MEASURING COOPERATIVE SUCCESS

New Challenges and Opportunities In Low- and Middle-Income Countries

Measurements for Tracking Indicators of Cooperative Success (METRICS)

OCDC
US Overseas Cooperative Development Council

USAID
FROM THE AMERICAN PEOPLE

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United States Overseas Cooperative Development Council

United States Agency for International Development

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ABOUT OCDC

The U.S. Overseas Cooperative Development Council is an organization that unites the efforts of eight cooperative development organizations (CDOs). OCDC's mission is to champion, advocate and promote effective international cooperative development. As a private-sector solution, cooperative development combines humanitarian concern with a business discipline. It brings people together in democratically governed businesses to meet their mutual needs, participate in decision making and take a self-help approach to shared problems and goals. Linked to the U.S. cooperative sector, OCDC's members believe that the benefits of cooperation can be extended to people in low- and middle-income countries.

OCDC serves as the coordinating organization for cooperative development collaborative initiatives including those undertaken by OCDC, as well as those that are part of USAID's Cooperative Development Program. Such initiatives include the Cooperative Law and Regulation Initiative (CLARITY) and the *Measurements for Tracking Indicators of Cooperative Success (METRICS)* project, and publication of the monograph *Cooperatives: Pathways to Economic, Democratic and Social Development in the Global Economy.* The ultimate result of these initiatives is to help CDOs create tools and build institutions that provide ways for reducing poverty and involve large numbers of people in developing countries in their own economic and social growth.

Members of OCDC

Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI/VOCA): ACDI/VOCA is a private, nonprofit organization that empowers people in developing nations to succeed in the global economy through community development, financial services, enterprise development, and agribusiness systems. ACDI/VOCA's cooperative roots extend from 1963, when U.S. farmer cooperatives founded the organization to strengthen cooperatives worldwide. By providing technical and management assistance to entrepreneurs, small- and medium-scale enterprises, farmers and agribusinesses, financial institutions, associations, cooperatives, NGOs, government agencies, and research and educational institutions in 150 nations, ACDI/VOCA has facilitated broad-based economic growth, raised living standards, and created vigorous civil societies. **www.acdivoca.org**

The Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS): AAC/MIS was created in 1979 as an inter-American association of 63 cooperative and mutual insurers in 20 countries throughout North, Central and South America, and the Caribbean. It is part of a global network with the International Cooperative/Mutual Insurance Federation (based in the United Kingdom) and three other regional associations in Europe, Africa and Asia that involve 206 cooperative and mutual insurers in 72 countries. A major focus of AAC/MIS is to help people-based organizations reach and serve populations that currently have no access to insurance protection. **www.aacmis.org**

CHF International: CHF International's mission is to be a catalyst for long-lasting positive change in low- and moderate-income communities around the world, helping improve social, economic and environ-

mental conditions. CHF designs its programs with the appropriate social, environmental and economic solutions in mind to ensure that the communities served can manage and sustain their future development at a steady pace. CHF works in an average of 30 countries each year, promoting democratic, grassroots development to effectively build, strengthen and promote change within local institutions and communities, and to shape policy decisions that recognize and support those who are willing to help themselves. **www.chfinternational.org**

Communications Cooperative International (CCI): CCI is a cooperative organization dedicated to harnessing the power of information and communications technology to spur economic growth and human development in underserved communities around the world. CCI's work ranges from developing and fostering private, sustainable and local delivery of ICT solutions, to promoting favorable national-level policy environments that will enable these enterprises to flourish. **www.cci.coop**

Land O'Lakes, Inc.: Land O'Lakes is a national, farmer-owned food and agricultural cooperative with annual sales of more than $11 billion. Land O'Lakes is a Fortune 300 company that does business in all 50 states and more than 50 countries. It is a leading marketer of a full line of dairy-based consumer, foodservice and food ingredient products across the United States; serves its international customers with a variety of food and animal feed ingredients; and provides farmers and ranchers with an extensive line of agricultural supplies (feed, seed and crop protection products) and services. For more than 25 years, Land O'Lakes International Development has proudly delivered successful training and technical assistance to and through communities, industry organizations, producer groups, processors, input and service providers, and marketers covering a wide range of food and agricultural industries in more than 70 countries. **www.landolakesinc.com**

National Cooperative Business Association (NCBA)/Cooperative League of the USA (CLUSA): Founded in 1916 as the Cooperative League of the U.S.A., NCBA is the oldest national cooperative development and trade association in the United States. NCBA is the lead national membership association for cooperatives in all sectors of the economy. Its mission is to develop, advance and protect cooperative enterprise. NCBA provides high-quality cooperative educational programming, and contributes to successful domestic public policy and development programs. The organization also encompasses an effective international program that helps people in developing countries establish member-owned businesses and mobilize local resources to tackle challenges related to promoting economic growth in rural areas, community health, natural resource management, and democracy and governance. **www.ncba.coop**

National Rural Electric Cooperative Association International, Ltd. (NRECA): NRECA and its member cooperatives administer a program of technical advice and assistance in developing countries around the world. The original purpose of NRECA's international programs was to export America's model of rural electrification. Since 1962, 250 electric cooperatives have been formed in 14 developing countries. Today these utilities provide electric service to more than 34 million people. In addition, NRECA currently is working in nine countries to provide technical and management assistance, create cooperatives and other decentralized utilities, administer training programs, and introduce renewable energy programs (wind, solar, hydropower and biomass.) **www.nreca.org**

World Council of Credit Unions, Inc. (WOCCU): WOCCU is the global trade association and development agency for credit unions. WOCCU promotes the sustainable development of credit unions and other financial cooperatives around the world to empower people through access to high-quality, affordable financial services. WOCCU advocates on behalf of the global credit union system before international organizations and works with national governments to improve legislation and regulation. Its technical assistance programs introduce new tools and technologies to strengthen credit unions' financial performance and increase their outreach. **www.woccu.org**

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ABOUT THIS REPORT

Credit unions in Colombia help people displaced by drug violence build homes and micro businesses in urban areas. This family now makes sandals to sell to schoolchildren and farmers.

The eight member organizations of the U.S. Overseas Cooperative Development Council have engaged in a series of research activities focused on expanding the knowledge and use of the cooperative business model to foster development in countries throughout the world. These activities have been initiated by OCDC and as a part of the member organizations' ongoing work under the U.S. Agency for International Development's Cooperative Development Program.

The first initiative, PATHWAYS, identified in its report three principle development pathways — economic, democratic and social — promoted by the cooperative model. The second initiative, known as CLARITY (Cooperative Law and Regulation Initiative), focuses on the legal and regulatory environment necessary to support a robust cooperative sector. To date, OCDC has produced two reports: *Enabling Cooperative Development: Principles for Legal Reform* and *Creating CLARITY*. Additional tools and educational events support this ongoing initiative.

Measurements for Tracking Indicators of Cooperative Success (METRICS) is the third major OCDC initiative. It addresses the question: What characteristics produce the greatest probability of a cooperative surviving and thriving in the challenging marketplace of developing and emerging economies?

OCDC contracted with Dr. John W. Mellor of John Mellor Associates, Inc., to gather, synthesize and analyze the experiences and wisdom from cooperative developers and development literature worldwide. Mellor

is the former USAID chief economist, director general of the International Food Policy Research Institute in its formative years, and prize-winning researcher on development economics.

In producing the METRICS report, Mellor conducted extensive interviews with OCDC members and others involved in international development. In addition, a focus group of renowned cooperative-development experts from low- and middle-income countries engaged in detailed discussions on challenges for cooperative development, defining measurements, and finding common ground for analysis of cooperative success.

Mellor and OCDC members developed an extensive questionnaire, vetted it though the focus group, and tested it on a wide range of their cooperative clients representing different economic sectors and countries. The results of these pilot experiences led the team to refine the measurement tools and definitions.

Although Mellor authored the report, members of OCDC contributed significantly to the report. Assisting Mellor were:

Rachel Blum, CHF International

Brad Buck, Land O'Lakes, Inc.

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Free downloadable copies of this report and related materials are available at **www.ocdc.coop**.

EXECUTIVE SUMMARY

A cooperative is first and foremost a business organization. However, it is distinguished from investor-owned businesses by democratic governance, and ownership and control by its members, who are also its customers. A cooperative is well suited to solve problems of market failure because — in combination with professional management — it can reduce costs by drawing on its members' knowledge, commitment and customer loyalty.

Two key aspects place cooperatives on the elite list for achieving rapid development. First, the solution to poverty in low- and middle-income countries requires accelerated growth of agriculture. Agricultural growth, through direct and indirect effects, is the main driver of employment growth and poverty reduction. Second, rapid urbanization, which is a natural outcome of rapid development, presents huge new problems. Market failure is a common phenomenon in both of these situations, opening the way for cooperatives to form, prosper and facilitate equity, inclusiveness and democratization in fast-growing societies.

Market failure is particularly common in rural areas with:

- many low-income families;
- potential customers spread over a wide geographic area;
- poor physical infrastructure that increases costs and usually results in low levels of competition;
- special and often ill- understood risks of agriculture; and
- isolation of local providers from national markets and market information.

Rapid urban growth creates housing problems that are particularly burdensome for low-income and even middle-income families. With urbanization, new risks arise for families at the same time that ways of meeting those risks — such as through extended families — are weakened or even nonexistent. Housing cooperatives, as well as insurance and savings/credit cooperatives, have proven effective in reducing costs and risks and responding to participants' needs for financial services not otherwise available in the marketplace.

Key dynamics of development reinforce the underlying forces favoring cooperatives:

Globalization has vastly increased markets for high-value, labor-intensive perishable commodities such as fruits and vegetables. Unfortunately, small farmers, who make up the vast majority of producers in low- and middle-income countries, have difficulty meeting the needs of these markets. Cooperatives bring small farmers together and encourage economies of scale, participant loyalty, and foster the discipline needed to meet sanitary standards and other requirements of export markets.

Rapid commercialization of small farms increases agricultural production and the need for production inputs. Market failure, which is common in these areas, is addressed by people organizing cooperatives.

The dramatic increase in supermarkets makes domestic markets as demanding as export markets. All too often, supermarkets find it more profitable to import from high-income countries with large farms rather than to buy from local farmers. Farmer cooperatives provide an effective, low-cost way to meet these new market demands.

Through working in a cooperative, these Rwandan women increase their incomes and well-being of their families.

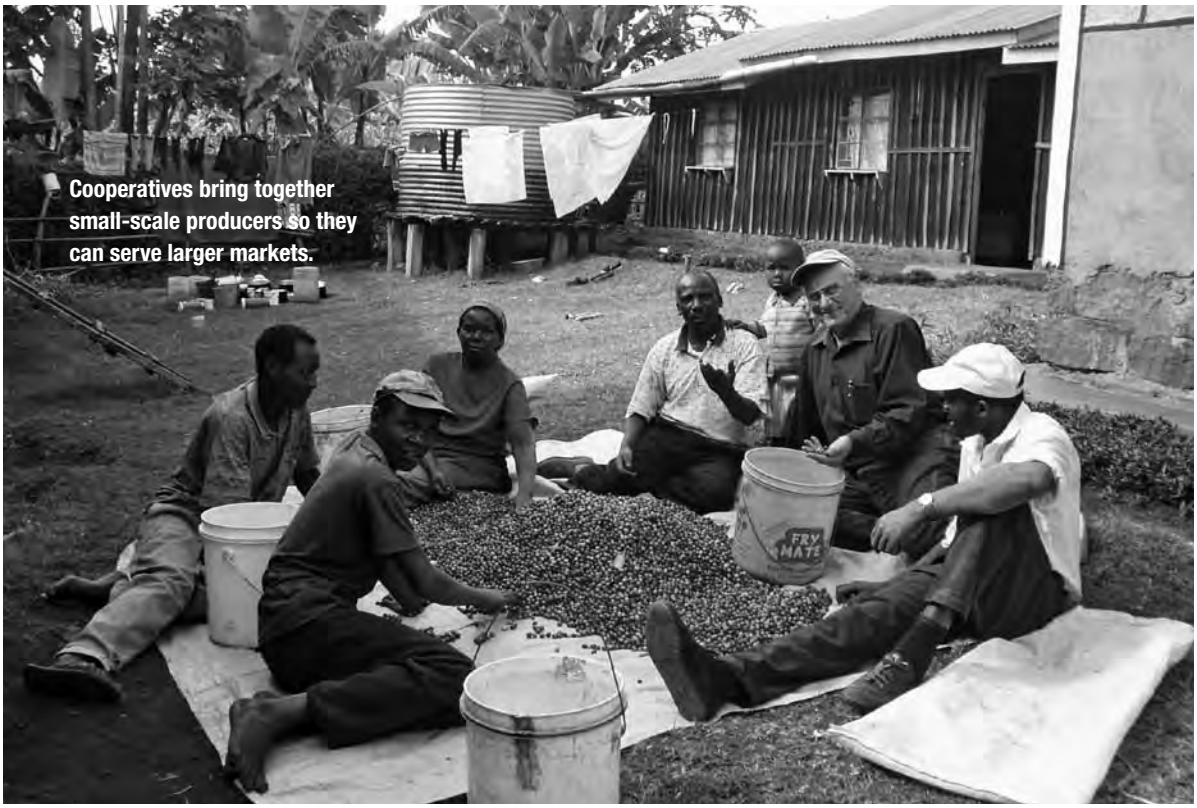
The communications revolution offers new opportunities to rural people, but investor-owned businesses frequently fail to meet their needs. Communication cooperatives provide technology that benefits low- and middle-income people, as well as cooperative businesses, which helps increase their efficiency.

In high-income countries, cooperatives often have risen from the grassroots, then spread nationally. However, governments, recognizing the social and economic benefits of cooperatives, also have encouraged cooperative development with legislation and access to low-cost capital markets. In some cases, governments have played a key role in diagnosing the need for cooperatives, putting up the initial capital and assisting in their organization. In the United States, the rural electric distribution and farm credit systems are dominated by cooperatives in which the government played a critical, formative role.

However, even when government plays a catalytic role, the cooperatives quickly should become member owned (displacing the government capital with their own) and member operated (member elected and controlled boards of directors.)

In low- and middle-income countries, there are numerous examples of cooperative systems that encompass millions of members and are truly member owned and managed. There are also examples when governments have played an important role initiating cooperatives, but have been slow in turning them over to member ownership and control. This has generally proved detrimental to the growth of the cooperative movement.

Foreign governments, through their aid programs, have fostered cooperatives and, in general, pressed for member ownership and management. This effort, in the face of frequent difficulties and misunderstanding of how cooperatives develop, has highlighted the need for indicators of cooperative success, measurement of those indicators, and a means of diagnosing basic sources of failure.



Cooperatives bring together small-scale producers so they can serve larger markets.

To be effective, cooperatives need:

- **Sound business practices;**
- **Strong membership participation;**
- **Support of an efficient apex organization(s) that provide oversight and services; and a**
- **Facilitating economic and legal environment.**

Each of these areas is subject to measurement and analysis for diagnosing when, where and how cooperatives will succeed.

The first category refers to cooperative financial profitability and performance. Cooperatives are grounded by sound business practices they establish and follow to efficiently provide services to their members. Therefore, indicators are needed to measure business success. At early stages of development, cooperatives may have embryonic accounting and management systems, and measurements should be few and simple. They must look not only at profitability, as measured by the profit and loss statement, but also at sustainability as represented by the balance sheet.

The second category of measures refers to the larger social purposes of cooperatives, which also play a role in their success. This requires indicators of membership and participation. The cooperative is concerned with increasing, holding and benefiting from membership and responding to the needs of its members. This fills both an important business purpose — tapping the local knowledge and commitment of its members — and the social purposes of providing members with a sense of inclusion, participation and community, and the ability to decide what services are offered.

The third refers to apex organizations. To achieve national importance, cooperatives not only need to multiply but also receive services that take advantange of economies of scale. It is critical that apex institutions arise to render these services. Apex organizations also may anticipate problems within individual cooperatives, as well as opportunities and challenges across en-

The METRICS survey process gathers information and measures results of cooperative activity to predict potential success.

tire value chains, and help them solve these problems. Ideally, these organizations also carry out activities at the national level that contribute to the overall viability of cooperatives and the industries in which they operate.

The fourth category of measurement refers to the facilitating economic and legal environment. Are the economic conditions favorable to the profitability, both for the cooperative and for its individual members? Is the regulatory system favorable for business success and expansion?

These four categories of measurements are oriented primarily toward individual cooperatives, which are the building blocks of a national system. The national system cannot be healthy and growing if the individual cooperatives are not healthy and growing. This points out the need for the range of services, which may be provided by apex organizations. To help evaluate cooperatives and apex organizations, there is a sample questionnaire with calculations and a plan for conducting the METRICS survey process in the Appendix.

The METRICS process is designed for several groups of users:

Cooperative boards and managers. Although they eventually will need more substantial management tools, the questionnaire results will create a set of performance benchmarks.

Apex organizations. The results of the survey also can indicate trouble spots within the cooperative system, spotlight which cooperatives need management assistance and the types of support they require.

Managing agencies and government departments concerned with cooperative development. These groups can use the results to identify major constraints to cooperative development and improve the policies and programs designed to support development.

Foreign governments providing aid for cooperative development. They can use the results to measure the overall success of their efforts, diagnose problems and assist in their solution.

Defining the four categories of success and providing the basis for measurement reinforces understanding of the crucial and effective role cooperatives play in successful development. With this enhanced understanding, cooperatives can be seen as an effective response to the needs of people in countries with developing and transitional economies.

INTRODUCTION

Cooperatives play an increasingly important role in economic growth, poverty reduction and democratization in low- and middle-income countries. Lack of vital services or low levels of competition provides a business opening for cooperatives and creates opportunities to gain valuable economic and social benefits.

Part I

The first section of this report focuses on why cooperatives are a sustainable business model for addressing market failure in developing countries. For the purposes of this report, "market failure" is defined as when the market either does not provide or inefficiently provides needed goods and services. This inefficiency creates an opportunity for groups other than investor-owned businesses to provide the missing goods or services.

The results of the METRICS process are intended to assess how cooperatives in low- and middle-income countries can achieve their purposes in lasting and sustainable ways.

Typically, cooperatives have developed in response to investor-owned firms failing to enter a market or taking advantage of their customers and suppliers through exploitive or usurious practices. By organizing people who don't have a lot of power in their market, cooperatives provide an opportunity for them to work together and leverage their collective power — something that they cannot do when operating independently.

When discussing cooperatives, it is helpful to understand their types and the organizations that support them. Cooperatives are organized to meet the needs of their members and usually begin at the grassroots level.

U.S. cooperatives provide technical assistance to help producers such as these in Azerbaijan.

But as they grow and their needs, as well as those of their members, become more sophisticated, the cooperative system evolves to provide increasing levels of organization, service and support. The following defines the key types of cooperatives:

Primary cooperative. The initial unit made up of local members and designed to meet their specific needs.

Secondary cooperative. As the size and number of primary cooperatives grows, it may become profitable to add business units that require large volume,

such as a processing plant. The units are still part of the same cooperative structure.

Apex organization. This may be a confederation or association of cooperatives that work together to solve common problems, but are not linked together as part of a unified business structure. The apex organization may provide common services such as training and auditing and apply uniform standards of performance. It also may advocate for its member cooperatives on public policy and issues at the national level.

As the cooperative system grows, many countries create regulatory agencies with specific authority for overseeing cooperatives. These may be a government ministry responsible for registering and monitoring cooperatives, or an institution charged with monitoring the performance of sector-specific cooperatives, such as agricultural credit systems or cooperative housing boards.

Part II

The second section discusses in detail the four categories of measurements for tracking cooperative success:

Category 1: Cooperative financial profitability, performance and general business success.

Category 2: Measures relating to the larger social purposes of cooperatives: membership and participation.

Category 3: Effectiveness of apex organizations.

Category 4: Evaluation of broader economic, policy, legal and regulatory environment.

The first two categories of measurements are largely oriented toward individual or primary cooperatives, which are the building blocks of a national system and must be healthy and growing for the entire system to be on sound footing. The third category addresses the services provided by apex organizations, which can help establish and strengthen the national system and should be measured from the point of view of primary cooperatives. The fourth category refers to the broader facilitating economic and legal environment.

References

A single report only begins to illustrate all the external forces affecting cooperative businesses. The following publications reflect the range of research and tools available on the topic:

World Bank's *Doing Business* initiative (**www.doingbusiness.org**),

USAID's many works on the value chain framework (**www.microlinks.org**),

WOCCU's PEARLS (**www.woccu.org/pearls**) and other instruments for capturing financial performance (**www.cgap.org**), and

OCDC's publication, *Cooperative Law and Regulation Initiative* (CLARITY), which examines the critical legal and regulatory issues associated with cooperatives (**www.clarity.coop**).

OCDC's publication, *Cooperatives: Pathways to Economic, Democratic and Social Development in the Globall Economy.*

Other reference materials, both general and referring specifically to the work of OCDC members, can be found at the end of this report.

Appendix

The Appendix outlines the METRICS survey process and provides two versions of a questionnaire for capturing, tabulating and analyzing information.

PART I.

THE KEY ROLE

of Cooperatives in Development of Low- and Middle-Income Countries

In low-income countries, often with 60 to 90 percent of the population living in rural areas, agriculture represents a major share of gross national product and provides the bulk of employment. Rapid commercialization of small-holder agriculture promotes the growth of national income and employment.

Commercialization of small-holder agriculture requires massive expansion of a wide range of services, including finance, product marketing, supply or production inputs and electricity distribution. Cooperatives play a key role in assuring efficient, competitive delivery of such services. As agriculture expands, it drives the demand for a large, rural, non-farm sector. This sector can encompass a high proportion of the poor, who also begin to demand similar services.[1]

Cooperatives are business operations that attract members based on the essential products and services they provide at competitive and affordable cost.

The exploding importance of information and communications technology (ICT) is a vital component in reducing inequality and stimulating social and economic development. In all-too-common instances of market failure, where ICT services are either unavailable or available only at exhorbitant cost, cooperatives can and should step up to serve rural and poor communities.

Along with rural transformation, urban populations are growing rapidly, not only in large cities but also in small cities and towns. Changes in urban family structure reduce traditional ways of providing many essential services and ensuring against disasters. In urban populations, low- and even middle-income families may face market failure in the supply of essential goods and services. Cooperatives the world over have been a successful option for filling these new and rapidly growing urban needs including:

- Financial services, such as credit and insurance to protect the limited assets and income of the poor;
- Housing; and
- Other services.

Cooperatives also provide a business model for small urban enterprises dealing with special features of their markets.

Context for Cooperative Development

Three important factors lie behind the increasing need for cooperatives: market failure, government performance, and the desire for equity, inclusiveness and democratization.[2] These forces were powerful in the development of cooperatives in high-income countries and can play a similar role in low- and middle-income countries.

Market Failure

Despite the rapidly rising demand for services from low- and middle-income families, existing providers often are reluctant to expand. Risks can be high because of several factors, including poor infrastructure and information systems. Consequently, traditional businesses are largely built on a trading mentality, in which entrepreneurs operate in many different markets and exercise flexibility to redirect their business when market conditions shift. They look for the widest margins, and they do not focus on spending money to build markets.

Through a women's borrowing cooperative, this Sri Lankan dairy and crop farmer has received more attractive loans to help her farm grow and survive tough times.

The problems of market failure are endemic in low-income countries and arise from three sets of forces.

Low incomes in both urban and rural areas drive up transaction costs as a percentage of the amount of business per family. Low incomes also increase risks because of the low margin of income over subsistence needs and the volatility of income.

Rural areas have scattered populations compared to urban areas. Consequently, the cost of serving rural populations is much higher, and makes such investments look risky and management intensive. The result is the failure of modern institutions to move into rural areas, leaving them, for example, to village money lenders isolated from national and international markets. The number of traders for marketing and input supply is often small, resulting in little competition and inordinately high charges for services.

This trading mentality is reinforced by a paucity of risk-abatement strategies other than diversification. Diversification provides a wide range of enterprises within a single firm. The firm is likely to look for the most profitable activity at any gven time and focus on that, then change to other enterprises as profitability changes. This switching among enterprises is preferred to specializing in one enterprise and increasing its profitability through market development. Other reinforcers of this strategy are attractive opportunities in existing markets, concern with the high costs of dealing with the small quantities often required by low- and middle- income people, and the high cost of distributing goods and services to customers spread across rural areas.

For example, when traditional money lenders are the only option, interest rates are far higher than when competition is provided by institutional credit (Desai and Mellor 1993.) Insurance is another example. According to a report by Munich Re Foundation, of the four billion people who live on less than $2 a day, fewer than 10 million (less than one twenty-fifth of one percent) currently have access to insurance. In theory, these families face risks that could be insured.

The urban-based private sector generally has had little experience dealing with the problems of rural areas. As a result, management sees it as risky and is reluctant to move in. However, once cooperatives have shown the way, private banks and other institutions (often catering more to the upper end of the income spectrum) do move into rural areas, which increases outlets and competition. So cooperatives may serve a catalytic role in bringing a variety of competing institutions into rural areas, which benefits all rural people.

Lack of rural electrification is a striking case of market failure. This has left cooperatives as the choice for rural-electric distribution, which investor-owned firms do not offer.

Equity, Democratization and Inclusiveness

Equity is an underlying principle of cooperatives. If a cooperative succeeds financially, its members share directly and proportionately in that success. Addressing market failure benefits all users of cooperative services, whether they are members of a cooperative or not. So when cooperatives are successful, there is a widespread impact of positive economic benefits.

Reluctance by the government to turn over cooperative ownership and management to members is likely to impede longer term, effective cooperative development.

Increased democratization at all levels is a widely held objective of foreign-aid donor agencies and increasingly of aid-recipient governments. Democratization takes many forms, from participation in national and local elections to a range of civic organizations. Cooperative membership and participation is an important means of expanding civil, inclusive and participatory society. Cooperatives provide a learning process for establishing and maintaining a working democracy.

Cooperatives attract members by providing economic services that raise their real incomes. Members may be drawn to a cooperative by its economic advantages, but through their participation, they expand their inclusion in economic, social and public affairs.[3] Democratic participation of members improves the economic functioning of the cooperative business by incorporating their knowledge and loyalty. It also fosters democracy and inclusion by demonstrating the value of broad participation in economic structures. To further this objective, it is important that members participate actively, including electing board members.

Cooperatives can empower relatively weak elements of society. By helping increase members' income, they provide a major incentive to participate. Participation is a two-way process: an active membership contributes to the economic success of the cooperative, and economic success spurs members to be active and encourage others to join.

Role of Government

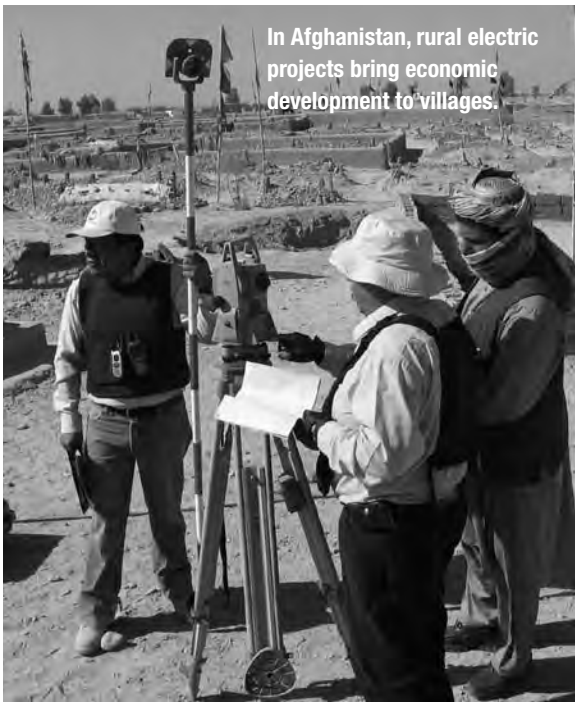
In developed countries, cooperatives that serve urban consumers grew spontaneously in the early stages of the Industrial Revolution. Governments played a crucial role in cooperative development in rural areas to meet demands for credit and deposit mobilization, electricity distribution and a wide range of marketing and input supply services.

Governments have the potential, as demonstrated repeatedly in high-income countries, to greatly accelerate the pace of cooperative development. Successful cooperatives, as will be demonstrated later, require organizational structure and services beyond the primary cooperative. If cooperatives are to have national impact, these structures and services have to be provided on a large scale. Similarly, the capital requirements for national impact are very large and often in short supply in many developing countries, particularly for the poor.

Valuable lessons about the relationship between governments and cooperatives can be learned from the experiences of developed countries. Until the 1920s, rural credit in the U.S. was not adequate for a prosperous rural sector. The government formed a commission to develop the basic format for the rural credit system, provided the capital and played a major role in the rapid formation of primary cooperatives and the apex organization. The result was the Farm Credit Administration and a nationwide system of cooperative credit. But there was always a clear objective — quickly reached — of the cooperatives becoming farmer-owned (replacing government capital with member capital) and farmer-operated businesses (farmers electing the boards that provide oversight and governance).

In the 1930s efforts failed, even with financial incentives, to encourage electric power companies to serve rural areas. The government stepped in with the Rural Electrification Administration (REA) and a system of

rural electric cooperatives. In turn the REA, primarily by providing access to low-cost capital, and the Universal Service Fund were catalysts for the expansion of rural telecommunications services in the U.S. after World War II. Input supply and output marketing cooperatives developed from grassroots movements, but received large infusions of capital from the government.


In Afghanistan, rural electric projects bring economic development to villages.

All of these government efforts to establish cooperatives were driven by a simple philosophy that they should be member owned and member managed. Government capital, and even management, played an initial part, but was quickly displaced. For complex reasons, that shift in the role of the government has not always proceeded as well in low-income countries.

Unfortunately, governments in many low- and middle-income countries have not given a high priority to the essential principle that cooperatives are member owned and financed. They may see political advantage in controlling cooperatives that have large numbers of members. While a government's role may be to encourage the rapid growth of cooperatives, reluctance to turn over ownership and management to members is likely to impede longer term, effective cooperative development.

Of course, there are striking success stories in developing countries. Forty years ago in the Philippines, nearly 80 percent of the total population lived in rural areas, and less than 10 percent had access to electric service. The government, acting on recommendations from the U.S.-based cooperative development organization, NRECA International, Ltd., established the National Electrification Administration and proclaimed a goal of universal electrification, primarily through new rural electric cooperatives.

Over the past four decades, NEA, with the support of NRECA, has helped establish 119 rural electric cooperatives, which provide modern service to more than 50 million people in rural areas of the country. The cooperatives act independently, even though they are still subject to NEA oversight. By law, the NEA retains authority over the general manager of the cooperative. For millions of rural Filipino households and businesses, electric service provided by the cooperatives has improved living conditions and resulted in sustained economic development, especially in value-added agriculture.

The distinctive feature of a cooperative is that members take an active role in setting the direction of the cooperative.

In India, there also have been huge cooperative successes. What started as a small cooperative (Kaira District Dairy Cooperative), now has grown to a nationwide organization of 13.4 million members, 3.7 million of whom are women. The dairy cooperative system is fully integrated vertically, dominates the industry, has fostered rapid growth of dairy production, and significantly increased the incomes of large numbers of small dairy farmers. The majority of those managing the dairy animals and marketing the milk are women. Similarly, oilseed pressing is dominated by cooperatives. Cooperatives also are a major force in sugar-cane processing, cotton marketing and fertilizer production and distribution.

But there also have been mixed results. In Tanzania in the 1970s, cooperatives were successful and dominant in the

Seedlings distributed by Sunce cooperative in Bosnia and Herzegovina will improve crop production.

The typical village money lender tends to charge high interest rates. When cooperatives and other financial institutions enter the scene, rates drop sharply.

export-oriented cash crop sector. However, then-President Nyerere saw them as centers of conservative political thinking that stood in the way of major social changes, and so they were decimated politically. The consequence was long-term damage to the competitiveness of Tanzania's export crops (Lele, 1983).

In many other developing countries, cooperatives have had the experience of being managed by government "cooperative" departments with little business success and even less farmer participation in ownership or management. Attempts to dominate cooperatives for political and bureaucratic gain also have been common, often leading to a negative image of cooperatives not only within the countries but also with the foreign-assistance community.

Despite these setbacks, governments in developed countries, through the use of foreign aid, have tried to reproduce the conditions that led to successful cooperative systems in their own countries. They often have used their home country cooperatives as a source for technical assistance. The record of this type of assistance has been good — the large dairy and fertilizer cooperative systems in India are excellent examples. Other examples are given in subsequent sections of this report.

At present, U.S. foreign aid provides modest support to U.S. organizations, many of which are cooperatives, to help establish successful cooperatives in developing countries. This effort is often part of a larger program of assistance to private businesses.

New Forces Favoring Cooperatives

Over the past few decades, five forces have greatly increased the opportunities for cooperatives to contrib-

ute to economic growth and member well being. They are globalization and trade, commercialization of agriculture, urbanization, supermarkets and the communications revolution.

Globalization and Trade

Policy changes have opened trade, technological changes have reduced transportation and other transaction costs. Together with the rapid growth of incomes over a large share of the previously low-income world, these changes have vastly increased the opportunities for agricultural exports and the potential to increase agricultural output faster than domestic demand.[4]

With these changes, a major constraint to rapid agricultural growth has been removed. Even more important, the growth in demand for high-value commodities has been extraordinarily fast. High-value commodities are labor intensive and provide good return per unit of land. Prime examples are fruits, vegetables, livestock products and many tropical commodities such as palm oil, coffee and cocoa.

Although they offer vast opportunity, there are two major problems that arise for high-value commodities. They often are perishable and can vary widely in quality. Export markets require large quantities of uniform quality.

Given these challenges, how are small farmers to meet these requirements and benefit from new opportunities? Small farmers are competitive in cost of production but frequently face market failure because they are unable to bring together sufficient quantities of high-quality products. This problem is exacerbated by foreign buyers and domestic supermarkets demanding not only production under sanitary conditions but also the ability to trace products to the original farm. Of course, small farmers cannot meet any of these needs on an individual basis. They require organization into larger units.

There are several ways for them to organize:

Contract farming. Large-scale buyers such as exporters, develop a system for contracting for production with a large numbers of farmers. But this requires a lot of organization, which often is beyond the interest and capability of existing private-sector traders. It also requires a large infusion of capital, while traders have many opportunities that do not need much capital. National retail organizations such as supermarkets tend to find it easier to import from developed countries (i.e. Indonesia importing from Australia) than to organize myriad small farmers.

Political stability is threatened by failure to solve the critical housing, insurance and communications needs of the urban poor and middle-income families. Cooperatives can help.

Cooperatives. Cooperatives use local individuals to organize farmers into production and marketing units that are big enough to enforce quality standards and provide adequate quantities for large-scale buyers. Cooperatives often are the only available option for saving highly profitable markets for small-scale producers. Plus, cooperatives can manage the related problem of perishable products that require cooling and cold storage, both of which demand electricity.Lack of rural electrification is a striking case of market failure with neither investor-owned companies nor the government willing to operate systems in rural areas. That leaves cooperatives as the choice for rural-electric distribution.

Commercialization of Agriculture

Because of increasing population pressure on limited land resources, agriculture grows by intensification (Johnston and Mellor, 1961, and Mellor, 1992). The shift to high-value crops is part of this, but even yields of basic cereal grains experience rapid growth — through science — requiring more purchased inputs. Farming continually becomes more specialized, with farmers buying much of what was once produced on the farm.

Investor-owned firms may provide these inputs and market the output. However, cooperatives in both developed and developing countries have addressed the burgeoning demand for inputs by organizing farmers and supplying them with their production needs. Often

they provide a service not otherwise available, and at the least, bring increased competitiveness to these markets.

The demand for rural credit explodes with agricultural commericialization, but almost universally, it has not been met initially by the private sector. The problems described earlier about investor-owned businesses failing to fill the needs of rural and low-income people is especially dramatic in the case of financial services such as credit and savings.

Commercial banks are reluctant to expand into rural areas because of the widely dispersed population, the consequent need for numerous small branches, difficult labor issues and unknown risks. Micro credit has successfully taken root and grown in many countries. However, the loans are too small and the interest rates generally too high to meet the needs of small commercial farmers. This market failure on the lending side is matched by a failure to mobilize deposits or savings. When agriculture is prospering, these deposits have the potential to greatly increase and can finance not only rural development, but also that of small towns (see Desai and Mellor, 1993).

The village money lender normally has poor links to national and international capital markets and tends to charge high interest rates. When cooperatives and other institutions come onto the scene, moneylender rates drop sharply (Desai and Mellor, 1993). This demonstrates a substantial degree of market failure that potentially can be solved by cooperatives. In virtually all countries that succeed in achieving rapid agricultural growth, the government has played a critical role in developing a national system of rural financial institutions. The U.S. did just that in the 1920s, funding the Farmers Credit Administration and the twin Federal Land Bank and the Production Credit Associations.

The commercialization of agriculture, marked by increased purchasing of inputs and greater sales of outputs, the move into perishables, and the increased need for electricity and financial services, creates a unique niche for cooperatives to serve farmers, rural businesses and households.

Urbanization

With unprecedented urbanization in developing countries, cooperatives find a whole range of opportunities. Urban areas grow more rapidly than rural areas. That growth brings problems that play to the advantages of cooperatives to solve them.

The family and community support systems that characterize rural areas often break down in urban settings, and the concern for social welfare increases greatly. As a result, there is a need for safety nets to compensate for volatile employment and income, and solve housing and insurance problems. Hence the need arises for organizing people beyond their families to provide such services.

Housing, insurance and communications are the most striking needs, and cooperative development in these areas has benefited low- and middle-income countries. But, urban consumers also organize cooperatives to provide consumer goods, while small urban businesses form cooperatives very similar to those in rural areas. Political stability, as well as a sense of social justice, is threatened by failure to solve the critical housing, insurance and communications needs of the urban poor and middle-income families. Investor-owned businesses have shied away from these ill-understood situations with their complex organizational needs and perceived moral hazard. But member-owned cooperatives have stepped forward as workable and successful options.

Efforts to improve welfare in urban areas must be matched by efforts in rural areas. Without that balance, urban-rural welfare disparities increase, swelling the ranks of those living in poverty in urban slums and waiting for a well-paying job to open (Mellor, 1992).

Supermarkets

One of the lasting changes of the past few decades is the extraordinary rise of supermarkets to meet the food needs of middle-income families,[5] and increasingly, of relatively low-income families. Supermarkets place the same quality and quantity standards on producers as

Cooperatives can help small farmers serve larger, more exacting markets such as the export market or local supermarkets.

export markets do. Prior to the rise of supermarkets, demanding export markets might have been met by the largest farmers, while the small farmers would serve the less-demanding domestic market. No more. Farmers must be organized for the domestic market as well. For supermarkets in our globalized world, the alternative to organizing small farmers is simple — import from countries with large farms. But that is an unfortunate choice because it excludes rural areas from the benefits of economic growth. Again cooperatives have proved a profitable, efficient and effective means of saving this market for small farmers.

Communications Revolution

Limited access to knowledge and information has been a significant barrier to entry into many markets and industries in the developed and developing world — especially among rural and isolated populations. For many years, the high costs of deploying telecommunications infrastructure and the prevalence of state-monopoly-dominated market structures left rural, isolated and poor regions without affordable, reliable service and access to essential knowledge and information.

With the recent proliferation of technologies such as fiber optics, the Internet, and satellite, mobile and wireless telecommunications, the dynamic has changed quite dramatically.

Rapidly decreasing costs, sector reforms that favor competition, openness and technological flexibility have created an information and communications technology (ICT) landscape that, while in some ways more varied and complex, holds much greater potential to connect millions of previously underserved people. Mobile telephone use and availability has grown explosively in developing countries. Technological and regulatory innovations are increasingly empowering individuals, businesses and communities to develop and leverage ICT solutions to more directly support their needs and priorities.

POLAND: Cooperatives lead way to independent telecom systems, better service

WIST and Tyczyn telecommunications cooperatives were pioneers in independent telecommunications services in Poland.

The WIST and Tyczyn telecommunications cooperatives were established over 15 years ago as the first independent operators in Poland. Within three years, both were profitable and able to pay back loans ahead of schedule and finance additional equipment for expanding their networks.

Today WIST and Tyczyn provide their customers state-of-the-art telecommunications services, including Internet and broadband. Both cooperatives grew their customer base, expanded services and improved quality. WIST now serves 33 villages and 171 businesses, including 30 local cooperative businesses, farm banks and an international regional airport. Tyczyn offers services to 40 villages, 445 private businesses and 67 public-sector providers. One of their members, the Alfred Drinking Water Bottling plant, is now able to receive orders for home delivery placed by their 70,000 customers by phone or the Internet.

Independent providers of telecommunications services are no longer an exception in Poland, with 44 systems now operating in the country. Assisted by NTCA (now CCI), the two telecommunications cooperatives led the way and facilitated this development.

The ICT revolution has particular relevance to cooperatives. Just as rural telephone cooperatives provided access in developing countries during the pre-digital, landline era, the emerging sector trends now are creating opportunities for ICT cooperatives to meet similar objectives in today's digital, wireless environment. Lower costs and greater flexibility create new opportunities for underserved areas to develop community-based ICT infrastructure using cooperative business models. Like all cooperatives, these "bottom-up" ICT approaches marshal local resources, encourage participation and address community needs.

ICT solutions provide cooperatives and their members greater access to global markets for goods, services and ideas. Even the least sophisticated cooperatives are able to gain useful knowledge of marketplace conditions (prices, changes in supply and demand, etc.), in order to operate with greater effectiveness and efficiency. ICT access also enhances the ability of cooperatives in developing countries to communicate and coordinate with members, facilitate business relationships and transactions with suppliers and buyers, and access news and training programs of value to their managers and employees, members and directors.

PART II.

MEASURING COOPERATIVE SUCCESS

Sound Business Practices

What does it take to be a successful cooperative?

- A successful business;
- A dedicated set of members;
- An apex organization to provide economies of scale for services, oversight and rescue of potentially failing primary cooperatives; and
- A favorable external business environment.

This section discusses indicators and their measurements for each of these four broad categories of success. The indicators are intended to be applied to a wide range of cooperatives — including rural and urban, production and consumption, financial services, communications, housing, electricity, and insurance cooperatives. The indicators are based on the role of cooperatives, the forces increasing their potential in developing countries, detailed analytical frameworks from several OCDC members, widespread factors determining success, and standard business practices.

Since cooperatives are business operations that attract based on competitive products and services they provide, the first measures of success must be those of business success.

For each of these key issues there are questions in the questionnaire in Appendix II, which is used to collect data from respondents. Appendix III provides calculations for tabulating the data. Appendix I outlines the process for conducting a METRICS survey. The following discussion focuses on quantifiable questions that provide measurement of cooperative success or failure and a basis for comparative evaluation. The questions apply more specifically to individual or primary cooperatives rather than to apex organizations, although many of the questions can be applied to both.

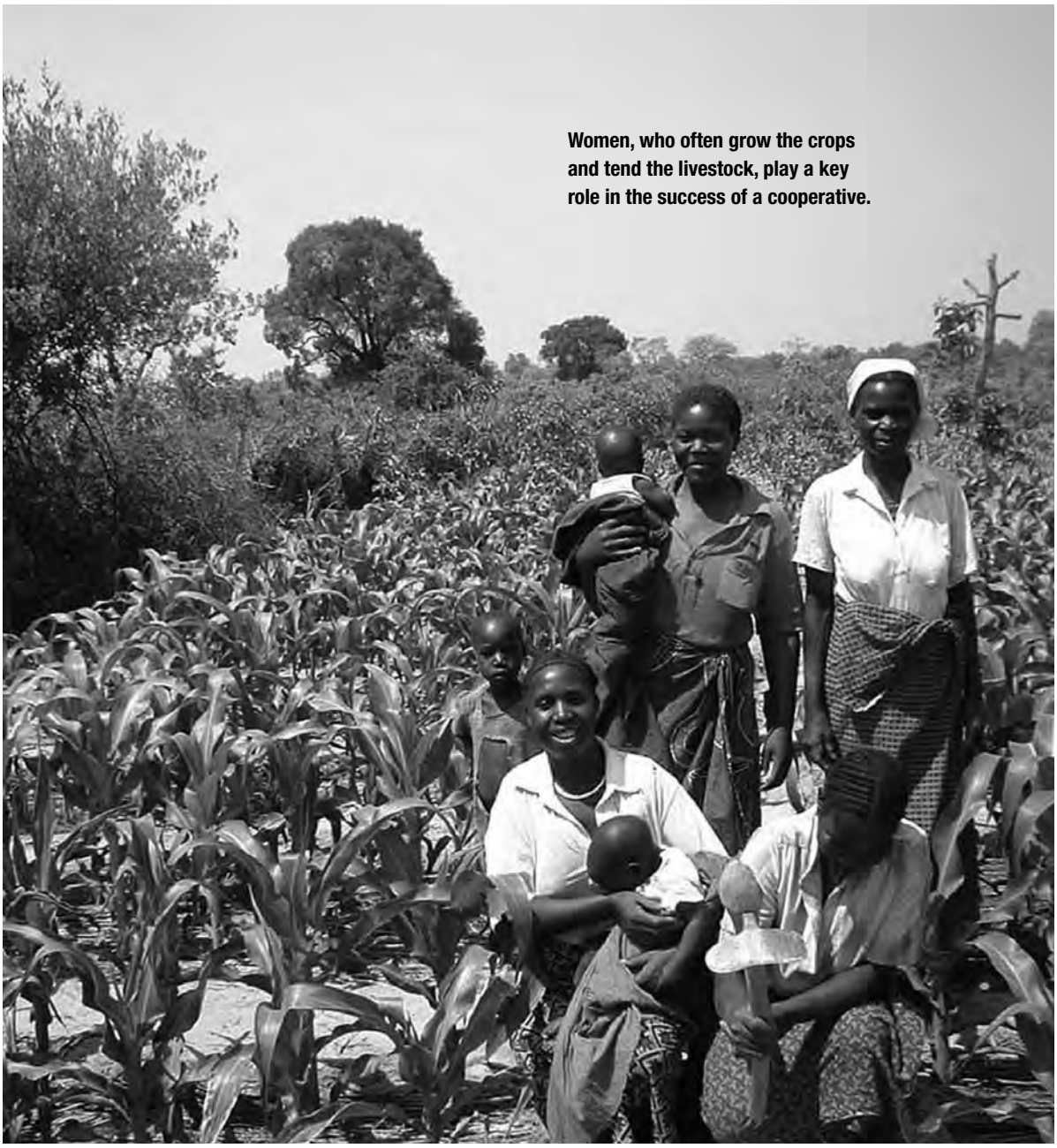
Business Success

Cooperatives are first and foremost business operations that attract members based on the essential products and services they provide at competitive and affordable cost. They often move in when investor owned firms are not offering those services. If the cooperative is run by government bureaucrats with little interest or experience in running a business, or if members put managers in place who are inexperienced, or even corrupt, then the business will fail and the members will drift away. Thus the first measures of success must be those of business success.

Because new cooperatives may still be deficient in accounting skills, the measures need to be simple, but with the expectation that they will become more complex over time, including ratios and trends. Having a set of simple measures of success right from the beginning serves three purposes and provides:

- A constant reminder to both management and members that business success is the first requisite of a successful cooperative;
- A set of numbers that facilitate comparisons with other cooperatives; and
- Evidence to outside agencies and policymakers that cooperatives can be successful businesses.

More complex measures normally require an outside agency or apex organization to explain to members and managers how to calculate and apply them. Organizations providing assistance to cooperatives under USAID programs usually move quickly to develop in-depth quantitative measures of success. These measures are designed to evaluate success over time, provide a



Women, who often grow the crops and tend the livestock, play a key role in the success of a cooperative.

critical management tool for diagnosing weak elements within the cooperatives and options for removing those weaknesses.

These specialized analytical approaches are an extension of the basic survey presented in this report. Following is a description of some of the approaches taken by several OCDC members in their cooperative development work. They provide perspective for the intensity of such analysis, demonstrate how the basic approach evolves into more complex systems, and show the valuable role foreign-aid-funded technical assistance can play in cooperative development.

Cooperatives often move in to provide products or services, which investor-owned firms do not offer.

CUSTOMIZED APPROACHES TO MEASUREMENT

PEARLS tool helps monitor credit union performance

The World Council of Credit Unions (WOCCU) has developed a system called PEARLS. PEARLS is an executive management tool that monitors the performance of the credit union system. It provides credit union managers with concise, easy-to-read reports that reveal institutional weaknesses and trends and also offers a strategic business planning tool to help managers implement change. Going beyond the simple identification of problems, it helps managers find meaningful solutions to serious institutional deficiencies. Using PEARLS allows managers to quickly and accurately pinpoint troubled areas, and to make the necessary adjustments before problems become serious.

Historically, it was impossible to compare one credit union with another due to the diverse criteria and reporting formats that existed. PEARLS provides a standardized set of evaluation ratios and formulas that eliminates diversity and allows objective comparison of credit union performance and ranking on a national basis. Through this system, credit unions receive objective reports that are substantiated by financial information taken from their balance sheets. The objectivity encourages open discussion of problems with boards and management.

Standardizing rural electric reports with U.S. model

Financial measurements for new electric cooperatives in developing countries have been modeled after the U.S. Rural Utilities Service financial and statistical reporting document known as Form 7. This document provides a summary of operations and financial performance on a monthly and annual basis. Form 7 provides an operating statement, balance sheet and a variety of statistical information necessary to evaluate financial performance including:

- Operating expenses, consumer sales and revenue, and plant growth are compared to the prior year and to budget.
- Accounts payable and receivable are calculated on the current month, over 30 days, and over 90 days.
- Uncollectible accounts receivable are identified, in addition to amounts recovered from previous write-offs.
- Trends are calculated by comparing information from several years of the annual Form 7.

The Bangladesh rural electrification program is one of the most successful in the world. It uses a modified version of Form 7. With the assistance of NRECA and USAID, a handbook and training materials have been developed for their cooperative directors. (See reference: "Electric Cooperative Utility Performance Reporting.")

Industry indicators apply to cooperative insurance success

Another example comes from cooperative insurance, where good information systems and sophisticated data analysis are critical to the viability of the business. Insurance entities use a host of common indicators of business success such as solvency ratio (admitted assets/liabilities); net income ratio (net income/earned premiums); and loss ratio (paid losses / earned premium). Insurance cooperatives also use a wide variety of specific benchmarks for life, property and health insurance including renewal rate ratios, claims rate ratio and leverage ratios (net written premium/surplus, complaint ratios, etc.)

Basic measurement tools aid nascent cooperatives

Performance metrics and measurement tools also are available for nascent cooperatives operating in post-conflict countries and among vulnerable populations

who have formed transactional or informal business groups. CHF International has been working with these marginalized groups around the world. CHF helps them strengthen the horizontal linkages that enable these groups to integrate into existing value chains and take advantage of market opportunities. The measurement tools developed by CHF include indicators for business performance, basic financial and management practices, governance, market linkages and access to business services, among others. Such metrics serve as useful benchmarks for the firms themselves, and also as program management tools to give practitioners information about the impact of their efforts over time.

Benchmarks give ICT cooperatives useful comparisons

In assessing performance indicators among ICT cooperatives, Cooperative Communications International has measured operating statement and balance sheet information, placing emphasis on tracking the numbers of member-users, operating margins, liquidity, solvency and profitability. In addition, key metrics measured to determine performance and viability have included:

- Growth of customer base,
- Terms of interconnection with network access providers,
- Efficiency of governance and management structure,
- Labor productivity,
- Service offerings and pricing information, and
- Market standing/location within a competitive marketplace.

While measurement of these factors has provided insight into ICT cooperatives' operations, CCI's ability to collect and analyze useful benchmarking data in some countries has been hampered by shifting norms in accounting and government reporting standards during the measurement period.

Evaluation helps cooperatives set performance priorities, goals

Land O'Lakes has initiated a major revision of its performance measurement system, which is being tested in Zambia and other African countries. It is expected to be fully operational by the end of 2009. The system has several purposes:

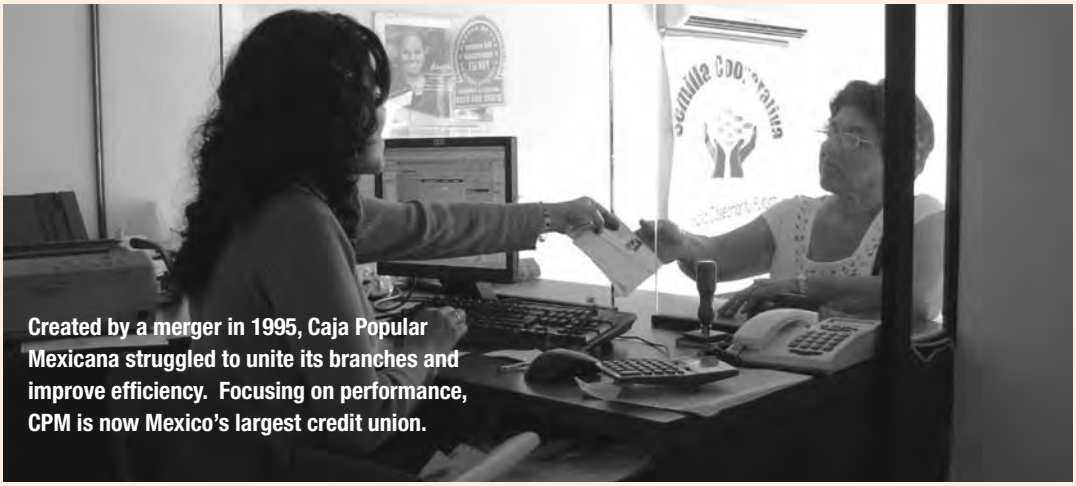
- Measure and improve performance of individual cooperatives;
- Compare performance of cooperatives in a specific country in order to identify country-level strengths and weaknesses;
- Improve country-level performance;
- Provide information for project reports; and
- Compare and improve performance of Land O'Lakes programs.

As part of this system, Land O'Lakes has drafted a Cooperative Performance Workbook that contains worksheets measuring performance in six areas:

1. Leadership
2. Adaptive Capacity
3. Management
4. Operations
5. Supply, Processing and Marketing
6. Production and Finance

Software accompanying the workbook has been adapted to record more than 60 numerical ratings from the worksheets and automatically enters them in a summary table. The program also generates a graph comparing the composite ratings in each of the six areas.

Based on the results of the evaluation, Land O'Lakes staff and representatives of each cooperative identify a small number (three to seven) priority areas for performance improvement. These priorities are recorded in an action plan in the workbook. The plan identifies measurable objectives to be achieved for each priority area and a date by which performance on these objectives will be reevaluated (usually after three months.)



Created by a merger in 1995, Caja Popular Mexicana struggled to unite its branches and improve efficiency. Focusing on performance, CPM is now Mexico's largest credit union.

MEXICO:
Improving financial performance of credit unions

In 1995, 62 credit unions, state and national federations merged to form Caja Popular Mexicana (CPM), now the largest credit union in Latin America. The newly formed credit union struggled with inefficiency and a lack of interaction among its branches.

Thanks to the dedication of CPM staff and technical assistance from a World Council of Credit Unions program (funded by the United States Agency for International Development), CPM has radically improved its efficiency. The organization has increased its assets nearly four-fold, slashed loan delinquency rates to 5 percent from 19 percent, and is growing at a rate of 14,000 new members per month.

CPM has emerged as a profitable, innovative and effective institution that provides safe and affordable financial services to over a million low-income clients in urban and rural Mexico. With an annual growth rate of more than 20 percent, CPM has plans to deliver financial services to woefully underserved rural communities.

These examples of customized measurement help illustrate how the indicators and their measurements discussed in this report can and should evolve into more complex systems. Measures of business success are divided into three broad categories:

1. Financial profitability and performance;

2. Financial stability; and

3. Financial management.

Financial Profitability and Performance

For a cooperative, measuring business success is more complicated than for an investor-owned business. For the latter, the objective is to maximize profit or rate of return on equity. For cooperatives, the objective simply may be to give members a better price or service. Three measures are used to determine profitability and performance:

- Gross sales or other measure of the size of the business, e.g. gross revenues, such as billings, loans, premiums;
- Gross expenses (the difference between sales and expenses is calculated as a measure of profit); and
- Total administrative/operating cost (calculated as a percent of sales and as change over time.)

For each of these measures, the data are collected for the past 10 years or the life of the cooperative, whichever is longer, in order to examine change over time.

Inflation must also be taken into consideration. Accounting for inflation leaves an approximation of real change over time.

These data measure the size of the business. The resulting figure can be stated per member to see if the business is significant to the member. The data collected over time helps determine whether the cooperative is growing.

Gross sales and related measures

For cooperatives as a whole, growth is a prime indicator of success. However for the individual cooperative, that is less certain to be true. Growth can be used to reduce the burden of fixed administrative costs, but once administrative costs as a percentage of total business have stopped declining, then further growth may not be an important objective.

For example, housing cooperatives may be only the units in a building, and growth is not an issue unless the building is small and administrative costs need to be spread over more than one building. At the other end of the spectrum, an agricultural marketing cooperative may garner substantial advantages from growth, not only spreading fixed overheads but also achieving economies of scale from greater volumes, access to larger markets, and the ability to take on other functions or services.

Consequently, the growth rate of a cooperative is important to examine for some and not for others. Of course, declining size is generally a problem because the fixed administrative costs do not decrease as size decreases. As a result, the cooperative's efficiency tends to decline.

Calculations to be made are growth rate of sales; sales per member; and sales growth rate per member.

Small business owners benefit from the improved performance of credit unions.

Gross expenses

Gross expenses are subtracted from gross sales as an indicator of profitability. That number can be deflated by change in prices to put it in real terms and related to sales as a percent of sales. Cooperatives may choose to reduce prices to their members as their efficiency increases, rather than increasing profits as an investor-owned firm might. However, a measure of profitability (revenues, minus sales) is still important. Of course, steady losses are not consistent with long-term survival of the cooperative. If profits are low relative to fluctuations in profit, modest fluctuations in volume or prices may eliminate any profit and move the cooperative to losses that cannot be sustained. Above this margin of safety, a cooperative may consider improving prices to their members, increase reserves or membership dividends.

Calculations to be made are expenses as a percent of sales and as change over time; profit, calculated as the difference between sales and expenses; and, growth rate of profit.

Administrative costs

Administrative costs also need to be measured. This is an area for cost inflation due to lax, incompetent or bureaucratic management. Changes should be measured over time and the costs should be related to sales.

Administrative costs that are large relative to sales suggest areas for increasing efficiency. Can those costs be reduced? With growth, it is normal for administrative costs as a percent of sales to decline. Is this happening? If not, why?

If the government bureaucracy is running the cooperative, normal government practices may increase costs and provide scope for reduction. Member involvement, especially as volunteers, can reduce administrative costs. They also may serve a vital "watchdog" role, bringing attention to lax management. And they can take on some administrative tasks resulting in savings to the cooperative. All are major advantages of an active membership.

However, reducing administrative costs is not an appropriate end in itself. There may be an opportunity to increase sales and reduce operating costs by spending more on administration. Low administrative costs also may indicate that management is being underpaid and that efficiency could be increased with higher-quality management.

One aspect of good cooperative management is recognizing the importance of the manager, the technical and business skills required and arriving at an appropriate pay scale. The fact that a good manager may require a salary considerably higher than the income of the typical member often is a source of concern, underpayment and poor performance. An apex organization can be consulted on pay issues.

The simple statistics used here can be helpful in examining administrative costs. Answers will differ from one cooperative to another.

Calculations to be made are administrative cost as a percent of sales; and change over time in that ratio.

Financial Stability

Is the cooperative financially stable? This requires different data than that for determining if a cooperative is profitable. One is a question for the profit and loss statement. The other is a balance-sheet question.

To succeed over the long term, a cooperative not only must be profitable and efficient, but also have staying power, particularly to get through hard times. In the questionnaire, three questions are raised:

- What are the total assets?
- What are the total debts and total equity?
- What are the total reserves?

Evaluators also should ask, "What is the trend? Is it increasing or decreasing? How does it compare with the rate of inflation?"

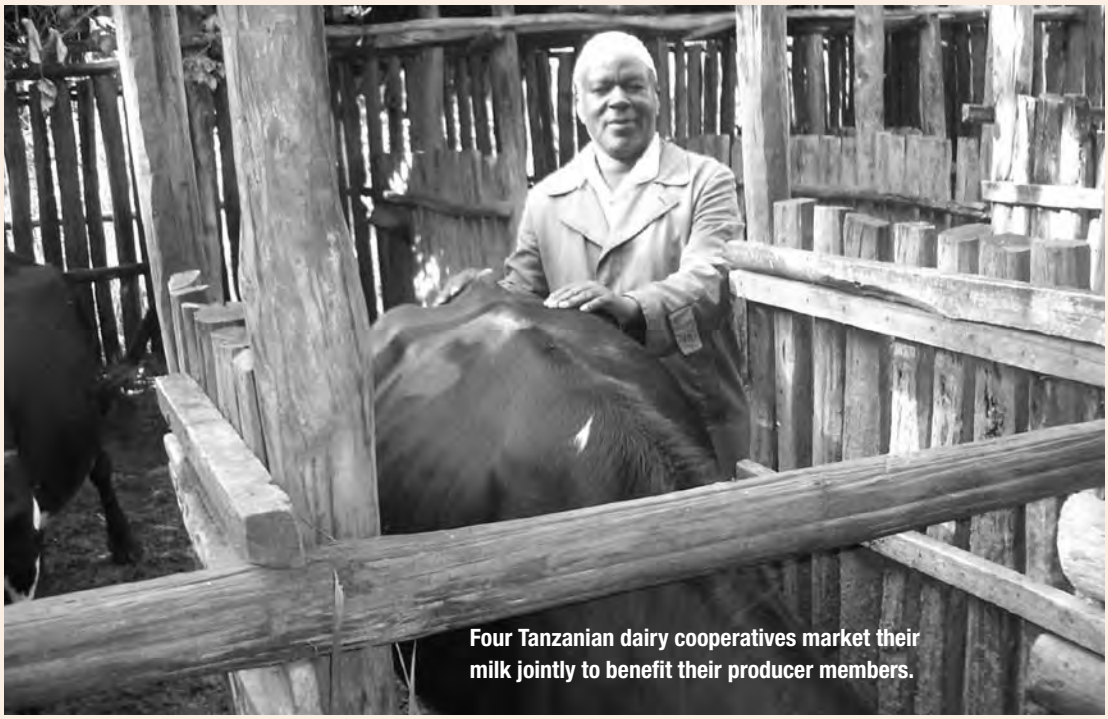
Assets

One key measure of cooperative health is growth of total assets — the physical and financial building blocks of the business. Generally, it is desirable for capital to be used efficiently so that sales per unit of capital grow over time. With data on asset growth, additional questions can be asked about the growth of components.

Calculations to be made are sales as a percent of assets; growth in assets; assets per member; and growth in assets per member.

Debt and equity

Debt subtracted from assets equals equity — the ownership capital of the members. Equity should be growing over time as a primary means of ensuring the cooperative's sustainability. Declining equity per member can be a worrisome sign. While it may happen, especially if national or foreign governments are subsidizing the cooperative, it generally bodes ill for the long-term. How equity is calculated varies with different types of cooperatives. For example, electric cooperatives should balance equity with debt because high-cost distribution assets purchased today will last up to 50 years. So the cost should be spread over time to current as well as future consumers.



Four Tanzanian dairy cooperatives market their milk jointly to benefit their producer members.

TANZANIA: Reaping benefits of a business plan

In late 2006, Land O'Lakes helped four primary dairy cooperatives in the Kilimanjaro region of Tanzania form a cooperative union to jointly market their milk, increase farmers' bargaining power in the marketplace and rationalize transportation and operational costs.

Land O'Lakes worked with the union to: formalize its management structure, build leadership and management capacity, and introduce improved business planning, consolidated financial management systems and best practices to the union and its primary cooperative members.

Within 18 months, union leadership implemented a business strategy that increased sales revenues by 70 percent and reduced operating costs by 46 percent.

Calculations to be made are growth in equity (assets, minus debt); and equity per member.

Reserves

Negative events may occur, depressing a cooperative's profit and equity and requiring it to draw upon reserves until better times return. Reserves should be compared to the amount of debt (as a percent) and to sales (as sales per unit of debt). Reserves also need to be compared to specific sources of loss, such as:

- bad debt (unpaid bills);
- anticipated losses, as in the case of insurance; and
- projected capital expenditures needed to maintain the asset, as in housing.

For the long-term success of most cooperatives, reserves in total, and as a percentage of sales, should be growing, constantly increasing the safety of the investment.

Measurement and management of risk is often a complex matter, requiring outside professional expertise. At

Cooperativa Nacional de Seguros, a secondary insurance cooperative in the Dominican Republic, developed a plan for monitoring and managing its reserves for paying claims.

DOMINICAN REPUBLIC: Reserves cause ongoing concern for insurance cooperatives

Reserve requirements for cooperatives differ in each country, industry or area of business, with no consistent number or percentage of reserves required for all cooperatives. However, all insurance cooperatives must comply with reserve requirements to pay for claims, since they are registered and supervised by their country's insurance regulatory bodies. Developing systems to monitor reserves and other compliance requirements is an on-going concern for insurance cooperatives with which AAC/MIS works.

Cooperativa Nacional de Seguros (Coop-Seguros), an insurance cooperative owned by more than 70 cooperatives in the Dominican Republic, launched its Program for Social Responsibility for the Prevention of HIV/AIDS in 2004. After a thorough actuarial review of their existing life insurance portfolio, Coop-Seguros board of directors came to the conclusion that they could remove all HIV/AIDS exclusions from their life policies without great risk to their reserves.

However, as a prudent measure, in addition to the five percent of written premium income in reserves required by Dominican insurance law, the Coop-Seguros board decided to add 3 percent to their reserves, or approximately 3.5 million pesos (USD $70,400). Later, following the recommendation from the insurance superintendent, they were advised they no longer needed to continue these additional reserves. Nevertheless, they have left this amount as an open-reserve fund if they should need it in the future.

the very least, the board needs to have a sense of the business' risks, how large and how likely they are. From this, they can take prudent steps to protect the cooperative by building reserves. Government involvement that gives the impression of insulation against risks is deleterious to the long-term development and viability of the cooperative.

Calculations to be made are growth in reserves; and reserves as a percent of assets.

Financial Management

All too often, individual cooperatives fail because of misfeasance by the board, manager or members. It is essential to put these sound financial management practices in place:

- Dedicated bank account for all funds, and monitoring of that account;
- Outside auditors to review the finances once a year;
- Members activitely engaged in ensuring and reviewing an outside audit.

Independent bank account

The cooperative business must be kept separate from that of management or members, so that its funds can be audited and controls maintained. If powerful local individuals are involved in the cooperative, it may be attractive to commingle funds. But that is an opening for mismanagement and corruption. If government is closely involved with setting up and managing the cooperative, it may want to save money and time by putting funds in a government account. This, too, can lead to mismanagement and corruption and lessens the opportunity for rigorous independent financial management of the cooperative's funds.

Annual audit

Auditing is a key element of good financial management. Due to the wide scope of potentially improper behavior, governments regulate auditors and the process, which is integral to their success. Even a small cooperative should appoint a reputable registered auditor.

Member selection of auditor

Cooperatives can easily go wrong. In developing countries, much of their poor reputation is based on management being left in control of funds without an outside auditor who answers to the board and members. Given that boards may have special interests, membership involvement in choosing the auditor is desirable, and in many cases, essential to success of the cooperative. The easiest way for the members to select the auditors is to vote for them at the annual meeting and to approve their report at a subsequent meeting. Auditors' reports should be delivered orally, as well as in writing, and in detail.

Auditing is a key element of good financial management. Even small cooperatives should appoint a reputable registered auditor.

Strong Membership Participation

Business success is important, but it's not the only measure of success. The membership participation and governance are clear indicators of a cooperative's long-term business success, as well as how it meets social objectives.

Frequently, cooperatives fail when they are taken over by government bureaucrats, political operatives, or a small "insider" group of members. In these situations, inefficiency is likely, and the lack of an active membership causes the cooperative to lose not only inclusiveness and democratization, but also member input into efficient operation.

The distinguishing feature of a cooperative is members taking an active role in setting the direction of the cooperative. Of course, technical aspects of the business have to be handled by a professional manager. But members can determine the basic objectives and strategy of the cooperative.

Members of a cooperative differ from stockholders in an investor-owned business. They have broader inter-

ests, not just the rate of return on equity and the value of their shares. They also are concerned with the quality and volume of services because they are the primary customers. They are concerned with the implications of the cooperative toward their social welfare, which may determine the type of services offered. In developing countries, where many of the institutions responsible for social services may be completely lacking or deficient, members may seek these services from their cooperative.

Business success in not the only measure of success. Membership participation and governance, and how the cooperative meets social objectives are also clear indicators of success.

The connection between members and management may be a two-way street, particularly in low-income countries with low levels of formal education (although not of intelligence or experience) among members. Management may be more aware of opportunities, and can help educate members about them. However, management must guard against leading and removing control of the cooperative from the members. Consequently, defining the role of members and management is critical.

What do members contribute to a cooperative? Members bring knowledge essential to providing services and make that information available at low cost. For example, they understand their specific needs for milk marketing services — small scale refrigeration when electricity is not available, immediate payment. Members can guarantee a market. They can provide peer pressure on the honesty and behavior of their neighbors, thereby reducing risk. Most important, members can provide low-cost oversight of the board and manager. They are in the community, they see what is happening.

Membership characteristics

For many types of cooperatives, there are advantages in membership growth. Growth in membership indicates that the word is spreading that the cooperative provides desirable service on a competitive basis — it is a business success. More members also mean more business, which spreads out overhead, increases competitiveness and benefits to members. However, for many individual cooperatives membership growth is not appropriate. For example, housing cooperatives tend to have a set membership related to the building size. Membership should be measured, its growth noted, and membership related to variables such as increase in business per member.

It may be important to note characteristics of the membership and identify champions who can encourage positive change. For example, in some developing countries, past traditions or socio-cultural norms may exclude women as cooperative members. And yet, women are important in decision making and are repositories of local knowledge. In South Asia, women look after dairy animals, and may play a key role in dairy management decisions, and handle the money and other assets. Women are an important source of information if a cooperative is to operate effectively. Noting the number of women members, trends in their membership and the extent to which they actively participate in management may be the first step toward bringing a vital source of enthusiasm and knowledge into the cooperative.

Other social groups also may not normally participate in business operations, yet still be important to the business. Including them may meet other objectives of the cooperative.

Experience in many countries has shown that encouraging youth to participate is an increasing priority for cooperatives, which often tend to be led and managed by an older generation of members. By attracting and developing the skills and experiences of younger members, cooperatives now are trying to ensure a future generation of capable managers. Given the increasing "youth bulge" around the world, integrating young people into cooperatives will become increasingly essential to the future of our global economy.

It is important that members participate in the business. Calculating the proportion of members who engage in the cooperative's business or services is the first step to

A local phone cooperative in Africa converted a double-decker bus into a phone center for residents.

increasing participation. If members are to contribute to the efficiency of the cooperative, they must know what is going on and have an opportunity to contribute. Consequently, attendance at the annual meeting is a key measure. Attendance can be encouraged by requiring that a given percentage (quorum) of members be there for business to be done.

Finally, member participation is higher if they understand their role and how to fulfill it. That is done through annual training programs that teach member responsibility. Apex organizations may be a good source of member training and other services. Training also may improve the quality of the members' input into the cooperative, such as the quality of agricultural commodities delivered or timeliness in making housing payments.

Input into management

In this section, five areas of membership input into management are examined:

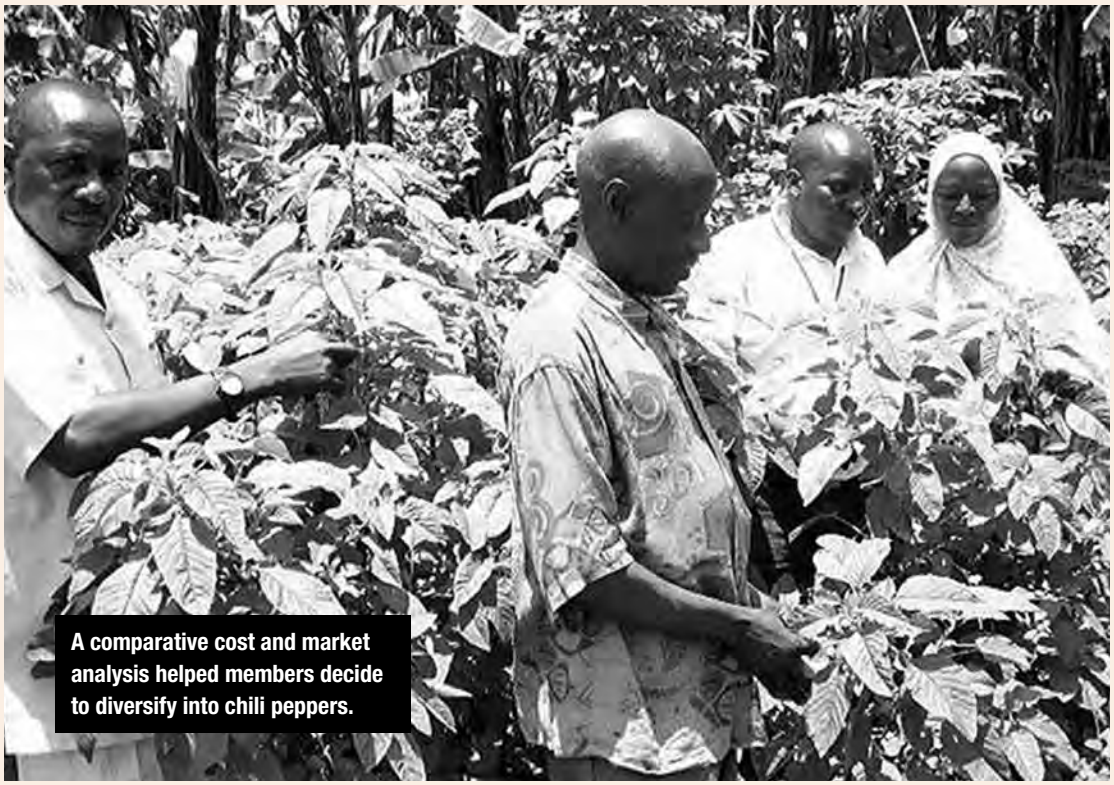
- Membership participation in the selection of the board and the board's involvement in selecting and providing strategic guidance to management;
- Division of responsibilities between the board, as representatives of the members, and manager;
- Membership willingness to run for the board;
- Training of the board; and a
- Business plan that guides management.

The connection between members and management is a two-way street and defining their roles is critical.

Each is an aspect of member participation, which benefits the cooperative by helping it run more efficiently and effectively and by contributing to its sustainability.

Participation in board selection

Active member involvement in selection of the board ensures better operation of the cooperative by drawing on member knowledge. This is one of the most basic measures of democratization. A low turnout for board elections indicates a lack of general member activity and opens the way for the cooperative to be run largely for the benefit of a small clique of members. If this happens, membership and use of the cooperative is likely to decline, and the organization is on the way to failure.



A comparative cost and market analysis helped members decide to diversify into chili peppers.

RWANDA: Building new markets through improved management

CHF International, in partnership with African Evangelical Enterprises, is supporting the growth and diversification of the Witinya Cooperative of the Bugesera district of Rwanda.

Witinya is managed by 60 members who are affected by HIV/AIDS and live in a poor rural area. Through a USAID- and PEPFAR-supported initiative, the cooperative receives technical assistance including business management. After going through a comparative cost and market analysis, the members decided to diversify their products and invest member savings to plant eight hectares of chili peppers.

CHF connected Witinya with a micro-finance institution, which provided a pilot loan to finance a portion of its operating expenses and helped the members obtain agricultural technical assistance.

As a result of the cooperative's initiative and the guidance provided through the program, Witinya has signed an agreement to sell its production to a local distributor, which exports to the Netherlands. The diversification into chili peppers, as well as the new market channel, has made a tremendous impact on the incomes of the roughly 300 family members affiliated with Witinya.

This can also happen in cooperatives run by government departments.

Running for the board

The next step toward a healthy cooperative is competition among members to serve on the board. This can be demonstrated by more than one candidate competing for a board position. In some cases, the board will be seen as broadly representative and doing a good job, so there is no move to replace directors. But if members are resigned to a small clique running the cooperative, they will not run for election. However, if the cooperative is valuable to them, and elections are open and fair, normally there will be competition to be on the board. As with most measures, some judgment will be needed to interpret the results.

Division of responsibility between board and manager

The relationship between the board and the manager of a cooperative is complex and dynamic. However, their roles should be clear and stated in the constitution or by-laws. The board sets broad policy and strategy; the manager implements that policy and strategy. Implementation includes decisions on personnel matters.

A narrow board clique or a government official usurping the manager's role increases the probability of hiring on the basis of family, political orientation or other criteria that may go against the interests of the cooperative. There is also the danger of a small group of insiders taking control of the cooperative and running it for their own benefit.

Having clear guidelines, increases the probability that responsibilities will be divided accordingly. With these guidelines, the membership can oversee the division of responsibility, note any departures from the rules, and use this information to guide their vote on board and other elections.

Training the board

Turnover in board membership and broad membership participation in board elections is desirable. Members bring very special knowledge sets to running cooperatives, but they are deficient, especially in low- and middle-income countries, in the technical aspects of running a small business. These factors make ongoing board training critical to the success of the cooperative.

Business plan

A business plan is important to ensure that management is consistently moving toward clear objectives. Such a plan also helps involve members in elections and running for the board. A business plan can be used in training programs to increase the sophistication of cooperative members.

Support of Cooperative Apex Organizations

A successful cooperative "here and there" does little to accomplish national or societal objectives, while a countrywide system of cooperatives can be more effective. Creating such a system can require an apex organization that ideally provides services and oversight, and represents the primary cooperatives. However, there are examples of successful widespread systems that evolved different levels of management without a formal apex organization, such as the Grameen Bank in Bangladesh and the Kaira District Milk Cooperative, which became the massive Amul dairy cooperative of India.

Integrating young people into cooperatives and developing their leadership and management skills is increasingly essential to the success in the global economy.

Foreign aid may attempt to play the role of an apex organization by financing outside advisors and providing seed capital. However in recent years, foreign aid often has been satisfied with a "cooperative-here/a-cooperative-there approach." In the United States, the government was integral in developing broad systems of cooperatives. Whether fostered by foreign aid or not, a national apex organization or at least a system of tiered

New product lines at Cooperativa Manduvira caused a growth surge, which spurred the board of directors to develop a sustainable and sensible plan for managing growth.

PARAGUAY: Managing growth spurred by 'sweet' success

In 2003, Cooperative Manduvira became the first cooperative in Paraguay to produce both fair-trade and organic certified sugar, which was instantly snapped up by international buyers. However, the Manduvira was not prepared for the impressive export and membership growth it suddenly was experiencing. Membership alone had risen from 960 to 1,384. Having difficulties managing its growth, in 2005 the cooperative board requested the assistance of ACDI/VOCA.

Significant progress has been achieved since then, thanks to a sustainable and sensible growth plan:

- Sugar exports rose from 324 tons in 2005 to 5,500 tons in 2008. Early estimates for 2009 expect 6,200 tons to be exported to 15 countries in Europe, Asia and the Americas.
- To reduce member transportation costs and move the product to markets faster, the cooperative has built 13 sugar cane collection facilities around the region.
- New product lines now are considered, including organic cotton and stevia.

The land to build a sugar mill capable of processing up to 15,000 tons of sugar per harvest has been purchased. Manduvira is in the final stages of securing financing from a German investment company for construction, and the mill should be operating in 2011.

As a result of better management and stronger membership, the total value of savings deposits with the cooperative rose from nearly $286,000 to almost $825,000.

management, such as those descriobed above, is essential to meeting objectives for cooperative development.

Ideally, apex organizations would provide four sets of services that:

- Strengthen management, including strong measures to prevent failure;
- Organize appeals to government, such as advocacy for cooperative-related legislation and regulation;
- Provide economies of scale, such as leveraging collective buying power to make equipment, insurance or other products affordable; and
- Facilitate access to large-scale capital markets.

In early stages of cooperative development, these four functions may be provided by government. Foreign governments, through foreign aid programs and financing of private contractors such as cooperatives in developed countries, also may provide these apex support functions. In developed countries, when national governments provided these services it has been a temporary situation with clear rules for turning them over to apex organizations created by the cooperatives themselves.

In developing countries, governments also provide these services, but often with little attention to how the government role will transition to a member-controlled apex organization. The record of government involvement beyond a short initial period is not good. So in developing successful cooperatives in these countries, there needs to be a clear exit strategy.

Strengthening Management

In the early stages of cooperative development, members may be inexperienced and unsure of their role. There also may be a shortage of people with the management skills necessary for a successful cooperative.

Types of apex organizations

There are three commonly recognized types of **apex organizations:**

The **central, national, multi-sector cooperative organization** recognized as a national representative of the cooperative movement. These organizations may be at the top of a four- or three-tier cooperative structure and usually are members of international organizations such as ICA. Typically, they facilitate and coordinate cooperative development in the country. Example: federations of cooperatives.

The national cooperative organization which represents **a specific category of cooperative**, with membership which is countrywide. These specialized national organizations usually are formed by primary cooperatives joining a nationwide cooperative union. Examples: credit unions, coffee growers associations.

The **national cooperative organization providing a specialized economic service.** To carry out their specialized service, these national cooperative organizations must meet statutory conditions, such as being licensed. They usually are more commercially oriented and compete with others in the sector. Examples: cooperative banks, transportation cooperatives.

Source: *The Role of Cooperative Apex Organizations in a Changing Environment. An Interregional Workshop*, Johannesburg, 13-17 July 1998 (Final Report). ICA-ILO.

This is particularly true in tradition-bound rural areas with low rates of formal education and generally poor health care and education systems. These factors can determine managerial success or failure, and even co-operatives with a basically sound business may fail. In these situations, an apex organization can provide much-needed support.

Apex organizations often develop training programs for cooperative members and boards. This is a critical first step toward transparent management, reduction of fraud and outright stealing of cooperative funds. Through this training, boards gain understanding of accounting principles, the division of responsibility between the board and the manager, and principles for creating active member participation.

An apex organization can describe auditing service requirements and training, provide auditing services, and analyze and compare cooperative performance. As a last resort, it may be possible for an apex organization to take over management in order to strengthen the cooperative before turning it back to its members. In developed countries, the usual response to a weak co-operative is to merge it with a stronger one. In low- and middle-income countries, failure is more likely due to management deficiencies that could be rectified by an appropriate apex organization.

Apex organizations also assist in developing business plans that include management succession and risk management. These elements are often overlooked at the individual cooperative level. In developing countries, it is common for a charismatic leader to start a cooperative, lead it to great success, then have the cooperative fail when the charismatic leader departs. A spelled-out management succession plan is essential to long-term stability.

Mixed experiences with apex organizations

In many countries, the experience of national level multi-sectoral cooperative apex organizations is mixed. Inefficiency, lack of focus and non-responsiveness to the needs of primary level cooperative members often are cited as characteristics undermining the success of these organizations. Lack of funding also is frequently linked to the inability of these organizations to provide a value-added benefit to their members.

For an apex organization to determine cooperative success, it may need to:

- Strengthen its capacity and standing;
- Reexamine its goals and objectives;
- Be more selective and prioritize the types of services it provides; and
- Revitalize and deepen the relationship and dialogue with members.

The credibility apex organizations achieve in the eyes of their members depends on them becoming efficient, flexible, and fast enough to survive in a competitive market economy.

Source: *The Role of Cooperative Apex Organizations in a Changing Environment. An Interregional Workshop*, Johannesburg, 13-17 July 1998 (Final Report, p. 94, 117,120). ICA-ILO.

Advocacy

Cooperatives require a specific legal framework that facilitates their operation.[6] To understand this need for a cooperative-related legal framework and how to fill it requires an apex organization. Initially, this function may be filled by a government, either national or foreign, but in the long run, an apex organization is needed not only to ensure that a legal framework is provided, but also to deal with updating and reformation of the framework.

There is much to understand — beyond the basic legal framework — about cooperatives and convey to governments and their regulatory bodies. An apex organization takes the lead on identifying these needs and

PHILIPPINES: Strengthening cooperatives through public-private collaboration

In the Philippines, the importance of an effective cooperative enabling environment is demonstrated through a unique partnership between a cooperative governmental body, a multi-national corporation and an international non-governmental agency.

The Philippines government agency, the Cooperative Development Authority (CDA), currently is improving its oversight and regulatory functions through the development of a nationwide Cooperative Information System (CIS). This system was designed to help the government create performance standards, policies, regulations and development programs that enhance and promote the viability and growth of cooperatives in the country.

Technical assistance to the CDA was provided by Accenture, a leading international business consulting, technology and outsourcing company, in conjunction with support provided by CHF International and the USAID Cooperative Development Program. Over time, this partnership expects to improve the regulatory environment for roughly 9 million cooperative members and 18,000 active cooperatives in the country.

The Cooperative Development Authority supports cooperatives by creating an information system for them and offering leadership development programs.

provides appropriate lobbying, just as a trade association does for private business.

Providing services with economies of scale

In theory, cooperatives should develop rapidly where there is market failure and investor-owned businesses can operate those parts of the value chain that are competitive and efficient. However, just as investor-owned firms often gain from vertical integration, cooperatives can benefit from an apex organization that provides services with economies of scale. For example, an input supply cooperative may find economies by integrating with fertilizer manufacturing. A milk marketing cooperative may benefit from integration into large-scale dairy processing plants and with large-scale feed mills. Economies of scale in purchasing and special facilities such as cold storage, may occur when primary cooperatives are linked horizontally, which may be facilitated by an apex organization.

Access to low-cost capital markets

It's often difficult to access capital markets in developing countries, but primary cooperatives need substantial capital to supplement capital from members. An apex organization can provide access to large-scale capital markets, at considerably reduced interest rates. Frequently, capital markets are accessed under government auspices with lower interest rates explicitly or implicitly guaranteed by the government. This may seem like a distortion of market forces, but it is justified by the social benefits of these subsidies. Capital-related services were instrumental in the development of cooperatives in the United States.

Management and governance

If national or foreign governments (foreign aid) provide the functions of an apex organization, the system tends not to be democratic or responsive to the primary cooperative members. It may be paternalistic and unreliable in the long run. Government policy and support may change quickly, particularly in the case of foreign aid.

When apex functions are performed by governments, it is best if an explicit plan is in place for shifting to cooperative management. This should involve election of the apex board by the primary cooperatives — either by the boards of the primary cooperatives or by direct election by their members. An apex board elected in this way should ensure that the organization is operated in the interests of the primary cooperatives.

Facilitating Economic Environment

An unfavorable business environment bodes ill for the success of a cooperative, even if its measures of profitability and governance are favorable. Environmental factors are beyond the control of the individual cooperative, but collective action by cooperatives and foreign-aid donors, may bring about necessary changes. The business environment is demonstrated in several ways:

Line of business growth

Ideally, a cooperative will be in a line of business that is growing rapidly, has minimal fluctuations, and modest competition. In agriculture, cooperatives marketing high-value commodities with elastic demand, such as fruits, vegetables and dairy products, have a higher probability of success than those in basic food staples such as rice and wheat. The former tend to have lower levels of competition due to the complexity and newness of the market, while competition can be severe for old-line staples. Also, where investor-owned firms are competing vigorously, there is less need for a cooperative.

However, the best rule of thumb for a successful cooperative is to enter a line of business where there is apparent market failure. Prospective members and leaders will be able to see opportunities with wide margins. This type of business will provide some protection while the cooperative management and members go through the initial learning and start-up process.

One issue for a cooperative is whether the line of business should be diversified, which reduces risk, or whether it should specialize and reduce costs and take

MOZAMBIQUE: Achieving economies of scale

Mozambique's transition to a market economy in the 1990s highlighted the benefits of cooperative business practices. Rural smallholder farmers often had poor access to quality agricultural inputs, technology, credit or accurate market information.

National Cooperative Business Association began working with rural farmers in Nampula province in 1995, helping them form a network of producer organizations and establish partnerships with commodity purchasers and input suppliers. Groups of producer organizations then began joining together in forums, allowing farmers to profit from greater efficiencies in collection, processing and marketing. Now, 71,500 producers benefit from working together.

Today, a producer-owned trading company, IKURU, is the first Mozambican company to trade organically grown products on the international market. In a local dialect, IKURU means strength. Over 20,000 farmers own IKURU, which was created in 2003 when 21 producer forums joined together in partnership with NCBA and USAID's Global Development Alliance program.

The farmers' ownership shares in IKURU continue to increase as annual dividends are reinvested. Working together, the farmers built the UniLurio Aflotoxin testing laboratory, which ensures the safety of crops such as groundnuts. The lab reduces testing costs for farmers and guarantees a high-quality product that meets international standards. IKURU traded more than 120 metric tons of organic and Fair Trade-certified produce in 2008.

A producer-owned trading company in Mozambique helps women farmers process higher-quality nuts and negotiate better prices.

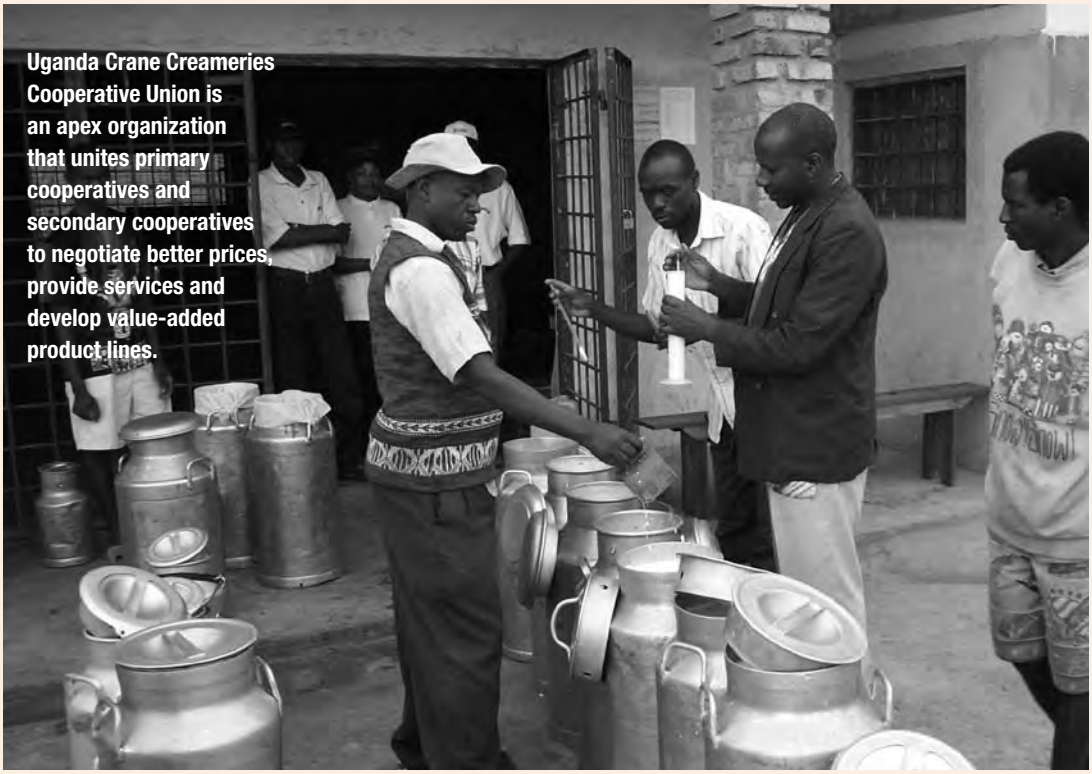
UGANDA: Creating an apex service organization

In 2000, dairy farmers in western Uganda were incurring heavy production and financial losses because their raw milk was going to waste. They lived hundreds of miles from the main center of milk consumption — the capital city of Kampala — and the sole buyer offered them discouragingly low price of 5 cents (US equivalent) per liter. Those farmers who were selling milk into the informal market complained of non-payment by middleman buyers.

Land O'Lakes mobilized and raised the awareness of these farmers about forming dairy cooperatives as a means of solving their milk collection and marketing problems. As the number and strength of these primary cooperatives grew, they eventually formed district cooperative unions and finally, an apex organization, the Uganda Crane Creameries Cooperative Union (UCCCU).

By the end of 2008, dairy farmers had formed 88 primary cooperatives (82 have their own chilling facilities) grouped into seven district cooperative unions, with a total membership of 15,000. Cooperatives in western Uganda now manage nearly one-third of all milk sold through formal channels in Uganda.

Through their apex organization, dairy farmers speak with one voice to negotiate better prices. In the past, prices were set by the main processor, which was the biggest buyer of the milk. But through price negotiation, the cooperatives now receive an average of 24 cents per liter, an increase of 18 cents or an amazing 320 percent. Also through UCCCU, farmers now are planning to venture into value-added products by financing and building a dairy plant, which they will own and operate.

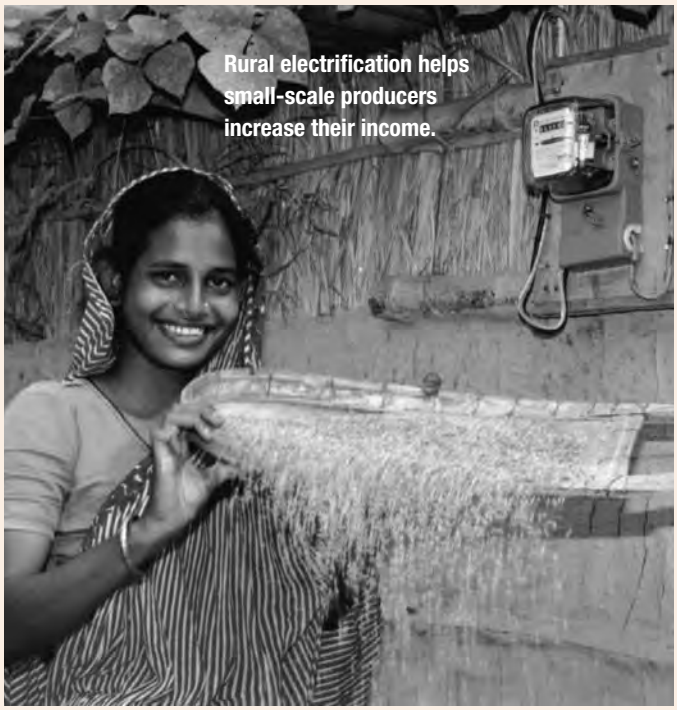


Uganda Crane Creameries Cooperative Union is an apex organization that unites primary cooperatives and secondary cooperatives to negotiate better prices, provide services and develop value-added product lines.

BANGLADESH: Impact of a rural electric cooperative

Over the past 30 years, the Rural Electrification Board in Bangladesh has established 70 rural electric cooperatives. They currently provide power to more than 45 million people in over 85 percent of the country's villages.

The economic and social impact of electricity to rural inhabitants has been significant and far-reaching. Electrified households have significantly higher incomes and save more money than non-electrified households. They also dedicate more of their income to education and health care, and demonstrate higher levels of literacy and better educational performance across all ages and gender. The rural electrification program in Bangladesh has contributed to the creation of more than three million jobs, and household connections — and the benefits that accrue to rural people who inhabit them — continue to grow at a rapid rate.



Rural electrification helps small-scale producers increase their income.

other measures to reduce risk, such as building substantial reserves, or using the latest research.

A substantial amount of research has been done on the impact of value chain dynamics on individual firms. This research suggests that addressing opportunities and constraints along entire value chains — not just at the firm level — helps reduce market failures and increases the competitiveness of the industry as a whole. While this document cannot capture all the tools and methodologies for gauging the impact of value chain dynamics on cooperative success, it can be supplemented with those provided by USAID at www.microlinks.org, Duke University's www.globalvaluechains.org, and others.

Members' lines of business

Members in a cooperative should derive income from activities that are growing and have increasing returns. The cooperative may not have choice in this matter and have to serve the interests of their members no matter how they make their living. If members' lines of businesses are not expanding, the cooperative needs a counter-balancing risk-management strategy.

Condition of infrastructure

To succeed, cooperatives need good roads, electricity, and communications, particularly Internet access. In general, cooperatives do not start where there is poor infrastructure, but this also creates an opportunity for

ARMENIA: New techniques improve greenhouses, vegetable sales

Receiving technical assistance helped this group of Armenian greenhouse owners improve their yields and sales.

Commercial vegetable greenhouse owners in Armenia were faced with low yields, disease and high production costs. During the course of eight short-term assignments, a volunteer with ACDI/VOCA worked with the Armenian Greenhouse Association (AGA) to introduce new technologies and improve results for members.

Drip irrigation systems were introduced to these Armenian greenhouse owners in 2002. Today, about 15 hectares of greenhouse area owned by separate private growers are irrigated by drip irrigation systems, and the number of growers using this technique is still rising. As a result of new technologies and training, producers have achieved significant results, including 300 percent savings on fertilizer, reducing by fifteen-fold the amount of water used, and cutting crop diseases by half. According to data gathered by the AGA, from 2007 to 2008, owners have seen a 15 percent increase in sales and a 10 percent increase in the total number of commercial greenhouses privately owned and operated for fruit and vegetable production.

With the volunteer's assistance, the greenhouse owners set up local soil testing equipment, which was brought from the United States to conduct quick and reliable soil tests. Previously, samples were sent to the Netherlands for testing. Use of the new equipment has reduced costs by 10 times and the processing time by 14 days.

them to step in. If governments, both national and foreign, are contemplating cooperative development, they need to take infrastructure into consideration.

Access to business services

The modern world constantly increases productivity by applying research. Cooperatives in developing countries are at a competitive disadvantage compared to those in developed countries because the former have access to all kinds of innovation and information.

For agricultural cooperatives, research is particularly important because of the connection to international markets, and countries that provide highly sophisticated research and extension facilities for their farmers. For example, if the national research system is poor or nonexistent, a serious problem can arise for cooperatives that concentrate on a limited number of fruits or vegetables. If the market shifts to a different form of the product or a disease strikes, the entire industry can be wiped out, which is common in developing countries. In developed countries, the research system comes up with approaches to the problem before the industry suffers losses.

Cooperatives for housing or insurance require analytical work on debt instruments, investment policy and similar matters. This may be provided by an apex organization, public educational institution or other entity.

Access to a variety of business services including research, financial, management, or other forms of technical support is critical to the long-term viability of an individual cooperative and an entire sector in which it operates.

Access to a variety of business services including research, financial, management or other forms of technical support is critical to the long-term viability of an individual cooperative — and the sector in which it operates.

PART III.

CONCLUSION

Through volunteers from U.S. cooperative development organizations, this cooperative in Uganda is training its producer-members.

In low- and middle-income countries, a host of factors from commercialization to globalization to the communications revolution reinforce the necessity for new institutions to meet new needs. Cooperatives historically have been effective in quickly serving those needs and should be at the top of the list of solutions for achieving rapid development. Reasons for implementing the cooperative business model include:

The solution to poverty in these countries requires **accelerated growth of agriculture, which cooperatives can facilitate.** The direct and indirect effects of agricultural growth are the main drivers of employment opportunities and poverty reduction.

Rapid urbanization, which is a natural outcome of successful development, brings with it huge new problems. **Cooperatives in housing, insurance, savings/credit and communications have proved effective in reducing costs and risks, and being highly responsive to participants' needs.**

Market failure — the failure to provide essential services — is endemic in developing countries, particularly rural areas. **Cooperatives can meet the need for services**

by tapping local knowledge and combining it with management, business and technical skills.

Through cooperatives, **the development process becomes far more inclusive.** Not only do members participate in finding solutions, they also reap the economic benefits associated with the success of their cooperatives.

Governments can help cooperatives spread from grassroots, local organizations to a national network by providing organizational expertise and a large infusion of capital. Foreign aid donors can contribute their expertise to this process. From experiences in their own countries, they have insights into how, once a government has played a role in establishing a cooperative movement, it should step aside to allow the cooperatives to become fully member owned and financed.

Effective cooperatives require four conditions:

- **sound business practices;**
- **strong membership participation;**
- **efficient apex organizations that provide oversight and services; and a**
- **facilitating economic environment.**

Each of these requirements can be measured and analyzed — not only for judging cooperative success, but also for diagnosing when, where and how cooperatives will succeed.

The METRICS survey process, including the questionnaires in the Appendix, is designed to gather information and measure results. At this time, we've provided the tools, but the process is just beginning. Questionnaires need to be filled out, the results analyzed and compared locally, regionally and sector-wide. Once this has taken place, users from cooperative boards to government departments responsible for cooperative development to foreign aid organizations will have a better understanding of specific problems facing cooperatives and the solutions required to make them a success.

The results of the METRICS process are intended not as an end, but as a beginning — to assess how cooperatives in low- and middle-income countries can achieve their purposes in lasting and sustainable ways. The lessons learned from this process are not unique to developing nations and emerging democracies and can be applied to all economic situations.

REFERENCES

These references are divided into three parts. The first is a representative selection from publications issued by U.S. Overseas Cooperative Development Council and its eight member organziations. The second is a set of references specific to various parts of the text and the third is a list of Internet references.

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APPENDIX I

METRICS Survey Process

There are five key components to the survey process:

1. Setting the sample.

The questionnaire in Appendix II is intended to be applied first to all cooperatives selected by OCDC member organizations. Sponsors such as USAID later might wish to apply it to other sets of cooperatives. In the future, a large universe with a "control" group of cooperatives might be chosen.

The first step in the METRICS Survey process is determining the size of the universe: How many cooperatives are collaborating with each member of OCDC?

The second step is to choose the sample size. Three concerns guide this process:

- Determining the sampling error based on variability within the universe. Well-established rules are used for this source of error. The larger the sampling percent, the smaller the sampling error.
- Calculating application error, the errors from poor interviewing techniques, etc. In general, the larger the sample the larger this error.
- Estimating cost. The larger the sample the higher the cost. Cost can be affected by variability and the willingness to bear cost. As a rough rule of thumb, based on observed variability, no organization's sample would be less than 25 cooperatives. As the number rises above 250 cooperatives, a 10 percent sample would be optimal.

Once the sample size has been set, the sample should be drawn by making a list of the cooperatives, numbering them and then using a table of random numbers to draw the sample. Another option would be to list the cooperatives in random order and take every tenth cooperative on the list.

2. Administering the questionnaire at field level.

Because a single questionnaire is used for very different types of cooperatives, a good deal of judgment will be needed to complete it. In the test of an early version, generally reliable data was reported. In many cases, the questionnaire was applied by a person who attended the focus group where the purpose of the questionnaire was discussed. Consequently, it was applied with considerable knowledge of the objective.

To implement the process, each cooperative development organization needs to appoint a lead field person to be in charge of administering the questionnaire and checking the results. That person must read this report and fully understand the objective and the meaning of the questions. Then this lead person should administer the questionnaire by meeting with the manager — usually jointly with the chief financial officer — of the sample cooperatives. The preferred technique would be to ask the questions, fill in the responses and mark those questions for the manager to fill in later from accounting or other data. For valid comparison, the questionnaires ideally should be completed over a two-week period.

If a large number of cooperatives is to be sampled, the person in charge will need to train and schedule other interviewers. The interviewing should be completed over a two-week period. Each questionnaire must be checked by the lead person and sent back if discrepancies or omissions are found.

3. Central tabulation of data.

As the METRICS project enters the implementation phase, the questionnaires need to be compiled and the data from each entered into a computer. A professional selected by OCDC and CDO members will set up the tabulation system; clerks or other individuals can enter the data. All calculations will be made at a central location.

4. Preparation of tables, charts and statistical analysis.

All tables, charts and statistical analysis will be prepared by a professional at a central location. This individual will define their purpose, determine the data needed for them and decide how they will be presented. The same will be done for statistical analysis, including regressions.

5. Analysis and write-up.

This step will be completed by an individual supervised by OCDC and its members.

6. Estimated timeline for entire process.

- One month to set up the questionnaire process and decide on sample size;
- Three months to compile completed questionnaires in the field;
- Two months for tabulation;
- One month for table preparation; and
- Three months to write up the final report.

METRICS Survey process estimate: at least nine to12 months.

7. In summary.

- Setting the sample size will be determined by OCDC and participating CDOs.
- Administering the questionnaire will be carried out by each CDO at the field level with their collaborating cooperatives.
- Developing the tabulation sheets, entering the data, making the tables and carrying out the statistical analysis will be conducted by a professional at a central location.
- Overall supervision; developing the tables and statistical analysis; carrying out the analysis; and writing the final report will be handled at a central location by a professional selected by OCDC.

The estimated timeline for the entire Metrics survey process is nine to 12 months.

Why the measures identified in this questionnaire are important:

These statements are intended to help respondents understand why specific questions are included in the questionnaire and how the calculations and results demonstrate cooperative success. They are separated from the questionnaire to avoid influencing responses by survey participants.

Sound business practices

- Size and growth may be important attributes of a cooperative.
- Real growth (adjusted for inflation) is what matters.
- Profitability — the difference between revenues and expenses — can fund growth, pay member returns and allow a hedge against unexpected downturns or unforeseen costs.
- Administrative costs compared to sales are a sign of efficiency. If they are declining, it can be a sign of rising productivity and efficiency.
- Increasing equity (the difference between assets and debt) is a sign of success and of the ability to meet temporary setbacks.
- Growing reserves and adequate reserve ratios provide safety from bad future events.
- "Yes" answers to the financial management questions are signs of prudent management and member participation.
- Management training is important to ensure good performance.
- Appropriate planning should address business goals with measurable targets and outcomes, leadership change and risk analysis.

Strong membership participation

- Membership growth can be a sign of success.
- Active participation of women contributes to gender balance and desirable social and economic outcomes.
- A high activity level of members is important to the health of the cooperative.
- Creating educations opportunities for the members contributes to the success of cooperative businesses.
- Member involvement, autonomy from government interference, appropriate division of board and staff roles and responsibilities are all important governance principles.

Support of apex organizations

- Apex cooperative structures can create value for primary cooperatives.
- Description of the services an apex organization provides is important to assess the organization's value to its member cooperatives.
- It is important to assess the performance of the business lines of the cooperative to determine future opportunities.

Facilitating business environment

- Members may have a relationship to their cooperative's lines of business, which can be beneficial to the organization.
- Infrastructure can enable or disable cooperative performance.
- Effective services can be critical to achieving greater efficiency and applying scientifically validated production and marketing practices as well as management practices.

APPENDIX II

Measurements for Tracking Indicators of Cooperative Succes (METRICS)

Questionnaire for Cooperatives

METRICS (Measurements for Tracking Indicators of Cooperative Success) is a multi-year project addressing the question: What characteristics produce the greatest probability of a cooperative surviving and thriving in the challenging marketplace? The project is implemented by eight U.S.-based cooperative development organizations representing various sectors of the economy, guided and assisted by the Overseas Cooperative Development Council (OCDC). It is expected that each organization will appoint a lead field person to administer the questionnaire and conduct data gathering.

The purpose of this questionnaire is to gather information about your cooperative and collate it with information about other cooperatives, including those from other countries and other sectors of the economy. After tabulating all data, a combined report using statistical methods will be produced and an in-depth analysis will point to those characteristics which generate the greatest probability of success. This information will be shared with you in the future.

Thank you for participating in this important effort.

I. The Cooperative

For the person filling out the questionnaire:

1. Name _____

   Title _____

   Contact address _____

   Contact e-mail _____

   Date _____

2. Name of the cooperative _____

3. Is this cooperative a primary ( ) or apex organization ( )?

4. Town, district, state/province and country where the cooperative is located. _____

   _____

5. In what year was the cooperative established? _____

6. Name of all organizations, if any, that provide oversight and/or assistance to the cooperative (i.e., apex organization, cooperative union(s), national association(s), government bodies, or international organization(s):

_____

_____

_____

7. What is the current exchange rate: Currency name _____ Rate in USD _____

II. Financial-Profitability

8. State the total gross annual sales for the following years (or revenues, billings, loans, premiums):

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

9. What is the current rate of inflation of the consumer price index for your country? _____ (percent per year)

10. State the total expenses for the following years:

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

11. Total administrative/operating costs (normally all the office costs including labor and other items):

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

III. Financial-Capital

12. State the total assets for the following years:

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

13. State the total debt for the following years:

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

14. State the total reserves for the following years:

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

15. Was a professional analysis of reserve requirements performed last year? Yes _____ No _____

IV Financial-Management

16. Is the bank account in the cooperative's name? Yes _____ No _____

17. Is an annual audit provided by an outside agency? Yes _____ No _____

18. Is the audit by a registered auditor? Yes _____ No _____

19. Do the members vote on the choice of auditor? Yes _____ No _____

20. If yes, is that during the annual meeting? Yes _____ No _____

21. Does the board choose the auditors? Yes _____ No _____

V. Governance-Membership

22. How many registered members are in the cooperative?

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

23. What percent of members are women? _____ (Don't know _____)

24. What percent of persons voting at the annual meeting are women? _____ (Don't know _____)

25. What percent of members are under age 30? _____ (Don't know _____)

26. How many members in the most recent year participated in the business (i.e. sold, purchased, borrowed, paid premiums)? _____

27. How many members (or delegates) attended the last annual meeting? _____

28. What is the stated quorum (minimum for doing business) for annual meetings? State as percentage of members. _____

29. Does the cooperative offer annual training/information services to members? Yes _____ No _____

VI. Governance-Management

30. Are the by-laws and changes in the by-laws reviewed at the annual meeting? Yes _____ No _____

31. Is the board elected by members? Yes _____ No _____

32. Is the manager selected by the board? Yes _____ No _____

33. Is the manager a government official? Yes _____ No _____

34. Is there clear division of responsibility between board and manager?
    - The manager determines and implements day-to-day management. Yes _____ No _____
    - The board determines and enforces basic policy. Yes _____ No _____

35. For at least half of the board positions open in the past two years, two or more persons ran for the position. Yes _____ No _____

36. Board members cannot serve for more than two terms. Yes _____ No _____

37. At the time of elections, information is provided to members about board nominees and issues facing the cooperative. Yes _____ No _____

38. Is there a written business plan or annual work plan for the cooperative? Yes _____ No _____

39. The business plan or other document includes a manager succession plan. Yes _____ No _____

40. The business plan or other document includes a risk analysis. Yes _____ No _____

41. Has there been at least one management training program within the last two years? Yes _____ No _____

VII. Apex Organization, Cooperative Federation or Cooperative Union

These questions refer to any body or authority that provides supervision, oversight or services to the cooperative.

42. Is there an apex cooperative/organization in your system? Yes _____ No _____

43. Is the board of the apex organization elected by the boards of the primary cooperatives or directly by the members of the primary cooperatives?
    - Elected by the board _____
    - Elected directly by the members of the primary cooperative _____

44. Is the apex organization provided by foreign assistance, e.g. a foreign contractor or NGO? Yes _____ No _____

45. Is the apex organization a government body, e.g. department of cooperatives? Yes _____ No _____

46. If yes to question 44 or 45, is there a plan to transform into an apex cooperative with a board elected by the primary cooperatives? Yes _____ No _____

47. Does the apex organization offer the following services?

    a. **Training** Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    b. **Intermediation services** Yes _____ No _____
    (obtains loans and relends to the primary cooperative.)
    If yes, did your cooperative use such assistance? Yes _____ No _____

    c. **Services with scale economies,** e.g. wholesales fertilizer, marketing services etc. Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    d. **Auditing services** Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    e. Is your cooperative graded by standards set by the apex organization? Yes _____ No _____

    f. Does the apex organization assist in rebuilding failing cooperatives Yes _____ No _____
    If yes, are they used by your cooperative? Yes _____ No _____

VIII. Business Environment

48. State the principal lines of business activity for your cooperative. For some cooperatives these will be commodities, e.g. fruits and vegetables, dairy products, grain, and for others it will be a service, e.g. credit, insurance, housing. Rough approximations are acceptable. Fill in the name of the type of business, then estimate what percent that line is of the cooperative's revenues.

    a. _____; percent of gross revenue _____

    b. _____; percent of gross revenue _____

    c. _____; percent of gross revenue _____

    d. _____; percent of gross revenue _____

    e. _____; percent of gross revenue _____

49. Is the principle business activity of your cooperative currently growing in your area?

    a. Faster than the overall economy. Yes _____ No _____

    b. Slower than the overall economy. Yes _____ No _____

    c. About the same as the overall economy. Yes _____ No _____

    d. Do not know. _____

50. What is the most important source of income for your members? _____

51. Is that source of income growing? Yes _____ No _____

52. Is the most important source of income the same for the members as for the cooperative? Yes _____ No _____
    (Skip if not relevant, as for housing, electrification and several other types of cooperatives.)

53. Is the status of roads in your area a disadvantage to making your cooperative profitable? Yes _____ No _____

54. Is the status of electrification and power supply a disadvantage to making your cooperative profitable? Yes _____ No _____

55. Is the status of information and communications technology a disadvantage to making your cooperative profitable? Yes _____ No _____

56. Is your cooperative fully integrated (perhaps through other cooperatives) from the producer to the ultimate consumer? Yes _____ No _____

57. Does your cooperative work regularly with a service provider? A service provider is any institution providing business training, technical services, financial services, or other business support. (Examples include a government extension or research organization, bank or microfinance institution, a vocational school that trains people in technical trades, a seed seller who teaches farmers how to plant new seed varieties, a veterinarian or agronomist who teaches disease prevention, an NGO that provides business training.) Yes _____ No _____

58. Is the provider effective? Yes _____ No _____

Thank you for completing this questionnaire.

APPENDIX III

Measurements for Tracking Indicators of Cooperative Success

Questionnaire with Calculations for Tabulators

METRICS (Measurements for Tracking Indicators of Cooperative Success) is a multi-year project addressing the question: What characteristics produce the greatest probability of a cooperative surviving and thriving in the challenging marketplace? The project is implemented by eight U.S.-based cooperative development organizations representing various sectors of the economy, guided and assisted by the Overseas Cooperative Development Council (OCDC).

The purpose of this Questionnaire is to provide calculations for tabulators. Responses from all the participating cooperatives will be combined with those from other cooperatives, including ones in other countries and other sectors of the economy. A combined report will be produced and an in-depth analysis will point to those characteristics that generate the greatest probability of success. This information will be shared with the participating cooperatives in the future.

Thanks for participating in this important effort.

I. The Cooperative

For the person filling out the questionnaire:

1. Name _____

   Title _____

   Contact address _____

   Contact e-mail _____

   Date _____

2. Name of the cooperative _____

3. Is this cooperative a primary ( ) or second-tier cooperative ( )?

4. Town, district, state/province and country where the cooperative is located. _____

   _____

5. In what year was the cooperative established? _____

6. Name of all organizations, if any, that provide oversight and/or assistance to the cooperative (i.e., cooperative union(s), national association(s), government bodies or international organization(s):

_____

_____

_____

7. What is the current exchange rate: Currency Name _____ Rate in USD _____

II. Financial-Profitability

8. State the total gross annual sales for the following years (or revenues, billings, loans, premiums):

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- Convert most-recent year to USD. _____
- Calculate the least squares growth rate. _____
- Calculate the sales per member._____
- If less than 5 years' data, calculate compound growth rate between first and last year. _____

9. What is the current rate of inflation of the consumer price index for your country? _____ (percent per year)

- Subtract the inflation rate from the calculated growth rate _____

10. State the total expenses for the following years:

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- For each year, subtract expenses from sales to provide net profit, and:
  - For most-recent year, state as percent of sales.
  - Calculate average sales and average profit; calculate average profit as a percent of sales.
  - Calculate the least squares trend for profit.

11. Total administrative/operating costs (normally all the office costs including labor and other items.)

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- Calculate 11a as a percent of 1a (most-recent admin cost as a percent of most-recent sales.)
- Calculate the least squares growth rate of administrative costs.
- Calculate the least squares growth rate of administrative costs as a percent of sales.

III. Financial-Capital

12. State the total assets for the following years.

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

13. State the total debt for the following years.

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- Calculate equity (difference between total assets and total debt for each year.)
- Calculate the least squares growth rate in equity.
- Calculate most-recent equity as a percent of sales.
- Calculate most-recent equity as a percent of debt.
- Calculate the average for equity as a percent of the average for sales and for debt.

14. State the total reserves for the following years.

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- Calculate the trend in reserves. _____
- Calculate the reserves for the most-recent year, also average for the period, as a percent of debt, and of sales. _____

15. Was a professional analysis of reserve requirements performed last year? Yes _____ No _____

IV. Financial-Management

16. Is the bank account in the cooperative's name? Yes _____ No _____

17. Is an annual audit provided by an outside agency? Yes _____ No _____

18. Is the audit by a registered auditor? Yes _____ No _____

19. Do the members vote on the choice of auditor? Yes _____ No _____

20. If yes, is it during the annual meeting? Yes _____ No _____

21. Does the board choose the auditors? Yes _____ No _____

V. Governance-Membership

22. How many registered members are in the cooperative?

a. 2009 _____
b. 2008 _____
c. 2007 _____
d. 2006 _____
e. 2005 _____
f. 2004 _____
g. 2003 _____
h. 2002 _____
i. 2001 _____
j. 2000 _____
k. 1999 _____

- Calculate least squares growth in membership. _____

23. What percent of members are women? _____ (Don't know _____)

24. What percent of persons voting at the annual meeting are women? _____ (Don't know _____)

25. What percent of members are under age 30? _____ (Don't know _____)

26. How many members in the most-recent year participated in the business (i.e. sold, purchased, borrowed, paid premiums)? _____

- Calculate the percent of members

27. How many members (or delegates) attended the last annual meeting? _____

- Calculate the percent of members.

28. What is the stated quorum (minimum for doing business) for annual meetings? State as a percent of members. _____

29. Does the cooperative offer annual training/information services to members? Yes _____ No _____

VI. Governance-Management

30. Are the by-laws and changes in the by-laws reviewed at the annual meeting? Yes _____ No _____

31. Is the board elected by members? Yes _____ No _____

32. Is the manager selected by the board? Yes _____ No _____

33. Is the manager a government official? Yes _____ No _____

34. Is there clear division of responsibility between board and manager?
    - The manager determines and implements day-to-day management Yes _____ No _____
    - The board determines and enforces basic policy. Yes _____ No _____

35. For at least half of the board positions open in the past two years, two or more persons ran for the position. Yes _____ No _____

36. Board members cannot serve for more than two terms. Yes _____ No _____

37. At the time of elections, information is provided to members about board nominees and issues facing the cooperative. Yes _____ No _____

38. Is there a written business plan or annual work plan for the cooperative? Yes _____ No _____

39. The business plan or other document includes a manager succession plan. Yes _____ No _____

40. The business plan or other document includes a risk analysis. Yes _____ No _____

41. Has there been at least one management training program within the last two years? Yes _____ No _____

VII. Apex Organization, Cooperative Federation or Cooperative Union

These questions refer to any body or authority that provides supervision, oversight or services to the cooperative.

42. Is there an apex cooperative/organization in your system? Yes _____ No _____

43. Is the board of the apex organization elected by the boards of the primary cooperatives or directly by the members of the primary cooperatives?
    - Elected by the board _____
    - Elected directly by the members of the primary cooperative _____

44. Is the apex organization provided by foreign assistance, e.g. a foreign contractor or NGO? Yes _____ No _____

45. Is the apex organization a government body, e.g. department of cooperatives? Yes _____ No _____

46. If yes to either question 44 or 45, is there a plan to transform into an apex cooperative with a board elected by the primary cooperatives? Yes _____ No _____

47. Does the apex organization offer the following services?

    a. **Training** Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    b. **Intermediation services** Yes _____ No _____
    (obtains loans and relends to the primary cooperative.)
    If yes, did your cooperative use such assistance? Yes _____ No _____

    c. **Services with scale economies,** e.g. wholesales fertilizer, marketing services etc. Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    d. **Auditing services** Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

    e. Is your cooperative graded by standards set by the apex organization? Yes _____ No _____

    f. Does the apex organization assist in rebuilding failing cooperatives? Yes _____ No _____
    If yes, did your cooperative use such assistance? Yes _____ No _____

VIII. Business Environment

48. State the principal lines of business activity for your cooperative in 2007. For some cooperatives, these will be commodities, e.g. fruits and vegetables, dairy products, grain, and for others it will be a service, e.g. credit, insurance, housing. Rough approximations are acceptable. Fill in the name of the type of business, then estimate what percent of the cooperative's business is in that line.

    a. _____; percent of gross revenue _____
    b. _____; percent of gross revenue _____
    c. _____; percent of gross revenue _____
    d. _____; percent of gross revenue _____
    e. _____; percent of gross revenue _____

49. Is the principle business activity of your cooperative currently growing in your area?
    a. Faster than the overall economy. Yes _____ No _____
    b. Slower than the overall economy. Yes _____ No _____
    c. About the same as the overall economy. Yes _____ No _____
    d. Do not know. _____

50. What is the most important source of income for your members? _____

51. Is that source of income growing? Yes _____ No _____

52. Is the most important source of income the same for the members as for the cooperative? Yes _____ No _____
    (Skip if not relevant, as for housing, electrification and several other types of cooperatives.)

53. Is the status of roads in your area a disadvantage to making your cooperative profitable? Yes _____ No _____

54. Is the status of electrification and power supply a disadvantage to making your cooperative profitable? Yes _____ No _____

55. Is the status of information and communications technology a disadvantage to making your cooperative profitable? Yes _____ No _____

56. Is your cooperative fully integrated (perhaps through other cooperatives) from the producer to the ultimate consumer? Yes _____ No _____

57. Does this cooperative work regularly with a service provider? A service provider is any institution providing business training, technical services, financial services, or other business support. (Examples include a government extension or research organization, bank or microfinance institution, a vocational school that trains people in technical trades, a seed seller who teaches farmers how to plant new seed varieties, a veterinarian or agronomist who teaches disease prevention, an NGO that provides business training.) Yes _____ No _____

58. Is the provider effective? Yes _____ No _____

Endnotes

1 There is immense literature and long-standing history of analysis showing the dominant role of agricultural growth in poverty reduction. Rising incomes of farmers create growth in demand for the labor-intensive, rural non-tradable sector that employs the bulk of the poor. The earliest studies were in India showing the effect of changes over time in agricultural growth rates and consequent poverty reduction. Later studies examined other countries. Statistical studies show the relationship e.g. Ahluwalia 1978; Mellor and Desai 1985; Bell et al. 1982; Ravallion and Datt 2002; Timmer 1997; Thirtle 2001. Other studies explain these statistical relationships: Delgado et al. 1998; Fan et al. 2005; Hazell and Ramswamy 1991; Hazell and Roell 1983; Johnston and Kilby 1975; Mellor 1976; Mellor 1992; and Mellor and Lele, 1972.

2 See *Pathways* reference under OCDC and Members References.

3 For more information, see the *Pathways* reference under OCDC and Member References.

4 See references Mellor 1976 and 1992, which make special note of the capacity of agriculture to grow faster — particularly tropical export crops and high-value commodities, such as livestock and horticulture — than domestic demand, causing it to be held back by the size of the national market. Globalization is a means for countering the constraints of the domestic market.

5 Reardon and his colleagues (e.g. Reardon et al. 2003 for an overview,) have documented this dramatic change and the rapid increase in supermarkets and their spread to lower-middle and lower-income families for a large number of countries. It is clear from his exposition that supermarkets soon will dominate retail food sales in cities and towns throughout the developing world.

6 *Enabling Cooperative Development, Principles for Legal Reform* (CLARITY), 2006. www.clarity.coop.

Notes

Notes

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