



COOPERATIVE DEVELOPMENT PROGRAM

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SEMI-ANNUAL REPORT

FOR JULY - DECEMBER 2004

Submitted to

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Submitted by

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Cooperative Development Program

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Semi-Annual Report

July - December 2004

Land O'Lakes, Inc.

PROJECT OVERVIEW

Project Duration: June 1, 2004 – May 31, 2009

Estimated Federal Funding: \$ 2,799,000

Federal Spent through December 2004: \$ 130,097

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Cooperative Development Program (CDP)
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I. Project Description

The basic hypothesis upon which the project is based is that improved financial management skills will result in higher profitability and efficiency of client cooperatives (as measured by applicable financial ratios). In order to test and hopefully validate this premise, the activities conducted under this grant will provide technical assistance to cooperatives in two pilot countries, using slightly differentiated methods of training.

The intended outcome from this activity is that Land O'Lakes will significantly refine its approach to cooperative development. The result will be modifications in Land O'Lakes' development approach that intensifies support provided to cooperatives in the areas of planning, financial training, operational discipline, and business management. From the bigger picture view, over the five years under this grant, Land O'Lakes will do the following:

1. Design and refine methods utilized to train cooperatives in financial management;
2. Deliver services (training and consultation) in alternative methodologies designed to improve the financial performance of the selected client groups;
3. Evaluate results achieved and learning from the analysis of the outcomes;
4. Roll out the results to apply in other International Development Division programs; and,
5. Outreach to other organizations to disseminate results and lessons learned from this exercise.

The CDE project staff is working to develop and deliver programs, training curricula and consultative services in financial management based upon field experience and observation. The focus of those activities will be targeted to ingraining the following competencies into the ongoing practices of the client cooperatives:

- Accurate record and bookkeeping.
- Development of financial statements and their basic interpretation to effect business decisions;
- Application of adequate internal controls and corporate governance; and,
- Utilization of capital expenditure analysis and loan application. The CDE client should be able to identify the most efficient use of capital and apply for external financing with well-developed project proposals.

The two alternative programmatic approaches will be the following:

- The Tanzania program will demonstrate financial management improvement in at least 15 cooperative businesses through application of the more traditional training model supplemented by individual follow-up training sessions; and
- At least two South Africa cooperatives will demonstrate an improvement in cooperative financial management performance as a result of the application of the more intensive embedded management model.

II. Project Performance and Activities

Activities conducted under the new grant have required a considerable amount of planning and coordination as a result of a number of circumstances. The first is that the amount of grant funding was reduced from the total amount included in the proposal. In addition, the original design of the program involved more intensive field work in the initial three years of the grant, with commensurately front-loaded costs. Much of the anticipated work in the final two years was intended to focus on the learning, outreach and replication of the methodology. Consequently, costs in those years were estimated to be relatively lower. However, given the technicalities of the funding mechanisms used by USAID, costs approved in the grant needed to be spread in a mostly even distribution throughout the five years, with an actual reduction in available funding in the first year.

Owing to these budgetary constraints, and due to the fact that final approval of the grant was not concluded until September, one of the primary issues that the team needed to resolve was to re-think the methodology so that the original goals of the proposed activity could be maintained, while the resources to dedicate to the activities were limited in total value and in the timing of its availability.

Therefore, at the outset of the grant, a considerable amount of time, energy and attention needed to be dedicated to restructuring programmatic plans and approaches to be used by our core team as well as in each of the country-specific programs. The team accomplished this through intensive communications via email as well as in several organizational sessions in which most or all of the relevant staff participated.

The areas of work and activity can be broken into several components that are interrelated and mutually dependent but conducted by different staff and in separate methodologies. For reporting purposes, the categories presented are: 1) core program development and 2) country-specific activities (including activities conducted at the headquarters offices in the U.S.)

A. Core Activities (Field-Based)

1. Organizing and Recasting Project Activities

CDE project staff spent a significant amount of project time during the period of June 1 until end December 2004 planning for the strategic framework, country-specific program implementation, and methodology regarding curricula refinement, and developing monitoring and evaluation systems. There was a CDE team meeting in Nairobi in June to manage handover of the project from a business development exercise to an operational entity. Included in those sessions were Kim McKeon (Regional Financial Management Advisor), Kristin Penn (Director of Global Coordination), Rob Nooter (Tanzania Country Director and CDE Manager), Joe Carvalho (Regional Director for Eastern and Southern Africa), and Philip Bowes (CDE Country Manager, South Africa).

During the discussions, the group identified the basic objective of the Land O'Lakes CDE program. Simply stated, the objective is:

Improved financial management skills will result in higher profitability and efficiency of client cooperatives (as measured by applicable financial ratios).

Once the objective had been defined, discussion focused on how to attain the objectives after considering the capabilities of the potential cooperative clients. It was decided that Land O'Lakes would target, through an expanded period of interventions and interaction with the clients over a five-year period, moving all client groups through three levels of financial management curricula that were established based on the achievement of core competencies within each curricula. The levels, with a brief description of the major subject matter areas to be emphasized, are as follows:

- Level One – Bookkeeping, record keeping, developing and utilizing a trial balance from the business records, basic internal controls and corporate governance.
- Level Two – Financial statement preparation and analysis of financial statements for business decision making. Development of a basic business plan as well as more advanced internal controls and corporate governance.
- Level Three - Analysis of financial statements for making investment decisions as well as preparation of financing proposals and development of relationships with financial institutions.

One of Land O'Lakes' primary goals in developing training curricula for the CDE project is to ensure that the training materials are relevant and directly related to the needs of the participants. This is critical to assure that the participants are motivated to apply the principles taught in the training course, resulting in improved financial management practices. Thus, Land O'Lakes will place significant emphasis on developing "learning by doing" toolkits that will supplement the basic core training material. The toolkit will consist of financial management templates that the participant can use to apply the principles and processes taught in the training. Templates have been developed to apply basic financial internal control procedures. In this document, the specific internal control is described, the objectives of the internal control are defined, and the procedure is described. The templates (some of which have been developed) are the specific steps and data analysis required to implement the internal control procedure.

To ensure successful implementation of this systemic model for the design and delivery of the financial management courses, each level of financial management curricula will follow the same basic model in terms of design and delivery.

Several decisions were made by the CDE staff in regard to curricula development. The following are the most significant in regard to the CDE project:

- Most of the emphasis will be placed on developing “learning by doing” toolkits to supplement the core training materials.
- A model was developed to support the three levels of the financial management courses. It was decided that the elements of the model would include analysis, consisting largely of a draft assessment tool to fulfill four purposes: client selection, determination of a cooperative’s level of development, development of a baseline for M & E purposes, and a self-assessment completed by the client.
- It was decided to assess clients prior to the development of the curricula to obtain a clear understanding of the level of development in regard to financial management.
- The design aspect of the curricula will follow specific elements to include some of the following aspects: preparation of instructional objectives, development of instructional evaluation techniques, and sequencing and structuring of the courses.
- Utilization of training material that has been recently developed in Uganda, Tanzania, Kenya and elsewhere will be modified as necessary for South Africa and Tanzania.
- It was decided that the starting point for the majority of the client cooperatives would be an annual training plan defining the core financial management competencies to be implemented as well as the training activities for that period of time.
- The CDE team reviewed lessons learned in regard to financial management trainings that had been recently delivered elsewhere in East Africa.
- Intensive follow-up was recognized as a key aspect to the financial management training, with three individual sessions over a period of time necessary for sustainability.
- The CDE staff decided that in Tanzania the program would emphasize the utilization of the training material in a more traditional methodology of organizing and delivering group trainings followed by individualized consultation and follow-up. In regard to South Africa, cooperative managers will provide a more intensive level of program management, intensively working with two to five cooperative clients in a mentorship and training role for a two- to four-year period.

2. Assessments and Client Selection

The analysis phase of the project started with the development of a draft assessment tool, which was used in interviews with cooperatives in both Tanzania and South Africa. In Tanzania, 25 cooperatives were interviewed using the assessment tool, and in South Africa eight cooperatives and groups have been screened in this manner. The team analyzed the information collected and learned from the application of the assessment tool. Certain changes have been incorporated and results shared with the team for analysis and review by the Regional Financial Management Advisor. Work on the assessment continues as it is a living document, but the assessment is important in fulfilling four purposes:

- **Client Selection.** First, the assessment survey is used as the key means of collecting information to be analyzed by the Land O'Lakes CDE team in conducting client selection;
- **Determination of Cooperative's Level of Development.** The assessment tool is used by the team to determine what level of financial management development the cooperative has achieved, and therefore, the appropriate level of training and support that should be provided to that particular cooperative;
- **Baseline Data for M&E Purposes.** The assessment is used as a baseline of information for the cooperative in question. As the program provides technical assistance and training, monitoring progress in the many areas covered by the assessment will provide a documented measure of progress towards meeting impact indicators for the cooperative's progress; and
- **Self-Assessment:** Finally, the assessment has been used to allow the cooperative to also apply it as a self-assessment tool. This will give the cooperative an opportunity to set targets and determine priorities for self-improvement generated from within the cooperative itself.

The diagnostic assessment categorizes the information collected on each potential client cooperative in the following areas:

- Background information in regard to business structure and size;
- Governance (registration, approved bylaws, membership meeting schedules and supporting documents, board structure, management, etc.);
- Business disciplines (internal controls, audits, budgeting and planning practices);
- Financial record keeping practices (member documents for tracking business involvement with the cooperative, ledgers, accounting standards observed, etc.);
- Financial statements (which statements are prepared, how are they used, use of technology such as computers);
- Utilization of financial services (banking relationships, sources of working capital, availability or utilization of credit, self-financing schemes);

- Financial management and training (training received, areas of training needed and obtained);
- Resource mobilization (member equity, sufficiency of member base, growth in assets and/or revenue, alliance with other cooperative organizations); and
- Other observations (trust, transparency, vibrancy of member commitment).

3. Initial Training and Development Programs with Clients

The two pilot country staff utilized different methods of developing rapport and understanding of the prospective client groups. In part, the design of the program is intended to provide learning to Land O'Lakes concerning the most effective methodology for effective cooperative development training and technical assistance. Hence, by design the two country programs are using different techniques with South Africa providing a more involved, hands-on provision of a management consultant who will work with each cooperative in an embedded methodology. This is seen as a more in-depth but also resource-intensive method of nurturing the development of the cooperatives in question.

In Tanzania, the program is working with a larger number of cooperative clients. Training will be delivered in a classroom setting with modules of the financial management curriculum being taught using the training materials and working through problems and case studies developed as part of the curriculum. In addition, direct follow-on training and advice will be provided by the staff on a regular basis. Such visits will be highly individualized and are intended to resolve the specific questions or impediments to the application of the material covered in the classroom training, but it will be less involved than the hands-on management instruction and consultation that will be applied in the South Africa situation.

The Tanzania staff was able to initiate training on cooperative management and governance as well as focusing on some of the basic book and record keeping practices. This work forms a basic level of competence cooperatives will need to gain the most benefit from the training modules that will be delivered through the duration of this project.

4. Work Planning Exercise

The entire Land O'Lakes Cooperative Development team engaged in the work plan development. Following meeting in Nairobi, the team worked together to plan out the main phases as well as components of the project plan. In addition, specific country programs needed to be integrated into the overall plans developed on the core activities to be conducted by the Financial Advisor and Project Manager. Considerable time was devoted to this exercise, and a unified workplan was submitted to USAID in November 2004.

5. Curriculum Development

The CDE team has devoted considerable time and effort in developing the basic parameters of the curricula to be used at all levels, but especially in preparing the training

material for Level 1 clients, given that all prospective clients need to start at the basic bookkeeping level.

The first phase of developing this training curriculum has been mostly completed by the CDE team. Utilizing training material that has been used in previous cooperative training programs in Tanzania, Uganda, Kenya and elsewhere, there is a base of cooperative material that is relevant and appropriate for inclusion in the curriculum developed under the CDE. There are a series of modules designed for each level of financial management, with the curriculum for Level 1 set at six modules.

Converting the material into usable training material is a time- and resource-intensive effort. The presentation of the subject matter, the development of the templates and problem sets, and the notes used by the trainers all need to be developed for each module of training. In addition, the examples must specifically apply to the country in which the training is being delivered, requiring further customization of the training material by changing examples into appropriate currency, and changing other units of measurement to more accurately depict actual circumstances that might be encountered by a cooperative operating in a particular country. This is particularly important for participants to readily see the applicability of the financial management practices to their own businesses.

Training the trainers will be an important aspect of effective delivery of the improved training materials. In the case of South Africa, the trainers will all be project staff or consultant managers. Project staff largely has the requisite financial management training, but it will still be necessary to review the training materials for accuracy and applicability.

Ariong Abbey, a Land O'Lakes employee from Uganda, revised the Level One financial management course to incorporate more internal control procedures and also to expand areas of the training that were needed, based on previous course delivery in Uganda. The Regional Financial Management Advisor reviewed the revised course in January, and in mid-February the CDE team members from Tanzania and South Africa met in Nairobi with Ariong Abbey and Kim McKeon to review and finalize the course for delivery in the spring of 2005. During March 2005, the implementation aspects of course delivery will be developed including the training plan and monitoring tools.

B. Country-Specific Activities

1. Tanzania

Overview: As previously mentioned, the Tanzania program is utilizing the financial management and cooperative development training material in a more traditional methodology of organizing and delivering group training, followed by individualized consultation and follow-up with each client cooperative. Cooperatives will be grouped according to the level of financial management skills for training purposes, with considerations being given also to geographical location.

The activities of the first period were focused on identifying prospective client cooperatives, an activity that has been facilitated by the fact that through the previous Cooperative Development Program and the current Dairy Enterprise Initiative, Land O'Lakes is already working with a large number of dairy cooperative groups. Nonetheless, the CDE staff has dedicated time to conducting the assessments with the prospective clients for the purposes of selecting the best candidates for more intensive training, and to develop the baseline information necessary to measure results as the project activities progress.

During this time, 25 cooperatives were assessed in Manyara, Arusha, Kilimanjaro, Tanga and Dar es Salaam/Coast. Apart from the criteria on the assessment tools, the CDE staff included other measures—such as the presence of a commercial activity as a cooperative, business volumes handled, presence of some records already being kept (irrespective of their nature), presence of a person responsible to keep such records, and willingness (of the cooperative management) to be trained and adopt changes—to be considered prior to the application of the assessment tool. Given the training plan, in-class training and individualized follow-up visits and consultancies, it was rational to narrow the number of clients to be included. It was realized during the exercise that though some of the clients assessed demonstrate skills in record keeping, there were some gaps that justified taking them through all the levels, with emphasis in the areas with more and common knowledge gaps. Through this method, all cooperatives will have the same information and training, even though for some the exercise may largely reinforce many of the practices that they already have in place. Following this preset assessment plan and findings, the assessed cooperatives are listed, starting with those that seem to qualify for the purpose of achieving CDE objectives:

1. Kijimo Dairy Cooperative Society (Arusha)
2. Meru Dairy Farmers Association (Arusha)
3. Nronga Women Cooperative Society (Kilimanjaro)
4. Ng'uni Women Dairy Cooperative Society (Kilimanjaro)
5. Marukeni Women Dairy Cooperative Society (Kilimanjaro)
6. Shume Dairy Farmers cooperative Society (Tanga)
7. Amani Dairy Farmers Cooperative Society (Tanga)
8. Tanga Livestock Keepers Cooperative Society (Tanga)
9. Maramba Dairy Farmers Cooperative Society (Tanga)
10. Kiluvya Dairy Farmers Cooperative Society (Dar/Coast)
11. Mboreny Parents Dairy Cooperative Society (Kilimanjaro)
12. Kalali Women Dairy Group (Kilimanjaro)
13. Buhuri Dairy Farmers Dairy Cooperative Society (Tanga)
14. Gongale Women Group (Manyara)
15. Llima Numbe Dairy Group (Arusha)
16. Nure Women Dairy Cooperative Society (Kilimanjaro)
17. Muheza Dairy Farmers Cooperative Society (Tanga)
18. Mlingano Dairy Farmers Cooperative Society (Tanga)
19. Upendo Dairy Group (West Kilimanjaro)

20. Ikunda Dairy Farmers Society (Arusha)
21. Heifer Project Makau - HP Makau (Arusha)
22. Lushoto Dairy Farmers Cooperative Society (Tanga)
23. Korogwe Dairy Farmers Cooperative Society (Tanga)
24. Nkwarungo Women Dairy Cooperative Society (Kilimanjaro)
25. Dairy Project Fukeni (Kilimanjaro)

Additionally, as a result of the leveraging of resources from activities already under way in Tanzania, CDE staff was able to conduct training with cooperatives that serve the purpose of establishing the foundation needed for participation in the curriculum developed under this project. This training focused on cooperative structure, governance, legal framework, management and record keeping.

Specific activities undertaken include:

1. Delivery of technical assistance and follow-up visits on governance, financial management and cooperative record keeping and accounts. This follow-up work was conducted on a continuous basis, working with both new client cooperatives and the existing cooperatives and those who are the beneficiaries of milk cooling tanks.
2. Preparation of a training manual on Cooperative Record Keeping and Accounts based on the Tanzania Cooperative Act of 2004. This was made possible due to the positive collaboration with the Cooperative College of Moshi. Under funding from the Dairy Enterprise Initiative, Land O'Lakes engaged a qualified instructor specializing in cooperative accounting to work with Edmund Moshy, Land O'Lakes' cooperative development specialist, to develop the manual. The training manual harmonized materials and other manuals developed by the Land O'Lakes project in Kenya with materials developed in Tanzania. All material was modified according to the requirements of the legal requirements contained in the prevailing legislation.
3. Foundational training was conducted using this manual. Three successful five-day in-class trainings on cooperative record keeping and accounts were held in Moshi, Arusha and Tanga. The trainings involved 93 leaders, treasurers and bookkeepers/accountants from 38 cooperatives in Kilimanjaro, Arusha, Manyara, Tanga Coast and Dar es Salaam. This foundational training will allow the cooperatives selected for the more intensive training under the Cooperative Development curriculum to be fully prepared and exposed to the concepts and basic financial structures that will be emphasized in Level I, II and III training.

A program was prepared in which all the cooperatives that had been the beneficiaries of Land O'Lakes program activities were visited for purposes of ascertaining the application of the training and technical assistance that had been extended by Land O'Lakes. In all, 32 cooperatives and groups were visited (11 in Kilimanjaro, 7 in Arusha, 4 in Manyara and 10 in Tanga). Through the individualized meetings, the

Land O'Lakes staff was able to ascertain the significance and relevance of the training in its applicability to the coops' and groups' operations. It was also useful in identifying shortcomings or impediments that prevent effective application of the methods taught. Furthermore, the meetings allowed further clarification and instruction on techniques and practices as necessary to ensure better understanding and proper application.

Additional benefits of this exercise have been the ability to capture lessons learned from the application of the assistance, trainings and support. From this learning, our staff is able to suggest measures to improve the program in the future, and to develop more effective follow-up procedures for the program. Finally, it also has allowed the staff to track changes and impacts to date.

Some of the specific lessons learned in this case are enumerated below:

- In the cooperative management trainings (governance), it was also recognized that rank-and-file members have not frequently been involved in most of the trainings. Consequently, they are ignorant or not informed of their rights and responsibilities in the cooperatives. There is a need for open trainings to most of coops' members to have them understand their roles, rights and responsibilities
- Land O'Lakes also needs to personalize (person-to-person technical assistance) some of the training for specific cooperatives because problems differ from cooperative to cooperative. Some cooperatives have advanced problems while some operate at very basic levels. The adoption levels and rates also differ depending on the ability and quality of the coops' hiring procedures; however, this may work if one selects a certain group of coops, based on either ability levels or geographic factors. It is then possible to find a common setting and deliver the right training for that particular group.
- Field visits/exchange visits among cooperatives/dairy farmers speed adoption rates. Cooperatives and their farmer members like to imitate a successful cooperative/farmer somewhere else. It has definitely been noted that exchange visits/educational tours appear to have the highest impact in terms of subsequent adoption.
- The training sessions serve as the foundational contact with management/ leadership that opens the way for capacity building with members on other areas of technical assistance ranging from obligations/rights/dairy business. Most importantly this opens the door of enlightenment on how the business of the cooperative is or should be transacted. This helps management teams implement new business concepts picked up in courses that typically may be at variance with cooperatives' or members' customary commercial practices.
- Business review workshops in which coop leaders report and review their coops' performance over a specific period of time seem to address the issue of follow-up and the logistical challenge of monitoring each and every group.

- Land O'Lakes needs to ensure it bridges the different sections of Land O'Lakes technical delivery, i.e., business and production aspects in particular. In this regard, the dairy record topics require special attention because of the direct correlation with the business performance of the co-operative.
- Our perspective is that enhancing individual member's business competence on dairy matters is the platform on which gains at the cooperative level will be made. It is therefore important to incorporate the components of dairy records/breeding/conservation logistics into the management training sessions.

2. South Africa

South Africa Overview. As mentioned, the program in South Africa will utilize Land O'Lakes cooperative managers, who will provide a more intensive level of program management, working with two to five cooperative clients in a mentorship and training role for a two- to four-year period. It is envisioned that the more formalized aspects of training will be conducted over a full-day every second week with follow-up implementation sessions on alternate weeks when needed. Consideration will be taken of daily business activities carried out by the cooperative so as to prevent training from clashing with business activities.

In the first period of this grant, in addition to South Africa staff participation in overall program design, planning and organization, the activities conducted were concentrated in the following categories:

- a. Establishing a network of useful relationships with key public and private sector entities for purposes of needed coordination, collaboration and information;
- b. Client cooperative identification, assessment and selection.

Program Approach To Learning Objectives

As presented in the CDE proposal, South Africa has one of the largest disparities in per capita income between ethnic population groupings. Financial management skills and structures are lacking, particularly among historically disadvantaged cooperative and producer group members. An important reason for this is historic political disparities between population groups. However South Africa accounts for 53 percent of Africa's GDP and produces surplus dairy and agricultural products. For the purpose of this grant, there are valuable lessons to be learned from the commercial agricultural sector as well as the emerging agricultural sector commonly known as the historically disadvantaged sector. Because of the emphasis placed on learning and not solely an immediate solution to poverty relief, Land O'Lakes has opted for a holistic view of the entire agricultural sector and not solely the historically disadvantaged sector as a valuable focal point for learning under the program.

Building the Network of Collaboration and Coordination:

South Africa Government Departments

Department of Agriculture: A lesson learned in South Africa is that the Department of Agriculture is not only a good source of information for potential clients in the

Agricultural Development Sector but is a good vehicle for promotional activity. Land O'Lakes has conducted a number of successful presentations to the Agricultural Department at provincial management level. As a result, the Department has acknowledged the essence and a need for the CDE program and has actively promoted it within their office and among potential CDE clients. Evidence of Land O'Lakes' successful program promotional work was an invitation to present a co-operative awareness seminar near the City of Port Elizabeth in the Nelson Mandela Metropolitan. Due to initial program promotional work, the Department of Agriculture has recognized Land O'Lakes under the current USAID grant as a preferred and significant organization in the area of cooperative development training. Seminars are not necessarily part of the program approach, but in terms of program promotion and response to needs on the ground, Land O'Lakes entertained opportunities created by activities such as those arranged by the Department of Agriculture.

Communication with Registrar of Cooperatives: In keeping with the CDE objective of learning and reporting information to the cooperative development community, Land O'Lakes has engaged in assisting a new women and youth cooperative, Imveliso, to register their cooperative with the National Cooperative registrar. In so doing, Land O'Lakes has observed some of the hurdles and development needs of historically disadvantaged farmer cooperatives in South Africa. Land O'Lakes is currently exploring the real member benefits under the current system for registration of their cooperative as opposed to continuing their business cooperatively without registering their institution.

Other Organizations

It is apparent that collaboration with other private sector organizations will make the CDE grant's impact have an even broader effect. A strategy of carefully planned collaboration with selected organizations will not only provide leverage for this program, but will enable other organizations to adopt lessons learned under this grant and continue the work beyond the duration of this particular program. Land O'Lakes has devoted time to investigating opportunities for working with other organizations with similar program objectives.

Khula Enterprise Finance: Khula is a business development and funding agency that provides credit guarantees, mentorship, financial training and business development services to businesses over the past eight years. Land O'Lakes has engaged in correspondence with them with a view to leveraging their resources in the Cooperative Management function laid out in the management support model in the Land O'Lakes proposal to USAID. Khula makes use of paid independent field business consultants but has expressed an interest in sharing costs with the CDE program in training cooperative management.

The CDE program has sought to consider co-funding and business expertise to cooperatives that ordinarily would not have enjoyed these services. A crucial element to any working arrangement would be the development and delivery of the Land O'Lakes curriculum, which could potentially serve as capacity-building for Khula.

Khula, through a business monitoring program they manage, has learned interesting lessons in micro finance, the issue of access to credit and the establishment of a small- to medium-size enterprise. Their contribution to lessons learned in the curriculum development process could be helpful. Khula expressed an interest in using the Land O'Lakes curriculum beyond the CDE program; however, it has been agreed that sharing of curriculum information would only take place if a working arrangement and memorandum of understanding were agreed upon.

Land Bank of Southern Africa: The Land Bank is a government-owned, agriculturally focused financial institution. Correspondence was held with Warren Gerber, a USAID-employed consultant to the South African Government regarding bank policy reform for emerging farmers. It appears that access to credit for rural cooperatives owned by historically disadvantaged farmers is an unresolved issue in South Africa that Land O'Lakes could potentially assist in enlightening through experience with co-op clients.

USAID/South Africa: A meeting was held with the Senior Agricultural Development and Business Advisor for South Africa, Kim Lucas. Kim was briefed on our proposed activities under the CDE program, and she offered some advice and offered her support to the CDE program as far as was possible.

Farm Vision: Farm Vision is the technical consulting arm of Clover Dairies, one of the largest dairy companies in sub-Saharan Africa, who, in the context of their involvement with one of the CDE potential clients, is engaged in providing dairy-specific technical assistance to historically disadvantaged farmer cooperatives. Land O'Lakes has been in regular contact with Farm Vision with the objective of collaborating with them in a joint venture to assist mutual clients. Land O'Lakes' relationship with Farm Vision will intensify as synergies are implemented early in the next quarter.

Milk Producers' Organization (MPO): The Milk Producers Organization is the dairy body that represents all commercial dairy producers in South Africa. Land O'Lakes has engaged in discussions with this organization with the objective of sharing lessons learned, co-training of clients and selection of appropriate dairy cooperative clients. Further engagements and a way forward are planned for the next quarter. MPO provides training to its new members; however, as is evident with Farm Vision, Land O'Lakes has a role to play with this organization in terms of on-the-ground client training over the course of the next six months.

NuFarmer: This is a newspaper journal aimed at the historically disadvantaged agricultural sector. *NuFarmer* has a readership of 100,000 people. Land O'Lakes has been in contact with Johan Sweigers, the editor of the paper, who has advised us on potential groups to engage in order to optimize program impact.

Emerging Markets Group Ltd.: The Emerging Markets Group funded by USAID has financial consultants who provide training and solutions to issues in the area of finance as well as business support to emerging cooperatives and businesses owned by previously

disadvantaged people. Land O'Lakes has been engaged in exploring potential CDE clients as well as possible program synergies with Emerging Markets Group Ltd. and will continue to explore ways for mutual support.

SAIBL: The USAID-funded PAL program under DAI's Southern African International Business Linkages Program has actively supported Land O'Lakes in current and previous programs in Southern Africa. SAIBL plays an important role in promoting market linkages on behalf of rural poor farmers. Land O'Lakes continues to support SAIBL and other USAID-funded initiatives and in turn expects that they will reach out to CDE clients in their respective disciplines and under their programs. PAL has agreed to assist in seeking new market opportunities for CDE clients and to support the CDE program.

Evaluation of Prospective Clients

Cooperative Boards

Meetings with prospective clients' boards of directors were conducted with the initial objective of program promotion. This point of contact had generally been preceded by a briefing by government agricultural extension officers. New groups who had previously never heard of Land O'Lakes had therefore become aware of the CDE program through local extension services. This has assisted Land O'Lakes to fast track a level of credibility and trust on which meetings between Land O'Lakes and co-op management boards have been based. It has become evident that cooperatives differ substantially from one another in how they are run. Land O'Lakes has observed the protocol of individual cooperative boards and addressed members accordingly.

Eight organizations have been evaluated for participation in the program so far.

A self-assessment tool comprising questions to prospective clients about the following areas of their organizations was tested on a sample group of five cooperatives:

- corporate governance,
- book keeping,
- financial management,
- business management.

Changes were made to the assessment tool, including the change from an assessment exercise to a self-assessment exercise. The assessment tool has been appropriate in revealing the true level of financial acumen in sample co-ops. The findings were that the sample cooperatives are skills-deficit even in basic book keeping skills. A percentage of members of rural agricultural cooperatives are functionally illiterate, and others have little understanding of the full benefit that their co-op can potentially realize for them. In test cooperatives where a component of the membership is illiterate, Land O'Lakes will seek to brief members on the reasons and method of the co-op training and mentorship under this program.

In empowering cooperative leadership and management with business skills, the following three risks have been identified:

- A void could develop between the management and members due to disproportionately weighted power;
- Key trained staff could leave the cooperative without having transferred skills to replacement staff or members;
- Skills in financial management in the wrong hands could encourage elements of corruption.

To mitigate the above risks, Land O'Lakes is taking a holistic approach that encompasses corporate governance and includes hands-on follow-up mentorship. Members of cooperatives who may be illiterate will need to be certain that they have elected the right people in management and that there are democratic paths of recourse should a distress situation occur. Illiterate members of cooperatives will by no means be isolated, but included in decisions that they have a right to make. The challenge and commitment under this program will be to train capable, accountable staff and members who hold the interests of all members at heart, literate and illiterate alike. In some cases time has been taken in evaluating and understanding the workings and fundamentals of potential test cooperatives.

Most of evaluated cooperatives are young cooperatives or producer groups that haven't been functioning under their current corporate structures for more than five years. Some older co-ops are being rejuvenated through grant and loan funding and are receiving development funding assistance focused on their management. The assessment tool in most cases has been helpful to the cooperative board members in revealing to them the need for further introspection, following the nature of the questions that were asked about the direction in which they expected their businesses to develop and grow.

Seven Stars Cooperative (Keiskama Hoek):

- This cooperative displays a history of mixed success, but is now truly coming into its own as a member-owned co-operative with challenges typical to the dairy industry.
- Seven Stars currently draws on technical and primary farm management assistance from Farm Vision, who has been appointed on contract as Clover Dairies' technical service providers.
- Meeting with the board of directors confirmed the need to service Seven Stars, if selected as a client, in collaboration with Farm Vision in order to engage both stakeholders' efforts effectively.
- Subsequent follow up with Farm Vision has been positive. Farm Vision is interested in working with Land O'Lakes in the context of the CDE program. Farm Vision has requested that their primary agricultural management staff receive training under the CDE program with co-op members in order that they may support the follow-up process and benefit as an organization.

Ncora Irrigation scheme:

- Ncora is a former Ciskei Government Communal Agricultural irrigation scheme formerly managed by an Israeli company in the 1980s. Ncora has "erupted" into a number of new cooperatives in the fields of vegetable production, seedling

production, livestock fattening and even a bakery. Some of these co-ops are still rudimentary, but others are viable cooperatives conducting business in a healthy manner.

- Eight enterprises conducting various activities operate under the co-operative trust.
- There is potential to select Ncora as a test group, pending further examination of the corporate structure, management and business activities of sub-organizations.
- Relevant members of the board embraced the CDE program concept and were willing to participate in the program.

Grasslands Trust:

Grasslands Trust is a large dairy producer concern that has attracted widespread recognition for introducing historically disadvantaged dairy farmers to the commercial dairy sector. Although Land O'Lakes took away valuable information while pursuing Grasslands as a potential client, Land O'Lakes will not select this group as a CDE test co-operative client as anticipated, for the following reasons:

- Management of Grasslands employs the trust members on their farms and has expressed that there is a high level of illiteracy and lack of organizational capacity in the producer group. Grasslands therefore expressed that the CDE program would not be beneficial to their organization.
- Grasslands Trust members did not attend any of the meetings to which they were invited. It is suspected that Grasslands failed to facilitate their invitation.
- Grasslands Trust is in practice not a member-owned and -controlled producer group as it originally appeared to be, although the Trust has been structured around shareholder incentives.

Six other smaller producer groups were interviewed and evaluated, some of whom will be selected and others will not meet the requirements for assistance under this grant.

The following lessons have been learned so far in South Africa:

1. Conducting a seminar or promotional activity in conjunction with another service provider in South Africa was an effective way to make our operating funding go further. The only eligible costs incurred in such events were staff transport to the venue, staff time and preparation time.
2. Positioning Land O'Lakes as a service provider under this grant, accessible to and in communication with government Department of Agriculture has fast tracked our standing as reputable co-op development people who can be called upon to train and mentor clients.
3. As mentioned in the work plan, the Department of Agriculture is deficient in co-op development expertise. Most emerging co-ops place their trust in the government department, but there seems to be a clear void between what they can realistically achieve and what they attempt to deliver to farmer-owned co-ops and producer groups.

4. There is a widespread lack of understanding of the fiduciary requirements necessary for co-ops to comply with registration criteria. This is not only evident among co-op members and leadership, but different government departments in South Africa appear to often be ignorant of elements of one another's policies and the implementation of these.
5. No legal or legislative barriers prevent cooperatives or producer groups from registering or conducting their business; however the fundamentals of the registration process were designed under the old apartheid system. Some amendments have been made to the registration requirements and process, but until the entire process has been overhauled, some cooperatives owned by historically disadvantaged people will fail to comply with registration requirements, either because these aren't tailored to their business or because they do not recognize registration as being necessary.
6. Some groups believe that registering their co-ops or businesses will solve a myriad of issues such as access to credit, bulk purchasing or collective bargaining. However, it has become essential to articulate the fact that registration is not necessarily a solution to management, marketing or credit issues but is merely a start in conducting a legal entity.
7. The Registrar provide initial basic training to new cooperatives; however, there is a need for formal, business-oriented training. This became apparent in interviews with cooperative leadership.

3. Headquarters Office Activities

For virtually the entire term of the International Development Division's history, Land O'Lakes has been engaged in programs that have strengthened cooperatives. Land O'Lakes has engaged in various means of providing client cooperatives with the skills and training to organize themselves as legal entities, as well as to operate as profitable businesses. These interventions have been conducted not only under the Cooperative Development Program, but in a wide range of other programs and training conducted under the Farmer to Farmer Program, a variety of country or regional grants, cooperative agreements and contracts aimed at strengthening agriculture and food systems, and U.S.-based training for farmers and cooperative staff and leaders from emerging and developing countries.

One of the major needs is to synthesize the variety of training material that has been used and delivered in the many activities that Land O'Lakes has conducted over the past 25 years. There are numerous cooperative development manuals and curricula that are housed within the Land O'Lakes archives. The challenge is to review them and select a single approach or a set of alternative approaches that have been and will continue to be delivered to cooperative clients depending on the circumstances that exist in a particular country or region of the world. The intent, however, is to select a limited set of training material that best captures the methodology that Land O'Lakes can offer to its cooperative clients that integrates with the goals of the financial expertise that the organization is advancing in this grant.

It is well-recognized that in order for a cooperative to fulfill its potential as a reliable business unit that serves the needs of its members in assisting them to maximize the value of their production, the organization must be organized properly, governed prudently and operated efficiently. The structure of the cooperative must conform to the principles of cooperative organizations, and the organization must also be legally recognized under the cooperative statutes that exist in the country in which the organization is situated. Furthermore, the principles of good governance and cooperative organization must be embedded within the establishing documents, and the practices must be adhered to by the leadership, staff and membership. Finally, proper checks and controls must be observed within the financial operations of the business, in order to promote the wise use of limited resources, and to assure adherence to accepted accounting and financial management practices.

The myriad of training materials used by Land O'Lakes over the years will be used as the basis for developing a uniform system of training cooperative members and staff in the foundational principles of good governance, organizational structure and business management. This material would constitute a "best practices" methodology in basic cooperative development. These modules can then be adapted to meet the differing needs and conditions of the countries in which Land O'Lakes operates. Such modules will be needed in working with cooperatives under this grant, despite the fact that Land O'Lakes will be targeting cooperative entities that have achieved a modicum of success in organizational development. Despite that fact, it is clear that in resource-poor environments and communities, such as those that we will target in South Africa and Tanzania, most of the cooperatives that will be selected as cooperating clients will need substantial training and strengthening of their basic skills and structural frameworks. While not all of them are starting from scratch, most of them will need some strengthening of their organizational foundations so that they can effectively accept and apply the more sophisticated financial training and support that is the primary focus of the field project component of this work plan.

The International Development Division's Communication Team will take the lead in collecting and cataloguing the relevant cooperative development training material that is on record within the Land O'Lakes archives and libraries. Progress to date on this effort includes the collection and cataloguing of existing materials within the Land O'Lakes archives that have previously been utilized for domestic and international cooperative development training. Material that has been catalogued to date is listed below:

Land O'Lakes Cooperative Principles and Practices Course

Introduction to Private Farmer Cooperative Business

Review of course outline. Introductions and background of instructors and students. Discuss purpose of course. Perform a private cooperative knowledge assessment.

Business Systems in the United States

Identifies the different business systems. How private cooperatives are like and unlike other business, and the advantages and disadvantages of private cooperatives.

What is a Private Cooperative?

Discussion of how private cooperation can benefit farmers. What are the forms of cooperation? How is a private cooperative structured? How is it owned and controlled by the members?

How to Organize a Private Cooperative

Students will learn the procedure for organizing a private cooperative. They will discuss how to determine the need, how to get potential members involved in planning, establishing Articles and Bylaws, conducting member meetings, electing directors and hiring a manager. Group discussion topics will be used.

Principles Underlying Private Cooperative Financing

Topics include how businesses are financed, how private cooperative financing differs, how members provide equity capital, and what is meant by “operating on a private cooperative basis.” Group discussion topics will be used.

Responsibilities, Interrelationships, Control and Ownership Roles within a Private Cooperative

Details the rights and responsibilities of private cooperative members as they participate either in their roles as a member patron or as an elected official. Discussion centers on the separation of functions between paid management and elected officials. Group discussion topics will be used.

Guidelines for a Successful, Private Farmer Cooperative

Discussion will include how to communicate with and involve members, keeping directors informed, the importance of being neutral in politics and religion, and adapting to change. Group discussion topics will be used.

Excerpts from *Cooperatives, Principles and Practices* by Marvin A. Schaars***The Cooperative Extra! CD (Minnesota Association of Cooperatives)***

A unique collection of materials for the study of cooperative development that is designed for easy reference. The CD includes the text of two books explaining the dynamics of rural population in Minnesota and the opportunities for community development through cooperative business activities. It also includes a video of the historical legislative action that enabled cooperatives to participate in economic activities, and the recodification of Minnesota Cooperative Law—the model for cooperative law throughout the world. The *Reviving Renville* video provides interviews with cooperative participants from one community in southern Minnesota engaged in what has become a model for value-added cooperative activities.

How to Start a Cooperative (United States Department of Agriculture)

A guide that outlines the process of organizing and financing a cooperative form of business. It is oriented to agriculture, but its content can be easily applied to most any activity. The publication represents the most important elements to consider when forming a cooperative. It lists what special expertise is necessary, where to look for help, and where more detailed information is available in the organizing process and early months of operation.

The Tanzania Training Manual on Cooperative Organization and Management.

The next phase of this work will be to engage experts from outside the International Development Division to engage in a review and selection process. While the Cooperative Development Advisory Council proposed originally was eliminated due to the financial pinch of the budget reductions absorbed within this grant, certain esteemed cooperative development experts could be encouraged to work with Land O'Lakes to perform this important task of unifying and standardizing the foundational curriculum for basic cooperative organization and management.

Next steps in this process include:

- Ensure all internal Land O'Lakes resource materials are collected and catalogued.
- Obtain existing materials from Land O'Lakes country offices.
- Collect information from other sources as identified below.
- Form an assessment team to review materials; select those that represent best practices and are most applicable to needs identified under the CDE program.

Following the internal staff review of the material collected, Land O'Lakes intends to convene a material assessment committee to review and recommend a narrow list of materials that best capture the organization's best training material in this respect. Candidates for Material Assessment Committee include but are not limited to the following individuals:

- Rob Nooter, External Affairs and Special Projects Advisor
- Ted Weihe, Executive Director, Overseas Cooperative Development Council
- Frank Blackburn, consultant and former information and administration officer for the Minnesota Association of Cooperatives
- William Nelson, consultant and former Director of the Quentin Burdick Center for Cooperatives
- Allen Gerber, former President and CEO, Minnesota Association of Cooperatives

III. Program Challenges and Lessons Learned

As mentioned previously, the biggest challenge that the project staff has faced is the revision of plans and activities in light of the constrained budget. It is Land O'Lakes' hope to complete a significant amount of work and obtain significant organizational learning from conducting the activities proposed in the unified workplan. However, the reality is that with the amount of funding available, serious cutbacks have been necessitated and the projected outputs and results to be achieved by the project must be scaled back in line with that reality. Nonetheless, there is valuable learning that has taken place thus far. In addition to the lessons learned reporting that is contained in the country-specific sections of this report, some of the notable generalized lessons learned to date are described below:

- From the cooperative record keeping and accounting training perspective, Land O'Lakes has been too ambitious in covering many things at once, i.e., spending five days trying to cover a wide range of material. Concentration and understanding levels of the participants decrease over time. Dividing the training into more user friendly segments is important so that farmers can concentrate on the training without distractions concerning worries about the status of the work on the farm. Training will be compartmentalized into shorter modules. Study shows that two days should be maximum for a certain specific module.
- It was also learned in the training that cooperatives would like training sessions using some of their real financial data as a real-life experience to apply once they have worked on a more simplified example.
- There can be a number of modules in each level of training (sophistication), but people need to learn this in discrete stages so that it can be absorbed and applied before progressing to the next stage of training or assistance.

IV. Plans for Next Semester

1. Core Program Activities

The Regional Financial Management Advisor will be working with the Land O'Lakes staff in Tanzania and South Africa to develop specific client training plans for the remainder of 2005. The training plans will include the specific training to be delivered as well as a review of the monitoring tools to assess the effectiveness of the training.

Regional Technical staff will be engaged in the training of training staff in the focus countries. Land O'Lakes has the luxury of having outstanding regional technical staff in the areas of financial management, business management and accounting. These professionals have been involved in the initial work of producing the training curriculum and will further their efforts by training the staff who will test the curriculum and observe its results for recommended changes and further development. For the purpose of curriculum development, communication of the detailed results of training will be necessary between field staff and regional technical staff. Resources will be committed to regular collaboration between participating country staff

Annual client training plans will be developed based on a number of management considerations, namely, geographic location of the client co-ops, client-specific needs, and available times in the clients' schedules to be dedicated to training. The Land O'Lakes team is mindful of the dynamic nature of smaller client co-ops and that change in business structure and core focus is common. The program will need to make provision for such changes as they occur, particularly if they are brought on through program intervention.

Headquarters Staff

Staff will continue the cataloging and review of the training material on foundational cooperative development. This will include completion of the cataloging exercise, and review by internal staff as well and some involvement of outside experts in cooperative development.

2. Country-Specific Field Work

South Africa

The South African component of the program will be utilizing the network and relationships developed during the first phase of the program to implement the field training component of the program. Staff will sharpen the focus from primarily a selection and selection tool development objective to a technical training and mentorship objective. Some client selection will still continue in order to select more clients that will further enrich learning and program results.

Selected Clients

At least two clients, namely Seven Stars Co-operative and Rathwick Dairy, will be receiving assistance under this program over the following semester. What has been appreciated by CDE staff is that at this level of hands-on assistance, it takes time for the client to open their books up to Land O'Lakes, as is necessary for the successful program implementation and measurement of program progress. Land O'Lakes has had to make provision for time to be structured into the management stream of both groups mentioned. In some instances the process is not yet complete; however, it is moving in a positive and fruitful direction. Land O'Lakes, under CDE is being drafted into Seven Stars' revised business plan. The CDE program will be used by Rathwick Dairy in their restructuring to improve individual member incomes.

Program Management for Client Business and Environmental Changes

In applying the management consultant training approach, it is important for project staff to stay abreast with the needs and changing environment in which client co-operatives are working. In the case of one particular client, Seven Stars Cooperative, structural realignments are taking place within the organization. Upon the client's request, CDE program activities will be phased into action in line with the client's internal business structural changes. Program timing may be delayed to some degree in such cases; however, program management staff will seek to keep up program momentum by continuing to manage other program activities that can be continued under such circumstances. This is a reminder that a key to the success of the management consultant model is to work in concert with the clients' businesses and to work through appropriate channels to remain an effective collaborator.

By way of example, Rathwick Dairy is seeking to improve its client earning capacity by diversifying member business activities and is looking to the CDE program to help manage this phase of change. The CDE program therefore comes at an appropriate time for this group for powerful and effective intervention. CDE objectives will be maintained while meeting changing client objectives on a real-time basis.

Program Expertise

As was articulated in the business plan, the management support component of the program will not be limited to one person's expertise. Part-time management expertise will be hired to fulfill the management consulting component. The level one phase of training mainly deals with basic financial management, which includes bookkeeping. A part time consultant will be hired to fulfill this role over a period of at least six months. The consultant will be closely managed and monitored by Land O'Lakes CDE country manager for South Africa. Program progress will be checked frequently in order for lessons learned to be evaluated and noted, and also for client progress and client interest to be evaluated. The part-time consultant may be kept on for a period exceeding six months; however, if client requirements change or if expertise is required in more progressive levels of the curriculum, the consultant may be replaced with a person more

proficient in the skills required for more advanced training and mentorship. Consultant placement and selection will be carried out at the discretion of the CDE Country Manager for South Africa under supervision of the CDE Program Manager and Land O'Lakes Regional Financial Advisor.

Tanzania

Adopting of the level one training manual to the Tanzanian context will involve translation of the manual into Swahili and aligning the document to the prevailing situations. It also includes sharing the materials with the Cooperative College professionals/trainers. Training materials will be customized by changing examples into the appropriate currency and changing other units of measurement to more accurately depict actual circumstances.

Plans for active implementation of the training program with the selected clients entail the development of annual client training plans and subsequent follow-up/consultative service plans and on-the-job training. Based on the findings of the client assessment visits/tools, a template for a training/consultative plan will be developed for each client.

Ariong Abbey, Land O'Lakes/Uganda staff member, has been asked to visit Tanzania to share the developed/adopted manuals, the field experience and observation, and work with Edmund Moshy, the Tanzania Cooperative Business Specialist, and maybe the trainer from the Cooperative College to finalize plans for delivery of the training.

M&E documents will need to be created to know what Land O'Lakes intends to measure in terms of results. A baseline will be developed utilizing information from the assessment exercise/tool or follow-up information from the groups.