of the Bank's institutional development work in different sectors of the economy in the 1980s, many of its findings are highly relevant to the agricultural sector and grassroots level organizations serving that sector.

The paper first points out that the attention given to institutional development in the Bank projects has increased significantly during the 1980s. Nearly 90 percent of the projects at the end of the decade had an institutional development component in contrast to 72 percent in 1978. It should be noted, however, that the attention to institutional development is primarily related to facilitating project implementation, a short-term objective. Much less attention had been given to the objectives of sustainability and the long-term strengthening of sector-wide institutions. Country-specific sector strategies for institutional development were rare. The achievement of the institutional development objectives in Bank projects has declined somewhat in recent years and this decline is only in part due to the problems in the macroeconomic environment. The weak analysis of institutional issues and overly complex designing of components dealing with institutional development, which failed to consider local capacity constraints, have contributed to the declining performance.

The primary need regarding institutional development is not necessarily to extend it to more projects since, as noted earlier, the numerical coverage is already quite impressive. Instead, the focus, quality and relevance of institutional development should be sharpened in selected lending operations, with a determination to support it within a

longer-term perspective. The need to use appropriately qualified specialists, either from within or outside the Bank, is also strongly emphasized. The paper concludes (page v) that "Bank staff working on different sectors do observe the factors which constantly inhibit sustainability. Some of them are country- or sector- specific, and others are more generic. They may well be aware of the kinds of interventions necessary to remedy them and to strengthen project sustainability. But there is at present [early 1990], no systematic way in which this knowledge and cumulative project experience on institutional constraints can be tapped and used to evolve selective country strategies in which the Bank and borrowers can work together. The country implementation reviews being held in recent years seem to focus so much on the current project implementation problems that issues germane to sustainability do not perhaps get addressed adequately."

When talking about country-level institutional analysis, the paper states that in general, institutional analysis was guided by one or more of the following three objectives: (a) one or more organizations had to be restructured or reorganized, but the precise areas or aspects for restructuring were yet to be identified and analyzed, (b) capacity-building, broadly defined, partly to facilitate project implementation, but also to support sustainable development, and (c) development of appropriate systems for one or more organizations. There was no case where diagnosis was attempted simply to better understand institutional constraints. It is, therefore, reasonable to conclude that Bank staff had some initial hypotheses as to the key institutional gaps which they probed more systematically through a diagnostic process.

The paper deals with a number of other issues which also have relevance to this study, but there is one particular point which needs to be stressed, and that is the legal framework. This has been identified as an issue in many projects covered by the PRE study, and was discussed in some detail. The

focus was on the laws governing the key project agencies, although there are several other dimensions of the legal framework which might be relevant in the context of an institutional diagnosis. The list of such issues includes possible regulatory constraints which inhibit efficient transactions between beneficiaries and public agencies or which make the enforcement of contracts between parties difficult or costly, both of these being extremely important when talking about grassroots-level institutions in the agricultural sector. A couple of more points should be added to this list and they deal with the right to associate and the specific cooperative legislation.

Twenty-five projects with cooperative and/or rural organization components were reviewed in the framework of this institutional development report. A number of issues can be identified for discussion:

- Project formulation
- Institutional structures versus individual institutions
- Policy, legislation, and government intervention
- Implementation, supervision, and performance
- Coordination with other development agencies.

Project Formulation

Even without a full-fledged institutional analysis, it is normally fairly easy to identify gaps in the institutional system serving the agricultural sector in particular, and rural areas in general. The ready-made solutions that are offered often include cooperatives and other rural organizations, which are known to have succeeded in a number of cases, and are very popular elements of rural development in SSA countries. A common feature in World Bank projects has been to include such

organizations, particularly cooperatives, in projects to facilitate the implementation of the project activities (agricultural development projects in Nigeria). It has not, however, been established that cooperatives are the most appropriate types of organizations for the purpose, and consequently, they have been assigned tasks which they have not been able to undertake. Very little attention has been paid to strengthening them and improving their capacity to perform the tasks they were expected to handle.

Bank staff in borrowing countries traditionally make contact with the government and consequently the views of the representatives of organizations such as cooperatives are not adequately taken into consideration. In some cases when institutional strengthening was included in the project it was directed to government departments (Zambia: Smallholder Rehabilitation Project, Strengthening Cooperative Departments in Two Provinces). In any event, the selected strategies resulted from negotiations between Bank staff and government representatives, a process in which rural organizations were not involved. In most cases, however, they were accepted by the target organizations, perhaps because they did not see any other alternative. A good example of a different reaction can be quoted from Senegal where the groups proposed for participation in the project support activities refused to do so because they felt that they would lose their independence under the terms and conditions offered to them.

Institutional Structures versus Individual Institutions

Closely related to and perhaps even part of the project formulation process is the question of whether cooperatives or other groups of rural people should be looked at only in the context of project activities, or whether a wider perspective should be adopted. Almost without exception, Bank-financed projects have taken the more narrow

approach. Organizations have been included in the project by virtue of falling within the project area, without analysing how they fit into the overall institutional structure of the country in that particular economic sector. Even in cases where special efforts have been made to strengthen these organizations, long-lasting results have not been achieved, and this was due, at least partly, to the lack of national-level support after the end of the project.

A better approach would be to first undertake a comprehensive review of cooperatives and other similar organizations once the need has been identified for improving services which could be provided by such organizations. Such a review could surely be of great assistance in formulating relevant components or even free-standing projects addressing the provision of agricultural support services either through cooperatives or other farmer organizations. Since 1988, this kind of sector review has been undertaken in three SSA countries, Zimbabwe (1988), Ghana and Nigeria (1991). However, these reviews were not a direct part of project preparation, but were undertaken as independent exercises, the latter two as contributions to a regional study on cooperatives and other rural organizations in SSA countries, which resulted in the preparation of this document.

In Burundi, Cameroon and Guinea, a more comprehensive approach to the development of cooperatives has been used in the last couple of years. More details of those cases will be provided in the section dealing with policies and legislation in Chapter 3.

Policy Legislation and Government Intervention

It is not possible to meaningfully develop even a part of the cooperative sector or related rural organizations, and even less the entire sector, unless there is a conducive environment for their operation. The existence of clear government policy and a

supportive legal framework are essential prerequisites for creating such environment. This is perhaps an area where the Bank has done more constructive work through its efforts to develop rural organizations, particularly cooperatives. Extensive work was done four to five years ago to introduce new cooperative legislation in Cameroon and Burundi, with the main focus on reduced intervention of government in the operation and management of cooperatives. Subsequently, similar work has been initiated in other countries as well, including Benin, Ethiopia, Kenya and Tanzania. In Benin, savings and credit cooperatives were covered by the general cooperative legislation, but some chapters of the legislation were revised and some new principles added to create a more appropriate legal framework for this type of cooperative. The adoption of these new statutes was made a condition for the disbursement of the IDA credit.

Many World Bank-financed projects end up supporting or strengthening government departments. In the case of two projects in Burundi, strengthening of the cooperative department was actually among the specific project objectives. In Guinea, the government decided to create a special body for supporting cooperatives, with the ultimate aim of developing it into a national cooperative apex organization. The revised cooperative law confirmed this, but the overall supervision and control nevertheless remained with the government. Although a significant reduction of the role of government authorities is desirable, this cannot be expected to happen without adequate preparation. The transfer of promotional functions from government departments to cooperative institutions should be carried out in a phased manner in order to allow the concerned organizations time to establish themselves.

Implementation, Supervision and Performance

The detailed review of 25 projects confirmed the earlier findings regarding the

treatment of components dealing with cooperatives and other rural organizations. In most cases, the objectives had not been clearly defined and adequate provision had not been made for achieving even those unclear objectives. Very few comments were made regarding any complications in connection with implementation and practically nothing was said in the supervision reports about the performance of these components. However, major implementation issues were raised in the Africa Region's Annual Review of Implementation and Supervision of Agriculture Projects for 1991. A few observations have been made in some supervision reports, and in some project completion reports. But, generally, Bank supervision neglects these components.

In Burkina Faso (as per the Project Completion Report of the Niema Dionkele Rice Development Project) the use of a cooperative specialist was included in the original plan, but the person was never recruited. This was considered a major reason for the poor performance in developing viable rice producer groups. While already existing - groups were used for distributing inputs and credit to producers, the creation of new cooperative societies was delayed. If the existing system worked well, perhaps the need for creating new cooperatives should have been reconsidered. In Togo (the Third Coffee and Cocoa Development Project), encouraging performance was reported in the case of the establishment of 250 new farmer associations.

One specific issue related to supervision should be emphasized. If the mission has not reviewed the performance of the components dealing with cooperatives and other rural organizations, mention should be made of this in the supervision report. If there is no such statement, one assumes that there was nothing to say about those components, good or bad. A representative example of such a situation is the supervision mission on the Rwanda Agricultural Services Project (August 1991). According to project objectives: "The project would include the promotion of private sector

participation in input supply and marketing through assistance to cooperatives and private enterprises to procure inputs, obtain credit and improve enterprise management." However, the supervision report confined itself to remarks about extension and research.

Coordination with other Development Agencies

Among the very few comments made regarding the implementation of the cooperative and related components, there are a couple of cases referring to conflict or the lack of coordination between various government ministries. Coordination among the local organizations, particularly various government agencies, among the external development agencies and finally between these two groups is vital for the success of these components. In Mauritania, the Second Livestock Project aimed at improving resource management through the establishment of pastoral associations. A conflict was caused by the fact that in the government system, the pastoral associations were under the Ministry of Interior, but the cooperatives under the Ministry of Rural Development. In Benin, the implementation of the project was said to have been delayed due to the lack of adequate coordination among the major donor agencies in addition to the lack of government policy on cooperatives.

There are, however, a number of positive examples of collaboration and coordination among international and bilateral development agencies and NGOs, although these cases are not always reported in project-related documents. In the effort to reorganize the cooperative sector in Cameroon, close collaboration had been established between the Bank, ILO, and the French and German development authorities. In connection with the cooperative sector reviews in Ghana and Nigeria, a number of other agencies were directly involved, or at least were kept informed of the work done. These organizations include EEC, FAO, ILO,

UNDP, USAID, the Cooperative Centers and official aid agencies in the Nordic Countries, the Rabobank Foundation from the Netherlands and Technoserve (a US-based NGO). It should be borne in mind that some donor agencies have invested considerable

amounts in searching for relevant methodologies for the development of cooperatives and other similar rural organizations and that use should be made of their research and experience through the closest possible collaboration.

2 DIVERSITY OF ORGANIZATIONAL FORMS, COMMONALITY OF PURPOSE

TYPES OF RURAL ORGANIZATIONS

There is a great variety of legal formats under which rural organizations can be formally registered, but there is also a variety of informal groups throughout the continent, which are not registered at all. A cooperative as an organizational form may not always be the most appropriate for a particular group or a particular activity. In some countries, because of the negative attitudes associated with cooperatives and because they are often identified as agencies of the government, other forms of organization may be preferable. This is the case, for example, in Senegal, where other types of formal and informal groups have arisen to take over the roles that the official, government-established cooperatives failed to fill.

Despite past problems with cooperatives, they remain, in many countries, the preferred form of organization, and perhaps the only organization with which rural people are familiar. The cooperatives of Niger were state-established and had a very chequered history. When the donor agency funding the project (see "The Development of Cooperatives and other Rural Organizations: The Role of the World Bank, Selected Country Studies," forthcoming) sought out rural organizations with which to work, the old cooperatives, although mostly inactive, were the only alternative. Project leaders decided it was preferable to work with the old established structures rather than attempt to develop new ones. Although many of the former members were pessimistic about the revival of the cooperatives, the success of their business activities eventually overcame their scepticism.

To succeed in promoting services to farmers, cooperatives should be able to meet the needs of their members at least as efficiently as other market intermediaries. Having, as any business organization in the formal sector, to comply with certain legal requirements (even if the cooperative legislation is simplified) in terms of accounting and auditing, filling of tax returns, and so forth, cooperatives need a formal management structure and a certain level of business knowledge and management ability that may not be readily available among rural people. Therefore, these capacities need to be developed and professional management obtained from outside for the interim period.

Informal groups, on the other hand, do not need to meet these requirements to the same extent and can operate with lower administrative overheads. Generally, therefore, informal groups would appear to have a comparative advantage over formally registered cooperatives when involved in small-scale undertakings of seasonal activities. Cooperatives are normally a more appropriate form of organization when the complexity and volume of business become large.

Registering as a cooperative provides a group with legal recognition (often a requirement for access to credit), a status which is not always available to other types of organizations. In Senegal, however, the law on economic interest groups provides the legal basis for the recognition of a wide variety of autonomous associations. In some other countries (Guinea, Niger, and Equatorial Guinea) the only other groups specifically covered by legislation are the "pre-

cooperatives." Cameroon has a policy permitting the establishment of all types of groups for economic purposes, but does not yet have a specific law for group-based businesses other than cooperatives (see Chapter 2 for a more detailed review).

Although cooperatives have attributes which suit them to organize services in the smallholder agricultural sector, they should not be promoted indiscriminately. In the early 1970s, Guy Hunter argued that "an obsession with cooperatives is one of the major impediments to agricultural development" (Gyllstrom 1988, p. 8). If they are promoted without regard to their potential and performance, and especially if they are given a protected status, they restrain the emergence of alternative sources of marketing and other services and may therefore be counterproductive from the farmer's point of view.

Cooperatives Defined

Not all organized groups are "cooperatives." The term is applied to a very specific type of organization, and not simply to a group of people "cooperating" on some type of activity. Although based on the principle of people working together to achieve common objectives, a cooperative is a legally established organization operating on the basis of a specific set of principles. The ILO has summarized the essential characteristics of a cooperative as:

An association of persons who have voluntarily joined together to achieve a common objective through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking (ILO 1966; B. Youngjohns 1977).

This definition is generally accepted by most multilateral and bilateral donor agencies.

It is also becoming more widely recognized by the governments of developing countries and incorporated into revisions of cooperative legislation. This is the definition employed in this paper, and the one recommended by the Environment and Sustainable Development Division, Africa Region, for use throughout the World Bank.

Several key concepts in the definition require further comment and clarification. The essential nature of a cooperative is that it is an "association of persons" (at the primary level), meaning that the members are individuals rather than enterprises, interest groups, or a mixture of individuals and groups. It is a longstanding principle of cooperatives that membership is open and unrestricted. All interested persons, male or female, in the geographic area in which the cooperative operates, and having the same economic needs and objectives, should be eligible to participate in it.

People form a cooperative to achieve, through joint effort, an objective that they are unable to achieve by themselves. Most often, this is a needed service (such as farm-to-market transportation), or needed goods (such as agricultural inputs). In essence, the members of a cooperative are both its owners and its customers. Membership in a cooperative is voluntary and consists of persons "who have voluntarily joined together" rather than participating because of a government directive, or as a condition for receiving subsidies. As is the case with all other forms of business, the owners share the costs and the risks by investing their own resources to establish the capital for their organization. This investment is known as member share capital.

Democratic control is also a key cooperative principle. Based on the concept of one member, one vote (regardless of the number of shares owned), it means that all the organization's members, and not just the management or an oligarchy of elites, understand the business and participate in decision-

making. Members govern the cooperative by means of a general meeting (general assembly) at which a governing committee (board of directors) is elected and general policies and objectives established. The governing committee is responsible for overseeing the operations of the cooperative between the general meetings.

The principle of democratic control is closely linked to another cooperative principle, member education. For democratic control to be effective, the management of the cooperative must be fully transparent and the members informed and knowledgeable about all of the organization's business activities. Member education may extend beyond the business operations of the cooperative into such areas as improved production techniques and literacy programs.

As a business organization, the cooperative must be viable and profitable. Cooperatives differ from many other types of voluntary associations in that they are business organizations; they exist to provide a service and to earn a surplus after covering all their costs. This means that a cooperative should be operationally efficient. At the minimum, a cooperative must break even while providing effective services for its members. Financing for the cooperative is provided by the members through contributions of share capital and all members accept an equitable share of the risks involved. Usually, the financial liability of a member is equal to the amount of the person's share capital (limited liability), although the laws governing cooperatives or the internal by-laws may substantially increase that responsibility.

In contrast to a corporation such as a limited company, *société anonyme*, the shareholder members of a cooperative do not invest in share capital to make a profit, but to obtain needed goods and services. For this reason, it is a principle that a cooperative pays only limited interest on share capital. At the close of the fiscal year, the organization's surplus is allocated to reserves and/or

distributed to the members. The usual method for distributing part of the surplus is to allocate it on the basis of each member's volume of business with the cooperative. This kind of distribution is known as a "patronage bonus" or "patronage refund" (*ris-tournes*).

In summary, the generally accepted principles of cooperative businesses are:

- Open and voluntary membership
- Democratic control (one member, one vote)
- Limited interest on share capital
- The promotion of member education
- Equitable distribution of economic gains (to the extent they are distributed) based on the volume of the member's business with the cooperative.

Cooperatives may be adapted to a large variety of economic needs and situations. As extensions of the economic activities of their members, however, their only objective should be to serve member needs. There are many different kinds of cooperative businesses in developing countries. The most prominent are agricultural input supply, agricultural marketing, and savings and credit cooperatives. Consumer, housing, and handicraft cooperatives also exist in a number of countries.

Agricultural service cooperatives are created to provide various services required by farmers. Most commonly, these services include the marketing of agricultural produce and the distribution of agricultural inputs. The primary functions of a *marketing cooperative* are the collecting and marketing of member produce. This may include grading and quality control and, at times, the provision of transport. In Africa, marketing cooperatives are most commonly used for the

export of various cash crops, but in other parts of the world, they frequently engage in a greater variety of activities, such as the processing and packaging of fruits and vegetables. This provides additional value to the members' production and brings a higher level of return to the cooperative.

In some cases, a cooperative is established solely to meet the needs of its members for agricultural inputs when other sources do not exist or where they are not available on a timely or cost-effective basis. The cooperatives seek to provide their members with economies of scale in procuring the inputs, making them available in the quantities required by farmers, and sometimes assisting with transport. Some supply cooperatives also provide equipment rental, tillage and spraying services for their members. Outside the farming sector, the most frequent examples of supply cooperatives are those established by fishermen to obtain equipment and supplies.

Cooperatives providing both farm input supply and marketing services are often called *multi-purpose cooperatives*, and may also be engaged in other economic activities aimed at providing a full range of services to their members. The marketing of a member's produce also gives the cooperative a direct opportunity to recover any outstanding credit balances on the provision of farm inputs. In the more remote areas of Africa, some multi-purpose cooperatives often provide limited amounts of consumer goods and pharmacy services to their members.

Savings and credit cooperatives, perhaps most commonly known as credit unions, are member-owned cooperative businesses designed to mobilize member savings and provide loans to members. In a number of African countries, credit unions have been the most successful type of cooperative, demonstrating greater success and usually enjoying greater autonomy than cooperatives in the agricultural sector. A continent-wide advisory and coordinating organization for

savings and credit cooperatives, the African Confederation of Cooperative Savings and Credit Associations (ACCOSCA) is headquartered in Nairobi and is affiliated with the World Council of Credit Unions, based in Madison, Wisconsin, United States.

In many industrial countries and in most developing countries, cooperatives at the local level have joined together to form secondary cooperatives at the district or regional level and cooperative federations at the national level to meet the needs for volume purchasing, marketing and training. For the local cooperatives, these secondary and tertiary organizations have much the same purpose that the cooperatives have for their individual members. They enable the individual cooperatives to obtain goods and services at better terms than they can by acting alone. The unions and federations can also provide a voice for the local cooperatives in dealing with agencies of government.

The special nature of a cooperative business is generally recognized by governments worldwide through specific legislation directed at regulating their formation and operation. In this sense, within a particular country, cooperatives are organizations established and registered in conformity with that country's cooperative law. The use of the term "cooperative" is generally restricted to these organizations. While accepting a certain governmental role in registering and regulating cooperative businesses, the World Bank and other donors should recognize the private sector nature of cooperatives in the design of projects.

The day-to-day operations of a cooperative are governed by a set of regulations or by-laws adopted by the membership. These internal regulations, which must be consistent with the country's cooperative law, establish the organization's objectives, membership criteria, reporting procedures, the system for handling profits, management controls, and a schedule for general meetings. In general, the by-laws

establish several internal bodies: the general assembly (all-member meeting), which is the highest authority in the cooperative; the governing committee (board of directors); and special committees responsible for such tasks as auditing and member education. The by-laws are adopted by the general assembly of each cooperative society.

Other Types of Rural Organizations

The lines of distinction between the many other types of groups are fluid and preclude a clear definition of categories. Various names are used (producer groups, village associations, farmer associations, all of which designate organizations that are involved with the development of economic activities or the provision of goods and services for their members (Mercoiret 1990, p. 14). They range from informal local groups established to achieve a particular short-term objective, to formal associations organized at local, regional and national levels. While many of these groups are involved with agricultural production and marketing, others function in such areas as fisheries, livestock, and small-scale industries. Some were established solely on the initiative of the participants, while others were created through the initiative of governments, external NGOs and projects financed by donor agencies. Many of them function along the same lines as cooperatives and provide similar services to their members.

The fact that such groups are not registered as cooperatives may be the result of conscious choice or because they do not meet the requirements of the cooperative legislation. Although some cooperative laws provide for the organization of "pre-cooperatives", most frequently other types of organizations, such as farmer associations and economic interest groups are not registered under the same legislation as cooperatives, or in some cases not registered at all. A "pre-cooperative" is commonly considered to be a cooperative in the process of organizing, but which does not yet conform fully with the requirements of the law. However, the issue

is not one of an evolutionary hierarchy, with cooperatives at the apex of preferred organizational forms and other types being considered as temporary or somehow inferior. In revising existing cooperative legislation or in the drafting of new cooperative laws, the term "pre-cooperative" is no longer in general use. The current perspective is that an organization either *is* a cooperative or *is not* a cooperative. To apply the term pre-cooperative to other types of organizations, whether formal or informal, implies that their goal is to eventually become a cooperative, which may or may not be the case.

The legislation on freedom of association, and the development of specific statutes for various types of organizations can provide a legal framework for rural groups to be established. This has been particularly true in Francophone countries, which used the French legislation on non-profit, civil, and commercial societies, as well as the law on cooperatives, as a basis for their legislative framework, although some countries modified it over time. More recently, innovative forms of societies were created in France to answer to new needs, and these have influenced some new legislation in a few African countries. For example, the Society with Common Agricultural Concerns (Societe d'Intérêt Collectif Agricole, SICA) shares the same status as a cooperative, but with a broader objective. While a cooperative has an objective to "decrease, to the advantage of its members and through a common effort on their part, the net cost ... of goods or services, or to improve the quality of marketable products," a SICA is organized to "create or manage some apparatus or equipment or to provide services, either for the benefit of farmers in a rural area, or for all inhabitants...." While a cooperative is a category of society, neither civil nor commercial, a SICA can be registered as a civil society, or as a limited responsibility society.

An Economic Interest Group (Groupement d'Intérêt Economique, GIE) can

be formed by two or more individuals or legal entities, for a specified duration, "to facilitate or develop the economic activity of its members, to improve or increase the results of this activity; (the objective) is not to make a profit for the group." The group must write its own by-laws, and is not obliged to respect the one member, one vote standard of cooperatives. It is able to enter into all commercial actions in the name of the group. This form of association, more flexible than a cooperative and easier to create, was sanctioned in France in 1967 and has been adapted by several Francophone countries, including Côte d'Ivoire (1978) and Senegal (1984).

Some groups may be able to enter into contracts or open bank accounts, and thus conduct their business transactions without having any formal legal status, and consequently find that informal structures are sufficient for their purposes. In some African countries, these mostly single-purpose farmer groups function alongside more permanent formal groups. These are organized to achieve a particular objective, such as the joint purchase of fertilizer, the hiring of labor, or joint storage or marketing activities. Often these groups are dissolved when the objective is accomplished. If another combined effort is required, another group is formed, sometimes with the same membership, sometimes with other farmers. However, some informal groups may survive in the same combination for several years (World Bank 1992, para 4.2). It is likely that project assistance directed at strengthening local initiatives and local capacities will be more effective through working with the types of organizations already functioning in the project area. For sustainability reasons, however, more permanent group-based organizations offer greater potential. Nevertheless, an understanding of these informal groups can provide significant insights into farmer-initiated development efforts.

In some cases, village associations have proved very efficient in many different activities: in Mali² for example, village associations started in 1973, and they have accumulated considerable experience. Similar efforts have been conducted in Niger and in some provinces of Burkina Faso since 1958, with the first "animateurs ruraux" (rural animators). Those examples, with three decades of cumulative efforts in training local capacities and transferring them into precise responsibilities are now viewed as major references: they demonstrate some sustainability, and show the way forward. These instances are worthy of detailed analysis in future regional and country studies.

CHARACTERISTICS OF EFFECTIVE RURAL ORGANIZATIONS

The importance of a conducive policy and legal framework to facilitate the development of sustainable, efficient, and effective rural organizations cannot be overemphasized. The generally unsatisfactory performance of cooperatives in Sub-Saharan African countries is, however, not only explained by inappropriate policy and legislation. Like most organizations in SSA, ranging from state-owned enterprises to informal farmer groups, they are also affected by a variety of internal constraints. These include the lack of business experience, poor accounting and internal control systems, and undercapitalization. In addition, their operations are, to a significant extent, shaped by the socio-cultural environment in which they operate. As Gyllstrom aptly stated in a study of the Kenyan cooperatives, "Member households are not only linked to their cooperative society but also constitute part of social constructs with built-in parochial (sic) elements. Individual behavior is conditioned by value systems related to edifices such as kinship, age group and gender. These ties, it is argued, hinder the management of the cooperative to secure the

Box 1. Village Associations an Alternative to Cooperatives: CMDT, Mali

In the cotton area, in Mali, the Compagnie Malienne de Developpement des Textiles (CMDT), has used Villages Associations (VA) since 1975. CMDT helped the villages to install their VAL Committees, and adult literacy programs prepared 44,500 villagers to participate in organizing and managing their VAs.

In 1988, 1,119 villages had VAs. These VA were involved in marketing 70 percent of the cotton produced in the area. They were managing 3.5 billion CFA Francs* out on short-term loans. The recovery rate on these loans was 99.9 percent.

From their experience in cotton—related activities the VA moved to social investments, community development, natural resources management, and to new income-generating activities. This development was supported by continuous assistance to adult literacy programs focusing on management problems.

The VAs developed a strong negotiation capacity with outsiders, and are now involved in many sectors, having become the main partners in many development activities.

Similar results have been achieved in other countries, in cotton production areas. The organizational process has been facilitated through critical training support (adult literacy, and pest literacy over two decades) and through support by the government and all development agencies in the areas concerned.

* 1US\$ = 250 CFA Francs (1992)

measure of autonomy required for efficient and stable operations. Patron-client relationships and other dependencies will penetrate the organization and limit both employees' and members' ability to exercise effective control of their societies" (Gyllstrom 1988.)

The following internal weaknesses have been identified as typical of agricultural cooperatives in the region, but many of them may hold true for other types of rural organizations as well.

- There is often a low degree of member participation in the management of the societies and in the control of their operations. This phenomenon, which is explained at least partly by members' inadequate knowledge of the operations of a business enterprise and of their rights as members, tends to

encourage improper practices by cooperative leaders and staff as they are not made fully accountable to the uninformed membership.

- Share capital contributions by members are typically insufficient. This is reflected in an undercapitalization of the cooperatives and consequently, in the shortage of working capital as well as financial resources needed

for investments in marketing and other related infrastructure.

- The financial weakness of the societies is often aggravated by the regulated business environment in which they have been operating (as discussed in Chapter 3) and by the lack of sufficient business experience among cooperative

leaders and staff. This prevents the societies from taking full advantage of business opportunities for generating capital through profitable operations, and from competing effectively with other business enterprises.

- The management performance of cooperatives is often deficient in a technical and administrative sense. Accounting and financial management systems are often not of the standard required for effective internal control of the finances and operations of the societies. This is due to a variety of factors—including poorly-trained staff, and the failure of members to insist on full information regarding the performance of their cooperatives. Financial losses in the cooperatives often result.

Identification of the internal cooperative weaknesses is of little explanatory value and provides no guidance for action to improve the situation unless the constraints are related to their underlying causes. The purpose of this chapter is therefore to identify, in the light of experience available from a number of SSA countries, the internal factors which explain the mediocre performance of most agricultural cooperatives in the region, and to also determine the characteristics of genuine, efficient, and sustainable cooperative organizations.

Felt Need for Association

An obvious, but often disregarded condition for the formation of a sustainable primary society is that it should be based on the felt need of its members. Formation at the initiative of outsiders and as mere "conveyor-belts" for goods and services has not proved to be a successful way to promote cooperatives or other rural organizations.

In the case of agricultural service cooperatives, the felt need usually originates from deficiencies in existing marketing and input supply arrangements, and in access to credit and other financial services. There are, however, also examples of cooperatives which have gone into other service activities in response to the needs of their members. In Niger, for instance, where cooperatives are promoted under a project sponsored by NCBA/CLUSA cooperatives have opted to go into secondary activities such as the sale of consumer goods (see "The Development of Cooperatives and Other Rural Organization: The Role of the World Bank, Selected Country Studies," forthcoming.) In Zambia, a number of societies operate successful consumer shops and small agro-processing units. The important aspect is, however, not the type of activities carried out by the groups, but the necessity of these activities corresponding to the needs of members. In order to be sustainable, an organization must make economic sense to members, by providing goods and services which cannot be obtained on more favorable terms from other sources. Although other factors play a role in sustaining an organization, such as the social and cultural homogeneity of the membership, its tangible benefits in financial terms are of paramount importance.

The Niger experience also provides an illustration of the importance of basic cooperatives and their activities based on needs identified by the membership. The

great majority of business activities identified by members have produced positive results. The high success rate is due, in large measure, to the thorough preparations undertaken with the full involvement of members. Member participation is encouraged by the fact that activities are need-based and produce benefits for members. The Niger experience strongly supports the hypothesis that organizations created by the government for the sole purpose of ensuring input delivery or marketing of a cash crop

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.

The original role of the cooperatives, when they were established by the government, was to serve as a means of organizing the producers and collecting produce to pass along to parastatal agencies. When the state-sponsored marketing system collapsed for lack of funds to purchase the crops, the cooperatives ceased to function. Interestingly, they did not really dissolve or cease to exist. Villagers were aware of who the cooperative officers were and what other villages were included in the cooperative even though it was not functioning. No other organizations were created to take their place. They simply seemed to be in limbo. Members did not conceive of their cooperative being a business organization. To them, it was a creation of the government and its role was assigned by the government.

The hypothesis also raises the issue of the *social basis* of cooperatives. In the examples from the case study, ("The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank, Selected Country Studies," forthcoming), the term "social basis" could refer to the village, to the network of relationships within and between the participating villages, or to the ethnic or family composition of the cooperative. It could also refer to the social objectives of the organization, that is, the carrying out of activities to benefit the community. In many Western countries, a cooperative is essentially an economic institution - it has economic objectives and must succeed economically if it is to survive. For Africa, the social basis of group activity is much more important, but the cooperatives in the case study had no apparent social functions outside their economic activities. This area needs further thought and research.

Member Contributions and Participation

There are, throughout Africa, numerous examples of formal and informal groups being developed by external influences and operating effectively during the period in which direct technical and financial assistance is provided, but which cease to function when the outside assistance is concluded. It is therefore of utmost importance to ensure the maximum participation of members in such group activities. Low financial contributions by members in the form of share capital is one of the most troubling issues, particularly for African cooperatives. It leads to undercapitalization and a low degree of member participation in the decision-making process. In fact, the lack of member investment in raising capital for their cooperatives makes it difficult to even examine the hypothesis that cooperatives in which the members have invested a significant amount of share capital are likely to benefit from a higher degree of member loyalty than those where member share capital is minimal.

Adequate share capital contributions are important, not only as a means of financing the cooperative business from internal sources, but also as a reflection of members' interest in their society, and, above all, as an inducement to take part in the decisions affecting the cooperative. Experience available from the state-initiated cooperatives—where member contributions usually are insignificant and where resources often are brought in from outside—indicates that members pay little regard to the prudent management of external resources. On the other hand, when members have a significant financial stake in the cooperative society and depend on it for important services, they tend to participate more actively in an effort to ensure that the society is operating in an efficient and sustainable manner. A case in point is the cooperative credit schemes in

Kenya. Schemes which are based to a significant extent on capital accumulated through members' savings invariably show higher repayment rates than those financed exclusively from sources external to the cooperative.

Even when members have a financial stake in the society and are genuinely committed, their participation is often constrained by other factors. The most important determinant of member participation in the state-controlled cooperatives is covered

Box 2. Niger: How Member Participation Facilitates Success

The Niger Cooperative Development Project provides technical support for the development of village-based economic activities. It focuses on developing and reinforcing the ability of cooperative members to select, implement and manage their own economic activities.

The affiliation of a cooperative with the project is entirely voluntary; and the request for assistance must originate with the cooperative itself. Following the affiliation, a series of meetings is held with members for the purpose of helping them to analyze their strengths, weaknesses, needs and potentials. During these meetings, the members begin to identify possible economic activities. An initial activity is selected, evaluated for its feasibility, discussed and approved by the members. If a loan is necessary, a business plan and a loan application are forwarded to the bank. Credit is at full market rates. The persons elected by the members to fill management positions are then provided with training geared to the 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.

The great majority of business activities implemented have produced positive results. This is in large measure due to the fact that identification and planning of activities are undertaken by the members themselves. Member participation is encouraged because activities are need-based and produce tangible benefits. The Niger case demonstrated that member involvement in the selection, planning, and carrying out of the business activities was an important means of acquainting them with private enterprise. Similarly, the relationships developed with the commercial bank were important in contributing to an understanding of private sector institutions. In due course, further studies could demonstrate whether a spillover effect occurs, and whether cooperative members apply their new skills to start new or to develop existing business or income-generating activities which they would not have done without the project.

in Chapter 3 and can be amplified by a statement from Hyden's study of the Zambian cooperatives: "Member involvement is generally low. This is not surprising. The way the cooperatives have been treated in the past has erased any sense among members that the organization is theirs" (Hyden 1988, p.15). Gradually changing policies and the increasing understanding of the nature of cooperatives as community-based business organizations can be expected to open the door for more extensive member participation. However, in order to effectively participate in the management of the cooperative, members

need skills which facilitate their participation. They need to be aware of the rights and obligations of membership and they need to have a basic understanding of the business activities of the cooperative in order to be able to make management accountable to them. The conclusions which can be drawn at this stage of the analysis are that the development of sustainable member-based cooperatives crucially depends on the members having a basic understanding of their cooperative, and that projects involving cooperative societies should incorporate an element of member education.

Business Potential and Competitiveness

The most common motivation for rural people to participate in cooperatives and other economic groups is to obtain needed goods and services at a lower cost than that available from other sources. Joining with other producers gives the individual farmer a stronger marketing position and economy of scale. The potential for viable economic groups is dependent on the overall economic setting and the capacities of the groups themselves. In practical terms, the cooperative or group must be of sufficient size (number of members/production quantity) to have an adequate business volume, and the business activities selected must be carefully investigated and planned. While the opportunities and constraints present in the economy as a whole provide the environment in which group-based businesses must operate, the organizations themselves must develop the capabilities to function effectively within that setting. The groups must have a realistic understanding of the setting in which they must operate and the competition they face, seeking out areas where they have comparative advantage.

A good number of cooperatives have had to close down because they could no longer compete with the private sector. In these cases, the cooperative had fulfilled their role. They were no longer necessary and could be closed down without adverse effects for the inhabitants (Tewinkel 1990).

Available markets must be able to provide at least minimally sufficient returns to allow the farmer organizations to recover costs and provide sufficient returns in the form of goods or services to their members. Although this may appear an exceedingly obvious requirement, it has often not been taken into consideration when cooperatives have been formed. The World Bank study of cooperatives and other farmer organizations in Nigeria identified the registration of

unworkable cooperatives as a major factor which has contributed to the emergence of a fragmented movement consisting of small units with no development potential. The report states that "There seems to be considerable pressure to register as many cooperatives as possible, even if it would mean neglecting the existing ones. This action will naturally make the statistics of the Cooperative Department look better—the more registered societies, the better" (World Bank 1992, p. 26). Nigeria is but one example of the tendency of government cooperative departments to promote new cooperatives without due regard for their viability. This is a major contributory reason for the high percentage of failures of registered cooperatives. According to the World Bank report on "Review of Cooperatives and Other Rural Organizations in Ghana," (under preparation) only 4 percent of the registered agricultural cooperatives were in actual operation.

In developing countries, limited market availability is often a major constraint to growth potential. For example, Guinea's fruit marketing cooperatives were originally organized to provide produce to a state-owned enterprise for the processing of fruit juices. At the time it began operations, the enterprise had the resources to purchase and process large quantities of locally-grown produce, and local producers acted to meet market demand by expanding their planting areas and concentrating their efforts on fruit production. The enterprise's inefficient operations and its inability to compete effectively in the export market resulted in heavy losses and, after only a few years of operation, it was closed. Without sales to the enterprise, the cooperatives quickly saturated the domestic market during the harvest season and, for reasons beyond their control, no export market was available. The possibility of starting their own processing facility was unfeasible. The result was that the cooperative was prevented from further expansion, due to the absence of a sufficient market.

A similar situation exists for the fruit and vegetable producers of Equatorial Guinea. Individual producers participating in a donor-sponsored cooperative development project have made impressive progress in the production of food crops, which they market through their cooperatives. The domestic markets in both the island and the mainland sections of the country, however, have a very limited capacity and, as these become saturated, the cooperatives must look to exports for any future growth. Although Libreville, Gabon, offers significant market potential, transportation problems (extremely poor road conditions on the mainland and the necessity of costly sea transport from the island), along with problems experienced when crossing the border, prevent cooperatives from taking full advantage of this opportunity.

To be successful, rural organizations must be able to provide sufficient economic and social benefits to their members and, at the same time, be competitive with private traders and other businesses operating in their area. It is often the case that people living in remote areas are more dependent on the economic activities of their organizations than those residing in more accessible areas, which are readily served by private traders.

CURRENT TRENDS AND ISSUES

This section provides a brief introduction to the key issues which will be analyzed in the context of field experience over the next three chapters.

Box 3. A Ugandan View on Genuine and Effective Cooperative Organizations

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. It must be member-controlled and must be effective by performing in accordance with the objectives for which it was established.

The essential features of member-control are:

- Regular election of leaders through democratic procedures;
- Participation by members in defining by-laws and rules governing their cooperative;
- Empowerment of members through education and training so that members can exercise their rights; and
- Conducting of regular meetings of members to enforce performance control and accountability by staff and elected leaders of the cooperative.

In addition to being member-controlled, cooperatives must also be effective and beneficial to their members. This means that 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 membership;
- Financial performance as reflected in the ability of the cooperatives to distribute bonus and dividend, build infrastructure and increase their assets;
- Rate of patronage by members and increased membership; and
- Ability to survive when economic conditions become adverse, and to retain the market share in competition with other business enterprises.

Favorable Political/Legal Environment

The policy environment

Clear and supportive government policy is an essential prerequisite for the growth of autonomous, member-owned and controlled organizations as well as individual businesses. As official policies and regulatory practices are the primary determinants of both the business climate and the scope of action permitted to the private sector, they can serve either to encourage or constrain the development of farmer organizations and cooperatives as business concerns, as well as private business in general. Assisting governments to achieve a more favorable policy environment is the single most important key to the sound growth of the associative sector.

The development of a supportive policy environment requires that governments must have the political will to permit and encourage the growth of the private sector, and that they recognize the right of free association and the rights of individual and group initiative. In addition, because various farmer organizations are affected by the same policy issues that impact on the private sector as a whole, governments must be willing to undertake policy reforms in such areas as product pricing, controlled profit margins, export controls, and taxation.

The frequently-encountered government policy of channeling agricultural inputs and providing marketing services through state-owned enterprises (SOEs) is one that has a particular impact on the business potential for private sector rural organizations. Because such practices severely limit the scope of economic activities available to cooperatives and other similar organizations, policies directed at the dissolution or privatization of SOEs can open up a significant amount of business potential to them.

Legislative and Regulatory Issues

The legislation in force may have either a positive or negative influence on the suc-

cessful operation of rural organizations involved in agricultural activities. In some countries, the legislation provides the basis for high levels of government involvement and interference, while in others, it serves as a framework for the development of an environment favorable to business activities for various farmer organizations.

Cooperatives are governed by detailed legislation, perhaps more than any other type of rural organizations reviewed for this study. Particular concern has been expressed about government's excessive involvement, or of even interference in cooperative matters, and the fact that the law does not allow a satisfactory amount of autonomy to the cooperatives. Governments are going far beyond their commonly - accepted role as registrar of cooperatives and provider of training facilities, and perhaps in a transitional period, even as the auditor of the cooperatives' annual accounts.

Typically, developing country governments have placed too much emphasis on setting up "cooperative" structures and rules for organizing and operating local cooperatives, and too little emphasis on the development of good business practices, marketing, and the need to cover operational expenses and make a reasonable profit for the further development of the activities of cooperatives. In many cases, the legislation has also given cooperatives a favored position in their areas of operation, not forcing them to compete with other business organizations or traders in a free market.

Administrative Structures and Procedures

Usually, a government department of cooperatives, often located in the ministry of agriculture, is the primary agency responsible for the oversight of cooperatives. The department's responsibilities generally include the registration and dissolution of cooperatives, "cooperative promotion" (encouraging and assisting the creation of cooperatives),

inspection and auditing, dispute arbitration, training, and member education. All too frequently, cooperative laws also allow the department to intervene directly in management.

Because developing country governments have invested relatively large amounts of resources in cooperatives and assigned them key roles in the agricultural sector, they have tended to second civil servants directly to management positions. Such an arrangement is not compatible with the transition of cooperatives to the private sector. Civil servants, who have had little or no experience with private business, are rarely equipped to provide guidance and training in business operations. In addition, after years of functioning in a top-down, directive environment, they generally do not have the mental disposition to understand or appreciate the ability of rural people to make their own economic decisions and carry out their own business activities.

Effective, Sustainable Organizations

Sufficient Potential for Economic Growth

To be viable, rural organizations must be of sufficient size, not only as far as the number of members is concerned but even more important, regarding their volume of business. Naturally, the activities undertaken must be profitable. In the light of these factors, small groups with low volumes of business may be better off as informal structures rather than attempting to form themselves into cooperatives. Cooperatives and other formal organizations, on the other hand, must have sufficient leadership and management capabilities to handle the organization's business affairs effectively.

Besides assessing the financial viability of all proposed activities, rural organizations need to make sure that markets are available for products to be sold and that inputs of the right type can be obtained at the right time.

Availability of credit is often closely linked to provision of farm inputs, either through rural organizations themselves or by bringing individual farmers into direct contact with financial institutions. Setting up a system of loan guarantees to commercial banks would eliminate the negative aspects of often-subsidized credit and would allow the rural organizations and their members to begin developing long-term relations with financial institutions. In the longer term, however, an increasing proportion of seasonal credit requirements can be expected to be met from members' resources mobilized by cooperatives and other grassroots level rural organizations.

Cost-Effective Structures

Secondary, district, regional, and national level structures are often set up irrespective of real need and their potential for viable operations. Although, in theory, they should be formed by primary level groups themselves, they are often imposed by the government or some other external agency. The question of need is very often pertinent for cooperatives, but perhaps even more so for other forms of rural organizations. Particularly for the latter, it may be difficult to justify the creation of a formal apex structure, when a national coordinating mechanism through an informal network or a small secretariat is all that would be necessary.

In many instances, governments and donor-financed projects have created secondary and tertiary structures to support the local organizations and to provide them with the needed services, but the members of such organizations often had little involvement and little voice in either establishing them or in their operations. When the financial support from the project came to an end, the local organizations were expected to support these structures, sometimes by the government requiring that a portion of the profits, as in the case of cooperatives, be used for this purpose. Secondary and national level

structures can play an important role and provide economies of scale in the procurement of agricultural inputs and the provision of marketing services, but they should be allowed to evolve out of local needs rather than being designed and imposed by government or by projects.

As part of an overall effort to reduce the government's involvement in the affairs of rural organizations, particularly cooperatives, attempts have been made in a number of countries to transfer promotional, developmental and training activities to central or regional bodies, in instances where local cooperatives have been able to sustain such structures, or to an autonomous institution established for this purpose. An autonomous institution specifically created to serve the training and technical assistance needs of the cooperatives may be much more responsive and effective than secondary and tertiary cooperative structures.

As the most positive experiences with cooperative businesses have been at the local level, it is likely that project components involving cooperatives will have a greater degree of success working with such local units. Based on viable business activities, the local cooperatives can often function successfully without centralized, hierarchical structures. In any case such structures should not be promoted unless they are able to

provide goods and services more efficiently than the individual cooperatives acting alone.

Channeling of Assistance

One of the most important issues for project design is how to direct assistance to areas where it is most needed and where it will produce the greatest benefits. Experience in many African countries has shown that resources for the development of rural organizations and particularly cooperatives, channelled through government have been largely ineffective. Rather than strengthening cooperatives, this type of assistance has tended to strengthen government control over their activities.

The ways of securing effective use of donor assistance to support the growth of autonomous, private sector cooperatives, when working through the government, differ from one country to another. In recent years, an alternative approach, "movement-to-movement" has been developed by the cooperative movements in industrial countries and by international development agencies. A number of donors, especially the Nordic bilateral agencies, USAID, and CIDA have channeled some of their funding to rural organizations through cooperatives and other NGOs in their own countries. This is an innovative approach from which much can be learned. (See Chapter 5 for further details).

3 THE NEED FOR AN ENABLING ENVIRONMENT

ISSUES

To operate successfully, group enterprises require an environment that is conducive to the development of private sector business. However, many African governments have not been willing to permit these organizations the same freedom of operation as other forms of private enterprise. This has been particularly true for cooperatives, which were often established by governments as instruments of official development strategy. As a result, the structures, objectives and business operations of cooperatives have been subject to detailed regulations and controls not imposed on individually-owned private businesses.

This chapter focuses on two sets of issues: business regulation and control, including pricing and marketing regulations; and policies and legislation related more directly to the rural organizations themselves. The last section will discuss issues of policy implementation, since how regulations are applied can be as important as what they stipulate in the first place. Three hypotheses underlie the discussion:

- First, rural organizations are more likely to succeed in countries where private initiative and voluntary activities are encouraged.
- Second, rural organizations are more likely to succeed in an environment that does not restrict the scope of business operations in the private sector and does not impose overly complex regulatory practices.

- Third, the commercial and financial performance of farmer organizations is likely to be impaired if their business operations are subjected to extensive government administrative control.

BUSINESS ENVIRONMENT, REGULATIONS AND CONTROL

To succeed as businesses, rural organizations should be able to operate on the basis of sound commercial principles and the same conditions as other private sector enterprises, so that they can become competitive in an open market. For instance, pricing and marketing policies must allow the organizations to develop efficient planning and business practices to cover their costs and realize a surplus for the development of their activities. However, rural organizations, and especially cooperatives, have often been obliged to work with inordinately low marketing margins, or compelled to serve as intermediaries for government-sponsored services, without being given the opportunity to cover their expenses. The widespread failure of rural cooperatives in Sub-Saharan Africa is often attributed to management problems, internal operational and financial weaknesses, without consideration of the fact that a major cause of their problems is the non-viability of the activities imposed on them.

Agricultural Pricing and Marketing Policies

The most serious macro-policy barriers to business development have been in the areas of marketing and price control for primary

cash crops. Official policies often required that the primary cash crops be marketed exclusively to a government agency at fixed prices, and exported through a national export agency or marketing board. Throughout Africa, government interest in controlling the marketing of the major export crops was an important motive for the creation of cooperatives, which had to operate under strict pricing and marketing regulations. Cooperatives in these key sectors of the economy such as groundnuts in Senegal, cocoa in Cameroon and coffee in Kenya were often established by governments as a means of organizing producers, serving as buying points for parastatal agencies, and extracting rents from producers through regulation of prices. While other types of cooperatives (e.g. thrift and credit societies) received less attention, those dealing with key products were permitted little room to manoeuvre. They were also subjected to much greater intervention by government in planning their activities and in management decisions than private traders. Producer prices were set by the government, usually at levels well below those of the world market, and only very small margins, if any, were allowed to the cooperatives for their handling of the produce. The negative impact which inappropriate policies have had, and still continue to have in a number of countries due to the slow implementation of policy reform programs, can be illustrated by examples from the region.

The cooperatives in Zambia, which were actively promoted by the government since independence as marketing and input supply agents for parastatal agencies, have failed to develop into financially viable business organizations because of the long-standing government policy, (now under revision,) of regulating producer as well as consumer prices of maize, the major agricultural product handled by the cooperatives. The provincial cooperative unions were obliged to buy maize from farmers at a price fixed by the government and, likewise, to sell the maize to millers at a fixed price. The trading margin

given to the cooperatives was negotiated with the government but was often not sufficient to cover the marketing costs even of the most efficient cooperatives. In fact, prices paid to producers were, in certain years, higher than those paid to the cooperatives for the maize collected. The difference between actual marketing costs and the trading margin was to be covered by "restitution payments" which were normally paid by government after long delays and sometimes not at all.

The now defunct National Union of Cooperatives in Niger (Union Nigérienne de Crédit et de Coopération - UNCC) provides another example of a network of cooperatives established and subsidized by government to fill an official marketing function. Each year the state established specified prices (barèmes) for the principal products, which included the price paid to producers, as well as all other costs (labor, transport, profit margins, taxes); and the cooperatives had to observe these official prices. This tended to handicap the cooperatives compared with individual private traders, who were not closely controlled and, consequently, had greater pricing flexibility. In addition, the margins established by the government did not usually take the impact of inflation into consideration. Margins established for the cotton marketing cooperatives in Senegal, for example, remained the same over a twenty-year period (1.5 CFA Francs per kilogram) while the price to producers quadrupled (although remaining well below that of the world market).

Another example of the problems resulting from a restrictive policy environment is provided by the system of cocoa marketing cooperatives in Cameroon (see Box 5). These examples show that the development of sustainable cooperatives has been restrained by the role they have been made to play in many countries as agents in a regulated input and output marketing system, and by restrictions which have affected their viability as business enterprises. Cooperatives operating in a protected market tend to

Box 4. How Marketing Monopoly Affects Efficiency

The Kenyan coffee cooperatives illustrate the effect of a marketing monopoly on the efficiency of cooperatives. Although generally successful in terms of sustainability, diversity of member services, and administration of their activities, the coffee marketing societies have in recent years tended to become increasingly inefficient. This is evidenced by decreasing rates of payments to members for coffee delivered, as well as by substantial delays in disbursement of members' payments. There are several factors explaining the reduced payment rates, including falling world market prices, but another major contributing factor appears to be high operating costs and a failure by the cooperatives to rationalize their operations in response to the lower prices.

The basic impediment to efficiency in the coffee cooperatives is the legal monopoly which the cooperatives have been given in the marketing of coffee produce by smallholders. This leaves the management of the societies with insufficient incentives to improve performance and cost-efficiency. In an effort to deal with the lower payment rates -- which have caused the emergence of a small parallel market for coffee as well as a reduction of coffee production -- government is in the process of fixing limits on the deductions which cooperatives are allowed to make from members' payments to cover costs. This amounts to an introduction of regulated marketing margins, the track record of which is discouraging when judged against the experience with other crops in Kenya, such as cotton, as well as from several other Sub-Saharan African countries.

An alternative to administrative regulations would be the introduction of a multi-channel marketing system exposing the cooperatives to competition and inducing them to become more efficient. It may be argued that this could lead to the collapse of the weaker cooperatives, disrupt services to members and expose the smallholder producers to exploitative trading practices by private entrepreneurs. Should that prove to be the case, the need for cooperatives would become obvious to coffee farmers without the societies having to be promoted, supervised, and controlled by the government.

become inefficient. In recent years, partly at the urging of the donor community, economic reform programs have been directed at improving the policy climate for the private sector, including cooperatives and other group-based businesses. Although there are significant differences among the countries included in this synthesis, the following elements are commonly found.

- The economic policy environment is in transition, generally moving from a high degree of state control to an increased level of interest in private sector business.
- Policies and legislation affecting the development and operation of private sector business are being liberalized.
- New legislation for cooperatives, economic interest groups and/or informal groups has either already

been adopted, drafted, or is currently under discussion. In some instances, assistance with the drafting of legislation has been (or is being) provided by donor organizations.

Attributes of Rural Organizations in Liberalized Markets

In spite of their weaknesses, which originate from an unfavorable policy environment in the past, as well as from internal operational shortcomings which will be analyzed in Chapter 4, rural organizations have a number of attributes that can make a positive contribution to agricultural and rural development within the framework of a liberalized, market-oriented economic system.

- They provide their members with the advantage of economies of scale. By combining their

Box 5. Cameroon's Cocoa Cooperatives

Most of these cooperatives were organized by the government as part of its network for the collection, grading and exportation of cocoa. At the apex of the system was the Office Nationale de Commercialisation des Produits de Base (ONCPB), which had almost complete control of the cocoa marketing system. ONCPB's large and cumbersome structure, however, did not allow it to make the kind of timely decisions required for successful trading on world commodity markets.

Between the producers and the ONCPB stood a bewildering complex of agencies, regulations, and local officials. Many of the managers and other key staff of the cocoa cooperatives were seconded staff of government agencies. Financing for the purchasing of the cocoa was provided by a specialized government agency, Fonds National de Developpement Rural (FONADER). The primary role of the cooperatives was to serve as purchasing agents for the ONCPB. In this type of system, the members simply became consumers of services channeled through the cooperatives.

During the period 1986-1990, the entire system began to fall apart. FONADER was closed by the government after experiencing heavy financial losses. The cooperatives, without access to FONADER financing for crop purchasing and without inputs and services, lacked resources to continue their operations.

For the cocoa cooperatives, the problems centered on the high degree of government intervention and control. Their activities were so tightly circumscribed by the government that they had almost no opportunity to take any initiative on their own. The producers came to consider them as agencies of the government. Following the breakdown of the system, a technical commission, set up to advise the government on the situation concluded that: "(1) The farmer organizations had not functioned well because of excessive government intervention, farmers not being left to run their own affairs, and not identifying their interests with those of the organizations. (2) There is historical and current evidence in Cameroon to show that when the conditions were right, farmers have been able to organize themselves to pursue their economic interest. (3) Farmer organizations are a sine qua non to agricultural development (delivery of extension and inputs to isolated farmers is both expensive and inefficient)" (Ntangsi 1990).

resources producers can obtain needed goods and services at reduced costs, and market their produce in larger volumes, giving them a stronger bargaining position in dealing with traders and processors.

- They can link small-scale producers to the national economy. By serving as means for obtaining inputs and marketing of produce for their members, the organizations can help to incorporate the smaller producers into the national economy and contribute to higher productivity and improved farmer income in the smallholder sector.

- They can contribute to rural stability. By providing an institutional permanence for self-help, these community-based organizations can extend services to members over the long term. When collaborating with development projects, they can continue project-related activities after external assistance has been concluded.

A recent report, *Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-Term Perspective Study*, (World Bank 1989) stated that "Progress [in agriculture] is more likely to be made if farmers are put in control and allowed to market freely; [and] to establish their own cooperative credit, input

supply, and marketing enterprises" The report also recommends that, "The private sector, including cooperatives, should be given a bigger role. Agricultural products should be freely marketed. Prices should reflect supply and demand to stimulate and regulate production. Private investment in production, agricultural processing, and farm input supply should be promoted, not constrained by excessive regulations and administrative controls or legislation."

Governments in many countries are now moving towards a market-oriented agricultural strategy containing the elements reflected in the preceding citations. There is, as yet, little empirical evidence of the impact of a deregulated pricing and marketing regime on the market share of the cooperatives. Indications are, however, that cooperatives, due to their tradition of operating in a regulated market within the framework of a single channel system, have difficulties in adjusting to a competitive market environment. This is the case in Zambia and Tanzania, for instance, where a partial deregulation of the maize trade has caused a significant reduction of their market share as compared to other private sector market intermediaries. This is, of course, not surprising as the cooperatives, prior to the deregulation measures, had a virtual monopoly in marketing maize.

An interesting experiment is being carried out in the Western Province of Zambia. Encouraged by the partial deregulation of agricultural marketing the Provincial Cooperative Union (PCU) has created separate small shareholding companies (wholly owned by the PCU) to handle various types of business activities (marketing, transport, etc.). The PCU has maintained only certain service functions for itself, including member promotion, training and education and financial services. The better monitoring of performance and the easier discontinuation of unprofitable activities have been mentioned as the main reasons for these arrangements.

There may be a temptation to use cooperatives as buyers of last resort when agricultural markets are deregulated. In Zambia as well as Tanzania, there are examples of cooperatives being compelled by government authorities to purchase crops in areas where other market intermediaries find it unprofitable to operate. This, of course, puts the cooperatives at a disadvantage in a competitive market. If required to provide services of this type which are not justified from a business point of view, the cooperatives need to be adequately compensated. Such an arrangement could be based on competitive bidding involving cooperatives as well as other marketing intermediaries.

The conclusion drawn here is that the ongoing dismantling of the regulated marketing and pricing systems, which have been characteristic of many countries in the region, accentuates the need as well as the potential for cooperatives and other farmer organizations. The need originates from the ability of cooperatives and farmer groups to serve as a countervailing power to other private sector enterprises and thereby to safeguard farmers against unfair trading practices. The potential, again, is created by the freedom of these member-owned organizations to run their business on a sound commercial basis without undue administrative regulations.

POLICIES AND LEGISLATION

Enabling Legislation

Although most African governments would now classify cooperatives and other similar rural organizations as part of the private sector, a number of them continue to subject cooperatives, and in some cases also non-cooperative organizations, to legal restrictions that are not placed on other types of businesses. In almost all of the countries included in this study, the legislation for cooperatives remains overly complicated and places a high degree of control in the hands of

government oversight agencies. The standard argument for this close control is the need to protect the individual members of the cooperatives from unscrupulous management. The most frequent effects, however, are constraints on business activities and the interference of government officials in the cooperatives' affairs.

Legislation regulating cooperatives and other rural group-based businesses may have either a positive or a negative impact on their development. Although both Guinea and Cameroon are in the process of enacting new laws for cooperatives, and Cameroon is also adopting new statutes for its GIEs, the text of the proposed legislation are almost as restrictive and overly-detailed as those of the former laws. Instead of simply providing a general framework for the establishment and operation of cooperatives, the proposed texts prescribe details of organizational structure and operations that are best left to the internal by-laws of each organization. Given their complexities and detail, in neither case can the laws be readily utilized by the average citizen to set up and participate in a cooperative. From the point of view of the rural people interested in organizing group-based business activities, the most preferable laws are those that enable them to acquire legal status without unnecessary formalities and conduct business activities without regulations that subject them to undue interference from government.

As shown in the Senegal experience (Box 6) a legal framework that permits producers to organize freely without complicated procedures and restrictive bureaucratic controls, tends to stimulate group activity. The absence of restrictive controls allows groups the flexibility to attempt new approaches and the opportunity for simple, single-purpose organizations to evolve, over time, into more complex economic structures, in response to member needs. On the other hand, complex laws and excessive sets of regulations serve as deterrents to the development of group-based business activities.

Conversations with farmers in the Muyinga region of Burundi revealed their aversion to compliance with the regulations governing the establishment and operation of cooperatives. They were convinced that as only the government functionaries could understand the complex regulations involved, they would be in control of the cooperative.

Many SSA countries have in recent years initiated policy reforms which aim at liberalizing agricultural markets and providing incentives for increased private sector involvement. As regards the cooperatives, however, the privatization initiatives have been slow to mature. Most countries still need to take concrete steps to reformulate their specific policies on cooperatives and other rural organizations, revise the related legislation and dismantle the extensive government-based machinery for the promotion and control of these organizations, particularly in the cooperative sector.

Policy on Cooperatives

Few countries in the region have up-to-date policies that address cooperative issues and that are in line with the current trend of market liberalization and reduction of state involvement in the agricultural marketing system. The existing policies typically provide for tightly regulated operational frameworks for the cooperatives.

They often focus on such matters as the role of the cooperatives in various sectors of the economy, the structure and activities of the cooperative movement, and the promotional and supervisory services provided by the government to the cooperative sector. In some recent efforts to reformulate the policy, as for example in Tanzania, the flexibility in the overall structure is emphasized, as is the viability of the proposed cooperative as a precondition for its registration. It is important to realize, however, that even when a cooperative policy exists, it may not include the most crucial

Box 6. Senegal: Legislation Stimulates Group Formation

As is the case in many African countries, Senegal's official "cooperatives" are in reality parastatal organizations. In 1983, this official cooperative structure was reorganized and some 4,500 restructured cooperatives were created based primarily on geographic location and principal products. The lack of either a popular or economic base for the restructured cooperatives is described as follows:

"Most of the restructured cooperatives do not engage in economic activity and exist only on paper. The cooperatives are often no more than groundnut collection points. The local and departmental unions are no more active. Authority and funds are wielded by the National Directorate of UNCAS ((Union Nationale des Coopératives Agricoles du Sénégal) and the regional unions (management of credit, groundnuts and vegetable marketing, training program)." (Gentil 1990, p. 10).

In contrast to the official cooperative structures, in which control and resources are concentrated at the top of the system, a large number of autonomous peasant organizations have come into being. These have taken on many of the economic roles that the cooperatives had been expected to fill. Although it was not the specific intention of government to stimulate the creation of a variety of autonomous rural groups, their development was made possible by the enactment, in 1984, of a law permitting and regulating the establishment of Special Economic Interest Groups (GIES). This law, which provided legal recognition to economic groups (and thereby potential access to credit) without going through excessive and time-consuming formalities and without the necessity of operating under a supervisory ministry, provided a stimulus for the development of a variety of rural organizations.

"What is new and certainly one of the major factors in the last 10 years is the emergence of peasant organizations that are truly autonomous vis-à-vis the State." (Gentil 1990, p. 22.).

To some degree, these organizations experience problems similar to those of the cooperatives. Many lack the management and business skills necessary for economic viability; some have splintered into competing groups; others, rather than having a democratic base, are tightly controlled by local leaders, and many are tied to external financing. In some areas, government agencies have established competing organizations and provided them with access to donor-financed project resources. Despite the problems, however, many of these autonomous associations have developed successful economic and social programs.

The growing importance of autonomous groups resulted in the establishment of a national coordinating structure known as the Federation of Non-Governmental Organizations of Senegal (FONGs). ("The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank, Selected Country Studies," forthcoming). The federation was created to represent the peasant organizations and serve as a means of coordinating technical and administrative support. It also serves as an information source and a provider of training for its member associations. The member organizations include some 180,000 persons and are involved in a wide variety of economic and community development activities. FONGs describes itself as "a federation of farmers created and directed by farmers who realized that they had to form a national association in order to be heard." The following statement describes the difference in motivation between state-organized associations and those initiated by the farmers themselves as seen by a FONGs representative:

This type of organisation is unusual if not unique in Africa, and is definitely one of the best ways for farmers to play an active role in the political and economic life of their country. Elsewhere in Africa, if farmer initiatives exist at all they are often limited to a particular zone or region of the country. When a national organisation exists, it is usually one that has been created on government initiative. Such organisations are, therefore, artificial and their members tend to be passive rather than active. Member enthusiasm and motivation are low, and the movement becomes the affair of selected leaders who defend government interests. Such farmer organisations are no longer working tools for their members but rather political instruments of the government.

aspects affecting cooperative development. They are often, as far as rural cooperatives are concerned, reflected in policies dealing with agricultural marketing and pricing which may be more important than the cooperative policy itself in shaping the operational environment and performance of the cooperatives. The frequently encountered government policy of providing marketing services through a regulated, single-channel marketing system based on parastatals and pseudo-cooperatives is one that has a particular impact on the business performance of cooperatives.

There is evidence from other countries in the region as well that a policy which facilitates close government involvement in the affairs of cooperatives negatively affects their development into self-reliant and sustainable organizations and that farmers respond to excessive official control by opting for other types of joint enterprises. (The case of Senegal is described in Box 6). In Tanzania, the government-controlled and party-affiliated cooperatives failed to attract the committed participation of their members. Recognizing this, Tanzania has decided recently to revise its cooperative policy and legislation.

These cases, which appear to be typical of most countries in the region, clearly indicate a need for a revision of cooperative development policies to bring them into line with the requirements of a liberalized economy and the concept of cooperatives as private business organizations. Past experience strongly demonstrates a negative correlation between the degree of government administrative control of cooperatives and the economic success and sustainability of cooperative societies.

Anglophone, Francophone Cooperative Legislation and the Role of Government Departments

In Anglophone Africa, the cooperative legislation was initially based on the

cooperative law introduced in India by the British authorities in 1904. The law gave the government a supreme supervisory and controlling role with regard to the cooperative organizations and introduced detailed rules and regulations for the structure, activities and management of the societies. Although the current cooperative legislation in the Anglophone countries in the region is of a much more recent date, it still reflects its origin by typically prescribing a tightly regulated legal framework for the cooperative societies and by giving extensive powers of intervention to the government department(s) responsible for cooperative development. Similarly, the cooperative legislation in Francophone countries was influenced by the French legislation and its extensive and detailed by-laws. Both in Francophone and Anglophone countries, the current legislation has a number of common features which stem from the objectives of government to promote a cooperative structure through which goods and services can be provided to smallholder farmers and other groups to increase productivity and incomes; to ensure that the cooperatives are well managed and capable of playing the role which they have been given within the framework of the official development strategy; and to protect the members from exploitation by unscrupulous management and other parties. The legislation thus provides for a promotional as well as a regulatory function to be carried out by the government department concerned with cooperative development.

The typical regulatory and administrative functions of government cooperative departments, as exemplified by the above mentioned draft cooperative act for Nigeria ("The Development of Cooperatives and other Rural Organizations: The Role of the World Bank, Selected Case Studies," forthcoming), include:

- Registration of cooperatives and amendments of by-laws;

Box 7. Kenya: Effects of Government Intervention

The Kenyan cooperative policy document (Kenya 1987) is an example of an interventionist policy. It contains detailed strategies for the development of the institutional structure of the movement together with elaborate guidelines for its involvement in various types of economic activities. The policy gives the Ministry of Cooperative Development (MOCD) a leading role in modeling the movement and its activities. This is exemplified by the declared ambition of the government "to review and modify the existing movement structure" (Kenya 1987, p. 6) with the view to ensuring that the structure "(i) consists of viable economic units capable of providing the services needed by members; (ii) is such as to facilitate proper integration and modernization of the national economy; (iii) exploits the economics of scale to ensure highest possible returns to members; and (iv) results in the establishment of an apex organization for each cooperative sub-sector."

This interventionist policy has tended to reduce member participation and control. Administrative regulations imposed by government have impaired the flexibility required for running of the cooperatives as business enterprises.

There are, however, some positive effects of government intervention. Technical assistance from MOCD has enabled the societies and district unions to develop new service activities for members. The management of cooperatives has improved as a result of management systems development and implementation with the assistance of MOCD because of the training programs financed by the government.

The Kenyan experience shows that government has a role to play in facilitating development of rural organizations, especially by providing training facilities. Administrative control and intervention in the management and decision-making process is, however, counterproductive to the development of self-reliant organizations.

- Approval of the disposal of the net profit of a society;
- Auditing of cooperatives and inspection of their books of accounts;
- Enquiries into the affairs of cooperatives and, depending on the outcome of such an enquiry, cancellation of the registration, removal of the management committee, and appointment of new management to run the society; and
- Settlement of disputes affecting the operations of a cooperative.

In addition, the Minister/Commissioner responsible for cooperative development has wide powers regarding the daily management of cooperatives, ranging from regulations for admittance of new members to the appointment and removal of management

committee members and staff. This can easily lead to a situation where government officials direct the management and business operations of cooperatives, with extensive official involvement in the day-to-day management of cooperatives to the extent that they have taken on the character of government institutions rather than that of member-controlled business enterprises. There is overwhelming evidence that this system of administrative control has been ineffective in transforming cooperatives into efficient business entities.

An example from Burundi goes even further by questioning the positive effects of any external party in operations of cooperatives. There seemed to be a negative correlation between the degree of government or donor "assistance" and the successful operation of cooperatives. As reported by the country director of the Konrad Adenauer Foundation, the better performing cooperatives are those located in areas where there has been only limited government and donor activity.

"The characteristic shared by the most successful cooperatives is that they were established by promoters who had close ties to the local community. In most cases, they were missionaries. An expert, however, has virtually no chance of succeeding as a cooperative facilitator. He has neither the confidence of the inhabitants nor the ability to closely follow the day-to-day operations of the cooperative." (Tewinkel 1990, Annex 1.)

The Kenyan Cooperative Societies Act (Kenya 1972) gives the Commissioner for Cooperative Development similar regulatory powers. In addition to having the exclusive rights of registration, dissolution, and compulsory amalgamation of societies, the Commissioner has powers to prescribe accounting and internal management procedures; approve budgets; monitor financial performance; audit the accounts of cooperatives; approve remuneration, salary or other payments to staff or members of a society; and approve the hiring and dismissal of graded staff.

Within the framework of the objective "advising cooperatives on better management for higher productivity and better returns to members" and "to enhance operational efficiency" (Kenya 1987, p. 31) the Kenyan Cooperative Ministry maintains a substantial cadre of staff to assist the cooperatives in management of their activities. This assistance includes the promotion of new societies; development and implementation of accounting and other management systems; conduct of staff training; and development of new activities for cooperatives.

One very important issue in the cooperative legislation is the eligibility for membership. Normally, membership is open to all individuals residing within the area of operation of a cooperative and of a certain age. In some countries, participation in certain cooperatives may be limited either to men or women, as a voluntary decision of the members themselves. Even though cooperative legislation does not intentionally

discriminate against anybody, in certain cases some groups of people may be excluded by specific conditions for membership. An example of such ruling is, that "a member must be capable of entering into legally enforceable contract" [Cooperative Societies Decree 1968, Ghana, para 34 (a)]. In some African countries this may effectively prevent women from joining a cooperative society, in cases where they are not allowed to enter into such a contract.

Although some of the countries mentioned are in the process of enacting new laws for cooperatives, the texts of the proposed legislation are almost as restrictive and overly-detailed as those of the former laws. Instead of simply providing a general framework for the establishment and operation of cooperatives, the laws prescribe details of organizational structure and operations that are best left to the internal by-laws of each organization. Given their complexities and details, the laws cannot be readily utilized by the average citizen to set up and participate in a cooperative. For example, farmers in Guinea felt that even the proposed new cooperative law contained too many restrictions, too many regulations for them to understand and follow. Instead of simplifying the law, however, the government agency responsible for cooperative development proposed publishing a manual to interpret it. Furthermore, the internal control and management systems required by the cooperative law are often too complicated especially for small societies which do not have the resources to employ trained staff. While there is no doubt that legal frameworks for the operations of cooperatives and other types of registered business enterprises are needed, these should not prescribe detailed rules for the management and operations of the organizations.

A revision of cooperative legislation is called for in most African countries as a matter of priority. The new legislation should reflect current trends towards economic liberalization and a reduction of government

control. The powers vested in government departments to direct and supervise cooperatives and other rural organizations should be critically reviewed. The overall aim should be to give autonomy to the cooperatives and to reduce the powers of the Registrar of Cooperatives to intervene into the management of cooperatives. The duties of the Registrar should be restricted to registration, arbitration and dissolution of cooperatives. The law should provide for uncomplicated registration procedures, for example, by delegation of powers of registration to local authorities.

When the law is being revised, it is essential that the views of the cooperators are taken into account. The need for a participatory approach in revision of cooperative legislation has been stressed by Hans Muenckener:

"Instead of a piecemeal amendment of the colonial cooperative legislation and attempts to import new foreign models 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". (Muenckner 1992, pp. 15-16).

The formulation of a cooperative law in Namibia provides an example of the participatory approach. The process was designed to consist of three phases. In the first phase, basic information on the cooperatives was collected by a team consisting of representatives of the cooperative movement and relevant government departments. The exercise was carried out with the assistance of the International Cooperative Alliance and the Swedish Cooperative Center. In the second phase, the same group came together in a workshop to review the issues to be addressed in the cooperative law. In the third phase, the draft law will be reviewed in a conference

with international participation before it is presented to the legislature for consideration.

Policy Implementation at Local Level

The economic and political environments in which rural organizations operate also include the regional provincial, district, and local levels of government. How, and to what extent, national policies and laws are implemented at these levels can be as important as the policies themselves. It is at these local levels that rural organizations often encounter many of the most significant constraints to their operations, mostly from interference by local officials or the "big men" who may perceive the activities of the organizations as a threat to their own authority or continued economic control.

Control by local officials or persons influential in the community tends to discourage the participation of ordinary members and motivates them to seek other ways of meeting their needs. Similar to the development of peasant associations in Senegal, farmers in the Muyinga region of Burundi began to form small, usually single-purpose and often short-term, self-help groups to obtain needed goods and services, when changes in official government policy toward farmer organizations failed to result in changes in the existing cooperatives.

In the Center-South region of Cameroon, even though many of the old cocoa cooperatives had ceased to function, local political leaders who had held positions of influence in the cooperatives attempted to block the development of other producer groups to market cocoa. Although the Ministry of Agriculture had issued a policy declaration affirming the right of free association and the right of groups to operate in all sectors of the economy, the opposition of locally powerful interests has generally prevented the groups from functioning.

Whatever the specific legislation on cooperatives and other business associations,

Box 8. Contents of Simplified Cooperative Legislation

The major issues to be included in a cooperative law are defined in an ILO publication (ILO 1988) as follows:

In the first place, the law lays down that a cooperative is a lawful organization serving a desirable end and that it is, as such, entitled to become a legal entity with the right to own property, buy and sell goods, borrow and lend money, and sue and be sued. In the second place, the law lays down what kind of organization a cooperative is, what its objectives are, who may be a member, how it is to be financed and controlled, how surpluses are to be distributed, and how, if necessary, it is to be brought to an end. In the third place, the law will probably, though not necessarily, lay down ways in which the government is prepared to help cooperatives to develop. The help may be of a very limited kind. It may simply require cooperatives, for their own good, to submit rules and amendments for official approval, and to publish certain annual reports indicating the state of their affairs.

the effectiveness of the local, regional and national systems of justice can have a significant impact on business operations. Taking another example from Burundi, the failure of the judicial system to function effectively and impartially, particularly at the regional and local levels, has had a significant impact on the business operations of the cooperatives. Although this problem is certainly not limited to Burundi, many farmer cooperatives in that country have incurred significant losses resulting from employee theft and corrupt leaders (more often than not, persons seconded to the cooperatives by government). The weak and ineffective judicial system, often subject to political favoritism and financial influence, has made it impossible for the cooperatives to recover their losses or even to prosecute the perpetrators. This lack of support from the justice system led one expatriate technician in Burundi to suggest that: "The only thing the Government must do for the cooperatives is to ensure that the legal system works smoothly" (Tewinkel 1990, p. 4). The following statement in the report of the *Review of Agricultural Cooperatives and Other Farmer Organizations in Nigeria* is an additional reference case for this purpose: "Cases of fraud and other irregularities are frequently discovered during the audit. Only a few cases have been taken to the court. The reason might be that even in the court the persons

involved in the fraud do not have to fear any grave consequences for the crime they have committed" (World Bank 1992, Annex 2, para 4.2).

Policy Environment and the Infrastructure

Closely related to the overall policy and economic environments are the problems of infrastructure that inhibit the efficient movement, storage and shipment of produce. Even when government policy may be conducive to private sector business activity, cooperatives (and other rural businesses) may be unable to benefit because of poor roads, the lack of transportation, and the absence of cold storage and processing facilities. The problems of fruit marketing cooperatives in Guinea provide examples of both policy and infrastructure constraints. Marketing policies in force since independence had required that all of the major export crops be exported through a parastatal agency established for that purpose. Over time, however, the costliness and inefficiency of that agency resulted in the complete loss of Guinea's fresh fruit export markets. Although a 1991 policy change now makes it possible (at least in theory) for the cooperatives to export directly, and a number of the fruit marketing cooperatives have sufficient production to warrant export activities, the country's deteriorated infrastructure and the lack of refrigeration

facilities at the port makes it impossible for them to do so.

It is a erroneous to believe that cooperatives and other rural organizations will prosper automatically in liberalized and competitive market conditions. The opposite is, in fact, likely to happen initially when the traditional cooperatives are exposed to open competition. Cooperatives which had been involved for a long time in non-profitable activities as agents for input distribution or produce collection may not have been able to accumulate their own capital, and would have depended on the government for working

capital. In that case, they would not have established a business relationship with financial institutions and would be at a disadvantage when trying to compete with private companies. A conducive policy and legal environment is therefore a necessary, but not sufficient, prerequisite for the evolution of viable organizations. These rural organizations also need to address their internal shortcomings in order to be able to take advantage of the new opportunities created and to be able to provide competitive services to their members. The issues of organization and management within rural organizations, with special reference to cooperatives, will be discussed in Chapter 4.

4 FUNCTIONS AND STRUCTURES OF RURAL ORGANIZATIONS

ACTIVITIES, STRUCTURES, AND MANAGEMENT OF PRIMARY SOCIETIES

As emphasized previously, rural organizations should base their activities on member needs and have an advantage in an open market, by providing goods and services at least as efficiently as their competitors. At implementation level the issues are:

- What are the activities that cooperatives are particularly capable of undertaking in the agricultural sector, and what are the factors which have contributed to the success or failure in various activity areas?
- What is the most appropriate primary cooperative structure as determined by size, membership, business volume, and diversity of activities?
- How does the pattern of activities and structure affect the management of cooperatives, and what are the measures needed to facilitate efficient management of cooperative societies?

These issues also lead to a discussion of the advantages and disadvantages of cooperatives in relation to other types of farmer groups. That aspect is, however, only briefly referred to in this section of the report. A more elaborate comparative review has already been presented in Chapter 2.

Primary Society Activities

Cooperatives are adaptable to a large variety of economic activities. Their potential

to meet the needs of their members in many different activity areas is reflected in the diversity of cooperative organizations in the SSA countries. The most prominent type of cooperatives in the region in terms of the number of societies, membership, and business volume are the agricultural service cooperatives and the savings and credit societies (credit unions). In addition there are a wide variety of other primary cooperative organizations, including housing, handicraft, consumer, small-scale industrial, and fishermen's societies.

The agricultural service cooperatives, having been the central focus of promotional programs by governments and donors alike, account for the bulk of the rural cooperatives. They are typically involved in one or several of the following activities.

- Output marketing which may include collection, grading, primary processing and bulk transport of produce, as well as administration of payments from buyers to the producer members of the cooperative.
- Supply of farm inputs to members, including bulk procurement of fertilizers and the operation of stores for resale through which members can procure farm inputs either on a cash basis or through credit.
- Provision of seasonal or medium-term credit linked to the marketing function—the produce expected to be delivered to the cooperative serving as security for the loan—and to the input supply activity so that the credit can be provided in kind.

- **Agro-processing, which normally means primary processing necessary for passing on the produce to the next link in the marketing chain. Although some primary societies are involved in the manufacturing of agro-based consumer products, such as edible oil and dairy products, they are the exception rather than the rule.**
- **Other activities depending on the needs of the members and the market situation. In some countries, agricultural cooperatives have diversified their activities by venturing into consumer goods retailing, passenger transport, and other similar activities outside the realm of agricultural services.**

Kenya is a country where the agricultural service cooperatives play a prominent role, especially in output marketing and in the provision of seasonal and medium-term credit to smallholder farmers. In 1983, according to figures contained in study of the agricultural cooperatives (Gyllstrom 1988, p. 157), cooperatives accounted for 43 percent of the total value of gross marketed production from the smallholder sector. The coffee cooperatives were the most successful in terms of market share and ability to provide services other than marketing to their members. Their experience provides an illustration of the factors which influence performance of various member service activities (see "The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank, Selected Country Studies," forthcoming, for more details).

In the area of output marketing, the cooperatives have a monopoly because all smallholder coffee farmers are obliged by law to deliver their coffee through a cooperative. This has enabled the cooperatives to reach a high level of business turnover and membership, and thereby to mobilize capital for the development of the necessary

infrastructure for marketing and other member service activities. Although the monopoly position is the basic determining factor explaining the success of coffee cooperatives, there are also others which explain the need for marketing services on a group basis. As coffee cherry is bulky in relation to clean (processed) coffee, local primary processing is necessary. Due to the high costs of establishing processing facilities, it makes economic sense for smallholder farmers to organize this activity collectively. The quality, and thereby the producer price, of coffee is significantly dependent on the adequacy of the processing and handling facilities. This is a further factor which justifies the organization of primary processing and marketing on a cooperative basis.

The marketing monopoly provides the societies with a reasonable guarantee that producers will deliver the coffee crop through their society, and this has facilitated the organization of input supply procurement and distribution through the cooperatives. Having this security, the cooperatives have been able to provide inputs on credit to farmers without incurring significant losses due to credit recovery problems.

For the same reasons, the cooperatives have been able to develop a seasonal and medium-term credit scheme which is characterized by high repayment rates and which to a large extent is financed from members' savings. Payments received for coffee delivered are paid through members' savings accounts with the cooperatives. This facilitates timely recovery of loans, as well as the mobilization of capital for lending.

This example from the Kenya coffee cooperatives illustrates the advantages of organizing the services of a farmers' cooperatives as an integrated package where crop marketing forms the basis for the development of other services as well. There is, however, a basic shortcoming associated with this approach. The marketing monopoly

on which it is based does not normally provide the cooperatives with incentives to maintain a high degree of efficiency because they are not compelled to work in competition with others. This is also exemplified by the experience from the Kenyan coffee cooperatives. Over time, they have become increasingly cost inefficient, and the rate of payment to members has declined.

Experience from other African countries supports the observation that an integrated service package of marketing and primary processing, input supply, and savings and credit facilities provides the best basis for the success of an agricultural service cooperative. However, in spite of the obvious benefits that members can realize by being able to obtain the services needed from one source with their production as security for inputs and credit, there are numerous instances of failure. These are often explained by, first, government price controls which induce members to sell their produce on the parallel market and thereby paralyze the integrated systems; second, by poor management performance and inefficiency in the cooperatives themselves which result in unfavorable deals for the members; and third, by the lack of sufficient information and education to convince members of the long-term benefits of the integrated service arrangements and the conditions—in terms of loyalty and participation—for their sustainability. This implies that the development of marketing, input supply and savings and credit activities on an integrated basis requires the abolition of distorting price and marketing controls, strengthening of the management of the cooperatives through management systems development and training, and implementation of a member education program.

The Niger case supports the hypothesis that newly-formed organizations conducting a single viable business are more likely to succeed than organizations with more complex objectives, and are also more likely to be able to undertake additional activities successfully.

This would imply that single-purpose cooperatives are more appropriate in the early stages of development. When activities are seasonal, however, the Niger experience indicates that it is important to develop other year-round activities to maintain the interest and participation of the members.

Regarding the selection of economic activities to be undertaken by cooperatives, it was evident in the Niger case that successful economic activities in one cooperative had a positive influence on other groups when organizing themselves and developing their own business activities. All of the expansion beyond the fourteen original cooperatives was the result of such a multiplier effect. This is an important consideration for project design and highlights the tension between the need to obtain quick results and the progressive building up of experience and development of the human resources required for the long-term growth of the cooperatives and groups (see Chapter 2).

Other activities are often of peripheral significance in the African agricultural service cooperatives. There are, however, examples of cooperatives which have successfully diversified into activities not directly related to agriculture. This is the case in Niger and Zambia, for instance, where agricultural cooperatives have gone into consumer goods retailing in rural villages which often lack a substantial consumer outlet. In addition to providing members with a needed service, consumer shops and other similar activities offset the seasonality of activities directly related to agriculture and enable the societies to operate throughout the year.

Rural organizations can also play a role in easing the work load of women. This is exemplified by the initiative of a significant number of primary societies in Zambia which have taken up grain milling as one of their activities. This has relieved women of the arduous work of traditional maize pounding, encouraged their participation in the existing cooperatives, and resulted in the cooperatives

becoming more responsive to activities which serve the needs of women. The example from Equatorial Guinea (see Box 12), however, supports the hypothesis that women seem to be more active in cooperatives of their own.

Whether the cooperatives should also involve themselves in general community development activities, such as construction and maintenance of schools and health clinics, is a debatable issue. There are, in Kenya, examples of donor-initiated "integrated village development cooperatives" with a strong emphasis on non-business activities. The experience gained from these cooperatives is discouraging in that they have proved to be financially unsustainable after the withdrawal of donor support. The lesson to be learned from this experience is that a cooperative, in order to involve itself in social, community development activities, must first have a sound financial base for its business activities. When this is the case, cooperatives can contribute part of their surplus to community development.

The experience with "mobisquads" in Ghana is slightly different, with fairly positive results (World Bank Report on "Review of Cooperatives and Other Rural Organizations in Ghana," under preparation). "Mobisquads" were initially established for community activities and many of them later embarked on some economic activities and formed a cooperative society. It is not well-documented as to what extent they continued community activities after having become a cooperative, but there are indications that this was the case, at least to some extent.

The lessons from the experiences enumerated here can be summarized as follows.

- Agricultural service cooperatives which provide an integrated package of marketing, input supply and financial services which comprehensively meet the basic production needs of farmers are

generally more sustainable and dynamic than small single-purpose societies.

- Development of multi-purpose rural organizations requires management capabilities which are not readily available in rural areas. Capacity-building measures are therefore essential and should form part of projects involving cooperatives and other rural organizations.
- The evolution of cooperatives and other rural organizations into multi-functional units is a gradual process. Newly-formed groups should initially focus on a limited range of activities and avoid entering into a complex activity pattern.

Size of Primary Societies

An issue long debated in many countries in the region is whether the size of a primary organization as reflected in its membership and business turnover is a factor critically affecting its efficiency and sustainability. The optimum size is determined by a variety of factors, including the type of activities carried out, the need for capital for operations as well as investments, and the socio-cultural environment in which the organizations operate. The main argument often advanced in favor of relatively small units is that they facilitate active member participation and control, are easy to manage, and being based on small local communities, show a high degree of internal cohesiveness and member loyalty.

Although these factors may be significant, there is overwhelming evidence from many countries in the region, particularly with regard to the cooperatives, that organizations with a high business turnover have a better potential for success than their smaller counterparts. The crucial factor is the business volume rather than the number of members, but as cooperatives are

typically composed of smallholder farmers, high business volume is synonymous with high membership. The following examples from SSA countries support the conclusion that comparatively large cooperatives are better placed than small societies to develop effective member services and sustain their operations.

The coffee marketing and supply cooperatives in Kenya have a significantly higher sales turnover than other types of agricultural service societies. The average turnover of primary coffee societies was K.sh. 17 million (US\$ 0.6 million) in 1989 whereas other types of agricultural cooperatives had an average annual turnover of around K.sh. 1 million. This is, at least partly, due to the fact that small farmers are required to market their coffee through cooperatives. Another factor is that primary processing is an essential part of coffee marketing and requires significant investments which very small units may not be able to afford.

Within the group of coffee societies, the large cooperatives are normally able to make a higher rate of payment to their members for coffee delivered than the small societies. The positive influence of the larger size can be explained by the following factors.

- Large societies have, relative to their business turnover, lower overheads and are therefore able to return a higher share of their gross income to members in the form of crop payments and other benefits.
- The high business volume of coffee societies has enabled them to generate funds for investments from internal sources or to secure loans from financing institutions. They have therefore been able to develop an adequate physical infrastructure for their operations.
- With an adequate financial base in a high volume of coffee marketing,

the societies have been able to diversify into providing other services needed by their members.

- The management of the coffee cooperatives is generally better than that of most other types of societies because, with the resources available to them, they have been in a position to employ and retain qualified staff. The large size and the diversity of activities have, however, also contributed to an increased complexity of operations and higher demands for management capability—demands which the coffee cooperatives have not always been able to meet in spite of their strong resource base.

The largest coffee cooperatives in Kenya have over 20,000 members each. In these societies, it is obvious that the sense of ownership and control which is present in smaller cooperatives tends to be diluted. In response to this disadvantage originating from their large size, many coffee cooperatives have organized local sub-committees with certain limited decision-making powers pertaining to the locally-based activities of the cooperative.

A typical example of a strategy to create a structure of small village-based primary societies is available from Tanzania. The Cooperative Act of 1982, which has since been revised, gave the cooperatives a role that centered on the building of socialism by bringing about socialist development both in rural and urban areas (cited in an undated World Bank document, "Tanzanian Cooperatives and Agricultural Marketing"). Reflecting this policy, directives were issued by government in 1985 to the effect that a cooperative should be formed in each village in order to make the cooperative structure congruent with the structure of the ruling party and the local government administration. The effects of this decision are summarized in an internal World Bank document stating that

a village is normally too small a unit to support a viable cooperative. As shown in a recent IFAD/FAO study, approximately half of the societies in operation in 1988/89 were at that time unable to meet their operating expenses due to an insufficient volume of business. As observed in the document, the fragmentation of the cooperatives had other negative consequences including increased marketing costs per unit of produce handled, and, consequently, low payments to members, as well as the inability of the small societies to generate capital for the development of their activities.

Realizing the weaknesses inherent in the village-based cooperatives, the government reformulated its policy and revised the cooperative legislation in 1991. This allowed for a restructuring of the cooperatives with the view to ensuring sufficient business volume and viability of operations.

These examples, and others available from the region, lead to the overall conclusion that a cooperative must be of a sufficient size to be viable and able to serve members efficiently. Although there are isolated instances of small cooperatives working efficiently, other types of farmer organizations may be more appropriate for small groups and for activities which are seasonal. In several countries, informal farmer organizations have sprung up in response to the need to organize small-scale and seasonal agricultural service activities on a less formal basis than through a cooperative. Such examples are available from Zimbabwe, where farmers form groups—often on an ad hoc basis—to arrange for the joint procurement of inputs or for the marketing of produce, as well as from Kenya, where producers operate groups for the joint transport of milk to processing plants. Having to fulfill no formal requirements, such as keeping elaborate books of accounts and other records, such groups can normally perform their functions without administrative overheads and thereby be more efficient than the registered cooperatives.

Management of Primary Organizations

If rural organizations, as suggested here, should carry out several activities and operate with a comparatively high business volume in order to be commercially viable, they need to have appropriate management systems and trained staff. In addition, the members, especially those elected to leadership positions, need to have a clear understanding of the activities of their cooperative. The three elements which need to be included in programs to improve the management performance of such organizations, with particular reference to cooperatives, are:

- Development and implementation of accounting, recording, and other management systems which contribute to efficient internal control and which provide data necessary for the planning, execution, and monitoring of business activities.
- Design and implementation of job-oriented staff training programs on the basis of the management systems devised for the cooperatives. Experience available from a number of cooperative development projects clearly shows that a training program directly linked to standardized management and operational systems yields better results than general management training courses.
- Design and execution of a member training and education program which should include the training of management committee members, as well as general member education. This is an element of the management development process which often is given too little attention in cooperative development projects. If member training and education is neglected, member participation tends to suffer and the

elected leaders of the cooperatives become ill-equipped to run the affairs of their societies in a business-like manner.

Member Education

The integrated approach to cooperative development through management systems design, staff training, and member education can be exemplified by the experience gained under the Kenyan/Nordic Cooperative Development Program (KNCDP). When the Program was initiated in the late 1960s, it was soon discovered that the lack of appropriate management systems was a major impediment to the development of the cooperatives. The poor standard of accounting and recording had resulted in inadequate internal control with the result that the cooperatives had suffered financial losses through mismanagement and misappropriation of funds. Efforts to address this problem through intensified staff training programs were not fully productive because there were many different accounting and recording systems in the cooperative movement. This meant that the training courses, often conducted at the national level, could not be made sufficiently job-oriented. Instead of developing specific skills directly applicable to the day-to-day operations of the societies, the courses became too general, dealing, for instance, with the general principles of accounting rather than with the techniques of a specific standardized accounting system maintained by all primary societies.

During a period of several years, a considerable part of the resources under KNCDP were allocated for the development of standardized management systems which covered all major activities of the cooperative movement. They included systems for budgeting, accounting and financial management; recording of transactions between members and their societies (MT systems); and management and control systems for activities such as savings, loans, merchandizing, and transport. These systems,

which were comprehensively documented in manuals made available to all societies, formed the basis for the design of a comprehensive national training program for cooperative society staff and committee members, as well as for promotional staff of the Ministry of Cooperative Development. This approach, which also included technical support for the field implementation of the standardized management systems, resulted in a significant improvement of the management of the primary cooperatives from an administrative point of view (including better control of cash and other assets, and more accurate recording of member transactions).

However, it was not equally successful in introducing better business management. As noted in the 1991 review of KNCDP, "little progress has been made in moving from the standardized procedures to their effective use for management purposes and in decision-making" (DANIDA 1986, p.55). This can to some extent be attributed to the fact that the cooperatives—many of which are operating in a protected, single-channel marketing environment like the coffee cooperative—do not have incentives to develop into efficient and competitive business enterprises. But there are other important reasons as well which relate to the fact that programs for committee member training and general member education have not been sufficiently effective.

Committee member training is a key factor in ensuring that implementation of management systems and training of staff are reflected in better business management of the cooperatives. The failure to utilize the existing systems for business management purposes and for decision-making in Kenya, originates largely from an insufficient understanding on the part of committee members of their role as decision-makers, of the information which should be made available to them, and of the need to run a cooperative as a business enterprise. This leads to the conclusion that effective management development of primary societies cannot be achieved unless the

management skills of the committee members are upgraded through training programs which make them aware of their role as decision-makers and through the availability of management information required to enable them to play that role. There must be a demand from the elected representatives for adequate management information.

Even more important is that there must be a demand from the general membership for information which enables them to monitor and direct the development of their society. As has been noted in earlier sections of this document, member participation in the affairs of the cooperatives is often deficient because they do not perceive the traditional type of state-controlled societies as belonging to them. But the low level of participation can also often be attributed to the lack of understanding of the activities carried out by the cooperative and of the rights and obligations of membership. Members do not have the basic knowledge required to enable them to ensure that their cooperative is efficiently managed, and thus they take little initiative in improving the operations of the group.

Consequently, members with more business experience are likely to take a leading role in the operations of their organization. This tends to expose the cooperative societies to mismanagement and corrupt practices, which further erodes the commitment by members to their cooperative. Member education is therefore a crucial element of any program for management development in primary societies. Member education should aim at disseminating, apart from general cooperative knowledge, information on the development of the various activities of the society and on the rights and mechanisms for member control and intervention in the decision-making process.

In designing member education programs, it is important to determine the level of formal education of the membership. In societies with illiterate members, as is the

case in most rural cooperatives in SSA it is necessary to include basic literacy and numeracy training in the program to enable members to understand the basic information made available to them on the activities and performance of the cooperative. This type of member education has not been given the attention it deserves. However, in instances in which literacy and numeracy training has been included as a prominent part of the member education activities, as in the NCBA/CLUSA project in Niger, it has greatly facilitated member participation in decision-making.

Increasing the ability of members to understand and participate in the affairs of their organizations is of particular relevance to the objective of minimizing the need for government intervention in the management of cooperatives. The reason often given for state control of cooperatives is the perceived inability of illiterate and uninformed members to manage their own cooperatives. State intervention, it is argued, is necessary to ensure that societies are well managed and that they are not exploited by dishonest leaders, staff, or trading partners. As experience has shown, this approach has tended to alienate the members from the cooperatives. Furthermore, it has not proved to be an effective deterrent against mismanagement and misappropriation of members' funds. The most effective way to protect the interests of members is to provide them with the knowledge needed to monitor and steer the activities of their societies. Member education thus becomes increasingly important and will, in time, make it possible to reduce government intervention as the associations evolve into genuine member-controlled organizations.

Cooperatives and other rural organizations can also play a useful role in agricultural extension through their education programs. In Kenya, for instance, it is common practice that extension officers of the Ministry of Agriculture participate in member education events which have become important fora for the dissemination of

agronomic knowledge to smallholder farmers. Having frequent contacts with cooperatives through member meetings and discussions with elected leaders, agricultural extension officers are often called upon to give advice on issues pertaining to the management of cooperative societies. Typically, however, agricultural extension staff have insufficient knowledge of cooperatives and are ill-equipped to provide members with advice on business matters. Considering that the agricultural extension service could be instrumental in supporting initiatives by farmers to organize themselves into cooperatives or other types of groups, it may be appropriate to provide extension officers with training in the basics of group formation and management.

NON-GOVERNMENTAL SUPPORT STRUCTURES

Secondary and National Level Structures

The agricultural cooperative movement in most SSA countries is organized in a three- or four-tier structure. The locally-based primary societies, which normally cover a few villages, have joined together to form district, provincial, or regional cooperative unions to serve their needs for centralized services in activity areas such as bulk procurement and supply of farm inputs, crop marketing and transport, administration of savings and loan programs, training, and provision of accounting and other management services. In some countries, for instance in Ghana and Zambia, there are two layers of cooperative unions, i.e. district unions and regional unions.

At the national level, there are typically a number of tertiary cooperative organizations which draw their membership from the secondary unions and also, in some cases, from the primary societies. Examples of such organizations are cooperative banks which serve as the central financing institutions for the cooperative movement, crop-based national cooperatives which handle processing

and marketing, and apex federations which have as one of their central objectives to act as spokesmen of the cooperatives and safeguard their interests in relation to government authorities and other organizations.

The Kenyan cooperative movement provides an illustration of a relatively well-developed set-up of national cooperative organizations. In addition to the apex cooperative—the Kenya National Federation of Cooperatives—which comprises all types of cooperatives and which is the spokesperson of the movement, as well as suppliers of printing, auditing and training services, there are ten specialized nation-wide cooperative organizations. The most important are: Kenya Planter's Cooperative Union which handles the processing of coffee; Kenya Cooperative Creameries which processes milk from cooperatives as well as from individual producers; Kenya Grain Growers Cooperative Union which is a major importer and distributor of fertilizers; Kenya Union of Savings and Credit Cooperatives which extends training and accounting services to the savings and credit cooperatives; Cooperative Insurance Services which handles a substantial part of the insurance requirements of the cooperatives; and the Cooperative Bank of Kenya which is the central financial institution of the movement and one of the largest banks in the country. It should be borne in mind, however, that the government has played a key role in the establishment of most of these organizations and still has a considerable influence in their operations.

The hierarchical set-up of primary, secondary, and tertiary cooperatives which exists in many SSA countries, as well as in industrialized countries with a strong cooperative movement, is intended to meet the needs of the primaries for volume purchasing, marketing, processing, training, and so forth. For the local cooperatives, the unions and federations have much the same purpose that the primary cooperatives have for their individual members. They enable the

cooperatives to obtain goods and services at better terms than they can by acting alone. The apex cooperative can also provide a voice for the local cooperatives in dealing with agencies of the government.

There are many examples in the region of secondary cooperatives which play an important role in the provision of relevant and effective services to their affiliates. On the other hand, there are also many instances whereby governments—with the intent of channeling assistance to local cooperatives—have created hierarchies of regional unions and national federations as part of the state-established and state-supported cooperative structures. Frequently, the primary cooperatives have been required to cede a portion of their turnover or profit margin to these secondary or tertiary bodies, but have received little or no benefit in return. In several countries, namely Ghana, Nigeria, and Zambia, governments have attempted to create a hierarchical cooperative structure congruent with the central and local government set-up, which is not justified from a commercial and service point of view and which is too expensive for the primary societies to maintain. Consequently, as is the case in Ghana, the secondary, tertiary and national cooperatives have become dormant or have continued to operate only when being financed from government or donor sources.

Planners of projects with a cooperative component should be aware of the danger of creating multi-layered cooperative structures which, when project financing is terminated, cannot be sustained by their commercial operations and which therefore require continuous contributions from their affiliates. It is apparent, however, that efficiently operating regional unions and national federations can play a useful role in the provision of commercial and management support services to the primaries. When, as advocated in this report, the state-controlled cooperative support structures are dismantled, the need for movement-based support organizations will increase. In cases where

the financial resources of the cooperative movement are limited, donors could be instrumental in speeding up the process of reducing government involvement and control of cooperatives by supporting the transfer of functions earlier vested in government ministries and departments to secondary cooperatives or other types of autonomous service and promotional organizations.

Types and Functions of Secondary Cooperatives: Examples from Ghana, Zambia, and Kenya

The most common type of secondary cooperatives in the agricultural sector are the unions which typically operate within the administrative boundaries of a district, a province, a region or both. The relevance and effectiveness of the services which they provide to their affiliated primary society vary greatly from country to country as can be seen from a brief description of the situation in Ghana, Zambia, and Kenya.

Ghana has, on paper but not in reality, an elaborate structure of secondary cooperatives consisting of district unions as well as central unions at the regional level. All major types of cooperatives have their own separate district and central unions, resulting in an excessive proliferation of secondary cooperative organizations. Their number is out of proportion to the membership base of primary societies. Consequently, practically all unions have an insignificant business turnover and hardly any capability to provide services to their affiliates. The large majority of the unions have over time become dormant and those that continue to operate are—with a few exceptions—irrelevant to the needs of the primary cooperatives. The double set-up of regional unions in Ghana and the existence of several unions in each district and province, is an example of a structure created through government initiative in an effort to shape the cooperative movement so that its structure conforms with that of the government administration. The unions were formed

without consideration to their financial viability and the cost-efficiency of their services. An elaborate secondary cooperative structure of the type which was created in Ghana inevitably leads to high overhead costs, high costs of goods and services provided to primary societies and their members, and poor competitiveness. Such unions are ill-equipped to survive in the competitive market which is emerging in Ghana and many other African countries when agricultural markets are liberalized.

In Zambia, the cooperative unions were initially formed at the provincial level and therefore cover large geographical areas. They are consequently strong in terms of business turnover, but because of government regulations of their business margins, not strong in terms of profitability and capital accumulation. Nevertheless, they have been able to extend a useful range of services to the primary societies, consisting of crop marketing, bulk supply of farm inputs and consumer goods, production credit, and training. A characteristic feature of the union-primary society relationship in Zambia is that the primaries are financially controlled by the unions and that most societies in reality are mere appendages of the unions. This has proved to be an impediment to the development of strong local cooperatives.

The situation was further disturbed by the government's decision to have another layer of unions created in each district. This decision has been implemented starting in 1989, despite calculations showing that majority of such unions had no potential for viable operations. At the same time, the economic base of many provincial cooperative unions was taken away when their activities were split among some ten new district unions.

The cooperative unions operating in the coffee areas in Kenya provide an example of a relatively efficient secondary cooperative structure through which the primary societies

and their members are given a comprehensive range of support services. They include:

- Savings and credit facilities which are administered on behalf of the primary societies through union banking and credit sections
- 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 coffee unions maintain the books of accounts of their affiliates and assist them in the management and development of their activities.
- Staff training and member education. The unions conduct local training of primary society staff and management committee members. They also organize member education events.

In addition, several unions have established medium- or large-scale agro-processing plants with a view to providing their members with improved market outlets for produce other than coffee, that is milk and maize.

Two observations are especially relevant when assessing the performance and service capability of the coffee unions. First, the stronger unions have acquired a competence which would enable them to assume the promotional functions which presently are being carried out by the Ministry of Cooperative Development in the primary societies in the coffee areas. Second, the unions do not charge a general commission—as is the case in many other SSA countries—to cover their overheads, but sell goods and services at cost plus a profit margin. This creates a situation of transparency whereby the primary societies

can monitor the costs of goods and services received, and—if the unions are not competitive—can make alternative arrangements.

National Apex Organizations

Practically all countries in the region have a national cooperative apex body formed in most cases by government or through support from donor agencies with the twin objectives of being a spokesperson of the cooperative movement and providing promotional and commercial services needed by the cooperatives. In some countries, other types of rural organizations have established apex bodies at the national level, often as a means of coordinating technical and administrative support (see Box 6 for the experience in Senegal). The experience of these apex bodies, particularly in the cooperative sector, has largely been disappointing, both as a spokesperson for the cooperative movement and as suppliers of commercial services. They have not been able to exercise a decisive influence on the development of the cooperative sector by making their impact felt on matters relating to cooperative policy or the conditions under which cooperatives have been operating.

The failure of the apex cooperatives in playing their spokesperson's role effectively can be attributed to several factors. The political and economic system which, during the first decades after independence, emphasized the leading role of the state, was centrally directed and did not facilitate an open discussion of policy issues. The cooperative movement was made an integral part of a ruling political party with the consequent demand that the cooperatives abide by the decision of the party in power. In Tanzania and Zambia, for instance, the apex bodies, the Cooperative Union of Tanganyika and the Zambia Cooperative Federation, were among the mass organizations constituting the ruling party in their respective countries. Cooperative policy and legislation concentrate the decision-making powers on all important

cooperative development issues in the government department or ministry responsible for cooperatives. And finally, the grassroots level of the cooperative movement did not give adequate support to national-level apex bodies, which rendered the apex bodies unable to mobilize sufficient funds internally within the movement for development of their competence to act as effective spokespersons. This lack of financial support from the membership can be attributed to their inability or failure to address issues relevant to the operations of the cooperatives.

Several apex cooperative federations have diversified their operations into commercial activities not related to their spokesperson's role with the objective of providing "visible" services to their members, as well as mobilizing funds for financing their non income-generating activities. The Kenya National Federation of Cooperatives, for instance, attempted in the 1970s to establish itself as an importer and wholesale supplier of fertilizers—this activity was discontinued due to large financial losses. Other commercial activities, such as printing of stationery for the cooperative movement, have been equally unrewarding from a financial point of view.

The Kenyan experience, as well as similar examples from other SSA countries, confirms the earlier statement that an apex federation with the dual objective of being a spokesperson as well as a supplier of commercial services is unlikely to succeed. The diversity of operations often transcends the management capacity of the apex bodies, creates an unwieldy organizational and operational structure, and results in inefficient operations and poor competitiveness. To the extent that centralized commercial services are needed by the lower-level cooperatives and have the potential of being organized through a nation-wide cooperative, they are perhaps best provided through specialized cooperatives. Examples of such cooperatives are the Kenya Cooperative Creameries which specializes in milk processing and the Kenya Planters Cooperative Union which handles

coffee processing and a number of other commercial services in the coffee sub-sector. Although these organizations are not devoid of operational weaknesses, they have clearly performed better than the multi-purpose cooperative apex federations in Kenya and elsewhere.

The issues which arise from the preceding text are, whether there is a justification for national apex federations; if so, what type of functions should they be promoted to fulfill, and whether the apex federations can play a role in the implementation of projects with a cooperative component.

As has been mentioned, the freedom of the apex federations to carry out their role as spokespersons of the cooperatives and their possibilities of influencing cooperative policy have hitherto been constrained in most countries by the centralized political structure and by the regulatory role of the state in the cooperative sector. The ongoing process of political and economic liberalization is likely to remove these constraints and provide the apex federations with the possibility of functioning in much the same way as their counterpart organizations in the industrialized countries. It can also be argued that the cooperatives need an articulate and competent spokesperson to protect their interests in the design and implementation of policy and institutional reform programs.

To governments and donors alike, apex federations and other national and secondary cooperatives may appear to be an attractive alternative to parastatals and state-owned enterprises and a convenient instrument for the privatization of such enterprises. In Zambia, for instance, the major parastatal in the agricultural sector, NAMBOARD, with responsibility for grain marketing, processing, and farm input supply, was transferred by the government to the Zambia Cooperative Federation (ZCF) and its affiliates. NAMBOARD has a history of continuing financial losses and operational

problems, partly due to its internal management problems but mainly because of government regulations which made its operations unprofitable. Whether the Federation, given the same trading conditions as NAMBOARD in the past, will be able to operate profitably must be regarded as highly uncertain. A diagnostic review of the Zambian cooperative movement undertaken in early 1991 by Coopers & Lybrand confirmed that at least in the short term ZCF has still a major role to play as a cooperative apex organization in assisting and advising PCUs and DCUs to enable them to take full advantage of the new opportunities afforded by market liberalization and other deregulation and, in turn, to pass the benefits of their experience on to primary cooperatives. The overall conclusion, however, is that the cooperatives, within the framework of privatization programs, should not be required to take over unprofitable enterprises nor should they be loaded with responsibilities for which they lack the financial and managerial capacity.

The FONGS in Senegal is an interesting experiment with an apex body of another type of rural organization. It is organized in a very informal way with a simple office as a contact point but without full-time high level staff. The head of the organization will be available when called upon, and expenses will be paid for services rendered (for more details see Box 6.) Cooperative movements with limited resources could consider similar arrangements, at least as an initial step towards a full-fledged cooperative apex body.

The core function of a national apex federation should be to represent its members in policy formulation and to devise strategies and programs for the development of cooperative activities. For that purpose, the federations need to develop a cooperative research and planning capability. Other activities, not related to the representative function of the apexes, should be regarded as peripheral, with the possible exception of overall cooperative publicity and promotional

activities. Trading and other commercial activities should preferably be organized through specialized cooperatives or companies.

In some cases, the apex federations have a role to play in donor-supported projects with a cooperative component. They have been successfully involved in project identification and design because of their intimate knowledge about the needs of their member cooperatives and their ability to participate in project implementation. A good example of this type of collaboration is the Uganda Cooperative Alliance and the Swedish Cooperative Center (SCC) which have jointly planned and implemented technical assistance projects since the mid-1980s. At present, however, the apexes in many countries lack the professional capability to monitor cooperative development, formulate cooperative development strategies, and design projects. These are activity areas which may be considered for technical assistance by donors.

Other Support Organizations

Because of the poor track record of the traditional apex federations, as well as that of government departments in the promotion of cooperative development, alternative institutional models for support to primary societies have been developed in some countries in the region.

Rwanda provides an example of a country where a major part of the promotional functions have successfully been transferred from the government to an autonomous cooperative development institution. Throughout the 1960s and 1970s, the government had practiced a policy promoting cooperatives as a means of organizing farmers for the marketing of cash crops, particularly coffee. The government's cooperative department was responsible for supervising and auditing the cooperatives.

Responding to a request from the cooperative department, donor agencies provided assistance to establish a national-level cooperative training center. The center, known as "chez nous" locally, was established as an autonomous institution and took over most of the cooperative department's training and technical assistance responsibilities. As a result of the transfer of responsibilities, it established a technical support unit that works in close coordination with its training program. Technical assistance teams provide on-the-job training to cooperative managers and board members, provide advice on business activities, and assist in the establishment of new cooperatives. Since it began its operations in the early 1980s, Rwanda's cooperatives have undergone considerable change. Many of those dependent on outside financing have closed their doors, while a number of new, stronger, and more viable cooperatives and informal groups have come into existence. For the most part, the government has continued its policy of encouraging and promoting the development of cooperatives, but has left the major share of responsibility to and the cooperatives themselves.

A similar cooperative training and development institution was formed in Kenya in 1992. Known as the National Cooperative Education and Training Organization (NACETO), it is designed to take over a major portion of the training programs in the cooperative sector. Operating under a Board of Trustees appointed by the cooperatives with a Secretariat as its implementing body, the cooperatives would organize decentralized training programs. It would also, although the decision to that effect is still pending, provide the local cooperatives with technical assistance much in the same way as the center in Rwanda.

As mentioned earlier in this report, a World Bank-sponsored study of cooperatives and other farmers' organizations recommended the establishment of a Cooperative Development and Education

Center in Ghana (see Box 9) with an autonomous institutional status and with objectives congruent with those of the Rwandan Center and NACETO in Kenya.

The establishment of cooperative training and development institutions of the type referred to here requires a change of government policy and the role of the cooperative departments or ministries. Furthermore, it is necessary to develop a feasible model for financing of the autonomous institutions. In the case of Rwanda, the major part of the financing has

initially come from donor sources. Now the training activities are almost fully self-financed, but some donor support is provided for the research unit and for cooperative development programs. The long-term objective should, however, be to make these institutions sustainable through contributions from the cooperative movement. Although technical and financial assistance may initially have to play a prominent part in the establishment of autonomous training and development organizations, a plan for ultimate self-financing has to be built into the design of a donor-supported development program.

Box 9. Extract from "Review of Cooperatives and Other Rural Organizations in Ghana"

The Review, (World Bank Report on "Review of Cooperatives and Other Rural Organizations in Ghana," under preparation) recommended the transfer of the promotional and development functions of the Cooperative Department to the cooperative movement. For that purpose, the review suggested the establishment of a Cooperative Development and Education Center having as its main activities management systems and business development and training and education for cooperatives. It was recommended to consist of four units.

- The Cooperative Systems Development Unit which would design, monitor and evaluate management and service systems for the cooperatives. This would include accounting, recording and business management systems, as well as procedures for provision of marketing, input supply, and seasonal credit services to members. In the area of output marketing, for instance, the unit would research the potential for cooperative involvement, design guidelines for how the marketing operations are to be organized, and develop recording and internal control systems for the marketing activity.
- The Cooperative Development and Education Unit which would support implementation of the systems through training and education, and through advisory assistance to the primary societies. This would be done by:
 - a field unit of District Cooperative Development and Education Offices who would work directly with the primary societies as business development advisors and educators;
 - the Cooperative College which would provide specialized business and job-oriented training for managerial staff of cooperatives. A correspondence study unit would be established under the College to develop and conduct courses for cooperative staff and management committee members.
- The Public relations Unit which would keep the public informed about cooperative development through the mass media.
- The Personnel Policy Unit which would develop policies and guidelines for recruiting, developing and motivating staff.

The Center was recommended to be established as an autonomous body within the cooperative movement.

The experience available from Kenya demonstrates the willingness and ability of the cooperatives to finance a major part of their training costs. In the decentralized training program which is presently being carried out under the auspices of the cooperative ministry, and which is planned to be transferred to the new institution, cooperatives already contribute approximately half of the costs. The cooperative movement has also made an initial commitment to finance the investment costs related to the establishment of NATECO and to carry its operating expenses through course fees and annual contributions. Supplementary investment funds, as well as technical assistance from donor sources are, however, expected to be needed, especially if the activities of the

organization include cooperative development consultancy in addition to training and education.

There is, in conclusion, a need to seek alternatives to the existing arrangements for cooperative promotion and development in order to achieve the objective of reduced government involvement and control. The traditional cooperative set-up may not provide an appropriate institutional basis for cooperative training and development. The apex federations, although presently having training and development among their objectives, should preferably concentrate on their representative function and may not be the best institutional option for training and development activities.

5 EFFECTIVE DONOR ASSISTANCE TO RURAL ORGANIZATIONS

Donor agencies have provided substantial technical and financial resources for the development of cooperatives and other farmer organizations in Sub-Saharan Africa. In the case of the World Bank, some figures were quoted in Chapter 1. Another example could be taken from the Nordic countries which, since the late 1960s have provided extensive technical assistance to Kenya, including over 600 man-years of personnel services. Although there are examples of external assistance having contributed significantly to the development of viable cooperatives, it is evident that the results in general have fallen short of expectations. The disappointing results of many donor-funded projects which attempted to strengthen rural organizations, and especially cooperatives, can in great part be attributed to the policy environment in which they have operated, the institutional channels used for their implementation and the composition and orientation of support activities.

Three key issues are found repeatedly throughout the region. First, the national policy and regulations framework determines whether the proposed assistance can possibly succeed, even if correctly implemented. It is clear from the experience described in Chapter 3 that the design and implementation of development projects with a rural organizations component must be based on a critical analysis of the policy environment. Before entering into support programs, donors should ensure that the overall development policies and the legislation, as well as the agricultural marketing and pricing policies allow rural organizations to operate as viable business enterprises and in accordance with internationally accepted principles. Advising

government on the design and implementation of such policies should form an essential part of donor assistance to rural organizations.

The second important issue is how to channel development aid to cooperatives and other farmer organizations. Experience in many African countries has shown that resources channeled through a government department of cooperatives have been largely ineffective. Rather than strengthening the cooperatives, this type of assistance has tended to strengthen government control over their activities. In view of this experience, alternative channels for donor assistance need to be considered in projects involving cooperatives.

The third issue of importance to development assistance is its composition and activity orientation. Obviously, the design of assistance programs will have to depend on the specific constraints to be addressed and the objectives to be achieved. There are, however, some key lessons which can be learned from past experience in the region which are applicable to most cooperative development efforts.

DONOR ASSISTANCE AND THE POLICY FRAMEWORK

Donor influence has been one of the most important elements in bringing about policy change in the countries studied for this document. Although the changes have, by and large, been slower than hoped for, they would most likely not have happened at all without donor support. Cameroon, Guinea, and Senegal are representative of the countries where donor coordination and donor influence have resulted in improved policies toward

cooperatives and other rural groups. While some progress in the improvement of official policy has been made in Niger, Burundi, and Rwanda, there is need for additional change.

The policy framework has also been the central factor determining the results of the Nordic assistance, especially in Tanzania but to some extent also in Kenya. Initiated in the mid-1960s, the Tanzanian project was designed to promote a conventional structure of primary societies, regional unions and a national apex cooperative through assistance in the fields of training, management development and related activities. After more than a decade of donor assistance, during which the management performance of the regional unions and their affiliates had greatly improved, the government revised its policy on cooperatives, dissolved the cooperative unions and transferred their activities as well as assets to parastatal organizations. The primary societies were absorbed into the Ujamaa Village structure. The Nordic countries continued to support economic activities organized in the villages through pseudo-cooperatives. After a few years, however, the weaknesses of the system of parastatals dealing directly with the villages became apparent. Their deficient marketing and supply services negatively affected agricultural production. At the same time, the parastatals incurred heavy financial losses. In the early 1980s, the government decided to allow the re-establishment of the unions. However, not being able to recover a significant part of their assets from the parastatals, the unions faced difficulties in restarting their operations.

The support from the Nordic countries was once again redesigned to conform with the new cooperative set-up. The unions became the main target of assistance. There was, however, another policy issue which had not been resolved, the government promotion of village-based primary cooperatives which were closely affiliated with the political structure. The policy of promoting a cooperative society in each village resulted in

a proliferation of the primary cooperatives and jeopardized the financial viability of the large majority of societies. Furthermore, being integrated into the political and administrative structure and subject to control by the state and the ruling party, the cooperatives could not develop into financially viable business organizations. Because of these constraints inherent in the policy, the Nordic donors decided to discontinue their assistance.

This example illustrates how a donor-supported project, despite a long period of support and substantial financial and technical inputs may fail to achieve a sustainable impact because of an inappropriate policy framework or the lack of a policy.

The Nordic experience in Kenya is less explicit, but points in the same direction as that from Tanzania. There is an increasing realization, especially among the cooperative development organizations formed by the movements in the Nordic countries, that the KNCDP in the past may not have paid sufficient attention to the overall policy framework. Concentrating its development efforts on improvement of the internal operations of the cooperatives, KNCDP has failed to stress sufficiently the need for a liberalization of agricultural marketing and pricing policies, as well as cooperative legislation as prerequisites for a sustainable development of viable and democratically controlled cooperatives.

There are, however, also a number of less successful features of KNCDP. Efforts to promote sustainable cooperatives in the marginal areas of the country have generally been disappointing. This is largely explained by their lack of business potential and serves to underline the argument advanced in earlier sections of this report that cooperatives, in order to succeed, need an adequate volume of business to make them financially viable and sustainable.

Although KNCDP has contributed successfully to the upgrading of the

Box 10. Kenya: Donor Assistance In Institution Building

An important feature of the KNCDP is its design as a cooperative sector program with a multi-activity orientation. This is based on the perception that successful promotion of cooperatives requires attention to be given to all aspects of institutional capacity-building, including member education, management systems development, staff training and business development. The core activities of the program during the most of the implementation period have been:

- design and implementation of standardized accounting and other management systems for the various business activities of cooperative societies and unions;
- development of a structure and programs for training of staff of the cooperative movement as well as the Ministry of Cooperative Development;
- promotion of member education activities with the view to ensuring full participation by the members in the development and management of their societies.
- promotion of business activities with the view to enable agricultural cooperatives to diversify their member services into new activity areas such as banking and merchandizing; and
- promotion of secondary and national cooperatives in order to satisfy the need for centralized services by the primary societies and their members.

To a large extent, the KNCDP has the character of an "institutional engineering" program which focuses its efforts on the creation of a well-managed network of cooperatives at the primary as well as the secondary and national level. As pointed out in successive evaluations of the KNCDP, this approach has resulted in a significant upgrading of the management performance of the cooperative and the development of important new services to members. In a workshop reviewing the results of the 1986 evaluation, the factors contributing to the success were identified to include:

- the substantial scale of the program and the long span of years over which it has spread;
- the concentration of aid from one donor source which has contributed to consistency and standardization; and
- the large input of technical assistance staff with appropriate skills. (DANIDA 1986, pp. 7-8).

management performance and service capability of cooperatives, especially in the high-potential areas of the country, it is questionable whether this has been done within a policy framework that is conducive to the emergence of competitive and genuine cooperatives. The program has had little impact on the policies of the government. Where cooperatives have failed, in spite of technical and financial assistance, their failure has often originated from their subordinated position in the agricultural marketing system and from inadequate trading margins given to them in the regulated pricing system. Even the coffee cooperatives, which have developed

successfully in terms of diversity of activities and management performance with contributions from KNCDP, seem to have been negatively affected by the prevailing marketing policies giving them a monopoly on marketing of coffee from the smallholder sector. Operating without competition from other marketing intermediaries, they lack the incentive to operate efficiently. They have in recent years come under mounting criticism because of high operating costs and low payments to members. Although seemingly strong in terms of management and business volume, many of them may not be able to compete effectively in an open market.

Developing a satisfactory policy environment is only part of the battle. Once donors have succeeded in effecting changes in policy, they should collectively turn their attention to the constraints at the level of policy implementation. Just as coordinated efforts by donor organizations have had an influence on improving policy, the donors need to help governments focus on the impediments present in government agencies and at the regional and local levels of the administration to the effective implementation of these policies.

CHANNELS FOR DONOR ASSISTANCE

Assistance through the Government Increases Government Control

Cameroon provides an interesting illustration of failed donor coordination and the consequences of contradictory donor approaches. In recent years the donor community has been most concerned about the results of assistance intended for developing the private sector, such as various types of rural organizations, but channelled through government. One hypothesis of this study states that "donor-financed cooperative development activities channelled through government Cooperative Departments tend to reinforce state control over cooperative activities."

During the period when the donor community was negotiating with the government to restructure its cooperative department (see Chapter I), and reduce the Department of Cooperatives' control over the cooperatives, a joint ILO/FAO cooperative development project was initiated and technicians were placed in the field. The leaders of the Department resisted donor efforts to reduce its role and the number of its staff, but the project placed two technicians in the Department itself with the specific objective of strengthening it. This support made it more difficult for the donors to

convince the government of the need for change.

Senegal is another case in point. The cooperatives were created by the government and have repeatedly received donor assistance with the objective of "revitalizing" and "restructuring" the cooperative movement. In 1983, with donor assistance, the official cooperative structure was again reorganized into some 4,500 sections coopératives. Almost all of the donor-provided technical and financial assistance, however, was concentrated at the top of the system, the Union Nationale des Coopératives Agricoles du Sénégal, and served to strengthen its control over the local cooperatives.

The bulk of the Nordic cooperative assistance to Tanzania as well as Kenya has been channeled through the government ministries responsible for cooperative development. This has strengthened the capacity of these ministries to control and promote the cooperatives and may have contributed to their rapid growth in terms of staff establishment. For example, in Kenya the number of staff in the Ministry of Cooperative Development (MOCD) increased from 163 in 1963 to 1,868 in 1983 (Gyllstrom 1988, p. 88) and further to 2,576 in 1991 (Kenya 1990, pp. 663-666).

Critics of the approach of channeling assistance to rural organizations through the government structure have pointed out that it is ineffective and runs counter to the basic principles of private, member-controlled organizations. For example in Kenya, the growth of MOCD is not matched by a corresponding growth of the agricultural cooperatives as measured by the share of smallholders in gross marketed production which actually fell from 48 percent in 1971 to 43 percent in 1983. If coffee is excluded, the decline was even more pronounced, from 25 percent in 1971 to only 10 percent in 1983 (Gyllstrom 1988, p. 167). This brings into question the effectiveness of the promotional activities of MOCD, the focus of which has

been on the promotion of cooperatives in the agricultural sector.

As Hyden says in his contribution on institutional and political issues to the World Bank Report, *Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-Term Perspective Study, 1989*, where bureaucracy is used to acting at its own pace and in its own interest, spontaneous local efforts cannot expect much of its support or encouragement. New support structures outside government must therefore be created.

Assistance through NGOs

Channelling assistance for developing and strengthening rural organizations through non-governmental organizations, or at least involving them in the process, has been the objective of various donor agencies for quite some time. These agencies include some international organizations and official bilateral aid agencies, but specifically international and national NGOs. In the process of channeling development assistance to support the development of rural organizations NGOs can act as providers of such assistance, executing agencies of technical assistance projects, and at local levels as intermediary organizations, filling the gap between the local people and various organizations providing the assistance.

The example of FONGS and the peasant associations of Senegal (see "The Development of Cooperatives and Other Rural Organizations: A Role for the World Bank, Selected Country Studies," forthcoming) provide at least some measure of support for the hypothesis that projects are more likely to succeed when local NGOs provide an intensive level of support and advice tailored to farmers' needs. FONGS and member organizations have generally resisted involvement with donors, although direct discussions were held between FONGS and representatives of the Bank in early 1991. While there are other NGOs in Senegal that are collaborating with donors, at this point

there is not sufficient information to evaluate their effectiveness.

Although the hypothesis is not directed at the involvement of international NGOs, there is some evidence from Niger (see "The Development of Cooperatives and Other Rural Organizations: The Role of the World Bank, Selected Country Studies," forthcoming) that highlights the difficulties these organizations face in providing assistance to rural groups. The effectiveness of the approach described in the Niger case study attracted the attention of a number of international NGOs operating in Niger. Most of the expatriate NGO technicians working in Niger for the first time tend to be unprepared for the very low level of management skills and experience available in the country, particularly in the rural areas where the literacy rate averages only about five percent. There is a tendency, therefore, to design projects based on expectations that are too high.

A second, and more important, handicap to the implementation of development projects by NGOs is that they are required to operate through or under the direction of one or more government agencies. In contrast to the project described in the Niger case study, which operates with a high degree of autonomy, the NGOs are tied to particular government services. Here, too, their expectations of motivation, efficiency and effectiveness are too high. The major barriers to the effectiveness of international NGOs are at the level of government. Expatriate NGO staff in Niger frequently expressed their belief that their development projects were training the wrong people, that ways needed to be found to train the decision-makers, and to train the government officers whose authoritarian approach to the rural population was more of a hindrance than a help to their projects.

Assistance through Autonomous Institutions

The hypothesis that technical assistance and support services provided by an

autonomous institutions are more effective than those provided by governments, seems to be supported by the experience of the semi-autonomous project in Niger and that of IWACU in Rwanda (see Box 11).

Although other attempts have also been made with such an approach, as for example in Kenya, or are scheduled for implementation (Ghana), the Rwanda case is the only meaningful experience of an autonomous institution assisting cooperatives and other group-based organizations. To a significant extent, that assistance has been effective; IWACU has had a strong impact on the country's cooperative sector. It has been designated by USAID as an indigenous NGO, a status that enables it to receive funding directly from the agency rather than through an intermediary (although as yet, the institution has preferred to have any funding channeled through a U.S. cooperative development organization). A serious problem for IWACU in recent years, caused by the donors who supported it, has been the difficulty of keeping its staff. Its well-trained staff, a rare commodity in Rwanda, have attracted the attention of another technical assistance organization which has enticed staff away from the center by paying twice the level of salaries that IWACU can afford. Ironically, that project is also financed by USAID. This aspect is discussed further later on in this chapter.

Lack of coordination among donors and between donors and the government was well reflected in Equatorial Guinea where one donor supported the creation of commercially operated cooperative service centers and the other provided some of these same services at subsidized rates. The experience in Equatorial Guinea highlights many other aspects of cooperative development as well (see Box 12).

Movement-to-Movement Approach

As a specific type of non-governmental development assistance, special mention

should be made of the approach, often referred to as the movement-to-movement (MTM) approach. In response to the mounting criticism against the ineffectiveness of promoting, particularly, cooperatives through the government structure and the incompatibility of this approach with basic cooperative values, some donors, especially the Nordic countries, have started to emphasize direct movement-to-movement collaboration. Specialized movement-based development aid organizations have been formed with the objective of providing assistance to cooperatives in developing countries.

The essence of MTM collaboration is the development of institutional links between the Nordic cooperatives and those in the recipient countries. This arrangement aims at enabling the cooperatives in SSA and elsewhere to take advantage of the experience of their Nordic counterpart organizations. The current phase of the KNCDP includes a component of MTM collaboration, the most prominent of which is the assistance to the cooperative banking institutions. This has enabled the Cooperative Bank of Kenya to initiate the development of operational systems and banking strategies on the basis of the experience of Nordic banks.

The experience available from Kenya and other countries where MTM collaboration is practiced shows that it is a feasible model for promoting cooperative development, especially in the case of cooperative organizations which have reached a comparatively high level of maturity in their business operations. Such cooperatives have the capability to apply the advanced management systems and operational procedures which are characteristic of the Nordic cooperatives. The Nordic experience is less applicable to cooperative organizations which are at an early stage of development.

The sociocultural environment in which rural cooperatives operate is often a constraint to the effective implementation of MTM programs. The behavior of cooperative

Box 11. Rwanda: Promotion of Cooperatives by an Autonomous Institution

Like Cameroon, throughout the 1960s and 1970s, the government had generally practiced a policy promoting cooperatives as a means of organizing farmers for the marketing of cash crops, particularly coffee. In theory, if not in actual practice, the government's department of cooperatives was responsible for supervising and auditing the cooperatives and for training of managers and board members. At the request from the department's progressive director, donor agencies provided assistance to establish a national-level cooperative training center. Once the center (now known as IWACU, "chez nous" in the local language), was established, the minister responsible for cooperatives approved its recognition as an autonomous, non-profit institution and transferred to it most of the department's training and technical assistance responsibilities.

As a direct result of the transfer of responsibilities, IWACU established a technical support unit that works in close coordination with its training programs. Technical assistance teams provide on-the-job training to cooperative managers and board members, assist cooperatives with the setting up of accounting systems in the local language, provide advice on business activities, and assist the establishment of new cooperatives. Since IWACU began its operations in the early 1980s, Rwanda's cooperatives have undergone considerable change. Many of those dependent on outside financing have closed their doors, while a number of new, stronger and more viable cooperatives and informal groups have come into existence. For the most part, the government has continued its policy of encouraging and promoting the development of cooperatives, but has been willing to leave the major share of responsibility to IWACU and to the cooperatives themselves.

members and leaders in the traditional rural setting is influenced by social and cultural value systems which are often incompatible with the business management techniques and rationale of cooperative enterprises in industrial countries.

The need to understand and take into account the socio-cultural environment in the design and implementation of MTM is confirmed by the Swedish Cooperative Center's (SCC) experience from a regional cooperative development project in Tanzania. The project was designed to be implemented with assistance from the Swedish farm input supply cooperative assistance. When implementation started, it was soon realized that the recipient cooperatives did not have the capacity to assimilate a new management concept based on the Swedish model, as the difference in management culture between the Swedish and Tanzanian cooperatives proved to be wider than expected and project activities had to be rescheduled. The original idea of the Swedish model being the mentor in technical matters had, to a large extent, to be abandoned. Instead, it was found necessary to rely more on local consultancy companies with SLR

functioning as a technical backstopper.

The experience from the regional cooperative project in Tanzania also illustrates the need to ensure that the cooperatives in the donor countries, have a sufficient understanding of the capacity of their counterparts in developing countries to adopt new concepts of management. This requires the development of a resource base of personnel in the donor cooperatives with adequate knowledge of the activities of their partners and the conditions under which they are operating. This has proved to be a constraint to the development of MTM activities. Donor cooperatives are fully occupied with their normal business activities and are often reluctant to allocate resources to development cooperation.

Financing is another constraint to the expansion of MTM programs. The Nordic cooperatives, although contributing financially to their cooperative development organizations, are normally not in a position to provide consulting and other services to their counterparts below cost. Even the more advanced cooperatives in SSA find and the fees charged by the Nordic cooperatives

Box 12. Equatorial Guinea: Success in the Face of Many Constraints

The consumer cooperatives, craft cooperatives and savings and credit societies of Equatorial Guinea provide important examples of member initiative and a strong sense of member ownership. That country also, unfortunately, provides examples of government interference, competition and lack of coordination among donors, an ineffective justice system and ethnic rivalries. To understand the current situation and appreciate the progress and initiative of the types of groups mentioned, some background is necessary. Although all aspects of the following description do not fit neatly in this section dealing with a sense of member ownership, the situation needs to be presented as a whole.

Following the termination of a long period of violent, dictatorial rule, which left much of the country's cocoa and coffee production in ruins and saw the farmers retreat into a subsistence level of existence, external assistance was requested to revive the old system of cooperatives originally set up under the Spanish colonial regime. The cooperatives, usually village-based, had handled the collection and drying of cocoa and coffee and served as the intermediary between the producers and the government marketing agency. A donor-financed project quickly determined that the old cooperative structures could not be revived to a level of viability. The country had lost its share of the international cocoa and coffee markets and, given the increased production in other countries and the declining world market prices, it was recommended that scarce government resources should not be invested in these products. The most pressing need for the country (in the early 1980s) was increased food crop production. The harshness of the dictatorship had caused the farmers to cease producing and selling food crops in the public markets and to produce only enough for their own families. In response to this need, the project focused on facilitating the production and marketing of food crops. The first step was the development of a cooperative transport system.

Two Cooperative Service Centers (CSCs) were established to operate the transport system and provide technical assistance to groups interested in organizing cooperatives. Throughout the history of the project, there are many examples of government interference, both at the national and local levels, and the abuse of project facilities and services by government officials. There are also many examples of rural groups organizing successful cooperatives to operate consumer shops and undertake other economic activities. Most of the members of these cooperatives were women and they demonstrated a strong sense of member ownership and control.

The cooperative service centers provided training and technical assistance to the cooperatives. In some instances, small short-term loans were also provided. CSC trucks operated weekly routes to transport food crops from the village cooperatives to the public markets in the urban areas. To help bring this service to a level of self-financing, a major concern of the donor agency, the cooperatives paid fees to the CSC. These fees were gradually increased over several years with the intention that the cooperative transport system be fully self-financed. In the late 1980s, however, the World Bank provided a loan and developed a project for the renovation of Equatorial Guinea's cocoa production. The project included a subsidized transportation system. Because they were able to obtain subsidized transport, the producers shifted away from the cooperative transport system to that of the cocoa project. As a result, the business volume of the cooperative system declined and it began to lose money, an important factor in the donor's decision to terminate the entire project.

On the more positive side, the technical assistance provided by the project resulted in the development of a number of cooperatives that appear to be sufficiently strong and well-managed that they will continue their activities despite the closing of the project. As noted above, the membership of several of these cooperatives consists entirely, or almost entirely, of women, and the members were very active in their organization. One cooperative visited on the principal island had a membership of thirty-eight women and two men, although the men were actually considered as only "honorary members" because they had been helpful to the women in the construction of their consumer shop. The men took no part in the membership meeting that was held during the visit. This dynamic cooperative contrasts with another predominantly female cooperative visited on the mainland. Here the membership consisted of some forty women and eight men, and most of the group's activities were carried out by the women. During the membership meeting, however, the males dominated the discussion. The president, vice president and several of the other board members were males. There was just one medium-level post held by a woman.

prohibitively high. This constraint has so far been solved through financing from the development aid budget. Most of the MTM programs implemented by SCC have been financed in this way. Unfortunately, this brings both the donor and the recipient government back into the picture, when the overall objective has been to reduce their influence. For example, in Sweden, the SCC is obliged to follow the basic policies of SIDA, as stipulated in the agreement between these two parties (Genberg 1982, p. 10). The ultimate objective, however, is that the institutional links would become independent of subsidies and develop into a commercial relationship.

The MTM programs are also affected by the same policy-related factors which influence other cooperative development endeavors. Cooperative development policies, when based on the concept of government intervention and control, tend to complicate the implementation of MTM programs. Regulations of prices and marketing arrangements constrain the development of cooperative business activities and may jeopardize the effect and sustainability of MTM assistance.

Another interesting experiment between cooperative movements in Europe and in Africa is being promoted by ILO, in close collaboration with the French cooperative organizations, particularly the national federation of agricultural cooperatives (Confédération Française de la Coopération Agricole). This approach aims at establishing commercial relationships between the cooperatives in Africa (producers/primary processors/sellers) and in Europe (importers/retail distributors). With initial support from the French government, the ILO-executed Inter-cooperative Project (Projet Intercoopératif) has studied the possibilities for establishing such collaboration, initiated the commercial contacts, developed the methodology and accumulated the necessary knowledge for replicating the experiment more widely. The project has focused on

selected West African countries and on agricultural products, which normally are too difficult to be exported by local cooperatives, such as fruit and vegetables.

In this approach, it is in the interest of both parties to make sure the possible assistance provided by industrial country cooperatives is in the areas crucial for the successful operation of cooperatives in the developing countries. The initial experience has been very positive, but a lot of work is needed before such commercial contacts have been established with a significant number of cooperatives in developing regions. Further development and expansion of the program by ILO will require considerable resources from various donor agencies, besides the initial support from France.

Although there are obstacles to the expansion of the MTM approach of cooperative development promotion, it appears to have a number of positive attributes which makes it an attractive alternative to the traditional government-to-government programs:

- It strengthens the independence of the cooperative movement, whereas support to cooperatives through the government structure increases government control of the movement.
- It facilitates the direct transfer of business management knowledge which is especially relevant for the more mature cooperatives in developing countries.
- By exposing cooperatives in developing countries to the concept of cooperatives as member-controlled business enterprises, it can contribute to a change of attitude among cooperative leaders and government policymakers and thereby facilitate the necessary policy reforms.

- It is more efficient than the traditional government-to-government assistance because it is channeled directly to the beneficiaries without intermediaries. This presupposes, however, that government policy recognizes the right of cooperatives to enter into MTM collaboration arrangements without being subject to undue government regulations and controlled implementation activities.
- By being based on direct involvement of the recipient cooperatives in the identification, planning and implementation of MTM activities, the MTM programs are likely to be more relevant to the needs of the cooperatives than programs conceived by government planners.
- MTM collaboration has the potential to develop into a commercial relationship between the cooperatives in the developing nations and those in the donor countries. This may include commodity trade, joint ventures in the field of agro-processing and manufacturing, and management contracts.

The MTM model of cooperative development collaboration is relatively new and the experience available is therefore too limited for a definite judgement on its qualities. However, the results achieved so far are largely positive. The Rwanda example of IWACU (see Box 11) could, however, be quoted as one of the most effective means of providing movement to movement assistance. The development collaboration between SCC and the Uganda Cooperative Alliance (UCA) is another example of the MTM approach in cooperative development in Sub-Saharan Africa. Some views of the management of UCA on the advantages of MTM collaboration are presented in Box 13. The

MTM approach may avoid the pitfalls and problems of working through government or through organizations that must work under a government agency. The problem, however, is that such autonomous institutions are rare in Africa.

In a cooperative seminar in Helsinki in May 1992, a representative of the Uganda Cooperative Alliance stated in his concluding remarks (Kabuga 1992, p. 15) that the grassroots structure of the cooperative movement has proved to be a very useful delivery system for donor assistance to the agricultural sector in Uganda. It should be added here, however, that cooperatives and other rural organizations should not only be seen and assessed as delivery mechanisms for technical assistance but accepted as organizations owned and controlled by members and worthy of assistance in developing and being supported as such. This aspect has been ignored by most donor agencies in their efforts to disburse the allocated technical and financial assistance in the most effective and speediest way. Another important issue stressed by the representative is that donors, by virtue of having the funds and other necessary resources, tend not to take the views of the recipients adequately into consideration in designing the programs for developing and strengthening the existing rural organizations or in establishing new ones. Nevertheless, the approach appears to be very promising and the possibility of assisting the development of this kind of intermediary should be examined as projects are being developed.

THE BALANCE BETWEEN DONOR SUPPORT AND SELF-RELIANCE

A persistent theme throughout this paper is that cooperatives and other farmer organizations essentially concern self-help response by members to their own self-perceived needs. In order to be sustainable, the organizations must reflect and respond to

Box 13. Uganda: Recipient's View of Movement-to-Movement Approach

Swedish assistance for cooperative development in Uganda is channelled directly through the Swedish Cooperative Center (SCC) to the Ugandan cooperative movement. This movement-to-movement collaboration has facilitated the development of the Uganda Cooperative Alliance (UCA) increasingly autonomous organization. It has also contributed to the revision of government policies and cooperative legislation which have been liberalized.

In the view of the UCA, the movement-to-movement collaboration has fostered partnership and enhanced networking between cooperatives in developed and developing countries. Capacity-building is the essence of the movement-to-movement approach as it enables the exchange of cooperative experience and management know-how. The experience of the UCA shows that direct collaboration has the following advantages:

- It addresses the needs of the intended beneficiaries.
- It contributes to an atmosphere of mutual trust. Due to this, there are less conditionalities in movement-to-movement support than in government-to-government development programs.
- Movement-to-movement support allows flexibility. Resources can be reallocated so as to allow for changing priorities and project implementation difficulties which may arise.
- Decision-making is quick because procedures are relatively free of bureaucratic procedures.

Besides the points raised above, some preconditions for successful MTM collaboration and lessons from this experience are:

- In order to succeed, the objectives of the intended actions must be very clearly defined.
- There must be mutual trust between the collaborating partners.
- The recipient organization must be fully involved in selection of the technical assistance personnel and have the final say in their recruitment.
- Direct financial support in the form of grants should be avoided and instead import support arrangements instituted.
- To make a movement-to-movement program successful, it is necessary to have the approval and support of the two governments involved.

the needs of their members, and their operations must be commensurate with the ability of members to manage, control, and finance the business.

As noted by Bottomley (1989, pp. 142-143), "Action from any source that inhibits the process of self-help, self-administration, and self-direction is inimical to genuine cooperative development and acts as a

constraint upon it. It is a valid and unsurprising generalization of world-wide experience that the greater the degree of interference by governments in cooperative enterprise, the greater the degree of incompetence and failure."

The observation that rural organizations have the best potential for success if initiated and managed by their members raises the

question of the role of donors and other external intervention agents in promoting such organizations. There is a potential conflict between the aspiration of donors to support farmer enterprises and the growing empirical evidence that external assistance often proves counterproductive by creating unsustainable cooperatives perpetually dependent on subsidies and other support from their promoters. This potential for conflict should not, however, lead to the conclusion that donors have no role to play in promoting member-controlled rural organizations. Nevertheless, it is evident that any promotional effort must be designed so that it does not usurp the prerogative of members to identify their own needs and to manage their own organizations. Such a design calls for a sensible balance between the development aspirations of donors and the abilities and perceptions of members (Bottomley 1989, p. 163).

Donors can play a role in the development of genuine member-controlled organizations in two ways:

- By contributing, through a policy dialogue with governments and the rural organizations themselves, to the creation of a policy framework which is conducive to the establishment and growth of viable farmer enterprises.
- By providing farmer organizations with technical knowledge and access to supplementary, non-subsidized loan financing so as to enable members to carry out the activities that they themselves have identified as their need-based priorities.

Donor Support for Policy Reforms

The area of policy review and reform is one where which the World Bank has a particularly prominent role to play. The growth of private business organizations serving the marketing and input supply needs of farmers are an important prerequisite for

successful implementation of the agricultural liberalization and institutional reform programs that the Bank is supporting in the region. The Bank and other donors can promote a conducive policy environment by:

- Building a capability within national cooperative organizations and other farmer organizations to serve as spokespersons of the farmers. The aim should be to create structures within such organizations that can analyze policy-related constraints and can present well-documented proposals to government authorities for amendments of policies and legislation. This type of support would involve assistance for training of planning and research officers and, on a selective basis, financial assistance for the execution of studies and surveys.
- Providing direct consultancy support from cooperative movements in industrialized countries for the design of policy and institutional reform measures.
- Facilitating governments' acceptance of appropriate policy changes by advocating their implementation in policy dialogues with the governments.

An example of an initiative by the World Bank to identify areas of policy reforms in the cooperative sector is given in Box 14, which illustrates a situation that is probably typical in most SSA countries. Extensive reforms of cooperative development policies, legislation, and government involvement in cooperatives are required.

Operational Support by Donors

Given the diversity of the activities of cooperatives and other rural organizations and the widely varying needs and capabilities of members, it is hardly possible to conceive a prototype model for donor assistance. There are, however, a number of lessons that can be derived from available experience. The main lessons that can be learned from past

experience are that support projects have to be planned in close collaboration with the intended beneficiaries, that they explicitly must aim at capacity-building within the membership and the organizations themselves, and that the support must be channeled to the greatest extent possible directly to the farmer organizations. These and other basic considerations which need to be taken into account when designing projects for support to cooperatives and other groups are summarized in Chapter 6. This section discusses the contents and type of support that donors should consider.

As mentioned previously, donors, and especially the World Bank, have an important role to play in facilitating the reformulation of policies and legislation. In the cooperative sector a reformulated policy will typically mean a reduction of government involvement in the promotion and supervision of cooperative societies and a transfer of these functions to the movement itself. In the large majority of SSA countries, the movement institutions expected to take over the promotional functions (for example, training, management systems development, and business management consultancy) are often too weak to do so. To alleviate these constraints, donor support may be provided to cooperative organizations for capacity-building in these areas. Typically, the main elements of such support may involve:

- Technical assistance from more advanced cooperative movements with the aim of supporting organizational development and capacity-building through on-the-job training of staff of national apex cooperatives and other institutions supporting grassroots cooperatives.
- Exposure and training programs through which elected leaders and staff of the national cooperatives concerned can draw on the experience of the counterpart organizations abroad. Although this collaboration initially may have to be donor-financed, the aim should be to

have it develop into a direct movement-to-movement relationship without donor financing.

- Part-financing of development expenditure, such as the creation of training facilities that serve the needs of the cooperative movement.
- Design of training and education programs for staff and members. This may involve financial assistance for implementation of training and education activities. Such assistance should, however, be based on a realistic plan for transfer of the financial responsibility to the users of training and education.

In summary, donor support is most appropriate in the areas related to human resource development in order to help create within the cooperatives a self-sustaining capability to take over the promotional tasks presently performed by government cooperative departments.

This discussion assumes that donor assistance would be provided to national apex or secondary cooperatives to enable them to provide support services to affiliated organizations and their members. Although a different model, such as direct support to the grassroots level without national or secondary intermediaries, is often advocated, it is in practice difficult to implement. The successful NCBA/CLUSA development activities in Niger, for instance, are channeled through a national organization. The same channeling method applies to practically all cooperative development projects that have a national or regional coverage. It is, however, important to ensure that the focus of the promotional activities remains firmly on the grassroots organizations. Experience from donor-financed activities, especially those implemented through government cooperative departments, illustrates the danger of donor assistance strengthening the intermediary organizations more than the intended beneficiaries.

The design and implementation of donor support to primary cooperatives and other farmer groups should take into account that:

- **The assistance must be designed in close collaboration with the intended beneficiaries in order to ensure that it corresponds to their needs and priorities.**
- **Donor support should be a complement to the efforts of the members themselves, not a substitute for such efforts.**
- **The promotion of rural grassroots organizations is a complex task which normally requires attention to multiple development constraints. Proper identification of such constraints is, of course, a prerequisite for the design and implementation of effective donor support.**

The Kenyan/Nordic Cooperative Development Program has, during its existence, developed a comprehensive support package which illustrates the need to address a variety of issues in order to achieve a sustainable impact on the development of primary cooperatives. Although, as has already been emphasized, donor assistance must be designed to meet the specific needs and development constraints in each case, the composition of the KNCDP support activities may provide useful guidelines for the design of similar projects. The main components of the KNCDP during most of its implementation period have been:

- **Cooperative member education with the objective of enabling members to direct the development of their cooperatives.**
- **Staff and committee member training including financial assistance for the establishment of a cooperative college as well as technical assistance for the development and implementation of training programs.**
- **Design and implementation of accounting and other management systems for all major types of cooperatives and activities.**
- **Technical assistance for the development of new cooperative activities, such as banking, merchandising and agro-processing.**
- **Support for the development of movement-based organizations including national organizations such as the Cooperative Bank of Kenya and the Kenya National Federation of Cooperatives, as well as regional cooperative unions to provide services to primary societies.**

The main emphasis of KNCDP has been on training and technical assistance. Financial support, in the form of grants, has been provided primarily in the areas of training and education.

6 LESSONS AND OPERATIONAL GUIDELINES FOR THE WORLD BANK

The fundamental lesson which emerges from this review goes to the very core of sustainable development: by bringing people together to work for a common purpose and their joint benefit, formal and informal rural organizations can be effective instruments of economic and social development. They provide smallholders and rural entrepreneurs with services and business opportunities which increase their productivity and income, thus contributing to the development of a healthy private sector. They give rural people, including women and disadvantaged individuals, a chance to jointly manage an activity of their own choice, thus taking a significant step in controlling their future and that of their communities. However, the review showed that rural organizations can fully develop their potential as self-managed, sustainable businesses only if the country's policy and legislative framework is favorable to private sector initiatives and group activities.

The promotion of cooperatives and other grassroots organizations is identified in the World Bank's study, *Sub-Saharan Africa: From Crisis to Sustainable Growth, A Long-term Perspective Study, 1989* as a central element of development in Sub-Saharan Africa, and it is a key component of the World Bank's agricultural strategy for the region (World Bank 1992). Attention to farmers organizations is also an integral part of the Bank's emphasis on private sector development, and it is a logical continuation of efforts to increase people's participation in decisions and actions that affect their livelihood and well-being (World Bank 1992). By encouraging self-managed, productive rural organizations, the World Bank and other

donors contributes to the achievement of three major development goals.

- Enhancing people's participation in decisions and processes which affect their lives, providing them with a learning experience which in turn strengthens individual and group productive activities;
- Building the capacity of the private sector to compete in a market economy and to provide efficient services to rural communities; and
- Clarifying the respective roles of governments and the private sector through a legislative, policy and regulatory framework that provides minimal but transparent regulations for private sector group activities.

A STRATEGY FOR WORLD BANK ASSISTANCE

The World Bank's strategy for promoting rural organizations should build on the comparative advantages of the World Bank as a major lending institution. First, the Bank's interaction with its borrowers regarding policy and institutional reforms offers an opportunity to help governments establish a policy framework favorable to rural organizations and the private sector of which they are part. Second, Bank lending to improve infrastructure and services in the rural areas provides a channel to strengthen the capacity of rural organizations to identify and take advantage of opportunities for economic activities that benefit their members. Third, the Bank is well placed to interact with

development agencies and NGOs and thus help harmonize efforts to support the development of rural organizations. The Bank is not an appropriate agency to provide direct assistance to local communities and organizations. The World Bank strategy to promote effective and sustainable rural organizations should therefore be established around three components.

- The Bank should assist governments in identifying and implementing legislative, policy and institutional reforms which enable cooperatives and other rural organizations to evolve into efficient and sustainable organizations, managed by their members and capable of providing competitive services in a market economy; this requires attention at the national level, during economic and sector work;
- The Bank should facilitate capacity-building in rural organizations through support to, and in collaboration with, institutions involved in assisting cooperatives and other types of farmer associations, including NGOs and rural organizations in developed countries. This means that project objectives should focus, whenever appropriate, on strengthening rural organizations rather than on using them as channels for service delivery.
- The Bank should collaborate with other funding agencies and with tertiary and secondary rural organizations in the design and coordination of strategies and programs. This requires both intensive coordination among donors, and strategic choices through an analysis of needs and potential for rural organizations at the sector level rather than through individual projects.

The three components of the Bank strategy cannot be implemented directly through individual lending operations, but through addressing policy and sectoral issues at the country level. For Bank staff, it means that issues that affect rural organizations should begin to be addressed during economic and sector work. An assessment of the policy framework regarding private sector development, including rural organizations, would be part of the Country Economic Memorandum and especially the Policy Framework Paper. An country-wide assessment of the existing rural organizations at primary, secondary and tertiary levels, and of their potential and needs should be done, as a basis for developing a country strategy which the government, the Bank and other agencies will help to implement through individual projects. While the agriculture divisions are usually the most likely to coordinate such an assessment, interactions between sectoral divisions will be essential because issues will need to be addressed in the banking sector, in functional literacy and vocational training, public sector management, and in private sector development, to name only the most obvious. It is also essential to include specialized skills at an early stage in the review. It is only on the basis of such analyses that individual projects can be identified and designed in a coherent manner.

The next section of this chapter summarizes the lessons described in previous chapters and provides guidelines for implementing the strategy around the three elements of policy issues, capacity-building, and coordination. While the guidelines mainly relate to cooperatives, since this study focused on these more documented formal organizations, many issues raised in relation to cooperatives are applicable to other rural organizations as well. The cooperative emphasis in this section does not imply a recommendation that they be given more importance than others in future development programs; the policy framework should be flexible enough to provide for the development of a diversity of rural

organizations. What matters most are the needs of the members and the appropriateness of each organizational form in relation to those needs.

OPERATIONAL GUIDELINES

The Policy Framework

Three policy issues are, in the light of the lessons derived from this study, of central importance for the development of cooperatives and other types of farmer groups. These are (a) policies regulating government supervision of control; (b) cooperative legislation; and (c) policies determining the business operations of cooperatives and other farmer groups involved in commercial activities.

Policies governing rural organizations

Summary of experience. To operate successfully, group enterprises require an environment that is conducive to the development of private sector business. However, many African governments have not allowed rural organizations the same freedom of operation as that given to other forms of private enterprises. This has been particularly true for cooperatives, which were often established by governments as instruments of official development strategy. As a result, the structures, objectives and business operations of cooperatives have been subject to detailed regulations and controls not imposed on individually-owned private businesses.

There is strong evidence that a policy framework which is based on the concept of government control and guidance negatively affects the development of rural organizations, and especially cooperatives, into self-reliance and sustainable business organizations that are competitive and capable of serving their members efficiently. In many countries in the region (see Chapter 3), government departments exert considerable influence on the daily management of cooperatives, ranging

from regulations for admittance of new members to the appointment and removal of management committee members and staff. This has often led to a situation where government officials direct the management and business operations with the result that cooperatives have taken on the character of government institutions rather than that of member-controlled business enterprises.

Cooperative development policies need to be revised in line with the requirements of a liberalized economy and the concept of cooperatives as member-controlled enterprises. The introduction of an enabling policy framework is the most important key to the development of cooperatives and other rural organizations. This is an area where the World Bank can play an important facilitating role.

Guidelines. The following issues, at least, should be included in a liberalized cooperative development policy.

- An explicit recognition of the cooperatives as private sector enterprises which are formed and managed by their members, and which are not subject to intervention by government authorities in their internal management.
- A statement to the effect that government will not impose a centrally determined activity pattern on the cooperatives or direct them to operate within the framework of a movement structure determined by government authorities.
- An outline of measures which the government intends to take to reduce its role in the supervision and management of cooperatives.
- Clarification of the future role and functions of government departments responsible for cooperatives.

- A statement on the organization and financing of cooperative training and education, which are areas within which governments should be expected to make contributions.
- A statement of the government's intention to revise the cooperative legislation, outlining the areas of changes, which should reflect the liberalized policy framework.

Having a policy statement formulated is, however, not enough, it needs to be effectively implemented. Action programs for the implementation of new policies differ from country to country. The main outlines of a plan—proposed under a World Bank-sponsored review of cooperatives and other farmer organizations—for a new cooperative policy in Ghana are summarized as an example in Box 9 in Chapter 4.

Cooperative Legislation

Summary of experience. Legislation regulating cooperatives and other rural organizations may either have a positive or negative impact on their development. The general pattern in most SSA countries is that cooperative laws are overly detailed, often too complex to be understood by those wishing to form cooperatives, and reflective of the general policy framework that gives the state extensive powers to intervene in the affairs of cooperative societies.

Although several countries in the region are presently in the process of enacting new laws for cooperatives, the texts of the new legislation are almost as restrictive and detailed as those of the former laws. This is the case in Guinea and Cameroon, for instance. Instead of simply providing a general framework for the establishment and operation of cooperatives, the laws prescribe details of organizational structure and operation that are best left to the internal by-laws of each organization. Given their complexities and detail, the laws cannot be

readily utilized by the average citizen to set up and participate in a cooperative. From the point of view of rural people interested in organizing group-based business activities, the most preferable laws are those that enable them to acquire legal status without unnecessary formalities and conduct activities without regulations that subject them to undue interference from government.

The contents of the laws reflect the interventionist policy referred to in an earlier section of this chapter. In practically all countries from which data have been collected for this study, legislation gives extensive powers of intervention to government departments or ministries concerned with cooperatives.

Legislation governing other types of rural organizations is not as common as cooperative laws that exist in all SSA countries. In some cases, the cooperative legislation makes a provision for the registration of so-called pre-cooperatives, on the assumption that they will eventually evolve into full-fledged cooperatives. In Senegal, there is a legal framework which permits agricultural producers to organize freely without complicated procedures and restrictive bureaucratic controls. As shown in Box 6, Chapter 3, this legislation has stimulated the formation of producer groups. It has allowed groups the flexibility to attempt new approaches and the opportunity for simple, single-purpose organizations to evolve, over time, into more complex economic structures in response to member needs.

Guidelines. World Bank staff concerned with sector studies and the formulation of projects involving cooperatives, as well as other types of rural organizations, should carefully review the legislative framework and its impact on the operations of rural organizations. On the basis of the experience detailed here, it would appear that changes of laws governing cooperatives and similar groups are called for with the main objectives of:

- Simplifying the legal requirements for the formation and operations of group-based business enterprises.
- Reducing the role of government agencies in the control and supervision of cooperatives.

The aim, as regards the role of government, should be to transfer responsibility for promotional and development functions to the cooperative movement itself. Only the basic regulatory functions should remain with the government, that is:

- Registration of cooperatives.
- Arbitration in disputes involving cooperatives and their members, and liquidation or dissolution of cooperatives.
- Enforcement of basic administrative requirements such as the conduct of annual general meetings, submission of annual reports and audited accounts, and other similar requirements which normally apply to private sector business organizations.

In the case of organizations with a less formal structure and operation than the cooperatives, legislation should leave enough room to enable rural people to create their own internal group rules according to existing social links and practices, which encourage cohesiveness. As rural organizations grow, they need a more formalized legal base, and written legislation can provide more precise rules. The general legislation on freedom of association and the development of specific statutes for various types of organizations could provide an adequate legal framework for many groups of rural people. Lessons can also be learned from a number of French-speaking African countries, which have introduced laws based on French legislation on non-profit, civil, and commercial societies.

Special mention could be made of the legislation on Economic Interest Groups (Groupement d'Interet Economic), which has been adapted in at least some French-speaking countries (see Chapter 2).

Whatever form of legal status a group may opt for, registration requirements and procedures should be made as simple as possible. This could include delegation of powers of registration to local authorities.

Economic Policy Conditions

Summary of experience. Restrictive pricing and marketing policies have contributed to the widespread failure of agricultural service cooperatives to develop into commercially and financially sound business enterprises. Throughout Africa, government interest in controlling the marketing of strategic crops for export as well as domestic consumption was an important motive for the promotion of cooperatives, which had to operate under strict pricing and marketing regulations. Cooperatives and other farmer organizations were often established in key sectors of the economy as a means of organizing producers and serving as buying points for parastatal agencies. While other types of cooperatives (e.g. thrift and credit societies) received less attention, those dealing with key agricultural commodities were permitted little room for manoeuvre. Producer prices were set by government, and only very small margins were allowed to the cooperatives for their handling of the produce. Operating within the framework of a regulated pricing and marketing system, the cooperatives were unable to cover their costs and realize a sufficient surplus for investments and development of their activities.

Several examples of the effects of price and market regulations are quoted in this study (Chapter 2). They include maize marketing in Zambia, the marketing of cotton in Senegal, and cooperative participation in the handling of cocoa marketing in Cameroon.

In all these cases, the commercial and financial development of cooperatives was severely hampered by restrictive government policies.

Another factor which has impeded the development of cooperatives into efficient and competitive businesses is that they have often operated in a single-channel marketing system, have not been exposed to competition and have therefore tended to become inefficient.

Governments in many countries are now moving toward a market-oriented agricultural strategy. So far, there is little empirical evidence of the impact of a deregulated pricing and marketing regime on the market share of cooperatives. There are indications, however, that cooperatives, due to their tradition of operating in a regulated market within the framework of a single-channel system, face difficulties in adjusting to a competitive market environment. This is bound to lead to a situation where a number of cooperatives will go out of business. On the other hand, liberalization of markets and prices will induce efficiency and facilitate the emergence of a more competitive, albeit smaller, cooperative movement.

Guidelines. The introduction of policies which create a conducive business environment is an essential element of measures to promote cooperatives and other group-based business enterprises. This is an area within which the World Bank has played a significant role under various policy and institutional reform programs in SSA countries. In many countries, these reforms have, however, not yet been fully reflected in government attitudes toward cooperatives. There is a deep-rooted tendency to perceive them as state-controlled marketing channels rather than as business enterprises managed by their members. A continued dialogue with governments, as well as bilateral donors and NGOs involved in cooperative promotion is therefore necessary. The following aspects should form the backbone of a strategy to

create an appropriate business environment for cooperatives and to provide incentives for cooperatives to become competitive, efficient and self-reliant.

- Cooperatives must be free to determine their own line of business without being directed by the government to involve themselves in non-viable activities which put them at a disadvantage in relation to their competitors or which are not in conformity with their objectives as determined by their members.
- The trading conditions under which the cooperatives operate must be such that they allow efficiently operating societies to realize sufficient financial returns to cover their cost and leave the surplus necessary for investments and other development expenditures.
- Cooperatives should not be subject to administratively imposed price controls, but should be allowed to determine their prices and operating margins on the basis of the conditions in an open competitive market.
- Cooperatives should not be promoted as part of a single-channel marketing system as this is likely to induce inefficiency in their operations and poor quality of services to their members.
- The policy framework should prepare the cooperatives to continue operation without subsidies which, although they may provide the societies and their members with short-term benefits, tend to lower efficiency and, ultimately, the quality of services.

The policy reforms relating to cooperatives and other group-based business

enterprises are essentially part of the privatization programs which are being implemented in many African countries with World Bank support. World Bank assistance for the promotion of rural organizations should be linked to and facilitate the privatization process.

Design and Implementation of Capacity-Building Programs

An OED report on the *World Bank Experience with Rural Development, 1965-1986*, stated that agriculture projects including group participation often do not work because the groups were not committed to the projects or were created specifically for the project and acted more as an extension of government than as organizations representing beneficiaries. The report also stated that "beneficiary participation played a very limited role in the implementation of the Bank projects and virtually no role in project design."

A report on Rural Cooperatives in World Bank-Assisted Projects and Some Related Development Issues (1986) concluded that the institution-building process of cooperative enterprises had not always been adequately dealt with in World Bank-financed operations.

Cooperatives were often expected to perform additional functions without a sufficient evaluation of their institutional capacity to do so. Similar findings were reported in a World Bank report on general institutional development (World Bank 1990). It pointed out that country-specific sector strategies for institutional development objectives in the Bank project had declined somewhat in recent years. The decline was only in part due to problems in the macroeconomic environment. The weak analysis of institutional issues and overly complex designs of components dealing with institutional development, which failed to consider local capacity constraints, had contributed to the declining performance.

The studies referred to here show that a common feature in many World Bank projects has been to include cooperatives and other rural organizations in the projects to facilitate the implementation of project activities. This appears, in many cases, to have been done without an adequate analysis of their capability to participate effectively in project implementation and of the support measures needed to address possible structural, operational and financial weaknesses.

The findings of the studies (see Chapter 1 for additional details) clearly reveal a need for: (a) a more comprehensive and participatory approach in project formulation as regards the involvement of cooperatives and other rural organization; and (b) a better understanding of the conditions and mechanisms for capacity-building in cooperatives.

Participatory and Flexible Project Formulation

Summary of experience. Formulation of project components involving cooperatives and other rural organizations have often been undertaken without a sufficient involvement by the organizations themselves. Project formulation has mainly involved consultations with government agencies and consequently the views of the organizations concerned may not always have been adequately taken into consideration. In some cases when institutional strengthening was included as a project component, it was directed to government departments. This was the case under the Smallholder Rehabilitation Project in Zambia where the cooperative development component focused on strengthening the Cooperative Department.

Adequate resources have often not been allocated for project formulation studies to address issues related to rural organizations. As mentioned in Chapter 1, a review of eight World Bank projects currently under preparation or planned for 1993-96 indicates the adverse effects of insufficient availability

Box 14. Kenya: Review of Cooperatives

The importance of an appropriate policy environment as a condition for the sound development of cooperatives is reflected in the summary recommendations of a World Bank review of cooperatives in Kenya ("The Development of Cooperatives and Other Rural Organizations: A Role for the World Bank, Selected Country Studies," forthcoming). The main conclusions and recommendations of the review were:

- Cooperative development is best promoted by allowing cooperatives to operate free from excessive control and supervision by the government.
- The extensive involvement by the government in the management and control of cooperatives is incompatible with the stated official aim of building self-reliant, sustainable and member-controlled cooperatives. The present policy is also out of touch with the prevailing general direction towards a free and non-regulatory economic policy framework.
- The government should explicitly recognize the cooperatives as private sector enterprises formed and managed by their members in accordance with internationally recognized cooperative principles. The government should not impose a centrally determined activity pattern but instead leave the cooperatives free to operate and maintain a structure that is defined on the basis of the needs of the members.
- The policy framework and the cooperative legislation should be radically liberalized to provide for an independent and member-controlled cooperative movement. The powers of intervention by MOCD should be substantially reduced and its functions redefined. The primary functions of MOCD should be: registration of societies fulfilling the formal legal requirements for registration, deregistration of societies that are dissolved at the initiative of their members or that cease to exist due to business failure or for other reasons, and examination of disputes in which cooperative members claim their rights have been violated—perhaps in the form of a "Cooperative Members Ombudsman" institution.
- Present donor support to the MOCD should be redirected to go directly to the cooperative organizations or institutions and, whenever feasible, be implemented by Non-governmental Organizations (NGOs) in partnership with the relevant cooperative organizations.

of expertise for the planning of institutional development components. In a few cases, the proposed objectives for farmer organizations have been quite well-formulated but no specific project components have been developed which would make the realization of those project objectives possible.

Other deficiencies which in many cases appear to have originated from inadequate involvement of the rural organizations and from insufficient availability of expertise on cooperatives include: (a) poor understanding of the social dynamics of rural groups and the socio-cultural factors affecting their operations; (b) superficial identification of the needs of beneficiaries; (c) inadequate analysis of constraints hampering the participation of rural organizations in project implementation; and (d) failure to assess and draw on experience which may already be available from similar projects.

Since 1988, the World Bank has undertaken comprehensive reviews of cooperatives and other farmer organizations in a few countries in the Region. However, they were not a direct part of project preparation, but were undertaken as independent exercises.

Guidelines. One important basic issue should be borne in mind in the formulation of projects: Are rural organizations considered simply as tools to facilitate project implementation or are they looked upon as member-owned and member-controlled organizations which can be strengthened and can benefit from their association with the project. This is an important consideration for project design and highlights the possible conflict between the need to obtain quick results and the need for the progressive building-up of experience and the development of human resources necessary for the long-term growth of rural organizations.

A major lesson from many projects involving rural organizations is that more precautions must be taken, and more time must be allowed for people to learn by themselves and reorient their organizations.

The World Bank should be more perceptive about the delicate social dynamics involved (Mercoiret 1990). The institution-building process is very fragile, particularly in the beginning: too much money, too much involvement from outsiders can kill the

This means that the World Bank should demonstrate its understanding of the delicate mechanisms involved by allowing more time and more flexibility to the rural organizations, primarily in the early stages of the project. The rural organizations should not be assigned definite roles and definite procedures during the preparatory phase. World Bank staff,

essence of self-reliance, participation, and responsibility. Rural organizations should, to the fullest extent possible, be involved in preliminary studies, and in the pre-appraisal phase of a project. This approach allows them time to make up their own minds about possible outside assistance. The borrower and the World Bank should proceed step by step, and a pilot phase is often necessary. The local organizations should influence the methodology and analyze the project's implications.

under less pressure for "immediate design," should then take less of a leadership role and leave room for local contributions through preparatory studies, negotiations, and exploration in a pilot phase.

The Bank should seek to avoid creating new organizations without considering results

Box 15. Moving Towards Self-Reliance

Donor participation in the promotion of rural groups has been analyzed by Bernard Lecomte (B. Lecomte 1986) and Michael Cernea (M. Cernea 1991). They emphasize that channelling of funds through village committees is not a real contribution to strengthening rural organizations. In many cases outsiders come, stay a few hours, ask the village people what they want, and direct the exchanges towards fields in which they can act. Village people quickly pick up the invitation and organize whatever groups are required for the project. These organizations are usually not stable and are often unable to mobilize people's contributions. They are also inefficient in managing infrastructures once the project leaves.

Initial steps for facilitating the emergence of self-reliant groups should include advice such as:

- "Develop your capacities of analyzing your own situation, compare your situation with that of others, and learn how to inform yourself." A common initial step is to meet with another group. These meetings prove to be very important for motivating people and encouraging them to say, "If they can do it there, we can do it here too."
- "Gather some money between yourselves, even very small amounts." This pooling of group resources develops pride and confidence."
- "Conduct a project by yourselves for generating some profit." This is the fundamental test for the people themselves. When they see that they have created a productive enterprise, they believe in their capacities to act."
- "Start a project involving investments." Such projects develop the group's confidence in its ability to invest and manage resources."
- "See if there is a need to establish links with other similar organizations. Develop your alliances, but be sure to appraise your own capabilities as you make more commitments."

or indications from past project experiences. From a practical standpoint, this is hard to apply; in most cases, it is difficult for outside project analysts or even for sociologists visiting for a few weeks to get an accurate historical picture of past and current experiences and to appraise the sociopolitical consequences of subtle conflicts among local groups. Local sociologists and management trainers should be involved more systematically, and the use of participatory and beneficiary assessment techniques should be encouraged. These actors would be able to act as buffers between most outside donors and the complex sociopolitical dynamics that inform rural organizations. Such a strategy would mitigate superficial diagnosis, quick decisions for involving rural organizations in channeling assistance, and misunderstandings of the social conflicts involving organizations or their surrounding environments.

Local capacities in rural sociology, training, monitoring and evaluation do exist in most African countries. Some of these local capacities related to applied research from universities such as the Ecole Nationale d'Economie Appliquee (ENEA) in Senegal, or the Pan-African Institute for Development (PID) in Central Africa. Some are connected to federations of NGOs such a Federation des Organisations Non-Gouvernementales (FONG) in Senegal and many similar organizations in other countries. Some provide training services for rural development bodies that are frequently involved in training for the rural organizations such as the Centre d'Etudes Socio-economiques de l'Afrique de l'Ouest (CESAO) in Western Africa and the Institut Africain de Développement Economique et Social (INADES) in Western and Central Africa. Some support is provided by professional organizations such as the African Confederation of Cooperative Savings and Credit Association (ACCOSCA) and the International Cooperative Alliance (ICA) in Africa. Finally, there are private local consultants, specializing in support to rural organizations.

The World Bank should facilitate new relations between governments and rural organizations. Rural organizations should be treated as professionally responsible partners and be involved in all phases of a project cycle. They should be included in planning activities from the district level up to the provincial or national levels.

Role of Rural Organizations

Summary of experience. Efficiently operated rural organizations demonstrate a number of characteristics that can make them a positive factor in rural development.

- They provide their members with the advantages of economies of scale. By combining their resources, producers can obtain goods and services efficiently and market them in larger volumes, giving them a stronger bargaining position.
- They serve to link small-scale producers to the national economy, thereby providing incentives for increased production.
- By providing an alternative to other commercial interests, farmers' organizations add an element of competition, which can serve to hold down costs and improve market conditions.
- When collaborating with development projects, they can continue project-related activities after external assistance is concluded.

The current trend toward market liberalization and privatization of parastatal organizations accentuates the need for the development of alternative marketing and supply channels, especially in the agricultural sector. Cooperatives and other group-based businesses can serve as a countervailing power

to other private sector enterprises and thereby safeguard farmers against unfair trading practices.

Guidelines. Despite their often mediocre performance, cooperatives in most countries in the region have an extensive resource base. Agricultural service cooperatives often have buying points and stores with a nationwide coverage, they have staff experienced in the handling of crops and farm inputs, and they have established basic administrative routines for running their activities. In the planning of projects, especially those involving agricultural support services, the possibilities of building on the existing structures should be carefully reviewed. Through the process described in the preceding section dealing with project formulation, development potential and constraints should be identified, and the role of cooperatives in project implementation should be reviewed.

The role that cooperatives and other types of farmer organizations can play in project implementation depends, of course, on the type of project under consideration. Whatever their role, it is important to ensure that they are not used merely as channels for quick disbursement of project inputs, but that they are closely involved in the identification, design and execution of project activities. The temptation of using cooperatives as channels for privatization of unviable SOEs and parastatals must be avoided. Similarly, cooperatives should not be given responsibility for output and input marketing (as buyers or suppliers of "last resort") in areas where such activities are not commercially viable.

Cooperatives are important avenues for social change, democratic development, and community development in general. They are, however, essentially business enterprises. Their participation in projects must be based on sound business criteria in order to ensure the sustainability of activities. As experience from countries with a relatively well-developed cooperative structure has shown, agricultural support services provided to

members on a commercial basis constitute the main platform for sustainable cooperative enterprises. Such services include produce marketing and primary processing, supply of farm inputs, and the provision of savings and production credit facilities. In addition, cooperatives and other types of groups have a role to play in facilitating the provision of agricultural extension services, management of joint production facilities (e.g. irrigation schemes), and other activities which serve the economic needs of members.

Types of Rural Organizations

Summary of experience. Cooperatives are probably the most widespread type of rural organization in Sub-Saharan Africa. In many countries, despite past problems with cooperatives, they remain the preferred form of organization. Strongly promoted by governments and donors alike in the post-independence period, cooperatives established a widespread presence in rural areas and an extensive vertical structure of primary, secondary and national organizations. As already pointed out elsewhere in this study, this structure was often created at the initiative of governments to serve a centralized marketing and farm input supply system. Being centrally directed, controlled and often subsidized, cooperatives often failed to realize their potential and became, in the view of their membership, synonymous with government parastatals.

Partly as a reaction to the state-controlled cooperative system, a variety of farmer associations and rural organizations have sprung up—some of them formally registered, others not—to organize marketing, supply and other services needed by their members. In a few countries, e.g. Senegal and Zimbabwe, these organizations have multiplied rapidly. This expansion has, in the case of Senegal and some other Francophone countries, been facilitated through the introduction of legislation covering the operations of groups involved in economic activities.

Guidelines. When considering the type of groups to be promoted and assisted as part of a rural development project, the comparative advantages of formal and informal organizations should be taken into account. Cooperatives and other formally registered groups are often best suited for business activities which are carried out on a fairly substantial scale and which require a permanent management structure, the ability to enter into legally enforceable contracts, and the ability to obtain financing from lending institutions. Due to their formal nature and adherent bureaucracy, cooperatives often require large volumes of business to cover their operational and overhead costs.

In situations where the need for joint activities by group members is seasonal and the volume of activities small, informal groups are often a better alternative than cooperatives. They are not subject to the same administrative and legal requirements which have to be met by formally registered organizations. They can therefore operate without an elaborate management structure and be more cost-efficient.

Existing traditional organizations or groups should not be ignored. Whenever possible, participatory action research should be undertaken to assess the needs and interests of rural organizations in project participation and their capacity to do so. The participatory action research mechanism could serve as a tool for a cross-examination of possible strategies. From the reactions of existing rural organizations, and from the assessment conducted in the participatory action research mechanism, lessons could be drawn as to what types of organizations could be involved. A key problem, at this stage, is to avoid giving too many new responsibilities, such as the management of large resources, to an organization. Most experiences in rural organizations demonstrate that management capacities increase progressively. By giving too many responsibilities to small organizations, external support may endanger local initiatives and efforts.

Characteristics of Successful Organizations

Summary of experience. There are, in the light of the findings of this study, three critical factors which determine the prospects of success of rural groups and their potential for successful participation in projects. They are:

- Felt need for association.
- Member contribution and participation.
- Business potential and competitiveness.

An obvious, but often disregarded condition for the formation of sustainable rural organizations is that their activities must be based on the felt needs of members. Formation of rural organizations at the initiative of outsiders and as mere "conveyor-belts" for goods and services has not proved to be a feasible way of promoting sustainable rural organizations (see Chapter 2). There are numerous examples of well-functioning formal and informal groups which have collapsed when the support from external sources has been withdrawn. On the other hand, there are examples of rural organizations which, when fully involved in the identification and planning of activities based on members' needs, have quickly acquired the capability to implement and manage new activities. This is, for instance, the case in the NCBA/CLUSA-supported project in Niger, where the development of service activities in cooperatives is preceded by a thorough process of needs identification involving members (see Chapter 2).

Rural organizations in Sub-Saharan Africa are often characterized by low share capital contributions from members. As a result, their business development is often constrained by insufficient capital. Adequate share capital contributions are important, not only as a means of financing the business from internal sources, but also as a reflection

of members' interest, and, above all, as an inducement to take part in the decisions affecting the group. The experience available from state-initiated cooperatives—where member contributions usually are insignificant—indicates that members pay little regard to the prudent management of external resources. On the other hand, when members have a financial stake in the cooperative and depend on it for important services, they tend to participate actively in an effort to ensure that the society operates in an efficient and sustainable manner (see Chapter 2).

The most common motivation for rural people to participate in joint activities is to obtain goods and services in a reliable manner and at competitive costs. The potential for viable economic groups is dependent on the overall economic setting and the capacities of the groups themselves. In practical terms, the group must be of sufficient size (number of members/production quantity) to have an adequate business volume, and the business activities selected must be carefully investigated and planned. On the other hand, the available markets must be able to provide sufficient returns to allow the farmer organization to cover its costs and provide some additional benefits to its members. A cooperative marketing or financial services structure should not be promoted just for the sake of having such a system, there must be a need for it at different levels, it must be commercially viable, and it must be competitive (see Chapter 2).

Guidelines. The preceding review of factors critical to the success of cooperatives and other farmer groups confirms the already-mentioned necessity of involving them extensively in project identification, design and implementation in order to ensure that activities are relevant to their needs.

Equally important is that support to groups must be designed in such a way that it does not make them dependent on grants or subsidies. Members should show their commitment and interest through contributions

which are significant enough to provide a sound financial foundation for the business activities and to encourage continuous active participation by members. Credit programs, for instance, should not be based entirely on funds from external sources. Such programs have a disappointing track record as far as repayment are concerned because members tend to perceive them as being financed with "government money." On the other hand, loan schemes based on members' savings generally show better performance and should be encouraged.

Several measures may need to be considered with a view to ensure the commercial viability and competitiveness of cooperatives and other groups involved in business activities. These may involve the amalgamation of small groups into larger units in order to ensure adequate business volumes, introduction of improved business management procedures through training and through implementation of better management systems, and so on. While such measures may need to form part of a project strategy, it is essential that they involve members fully and are not imposed on them. In any case, groups which do not meet the minimum requirements for viability and potential sustainability should not be promoted.

Functions of Rural Organizations

Summary of experience. Rural organizations are adaptable to a large variety of economic activities. Their potential to meet the needs of their members in many different fields is reflected in the diversity of cooperative and other organizations in the SSA countries. The most prominent type of cooperative in the region in terms of the number of societies, membership and business volume is the agricultural service cooperative, followed by the savings and credit cooperative (credit union). Experience documented in this study indicates that cooperatives and other member-based organizations function best when they focus their activities on the provision of commercially-based services to

their members, such as the marketing and processing of agricultural commodities, supply of production inputs, provision of savings and credit facilities, etc. (see Chapter 4).

The involvement of cooperatives in general community development activities, such as the construction and maintenance of schools and health clinics, is a widely-debated issue. The experience with some donor-initiated experiments (for example, the Integrated Cooperative Development Societies in Kenya) in these fields has been discouraging; the cooperatives have been unable to sustain community development activities without donor support. The lesson from these experiments is that in order to involve themselves in this type of non-business activity, cooperatives must have reached a sound financial position through their income-generating commercial activities. A prerequisite for their involvement in community development activities is that the cooperatives generate a surplus and that members agree to allocate that surplus for such activities (see Chapter 4).

Multi-purpose agricultural service cooperatives and other farmer organizations with a high business turnover have generally proved to be more viable and sustainable than their smaller counterparts. Integration of marketing, input supply and financial services ensures availability of the basic facilities needed by farmers and improves cost-efficiency. A high business volume enables rural organizations to mobilize sufficient resources for the employment of qualified staff to manage their activities and facilitates the generation of funds for investments.

The evolution of group activities towards a multi-purpose pattern is a gradual process. Single-purpose cooperatives are often more appropriate in the early stages of development until they have gained the necessary capability to pursue more complex objectives. Experience has shown that a strategy of developing rural organizations into multi-functional units is unlikely to succeed unless

it is supported by capacity-building measures, which include the development and implementation of appropriate management systems and staff training, as well as the training of elected leaders and the education of members. Projects involving cooperatives and other rural organizations should include such capacity-building components.

Guidelines. Regarding the activities of rural organizations, particularly at the primary level, the following recommendations emerge from the study.

- To be able to provide the comprehensive range of services needed by farmers, agricultural service cooperatives and other farmer groups should be promoted to evolve into multi-functional societies, handling the distribution of farm inputs, marketing and primary processing of produce, and provision of financial services.
- Other activities than those mentioned here should be encouraged if they serve to complement the otherwise seasonal activities, provide a needed service on a financially sustainable basis, or encourage the wider participation of members, particularly disadvantaged groups, such as women.
- Development of rural organizations into multi-functional units is a long-term process and requires special efforts to strengthen the management and to ensure the full participation of members. Capacity-building measures should include at least the following components:
 - Development and implementation of accounting, recording and other management systems which contribute to efficient internal control and which provide data

necessary for planning, execution and monitoring of business activities.

- Design and implementation of job-oriented staff training programs based on standardized management systems. Experience available from a number of cooperative development projects clearly show that training programs directly linked to standardized systems yield better results than general, non-specific training; and
- Design and execution of programs for training of management committee members and education of the general membership. This is an element of the capacity-building process which is often given too little attention in cooperative development projects. If it is neglected, member participation tends to suffer and the elected leaders do not acquire the skills necessary to run the affairs of their societies in a business-like manner.

Unions and Federations of Rural Organizations

Summary of experience. One of the central conclusions of this study is that cooperatives and other rural organizations need to build a capacity to assume responsibility for promotional and development functions which have hitherto been vested with government departments. This calls for action to strengthen the capacity of secondary cooperatives and national apex cooperatives (and secondary and tertiary organizations of other types of rural organizations) to extend commercial services to the primary level cooperatives and to

provide them with support in management development, training and the general promotion of cooperative activities.

Cooperatives in most SSA countries are organized into a three- or four-tier vertically integrated structure consisting of primary societies, district unions (in some cases also provincial/regional unions), specialized national level cooperatives, and an apex cooperative federation. The unions at the secondary level have typically been formed to provide the affiliated primaries with centralized services in activity areas such as bulk procurement and supply farm inputs, crop marketing and transport, administration of savings and loan programs, training, and provision of accounting and other management services. At the national level, there are normally a number of tertiary cooperative organizations. Examples of such organizations are cooperative banks which serve as the central financing institutions for the cooperative movement, crop-based national cooperatives which handle processing and marketing, and apex federations which speak for the cooperatives and safeguard their interests in relation to government authorities and other organizations.

The experience from the secondary cooperatives is far from uniform. In some countries, they were formed as part of the state-established cooperative structure. Frequently, the primary cooperatives have been required to cede a proportion of their turnover or profit margin to these secondary bodies, but have received little or no benefits in return. In several countries, however, unions of primary societies have been able to provide useful services for the development of the activities of their affiliates.

Practically all countries in the region have a national cooperative apex body. They were meant to serve two main purposes: to be the spokesperson for the cooperative movement and to provide promotional and commercial services needed by the cooperatives. The experience with these apex

bodies has been largely disappointing. They have not been able to exercise a decisive influence on the development of the cooperative sector by making their impact felt on matters relating to cooperative policy or the conditions under which cooperatives have been operating. The results in the commercial field have perhaps been even worse. The diversity of operations has often transcended the management capacity of the apex bodies, has created an unwieldy organizational and operational structure, and has resulted in inefficient and uncompetitive services.

Guidelines. The conclusion of this study is that regional unions and national federations have a potentially useful role to play and that they should be considered as partners in the design and implementation of projects involving cooperatives. When, as advocated in this study, the state-controlled cooperative support and marketing structures are dismantled, the need for movement-based support organizations will increase. In cases where the financial resources of the cooperative movement are limited, donors can be instrumental in speeding up the process of reducing government involvement by supporting the transfer of functions earlier vested in government departments and parastatal marketing organizations to secondary cooperatives or other types of autonomous service and promotional organizations. It is essential, however, that support to secondary cooperatives is based on a proper analysis of the actual needs of the primaries in each case and of the prospect of sustainability of the unions. This means, more specifically, that:

- Care should be taken not to promote a structure of secondary organizations which are not financially and operationally viable and which therefore are unable to provide competitive and cost-effective services to the primary cooperatives.

- Secondary unions should only be promoted to handle such services which the primary organizations cannot procure more efficiently and at lower cost through other channels.
- Services by secondary cooperatives should be provided on a commercial basis without subsidies in order to ensure sustainability.

The conclusions and recommendations concerning the cooperative apex bodies can be summarized as follows.

- The apex cooperatives have in the past failed to exercise their representative role as spokespersons for the cooperatives due to constraints originating from the centralized political and economic system which has characterized the majority of countries in SSA during most of the post-independence period.
- The ongoing liberalization process gives the apex federations the potential to participate in policy formulation and to act as a more effective guardian of cooperative interests.
- The apex federations need to upgrade their cooperative research, planning and monitoring capabilities in order to be able to fulfill their role as spokespersons for cooperative interests. Donors can be instrumental in this process by providing the apexes with technical assistance.
- The apexes, provided that they have the necessary professional capability, can be important facilitators in the identification, formulation, and implementation of

donor-supported projects with cooperative components.

- The role of the apex federations should mainly be that of spokesperson and facilitator in the formulation of cooperative policies, and development strategies and programs. Commercial activities, if organized on a cooperative basis, should be carried out by specialized cooperatives.
- The functions and staff of unprofitable parastatals should not be transferred to cooperative apex bodies.

There are few regional and national structures for other types of rural organizations than cooperatives. The Federation of Non-Governmental Organizations (FONG) in Senegal is one example. It is organized in a very informal way with a small office as a contact point and without full-time high-level staff. The head of the organization is available when called upon to provide consultative assistance against payment of expenses involved. Cooperative movements with limited resources could consider similar arrangements as an initial step towards a full-fledged cooperative apex body (see Chapter 4).

DONOR ASSISTANCE TO RURAL ORGANIZATIONS

Donor agencies have in recent years extended substantial technical and financial assistance for the development of cooperatives and other rural organizations in Sub-Saharan Africa. Although there are examples of external assistance having contributed significantly to the development of viable cooperatives, it is evident that the overall results have been disappointing. The objectives of creating a member-controlled, self-sustaining and commercially efficient cooperative movement have in many cases remained elusive. From the data collected

through this study it would appear that the following three factors have contributed to the discouraging results.

- Insufficient attention has been given to the necessity of addressing policy constraints as a condition for effective implementation of donor-supported cooperative development activities.
- Much of the assistance by official development agencies has been channeled through government departments with the result that it has strengthened the government apparatus rather than contributed to capacity-building within the cooperatives themselves.
- Cooperatives and other rural organizations involved in donor-supported projects have often been given responsibilities which they have not had the capability to handle, and projects have not included adequate components to strengthen the participating organizations.

Promoting Policy Reforms

As was mentioned in an earlier section of this chapter, the World Bank has a particularly important role to play in the area of policy reform. The growth of private business organizations—including cooperatives and other group-based enterprises—serving the marketing and supply need of farmers is an important prerequisite for the successful implementation of the agricultural liberalization and institutional reform programs that the Bank is supporting in practically all countries in the region. The Bank and other agencies can promote a conducive policy framework by:

- Building a capability within national cooperative organizations to serve as the spokesman for farmers. The

aim should be to create a capability within such organizations to analyze policy issues and present proposals to governments for amendments of policies and legislation. This type of support could include the training of planning and research officers and financial assistance for the execution of studies and surveys.

- Providing technical support from cooperative movements in industrial countries for the design of policy and institutional reform programs.
- Facilitating governments' acceptance of appropriate policy reforms in policy dialogues with governments.

Direct Channeling of Donor Support

Realizing that past efforts to promote cooperative development through government departments have largely been ineffective and that they run counter to the principle of cooperatives being private, member-controlled organizations, many donors are changing their approach. The Nordic countries, for instance, have introduced the concept of movement-to-movement (MTM) collaboration. Direct links between Nordic cooperatives and those in developing countries are being promoted with the view to facilitating the transfer of experience from the Nordic cooperatives to their counterpart organizations abroad. Although the financial resources for such programs often originate from the official development budget in the donor countries, the programs are implemented both in donor and recipient country by cooperative organizations (see Chapter 5).

A similar MTM program, implemented on a pilot basis under the auspices of ILO, aims at establishing commercial relations between agricultural cooperatives in SSA and France. This type of assistance is directed only to organizations with a potential for viable commercial operations (see Chapter 5).

On the basis of the experience available, the following guidelines should be taken into account in the design and planning of projects which involve rural organizations.

- In view of the poor performance of the development aid channeled through the governments, alternative ways of assisting rural organizations should be actively explored.
- Collaboration with NGOs should be improved and their use as implementing agencies of technical assistance projects increased.
- Special attention should be paid to various forms of movement-to-movement approaches in order to identify means of supporting the existing or emerging efforts in this field. In this type of assistance program, local rural organizations have a better chance of participating in the planning of the program and in its implementation. This could facilitate acceptance of programs as their own and they could be held accountable to a greater extent for the results.

MTM programs should be designed with a view to building on their advantages, which include the following.

- They strengthen the independence of the cooperative movement.
- They facilitate the direct transfer of business management knowledge.
- They expose cooperative and government policymakers to the concept of cooperatives as private sector, member-controlled enterprises and contribute thereby to the introduction of policy reforms.
- They are normally more efficient than assistance through governments

because they are channeled directly to beneficiaries without intermediaries.

- They have the potential to promote trading relations and other joint ventures between cooperatives in industrialized and developing countries.

Composition of Donor Support

In order to be able to determine what type of support needs to be provided, and irrespective of who will eventually make such assistance available, a comprehensive review of the relevant sub-sector should be undertaken. In doing this, close collaboration should be established with other development agencies active in this same field in the country. A common approach in supporting rural organizations should be agreed upon among the donors, and whenever feasible, the World Bank should support the efforts of the other agencies, particularly in the reformulation of policies.

Given the diversity of the activities of cooperatives and other rural organizations and their widely varying needs and capabilities, it is not possible to conceive a prototype model for donor assistance. It can be observed, however, that donor support has often underestimated the complexity of the task of building rural organizations. Assistance has often been of a short duration and not comprehensive enough to address the constraints of the organizations concerned. When participating in projects, cooperatives and other rural organizations have therefore often failed to play their role effectively. Experience gained from the Nordic involvement in the cooperatives in Kenya shows that assistance, in order to have a

sustainable impact, must be long-term and that it must address all aspects of capacity-building and institutional development in the cooperative movement. Training, education, management systems development and institution-building are the main elements of the Kenyan/Nordic collaboration.

The experience referred to in Box 15 provides lessons which should be taken into account when donor support to rural groups are considered:

- Groups should never be organized by outsiders.
- Initial support should be limited to mobilization activities such as group discussions.
- Financial assistance should not be given in the initial stages of group promotion. Such assistance would be an invitation to create a group for the sole purpose of benefiting from external financial support.
- Groups should be encouraged to mobilize resources through savings programs. This promotes participation, develops a capability to manage financial resources, and builds confidence within the group in its ability to initiate and manage activities for the joint benefit of members.

This delicate balance between the need to base group activities on local initiatives and resources and the need for capacity-building through external assistance should be taken into account in the design of projects involving rural groups.

Notes

- 1. SSA refers to Sub-Saharan Africa.**
- 2. Information on these associations came from the Groupe de Travail Coopération Française, "Les Interventions en Milieu Rural. Principes et Approches Méthodologiques," Ministère de la Coopération et du Développement, Paris, 1990, pp. 138-39**

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ANNEX

PROJECTED AFRICA AGRICULTURE PROJECTS
WITH EXPECTED COOPERATIVE AND
OTHER RURAL ORGANIZATIONS COMPONENTS
FY93-FY98

COUNTRY	ID NO.	TITLE	FY
BENIN	3BENPA099	RURAL CREDIT	93
BURUNDI	3BUIPA073	AGRICULTURAL BUSINESS	93
MADAGASCAR	3MAGPA105	RURAL FINANCE	93
GHANA	3GHAPA098	LIVESTOCK	93
GHANA	3GHAPA110	ENVIRONMENT	93
BURKINA-FASO	3BURPA064	FOOD SECURITY	93
THE GAMBIA	3GAMPA022	AGRICULTURAL SERVICES	93
MALAWI	3MALPA074	AGRICULTURAL SERVICES	93
ZAMBIA	3ZAMPA073	AGRICULTURAL MARKETING AND PROCESSING INFRASTRUCTURE	93
ZIMBABWE	3ZIMPA057	AGRICULTURAL SERVICES	93
TOGO	3TOGPA022	AGRICULTURAL SERVICES	93
RWANDA	3RWAPA047	AGRICULTURAL SECTOR ADJUSTMENT	93
GHANA	3GHAPA098	LIVESTOCK SERVICES	93
THE GAMBIA	3GAMPA022	AGRICULTURAL SERVICES	93
MOZAMBIQUE	3MOZPA037	RURAL RESTRUCTURING	93
ZAMBIA	3ZAMPA073	MARKETING AND PROCESSING	93
ZIMBABWE	3ZIMPA057	AGRICULTURAL SERVICES	93
COTE D'IVOIRE	3IVCPA101	LAND TENURE	94
CENTRAL AFRICAN REPUBLIC	3CARPA036	NATIONAL LIVESTOCK	94
GUINEA	3GUIPA055	RURAL ENVIRONMENT PROJECTION	94
COTE D'IVOIRE	3IVCPA100	NATIONAL AGRICULTURE	94
ETHIOPIA	3ETHPA097	FERTILIZER	94
KENYA	3KENPA154	DROUGHT	

SUDAN	3SUDPA097	AGRICULTURAL SUPPLY	94
TANZANIA	3TANPA129	FORESTRY /ENVIRONMENT	94
ANGOLA	3ANGPA025	AGRICULTURAL SERVICES	94
GHANA	3GHAPA129	AGRIC. SECTOR INVESTMENT	94
GUINEA BISSAU	3GUBPA035	NATURAL RESOURCES	94
MAURITANIA	3MAUPA052	AGRIC. SERVICES	94
ZAMBIA	3ZAMPA070	AGRICULTURE	94
COTE D'IVOIRE	3IVCPA101	LAND TENURE	95
COTE D'IVOIRE	3IVCPA105	NATIONAL ENVIRONMENT	95
COTE D'IVOIRE	3IVCPA102	RURAL INFRASTRUCTURE	95
UGANDA	3UANPA084	COTTON SECTOR	95
ANGOLA	3ANGPA001	FISHERIES	95
MADAGASCAR	3MAGPA056	IRRIGATION REHABILITATION.	95
GHANA	3GHAPA130	FISHERIES	95
NIGERIA	3NIRPA136	FORESTRY III	95
NIGERIA	3NIRPA171	RURAL MARKETING	95
BURKINA-FASO	3BURPA057	RURAL INFRASTRUCTURE	95
CHAD	3CHDPA020	AGRIC. SERVICES	95
NIGER	3NIGPA034	NATURAL RESOURCES	95
SOUTH AFRICA	3SOUPA004	SMALL FARM SUPPORT	95
CAMEROON	3CAMP102	FORESTRY	96
GABON	3GABPA018	AGRICULTURE	96
ZIMBABWE	3ZIMPA058	FORESTRY	96
COTE D'IVOIRE	3IVCPA103	LIVESTOCK	96
COTE D'IVOIRE	3IVCPA111	AGRICULTURE	96
ETHIOPIA	3ETHPA093	LIVESTOCK	96
MADAGASCAR	3MAGPA097	NATIONAL EXTENSION	96
NIGERIA	3NIRPA139	LIVESTOCK	96
NIGERIA	3NIRPA179	AGRICULTURE SECTOR	96
SIERRA LEONE	3SILPA045	AGRICULTURE NATIONAL RESOURCES	96
MALI	3MLIPA071	AGRICULTURAL SERVICES	96
MAURITANIA	3MTAPA049	IRRIGATION PROMOTION	96
NIGERIA	3NIGPA064	AGRIC. SERVICES	96

SENEGAL	3SENP089	NATURAL RESOURCES	96
MALAWI	3MALPA078	NATURAL RESOURCE	96
ZIMBABWE	3ZIMPA058	FORESTRY	96
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KENYA	3KENPA132	DAIRY DEVELOPMENT	97
KENYA	3KENPA143	ENVIRONMENT.	97
SUDAN	3SUDPA033	TECHNICAL II	97
UGANDA	3UAN095	LIVESTOCK II	97
ANGOLA	3ANGPA032	ENVIRONMENT	97
BURUNDI	3BUIPA059	AGRIC. SECTOR III	97
RWANDA	3RWAPA070	LIVESTOCK/FORESTRY	97
RWANDA	3RWAPA079	FORESTRY	97
GHANA	3GHAPA114	FORESTRY	97
CHAD	3CHDPA040	NATURAL RESOURCES	97
NIGERIA	3NIRPA139	LIVESTOCK III	96
BURKINA-FASO	3BURPA057	AGRICULTURAL SERVICES II	95
MAURITANIA	3MTAPA052	AGRICULTURAL SERVICES	94
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ETHIOPIA	3ETHPA0083	PEASANT AFRICA DEVELOPMENT I	98
KENYA	3KENPA131	AGRICULTURAL MARKETING	98
UGANDA	3UANPA048	FORESTRY II	98
UGANDA	3UANPA065	AGRIC. ENTERPRISES	98
ETHIOPIA	3ETHPA083	PEASANT AFRICA DEVELOPMENT II	
UGANDA	3UANPA096	FISHERIES	98

ONGOING AFRICA AGRICULTURE PROJECTS
WITH COOPERATIVE AND
AND OTHER RURAL ORGANIZATIONS COMPONENTS
06/30/92 (FY 92)

COUNTRY	ID NO.	TITLE	FY
BURUNDI	3BUIPA032	COFFEE SECTOR	90
CAMEROON	3CAMP048	WESTERN PROVINCE RURAL DEVELOPMENT PROJECT	84
EQUATORIAL GUINEA	3EQGPA004	COCOA REHABILITATION	85
CONGO	3COBPA031	NATIONAL AGRICULTURAL EXTENSION & ADAPTIVE RESEARCH	91
ETHIOPIA	3ETHPA048	PEASANT AFRICA DEVELOPMENT I	89
GAMBIA	3GAMPA011	AGRICULTURAL DEVELOPMENT II	84
GUINEA	3GUIPA047	RESEARCH EXTENSION	89
KENYA	3KENPA110	COFFEE II	90
MALI	3MLIPA043	AGRICULTURAL SERVICES	91
MAURITANIA	3MTAPA020	SMALL SCALE IRRIGATION	85
NIGER	3NIGPA025	IRRIGATION REHABILITATION	85
NIGERIA	3NIRPA051	KADUNA AGRIC. DEVELOPMENT	84
SOMALIA	3SOMPA047	AGRIC. SECTOR ADJUSTMENT PROGRAM	86
UGANDA	3UANPA021	AGRIC. DEVELOPMENT IFAD II	85
UGANDA	3UANPA067	AGRIC. SECTOR ADJUSTMENT CREDIT	91
CAMEROON	3CAMP083	COCOA REHABILITATION	88
EQUATORIAL GUINEA	3EQGPA012	AGRICULTURAL EXP. & AGRICULTURAL SERVICES	91
CENTRAL AFRICAN REPUBLIC	3CARPA030	AGRICULTURAL INSTITUTIONS	92
COTE D'IVOIRE	3IVDPA082	AGRICULTURAL SECTOR ADJUSTMENT	90
MAURITIUS	3MTSPA030	AGRICULTURAL SERVICES	91
NIGERIA	3NIRPA060	MULTI STATE	86
NIGERIA	3NIRPA098	MULTI STATE	89
NIGERIA	3NIRPA122	MULTI STATE	89
BURKINA-FASO	3BURPA046	AGRICULTURAL SERVICES	89
MALI	3MLIPA062	AGRICULTURAL SECTOR ADJUSTMENT	90
MALAWI	3MALPA070	INSTITUTION DEVELOPMENT	89
MOZAMBIQUE	3MOZPA035	SMALL & MEDIUM SCALE ENTERPRISE	90

MALAWI	3MALPA073	AGRICULTURAL SECTOR	90
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