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Cooperatives in Development:

A Review Based on the Experiences of U.S. Cooperative Development Organizations

Volume One: General Summary and Conclusions

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EXECUTIVE SUMMARY

FINDINGS, CONCLUSIONS, AND GUIDELINES

THE BENEFITS OF COOPERATIVE PROGRAMS

The benefits and significance of cooperative programs may be divided into three broad categories:

- Impact, or the broad developmental effects of a cooperative on the country itself;
- Benefits, which are the goods, services, and improvements in quality of life received by members of the cooperative; and
- Advantages and comparative advantages, the rationale for or against selecting a cooperative approach to development.

The Impact of Cooperatives on National Development

Mobilizing Resources. Cooperatives mobilize resources internally rather than placing a continuing burden on government budgets, foreign loans, and foreign exchange. This mobilization has two important benefits for a developing country:

- It represents a net increase in the amount of resources devoted to productive or developmental purposes in a country, and thus contributes to its capital base and to development in general; and
- It represents a productive application of resources that have not caused a further drain on central government resources.

At a time when high foreign debts, low levels of investment, and high levels of unemployment undermine the economies of the developing countries, this ability to generate productive investment from internal resources is a significant benefit.

Providing Economies of Scale. Cooperatives organize people into units that can be feasibly serviced by other institutions, reducing the number of entities with which banks or government agencies must deal and increasing the average size of loans or other services to an economically justifiable level. Development efforts are made more effective by concentrating on groups rather than individuals.

Reaching Populations Not Served by Other Programs. Cooperatives are able to reach and benefit sectors of the population that would not normally be served by private sector institutions or direct government programs.

Providing Services that Would Otherwise be Unavailable. Cooperatives often provide services that would not otherwise be available in the marketplace.

Expanding or Capturing a Significant Share of the Market. Cooperatives have, in some instances, been instrumental in building the size of a potential market (especially in export products and savings and credit usage), or in capturing a significant share of the existing market.

Building Permanence. Cooperative development in the Third World has created relatively permanent institutions, whose services and benefits continue after direct project assistance terminates. Permanent institutions can address development needs beyond those for which they were originally established and provide an institutional framework through which other resources and programs may be channeled.

Building Human Resources. By emphasizing human resource development, particularly in the form of business-related skill training (including accounting, bookkeeping, auditing, decision making, management, management of funds, marketing, and inventory), the cooperative experience has created an emerging class of institutional managers. Cooperatives have also provided a path of upward mobility for staffs, managers, and volunteer directors.

Contributing to Stable Socioeconomic Development. Socioeconomic development is often destabilizing, as rising expectations become translated into political radicalism. Cooperatives in developing countries have tended to eschew both partisan and radical politics. With rare exceptions, cooperatives have acted as conservative, narrow-focused business institutions.

Benefits to Members

Introduction of Competition into Noncompetitive Markets. Cooperatives introduce competition into what are otherwise monopolistic or oligopolistic markets, providing alternatives to moneylenders, informal savings societies, local banks, and supply and marketing companies. Benefits to the individual member are generally in the form of lower costs, higher returns, higher quality of goods and services, and availability of goods and services that were previously unavailable.

<u>Lower Costs</u>. In the short run, cooperatives often provide services at a lower cost than alternative providers. The margin of benefit provided by the cooperative may decrease over time as competitors adjust prices, but this influence over local prices is one benefit of competition.

<u>Increased Returns to Members</u>. The opposite side of lower costs for inputs or services is higher prices for products or output. Cooperatives generally return a higher percentage of net margins to members than alternative development mechanisms.

<u>Member Participation</u>. One salient characteristic of cooperatives, and a few other forms of local organizations, is that they place a high premium on the participation of members in the operations and decision making of the cooperative itself. Participation promotes independence, self-reliance, and responsibility. For most members, it is their first experience with a form of organization that encourages them to take an active role in their own development and that asks for a commitment of their time and interest in their own benefit.

<u>Building Social Energy</u>. The impact of a cooperative development effort may continue to be felt even if the cooperative itself does not succeed. Observed instances of spontaneous efforts at grassroots development, where there had been no immediately antecedent activity or promotion, have been attributed to the participation of many of the people involved in previous forms of collective action, including cooperatives. Although the earlier efforts may have ended unsuccessfully, the social energy created by the experience had set the stage for later activity.

<u>Advantages of the Cooperative Approach</u>

<u>Compared with Public Sector Programs</u>. Compared with public sector programs, cooperatives offer lower costs to the member, lower delinquency rates, lower cost to the central government as a result of a general absence of interest rate and operating subsidies, and the ability to reach populations that cannot be effectively reached by a centralized bureaucracy.

Cooperatives should be viewed as complementary rather than alternative approaches to public sector development programs. Development programs should be based on approaches to groups of people rather than individuals: central government programs can reach target populations more efficiently and effectively if these programs are organized into cooperatives (or some other form of local organization) than they can individually. Cooperatives offer a stable institutional structure in areas where it is not feasible to establish permanent government offices.

Compared with Other Private Sector Alternatives. The major differences between cooperatives and noncooperatives concern the population served, the direction of benefits, and the development of additional capabilities:

- Cooperatives generally serve a different population than formal private sector alternatives. It is precisely because profit-oriented private institutions do not find it profitable to engage in the provision of services to individual poor farmers, small savings and lending programs, low-volume electrical hookups, and low-income housing that cooperatives are established.

- The goal of a private, profit-oriented institution must be to maximize profits, and the normal way to do this is to minimize benefits. Cooperatives have an inherent orientation to maximize benefits to the membership.

- Private sector alternatives to cooperatives have few incentives to invest capital in human resource development among the client population.

- The major advantages of cooperatives over informal private sector approaches are scale, permanence, and quality of service. Formal cooperatives permit a larger scale of operations and provide a permanent presence in the local community.

Assessing the Benefits of Cooperatives in the Developing World

The positive impact of cooperatives on the immediate group of people who are members of the cooperative and on the national development aspirations of the countries themselves results from four features of the cooperative approach: participation, focus, direction, and permanence.

Benefits of Participation. Considerable personal risk is involved for people who join in a development program. Where participation is an important ingredient of project design and implementation, they (members) are more likely to take those risks, adopt new technologies, and commit resources to the effort. Participation educates the members about the reasons, benefits, and legitimacy of the effort; it builds commitment to the success of the enterprise; and it develops skills that are necessary if the members are to participate in development in ways other than as the recipients of transfers or consumers of services.

Benefits of Focus. Unlike approaches that treat the intended beneficiary as a client or mere recipient of services, and create or depend on a continued dependency relationship between the beneficiary and the supplying organization, the cooperative approach is intended to develop independent decision making and control among the recipients.

Benefits of Direction. The interests of a private firm must be focused on minimizing the benefits to those clients to maximize returns to owners. This approach conflicts directly with the objective of maximizing benefits to the target population. Government programs tend to view this population as a recipient of welfare transfers. The paternalistic approach of governments provides little incentive to seek either rational or efficient solutions and methods. A cooperative, because the recipient or client population also owns it, has an automatic incentive to maximize benefits to the members.

Benefits of Permanence. A cooperative project is designed to build permanence into the services, activities, and operations of a local organization, so that project benefits will continue to be produced far into the future, after donor and host government inputs cease.

LESSONS LEARNED FROM THE COOPERATIVE EXPERIENCE

Sponsors and Recipients

Differing Agendas. The key institutional players in the design and implementation of cooperative development projects -- the donor agency, host government, cooperative development organization (CDOs), and recipient cooperative organizations -- are likely to have differing purposes or agendas:

- The U.S. Agency for International Development (AID) has multiple agendas in supporting cooperative development. Although these may not be in direct conflict with the goals of CDOs, they often introduce distortions in the structure, location, and underlying rationale for the cooperative project. In recent years, at least, AID has moved away from institution-building projects and placed much greater emphasis on immediate benefits. This focus influences the resource mix and duration of projects, and has implications for their ability to develop long-range, sustainable institutions.

- Host governments may view cooperatives primarily as a means of delivering services and distributing patronage.

- The principal goal of the CDOs is institution building -- creating cooperative business enterprises that are viable.

- Recipient cooperative organizations also have interests that may not be compatible with those of either the donor agency or the CDO and often agree to projects even though these organizations may not be fully committed to the objectives and strategies.

Failing to recognize these varying interests can reduce the chances for success.

Structural Rigidities. A fundamental contradiction exists between the funding mechanism of the international donor agencies, which require that projects be thoroughly planned (with targets specified in advance) before they are financed, and currently accepted developmental theory, which holds that projects are more successful when they are flexible, open, and subject to modification by the target population during implementation. Insistence by funding agencies on detailed project plans prior to funding authorization and disbursement results in projects that cannot be readily modified to meet changing conditions or opportunities.

Dependency on Donor Funding. Cooperative development programs conducted by the U.S. CDOs are funded almost entirely by official U.S. foreign assistance funds. Rather than the cooperative movement seeking support for a rational, long-range cooperative strategy, individual CDOs seek and take advantage of opportunities within the framework of donor agency priorities and strategies.

Ongoing Relationship of Cooperative Development Organizations with Developing Country Cooperatives. Continued support and contact beyond the end of development projects are important factors in explaining the long-term success of developing country cooperatives. Most development projects have no provisions for ongoing assistance to new cooperatives, so that once project funding ends the direct relationship between the CDO and the recipient cooperative organizations ends as well. This reduces the chances for long-term success.

Project Design

The Time Horizon of Projects. Effective institution building takes a minimum of a decade. The time required to build a successful cooperative program varies according to the complexity of the organizations themselves, the functions they perform, and the decisions that must be made during the normal course of operating the cooperative. There is a persistent tendency in project design to underestimate the time needed to create sustainable institutions.

Immediate Benefits versus Long-Range Institution Building. There is a tradeoff in project design between providing immediate benefits (resource transfers) and developing stable institutions.

Project and program officers concerned with obtaining immediate results often eschew the cooperative approach entirely as too slow and cumbersome, or they force a project design and set of activities that make it difficult to achieve long-range institutional viability.

System versus Project Orientation. The development of systems requires a long-range framework. Although projects may be more easily carried out in the short run, the objectives of this short-run strategy may not be consistent with the requirements of a long-term one. The funding patterns and time frame of international donor assistance force a focus on short-term, project-oriented activities instead of long-range system development.

Risk. Participation in a cooperative carries a risk for the members. New cooperatives are like any other new business: they are weak, fragile, and often fail. Project designs seldom include mechanisms for reducing or spreading that risk. Donor agencies and CDOs should incorporate risk-reduction mechanisms (such as share insurance, stabilization funds, loan protection insurance, and guarantee programs) into project designs.

Donor agencies and CDOs should be especially concerned about the risk inherent in hard currency loans to cooperatives. Cooperatives are generally not strong enough to absorb the devaluation risk. Only those cooperatives able to generate and capture hard currency earnings through export marketing should be considered for hard currency loans.

Cooperatives should not be expected to assume the risks of agricultural lending programs that would normally be covered by government budgets, subsidies, or bail-outs in a government-sponsored program. Agricultural lending, especially to small farmers in traditional crops, is an exceptionally risky venture. In most official credit programs, these risks are covered by government subsidies. To ask an institution to absorb risks and losses in this area places too great a burden on the cooperative.

Second- and Third-Level Cooperative Organizations. There are three basic reasons to include second- and third-level cooperative organizations into long-term project designs:

- It is difficult for an external development organization to develop and support individual base-level organizations;

- Cooperatives require vertical integration to achieve their full potential; and

- Further growth of a movement can be achieved only if a strong, central organization is in place.

Second- and third-level cooperative organizations have a better chance of succeeding when they are founded on a sound business activity (not just representation and education), when the member cooperatives are engaged in the same activity, and when there is a sufficiently strong base of member cooperatives to support the higher-level organizations. Establishing a viable federation requires the commitment of an international donor over an extended period of time, something that is often lacking in project design.

Underlying Assumptions and Premises. Many assumptions made by CDOs and local cooperative organizations (and even the donor agencies themselves) lock new cooperative organizations into long-term dependency relationships. Cooperatives often fail because they lack the resource base and capitalization necessary to survive; yet this is often the direct consequence of subsidies, interest rates, and pricing decisions.

Project Resources

Amount of Resources. The amount of resources provided to a cooperative development project is not directly related to success. More resources do not systematically produce more or better results. The mix of resources, proper tailoring of those resources to the local environment and expected outputs, and other factors are far more important in determining project success.

In-Country versus Short-Term Assistance.

- In-country resident technicians are most effective during the early development stages of a cooperative system.
- In-country technical assistance may foster excessive dependency on the resident advisers.
- Projects with the greatest long-term success are those in which the technical advisers have adopted roles as coaches and advisers, effectively training their counterparts to function as program managers, rather than as executers of line functions.
- At later stages, regional support or short-term assistance can to meet short-term, specific needs and reinforce training.

External Seed Capital. New cooperatives must be capitalized to reach significant business volumes: the amount of resources that can be generated internally is not great enough in the early stages to support a viable business operation. But there are tradeoffs:

- Too few resources stifle the growth of the movement;
- Too many resources may exceed the absorptive capacity of the institution;
- Externally provided seed capital should not substitute for internal resource mobilization; and
- The availability of inexpensive external capital often discourages management from adopting the strategies and policies that are necessary for self-sufficiency.

Pacing of Resources. The pace at which resources are provided to a new cooperative organization also influences the ultimate success of the project. When resources are provided too quickly, the result is often the mismanagement or misapplication of those resources. Providing resources such as seed capital at a moderate pace allows the local cooperative to develop the necessary skills to manage those resources properly.

Subsidies. The issue of subsidies to cooperatives is complex. On the one hand, subsidies may be counterproductive because they create dependency relationships and prevent the cooperative from adopting realistic pricing and operation strategies. On the other hand, subsidies may be the only way to reach certain groups within the society or provide particular services to those groups.

Macroeconomic and Social Variables

Although the experience of different projects has varied, there is no consistent pattern of variation that may be explained by macroeconomic or social differences. Cooperatives may succeed in one country and not another, but not because of differences in country wealth, literacy, size, or growth rate.

Cooperatives that are engaged in a business activity do require a national economic environment that is open to competition. When government is involved in setting artificial prices, creating and supporting monopolies through export and other licensing quotas, or does not tolerate independent business action, these cooperatives appear to have little chance of succeeding.

The Role and Involvement of Governments

Governments play a critical role in establishing and approving the legal environment within which cooperatives must act. At a minimum, governments must provide tacit support and permit the organization and operation of private, independent organizations. Overt support and contribution are not necessary and often lead to excessive government control and manipulation of the cooperatives.

Policies. Cooperatives are affected by government policies, especially in the areas of pricing, import and export, interest rates, marketing, and subsidized credit. Adverse policies in one critical area can make a successful cooperative difficult, if not impossible to achieve. Cooperatives, supported by donor agencies and CDOs, have a legitimate role to play in educating national government officials and lobbying for appropriate policies and legislation.

Services and Resources. Often, the government is committed to providing development resources to cooperative projects but is unable or unwilling to honor this commitment. Projects that depend on staffing, mobility, or budget support from host governments invariably must be redesigned to provide those services internally.

Partisan Politics. Cooperatives whose leaders have engaged in overt partisan politics have generally not fared well in the long run. This does not mean that cooperatives must refrain from all political activity. Since the well-being of the cooperative itself is influenced by national and even state politics, there is a definite role for political involvement in terms of defining and lobbying for issues that are of legitimate concern to the cooperative.

Compatibility with Host Government Styles. There is an apparent conflict between the goals and style of many developing country governments and the concepts of private, independent cooperatives. This conflict appears to affect primarily agricultural cooperatives as national governments use the cooperative label to organize rural areas.

Project Environment

Resource Base. Cooperatives must have an adequate resource base with which to work: a sufficiently large number of members with sufficient resources to maintain the cooperative without an excessive overhead rate. This generally requires a mix of members -- both low and medium income -- to provide the physical and human resources necessary to move the cooperative forward. When donor strategies or other constraints force a cooperative project to concentrate on resource-poor individuals, the cooperative has little chance of achieving sustainability. Building an adequate resource base is also critical for the success of higher-level organizations.

Organization around a Key Resource. To be successful, a cooperative must be organized around a key resource that an institution can effectively and efficiently mobilize, provide, or market. Agricultural cooperatives appear to be most successful when they are organized around a key stage in the production cycle that responds well to scale or technology -- which an institution can provide. This is typically in agro-industry, storage, marketing, and key crops.

Importance of a Local Niche. Business-oriented cooperatives appear to have a better chance of succeeding when they can take advantage of a natural void in the competitive market. Credit unions provide savings and credit services to a sector that is not served by other financial institutions. Rural electric cooperatives function in natural monopolies. Housing cooperatives deal with a segmented market with limited individual access to mortgage funding. Agricultural cooperatives, however, are frequently found in highly competitive markets with well-established traditional vendors and suppliers. This situation makes the establishment and operation a successful agricultural cooperative much more difficult.

Cooperative Antecedents. Cooperatives have a better chance of succeeding in situations in which there is prior experience with cooperative activities. Nearly all cooperative projects assume that cooperation is natural. In fact, agriculture and housing are highly individualistic activities in most traditional societies; there is little indication of a predisposition toward cooperative activities, at least of the type needed to sustain a viable cooperative.

Enclave Populations. Cooperative projects that are organized with a membership base that represents a subsector or minority population within the society face two potential problems:

- It is difficult to gain acceptance and develop the necessary linkages to institutions and services that are dominated by the major ethnic or social groups; and
- It is difficult to expand the membership base beyond the limits of that population.

Linkages to External Resources. Cooperatives require linkages to other financial and social institutions. In some cases, these linkages are intrinsic to the organization, such as the relationship between a rural electric cooperative and the national power company. In others, however, the linkages are the result of business activities. Credit unions require access to financial markets and banking services, insurance, education, and auditing. Housing cooperative movements also require access to financial markets for longer-term mortgage loans.

Management and Internal Issues

Leadership. Strong, catalytic, and honest leaders are an absolute requirement for success during the early years of a cooperative. Beyond that period, needs change to strong, business-oriented, honest, and dedicated leaders. The success of cooperatives throughout the world depends more on this factor than on any other. Weak management continues to be a major problem for developing country cooperatives.

<u>Pricing</u>. Pricing is perhaps the most difficult management issue in developing cooperatives. Some characteristics of this problem include:

- Cooperative managers have a tendency to ignore the real costs of operating the cooperative as a business. Managers frequently do not understand that operating at cost must at least mean operating at replacement cost.

- The traditional belief that a cooperative should charge lower prices and provide higher returns to its members has often resulted in unrealistic pricing decisions that decapitalized the cooperative.

- Cooperatives generally refuse to reward member investments with adequate rates of return.

- Cooperatives generally fail to build adequate reserves, due to a view of reserves as profits and to the inability to generate reserves on low-volume, low-profit operations.

Cooperative development projects should develop the understanding among cooperative managers and boards, from the very beginning, that the cooperative itself becomes vulnerable if it does not price properly.

The pricing problem for cooperatives also includes the intentional or unintentional pricing constraints imposed by national governments. In some cases, these constraints may make it impossible for cooperatives to adopt survival pricing strategies.

<u>Single versus Multiservice Cooperatives</u>.

- Multiservice cooperatives are most successful when the cooperative began with a single major product and expanded gradually to include other activities, based on experience and in response to the needs of its members.

- Multiservice cooperatives are most successful when the activities are divided into separate cost centers with separate, specialized management.

- Projects that are specifically designed to develop multiservice cooperatives require a longer time frame and considerably greater emphasis on management training.

Management of Services.

- Cooperatives are more effective in managing resources that are generated internally than they are in managing resources that are supplied by external agents. Thus, credit programs are more successful when member savings have been the major source of funds.

- Cooperatives are also more effective in managing activities that are perceived to be essential to the main purpose of the organization itself. Thus, agricultural cooperatives have experienced difficulties in managing credit programs because these have been considered ancillary services.

Member Participation. The participation of members is one question that is not widely understood outside of the cooperative movement. Member participation changes with the stage of the cooperative's development. In a new cooperative, active participation is critical for success: it develops loyalty and commitment to the organization at a time when many decisions regarding the basic direction and purpose of the organization must be made, and when tangible benefits may be relatively small.

As an organization matures, however, the operations become more routine, the number of decisions fewer, and loyalty must be generated by the tangible benefits received. Active member participation on a daily basis is not necessary in a mature cooperative. What is important is that the members have the right (and the feeling that they have the right) to affect decision making in times of major issues and crises.

Sustainability. Cooperatives have had difficulty achieving sustainability for many of the same reasons that noncooperative projects have had difficulties: the projects were not viable in the first place, the business volumes and spreads were not adequate to support the cooperative, and the emphasis on providing subsidized services conflicted with the business requirements of setting a realistic pricing policy. There is at least room for concern about whether a cooperative can meet the goals of providing low-cost, worthwhile services on one hand and becoming financially self-sufficient on the other, when project designs focus on resource-poor individuals and nonbusiness activities.

Sustainability and the Federation Model. The relative lack of success in establishing viable second- and third-level cooperative organizations in the noncredit union sectors raises the question of whether new cooperatives can support higher-level organizations in the developing world, and at what cost this effort can be justified. It appears that building higher-level organizations should wait until initiative and support flow upward from the primary societies; in the absence of an adequate base of support, federations will probably have to be subsidized.

Federations appear to have a greater chance of success when the member cooperatives engage in a single product or activity. When the cooperatives engage in different activities or have no intrinsic reason to share or exchange resources, there is no business justification for a higher-level organization.

Federations require a strong business rationale to become self-sustaining. Federations based on representation or education have difficulty surviving.

GUIDELINES FOR COOPERATIVE DEVELOPMENT

Because of the differences among the cooperative groups included in this study, it is difficult to develop a single set of guidelines that applies equally to all sectors. Nevertheless, some factors appeared sufficiently related to success in cooperative development efforts to warrant an attempt to generalize guidelines. These factors may be grouped into two areas: preconditions for successful cooperative programs, and guidelines for project development and implementation.

Preconditions for Successful Cooperative Projects

- Tolerance by the national authorities, local government authorities, or both;

- An adequate cooperative law;

- The business of the members themselves must be economically viable for business-oriented cooperatives and federations. In practical terms, this means that an adequate resource base must exist to support an economically viable business. Merging nonviable units into cooperatives or nonviable cooperatives into a federation will not create a viable organization;

- The national economy must be open to competition in the business area in which the cooperative is engaged. This is especially important for agricultural and credit cooperatives;

- There should be a natural common bond and community spirit among the intended members of the cooperative. Much of the viability of cooperatives is predicated on the assumption that common trust and mutual self-interest are present in the member population;

- There must be a felt and realistic business need for the specific services offered by the cooperative or federation;

- The cooperative must be able, within the context of the local situation, to remain neutral in partisan politics; and

- Finally, and this precondition is the most difficult to judge, there must be an effective catalytic change agent and strong, well-motivated leadership.

Guidelines for Project Design and Implementation

- Response to Local Needs. All projects should respond to local needs rather than meeting the particular goals and objectives of the sponsoring or implementing organization. The definition of project goals and objectives must involve the active participation of local and national cooperative leadership.

- Realistic Goals. The goals and objectives of cooperative development projects should be defined in realistic terms, that is, the goals and objectives must be attainable within the projected time frame, the level of resources must be committed, and the type of activities to be carried must be realistic. Project designers should avoid using unrealistic time frames or setting goals and objectives that cannot be achieved with available resources just to obtain resource commitments from the donor agencies.

- Sufficiency of Project Resources. Projects must have sufficient technical and financial resources (internal and external) to achieve the stated goals and objectives.

- Pacing of Resources. The pace of a development project should be designed to allow the organization to absorb the new concepts and techniques. Far too often the time frame of projects is so compressed that local organizations and populations cannot adequately absorb the new techniques, skills, values, and concepts that are necessary for long-term success.

- Flexibility in Resource Utilization. Sufficient flexibility should be allowed in the use of project resources to respond to unforeseen situations and needs that will arise in project implementation. Projects should have flexibility to use short-term technicians and local technicians in specialized areas to ensure project success.

- Self-Reliance. All support to cooperative development should be designed to promote the self-reliance and independence of the recipient organizations. The support should not create or increase long-term financial or technical dependencies on either governments or external resources. Technical assistance projects should build in incentives to stimulate self-reliance and internal growth, and to increase the resource base at the local level.

- Internal Resource Focus. Any outside inputs should complement, not substitute for, internal resource generation. Resources supplied by external donor agencies and CDOs should be sufficient to demonstrate commitment and support, but should not undermine internal resource mobilization.

- Monitoring and Control. External monitoring and control should complement and reinforce, not replace, local monitoring and control. Far too often projects neglect to develop the internal capability of cooperative organizations to monitor and evaluate their own performance.

- Bottom-up Design. Cooperative projects must be designed to create strong base-level organizations. This base must be strong and broad enough to support higher-level structures, and the creation of higher level organizations must not overtax the capabilities of the base.

- Local Variation. Cooperative projects should be designed to permit local variations in patterns of organization. Although most examples cited in this study represent blueprint approaches to development, successful cases among these examples have invariably represented modifications of the basic cooperative model that has evolved in the United States.

- Business Viability. Successful cooperatives must be able to compete effectively in real national markets. They must be designed with realistic prices, rates, and terms.

CHAPTER ONE

INTRODUCTION

Cooperatives are a widespread form of local organization in the developing world. As a 1983 report by the Secretary General of the United Nations on National Experiences in Promoting the Cooperative Movement observed, there is a "demonstrated universality of cooperative enterprises . . . [and] probably no country in which cooperatives are totally absent."[1] Worldwide, more than 365 million people belong to cooperatives, including agricultural production and marketing, artisan, consumer, credit and savings, electrification, fishing, and housing.[2]

Many cooperative organizations in the developing world stem from the efforts of international donor agencies, private voluntary organizations (PVOs), religious and missionary groups, and private individuals. U.S. support to cooperatives is a direct result of the Humphrey Amendment to the Foreign Assistance Act of 1961 and the Alliance for Progress. In recent years, amendments to the act have stipulated that 16 percent of the foreign aid budget must be used to support the work of PVOs, and much of this assistance has been used to support cooperative development.

Between 1963 and 1980, the U.S. Agency for International Development (AID) provided more than $85 million in direct grant support for cooperative development activities.[3] This amount does not include loan-funded projects and loan- or grant-funded activities that supported cooperatives as a secondary activity.[4] More than 30 separate PVOs and contractors support cooperative development activities in the Third World.[5] Similar statistics are not readily available from other donor agencies, but the overall level of support to cooperatives has been substantial.

Some of these efforts have been very successful, whereas others have been notable failures. Some types of cooperatives have worked well in one country but not at all in another. One form of cooperative may have thrived in a country, while another form did not. There is still no general body of theory, based on an empirical examination of experience, that provides adequate guidelines for planning and implementing successful cooperative projects. Equally important, the potential significance of cooperatives in the development process has not been widely understood or accepted by the international development community, which tends to view cooperative projects as peripheral social development activities rather than as significant economic development tools.

PURPOSE AND SCOPE OF THIS STUDY

This research study was requested by the Task Force on Cooperative Development Planning of the Cooperative Resources Committee of the United States. The purpose of the study was to provide empirical information on, and begin to address, three areas of major concern to international cooperative development organizations (CDOs):

- To document, and thus develop a greater awareness of, the potential benefits, impact, and significance of successful cooperative development activities;
- To define the factors that influence the success or failure of cooperative development projects in different socioeconomic and cultural situations to serve as a basis for a set of guidelines that will lead to improved project design, implementation, and impact; and
- To document [to the extent possible] that cooperative approaches to development are at least as effective and efficient as alternative (noncooperative) approaches.

The scope of the study was limited to four major cooperative sectors: agriculture, credit, electrification, and housing. For practical reasons, the examples reviewed were drawn primarily from the cooperative development activities of five major U.S.-based CDOs -- Agricultural Cooperative Development International (ACDI), Cooperative Housing Foundation (CHF), Cooperative League of the USA (CLUSA), National Rural Electric Cooperative Association (NRECA), and World Council of Credit Unions (WOCCU).[6] Although the experiences of these organizations serve as the base for the empirical side of the study, the experiences of other, primarily non-U.S. cooperative programs and sponsors were used to provide a broader context for the study and its conclusions.

Because of funding and time constraints, the study was to be primarily a review of available secondary source materials, supplemented by interviews with persons experienced in the implementation and evaluation of overseas cooperative development programs. In addition, preliminary drafts were reviewed and discussed by an international panel of cooperative development experts prior to and in connection with a meeting of an international Cooperative Development Advisory Group in June 1984. The observations of this group are incorporated in this report.

CONCEPTUAL FRAMEWORK

The basic conceptual model for this study used the framework of an input-output model to assess the sample of cooperative development projects. In the simplest model, inputs applied to a problem will produce a set of outputs. Both the inputs and expected outputs of a cooperative project are standard and easily identifiable. But other factors influence the conversion of inputs to outputs (see Table 1). The major categories of variables that were expected to affect on project success were the:

- Design of the project itself;
- Adequacy of the mix, quantity, timing, and duration of project inputs;

TABLE 1

THE BASIC CONCEPTUAL MODEL

Inputs

Personnel

Commodities

Training and Education

Capital — Seed, working and budget support

Intervening Factors

Project Design
Was it appropriate to the need and situation?

Political Environment
Did it meet requirements for success?

Socio-Economic Environment. Was there an economic and social base to permit success?

Project Specific Environment. Was the economic base present? Did the group hold values consistent with those needed for success? Were leadership skills present?

Linkages. Did the cooperative have, benefit or suffer because of relations with other organizations or support sources?

Organization and management. Did the managerial style of the new cooperative, or membership participation or other organization factors influence success?

Implementation. Did implementation provide continuity? Were all scheduled resources provided on time and in the correct amount? Did host government resources materialize?

Results

Impact on the Development Process.

* Availability of services in new areas or to a new sector of the population
* Internal Resource Mobilization
* Creation or expansion of market, or reduction of imports
* Employment generation
* Permanent, stable institutions that can serve additional purposes
* Economies of scale
* Human resource development

Impact on Members

* Introduction of competition
* Higher incomes and standard of living
* Lower cost of goods and services
* Better quality of goods and services
* Access to goods and services where none existed earlier
* Greater adoption rates of new technologies
* Human resource development
* Membership participation and responsibility
* Externalities

- Specific governmental system and political environment;
- General macroeconomic and social environment of the country;
- Specific microeconomic and social environment of the project itself;
- Way in which the project was implemented;
- Managerial and organizational characteristics of the local organization that was developed or assisted; and
- Linkages of the cooperative organization(s) to other organizations in the society.

Each category can reasonably be expected to influence the ability to achieve a successful cooperative development effort. The question is whether there are systematic patterns that should be better understood and taken into account in the planning of future projects. By drawing a sample of projects that represented a broad spectrum of cooperative development experience under a variety of social, political, economic, and design conditions, this study attempts to develop a success profile that can begin to examine the influence of these factors on the success of cooperative development efforts in the Third World.

NOT AN EVALUATION

It is important to recognize that this study is not an evaluation of the performance of individual CDOs, the success of individual projects, or the worthiness of the cooperative approach. The study sample was not random, but was drawn primarily from successful cooperative experiences, and the authors have not attempted to pass judgment on whether the impact of a particular project was significant, the contribution to development worthwhile and cost effective, or the individual project a competent effort. Instead, the purpose of this study was to summarize the lessons learned from more than 20 years of experience with cooperative development projects, and to place those lessons in a framework that can be used to support future planning and development efforts.

STRUCTURE OF THE REPORT

This report is divided into two volumes. Volume One is the official report submitted to fulfill the requirements of contract number PDC-0000-I-07-3078-00. It is a general summary of the findings and conclusions of the study, and attempts to compare and contrast the findings of the individual sector studies and place those in the context of a general analytic framework.

Volume Two comprises the separate reports on the individual cooperative sectors. These are much more detailed, and should be referred to for specific illustrations and support for the conclusions presented in Volume One. Citations that are footnoted in the individual sector studies are not footnoted in Volume One.

A CAVEAT

What are presented as conclusions in this study are, in fact, hypotheses, and should be considered as such. Limitations on the study design (see Annex A), the absence of a significant body of empirical studies specifically focused on the cooperative aspect of development programs, an inherent bias of the study sample toward Latin American projects[7], the fact that the study was conducted from the perspective of the cooperative development agencies and organizations, and the absence of field testing mean that these conclusions should be subjected to further examination and verification before they are accepted or rejected.

It is hoped that this research effort will help to focus the study and understanding of cooperatives, the role they play, and their potential significance in the economic and social development of the developing countries. Nonetheless, the author recognizes that this study is only a beginning of that effort.

NOTES

1 Secretary General's Report on _National Experiences in Promoting the Cooperative Movement_, 1983.

2 Wallace J. Campbell, "Long Range Impact of International Cooperative Development" (Address delivered to the International Cooperative Day Seminar, Washington, D C, October 5, 1982).

3 Development Associates, Inc., _Summary and Listing of Cooperative Development Grants and Contracts Funded by AID: 1962-1980_, Report no. 2 (Arlington, VA: Development Associates, Inc., October 1980).

4 Jack Shaffer, "Cooperative Activity [of the] U.S. Agency for International Development, October 1, 1977-September 30, 1982."

5 Development Associates, Inc., _Summary and Listing of Cooperative Development Grants_.

6 Prior to 1980, the Cooperative Housing Foundation was named the Foundation for Cooperative Housing (FCH), and international development programs for the credit union movement were implemented by the Credit Union National Association (CUNA).

7 Between 1963 and 1980, 145 of 198 contracts (73 percent) implemented in the field by the five CDOs considered in this study were conducted in Latin America. See Development Associates, Inc., _Summary and Listing of Cooperative Development Grants_.

CHAPTER TWO

CONTRIBUTION OF COOPERATIVE PROGRAMS TO DEVELOPMENT

Any attempt to generalize the benefits that have resulted from successful cooperative programs must contend with vast differences, not only in the specific projects, but also in the context of each cooperative sector and the role that cooperative organizations play in those sectors. In two sectors -- agriculture and savings and credit cooperatives -- the institutions formed are primarily designed to generate their resource base internally. They may require or obtain outside resources to leverage internal resources, but the primary benefits of cooperatives in these two sectors derive from the resource base the institutions themselves generate.

This is not the case for rural electric and housing cooperatives, in which the primary tangible benefits -- electrification and housing -- result either from the actions of a central government authority or from the availability of substantial external resources in the form of low-cost, often subsidized credit. The major role played by cooperatives in these two sectors is to mobilize a group of people to gain access to these resources. In both of these sectors, the impact of the benefits so overwhelms the separate and distinct contribution of the cooperative component that most evaluations and special studies have failed to provide insights into the cooperative aspects of the programs.

Another difference among the sectors is that in two sectors -- again, agriculture and savings and credit -- the cooperatives are ongoing businesses operating in a competitive market environment. That is not the case with housing cooperatives, which are not involved in producing, selling, or distributing products and services in a competitive business environment. Nor

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is it the case with rural electric cooperatives, which function in a mature stage as public utilities -- natural monopolies in a highly regulated and controlled market.

This section summarizes the impact and benefits that have been documented from successful projects in the four cooperative sectors. Because the descriptions are general and short, they are necessarily cryptic. It should be recognized that each item mentioned may not have appeared in all of the projects in a given sector, or in cooperatives in all sectors. Sector-specific benefits and impact are presented in Volume Two of this report.

Although the reference in most of this section is to the benefits of successful cooperative efforts, it must be remembered that these benefits may not be exclusive to cooperative projects. They can and have been produced by other types of development programs as well. The implications of this conclusion will be discussed later in this section.

Benefits and significance may be divided into three broad categories:

- Impact, or the broad developmental effects of a cooperative on the country itself;
- Benefits, which are the goods, services, and improvements in quality of life received by members of the cooperative; and
- Advantages and comparative advantages, the rationale for or against selecting a cooperative approach to development.

THE IMPACT OF COOPERATIVES ON NATIONAL DEVELOPMENT

Mobilizing Resources

One benefit cited most frequently for cooperatives is their ability to mobilize resources rather than place a continuing burden on government budgets, foreign loans, and foreign exchange. At a time when high foreign debts, low levels of investment, and high levels of unemployment undermine the economies of developing countries, this ability to generate productive investment from internal resources is a significant benefit.

Although credit unions may apply and qualify for external loans ($63 million in international loan funds have supported credit union development during the past 20 years), the primary resource on which they depend is member-generated savings deposits. Credit unions have mobilized more than $1.5 billion in local savings in the developing countries. The ratio of internal savings mobilized to grants and loans invested in the credit union program has been more than 12 to 1.

In agricultural cooperative projects, capitalization shares have received more emphasis in some projects -- such as the Federation of Regional Agricultural Cooperatives (FECOAR) in Guatemala and the ongoing ACDI project in Honduras -- than in others. The truly significant resource mobilization in agricultural cooperatives is more difficult to measure: member participation, mutual self-help efforts, and shared resources and activities.

Internal resource mobilization is less a factor in rural electrification and housing because of the capital-intensive nature of these sectors -- both require large up-front investments of capital and do not attempt to mobilize this from the cooperative members. Between 80 to 90 percent of construction funds in a housing program are obtained from resources outside of the cooperative housing movement, and rural electric cooperatives are seldom involved in the major construction of power-generating stations and primary distribution systems. When housing cooperatives involve self-help programs, or are related to a credit union or savings and loan program to raise capital for construction, however, the accumulation of local resources may be large.

In most cases, resources for large-scale cooperative housing programs must come from national housing banks or housing agencies, supplemented when possible by external loans. Individual rural electric cooperatives attempt to maintain an equity/debt ratio of approximately 50 percent, and some have mobilized resources for complementary activities, such as obtaining and installing irrigation pumps, and constructing local systems.

This internal mobilization of resources has two important benefits for a developing country. First, it represents a net increase in the amount of resources devoted to productive or developmental purposes in a country; thus, it contributes to the capital base of the country and to development in general. Second, it represents a productive application of resources that have not caused a further drain on central government resources.

Providing Economies of Scale

Cooperatives organize individuals into a unit that can be feasibly serviced by other (primarily government and international donor) institutions. One criticism of public extension services and development banks is that, as a result of the high cost and low rate of return on dealing with individuals and low-volume producers, they tend to limit technical assistance and loans to larger farmers and industries. Organizing individuals into cooperatives reduces the number of entities with which banks or government agencies must deal and increases the average size of loans or other services to an economically justifiable level. Processing loan applications, delivering agricultural inputs, and providing technical assistance are more efficient when the clients are organized into a group.

In some cases, the cooperative provides a stability and collateral in dealing with outside institutions that the members do not individually possess. This has been especially true in the case of credit and housing cooperatives.

Reaching Populations Not Served by Other Programs

There is evidence that cooperatives in all four sectors reach and benefit sectors of the population that would not be served by private sector institutions or direct government programs. Agricultural cooperatives, for example, supported by international or local government assistance specifically target a marginal and low-income sector of the population. Small farmers are one of the most difficult groups to service in the developing world and have traditionally lacked access to credit, technical assistance, and other services in the absence of a local organization such as a cooperative.

Credit unions serve many members who would not be eligible for loans from established financial institutions, and the small average savings balances of credit union members are not valued as profitable accounts by the established banking industry. Although they must maintain a membership that includes middle- as well as low-income members to remain viable, credit unions have provided credit and savings services to many segments of society that did not have access to these services.

It has been argued that rural electric cooperatives reach more low-volume users than either public or private utilities because the nonprofit nature of the cooperative enables managers to make decisions on criteria other than net profit margins. Available data support the conclusion that area coverage (penetration) is greater when cooperatives are involved in the distribution of electric power.

Housing cooperatives in Latin America in the early 1960s focused on middle-income housing, but rapidly entered into the low-cost housing field. Formation of housing cooperatives has made it possible for groups of individuals to qualify for loans, providing an access to resources that would not otherwise be available to them. In providing this access to services, cooperative organizations have therefore helped spread the benefits of development to a broader sector of the population than would otherwise happen.

Providing Services that Would Otherwise be Unavailable

Cooperatives often provide services that would not otherwise be available in the marketplace. Credit unions, for example, annually lend $1.7 billion to predominantly low-income urban and rural members. Much of this assistance is used for education expenses, hospital and medical bills, small enterprise activities, and home improvements -- expenses that are generally not supported by international donor programs but that represent real needs and benefit to the members. In the absence of credit unions, the amount of funds available to this sector of the population for these activities would be significantly less.

Agricultural supply cooperatives increase the variety and availability of fertilizers and products that are available in local markets. Housing cooperatives provide an access to funds and programs that if often unavailable to the individual members through official or private sector programs. Where rural electric cooperatives have been formed to purchase diesel generators, the cooperatives have been instrumental in making electricity available. In Jordan, Indonesia, and many remote areas of the Philippines, electric cooperatives were instrumental in bringing electric generation to areas not served by the central power authorities.

Expanding or Capturing a Significant Share of the Market

Cooperatives have, in some instances, been instrumental in building the size of a potential market or in capturing a significant share of the existing market. It is estimated that about 70 percent of all coffee in Latin America is marketed through cooperatives. Fruit and vegetable cooperatives in

Honduras have succeeded in expanding and capturing the market for cucumbers and melons, significantly stimulating production of these two products. In India, the Indian Farmers Fertilizer Cooperative (IFFCO) has stimulated an increased use of fertilizers on small Indian farms. Rice cooperatives in Ecuador had the potential of changing the country from a net importer to a net exporter of rice through expanded production and marketing. Credit unions have significantly expanded the market for savings and credit in the countries in which they have been active. At one point, savings deposits in credit unions in Bolivia exceeded those of the private banking system.

Building Permanence

Another benefit of cooperative development in the Third World is that it has created relatively permanent institutions whose services and benefits continue after direct project assistance terminates. There are no data on the number of credit unions that have been formed, and subsequently terminated. However, 16,000 local credit unions currently operate in 68 countries of the developing world. Of the more than 200 rural electric cooperatives founded with NRECA assistance, only a few do not still provide services to member customers.[1] No data were available on the survival rates of agricultural and housing cooperatives.

One advantage of developing a permanent institution is that, unless prohibited by law, it can address development needs beyond those for which it was originally established. Housing cooperatives, once the basic shelter is completed, address the greater issues of habitat. This includes supplemental loans for further improvement of the shelter and the construction of additions, as well as obtaining infrastructure, communal green areas, and other group facilities. Rural electric cooperatives have provided assistance to small-scale irrigation activities and other production uses of electricity. Agricultural cooperatives by their very nature are multiservice and can add services as their capabilities improve and their members request them. Credit unions have been involved in such diverse activities as life and loan insurance, farm inputs and the marketing of agricultural produce, the provision of health and dental services, and the development of sewing and handicraft programs.

It is very difficult for a profit-oriented private sector organization or a government entity to expand its activities in areas as diverse as these. One significant benefit of cooperatives, therefore, is that they provide a stable base in the community for expanding services.

Related to this, the formal organization of individuals into cooperatives provides an institutional framework through which other resources and programs can be channeled. Excellent examples of this are the use of credit unions to disburse and monitor housing and home improvement loans and to handle disaster relief funds in the aftermath of hurricanes and earthquakes. Rural electric cooperatives have been used to further irrigation and rural school efforts, and as channels for small enterprise lending. And agricultural cooperatives in Guatemala became a vehicle for resettlement projects.

Building Human Resources

Perhaps the most significant contribution of cooperatives to development is their emphasis on human resource development. Because of the cooperative philosophy that emphasizes member involvement, and because cooperatives depend heavily on both the commitment and participation of their membership in management, operations, and policy making, cooperatives place a high premium on the education of their members. Although this often consists of teaching the philosophy of cooperativism, it also takes the form of business-related skill training -- including accounting, bookkeeping, auditing, decision making, management, management of funds, marketing, and inventory. The effect of this training may be difficult to measure, but the cooperative experience has created an emerging class of institutional managers.

No data are available on the upward mobility that the human resource development aspect of cooperatives has provided. Isolated cases -- the manager of the credit union federation in Guatemala is a member of the National Monetary Board, the manager of the rice cooperative federation in Ecuador became deputy minister of agriculture, a wool dyer in Ecuador became an international cooperative adviser, one leading candidate for president in Honduras is from the cooperative housing movement -- can be cited to show that the cooperative experience has contributed to developing skills that can benefit the development aspirations of Third World countries.

Contributing to Stable Socioeconomic Development

Socioeconomic development is often destabilizing, as rising expectations become translated into political radicalism. In part, this results from the absence of crosscutting interest groups.[2]

Cooperatives in developing countries have tended to eschew both partisan and radical politics. This is both a legacy of early cooperative principles established in Europe and a result of the focus of cooperatives on internal self-reliance and independence, rather than on government action to solve problems. Although it is not possible to measure the effect of cooperatives on overall political stability in developing countries, it is possible to say that, with rare exceptions, cooperatives have acted as conservative, narrow-focused business institutions.

BENEFITS TO MEMBERS

The benefits of cooperative membership may be classified in several categories: increased competition in local markets, lower costs, higher returns to members, participation, and building social energy.

Introduction of Competition into Noncompetitive Markets

Agricultural and credit cooperatives (and, to a somewhat lesser extent, housing cooperatives) introduce competition into what are otherwise monopolistic or oligopolistic markets. Credit unions provide alternatives to moneylenders, informal savings societies, and local banks. In doing so, they have an impact on local interest rate structures and the availability of loanable funds to their members. Agricultural cooperatives provide competition to established supply and marketing companies. One measurable benefit that cooperatives bring about is a change in price structures in traditional sectors to the benefit of the users of those services, whether or not they are members of the cooperatives.

When local competition is increased by the availability of a cooperative, the benefits to individual member are generally seen in the form of lower costs, a higher return, a higher quality of goods and services, and the availability of goods and services that were previously unavailable.

Lower Costs

In the short run, at least, cooperatives provide services at lower cost than alternative providers. Compared with the requirements of profit-oriented private sector companies, the absence of a need to provide a return on stockholder capital and a reduced profit motivation mean that, if they are efficient, cooperatives can operate at a lower spread than commercial firms. More important, the service orientation of cooperatives and client control of the organization often lead to pricing decisions that benefit the members. Reliance on some volunteer labor and voluntary directorships also reduces operating costs, as do the tax advantages frequently given cooperatives.

The organized provision of inputs and sale of member produce offered by agricultural cooperatives have advantages over independent actions by individual farmers because of the economies of scale of group purchases and sales, which reduce costs to the individual member. Agricultural cooperatives also offer much lower costs on both inputs and sales than local merchants, middlemen, and profit-oriented private businesses, again because of motivation and client control of pricing. The margin of benefit provided by the cooperative may decrease over time as competitors adjust prices, but this influence over local prices is one benefit of competition.

Housing cooperatives offer definite advantages in terms of lowered costs. Economies of scale exist in the organization, administration, and construction of cooperative housing projects. Although government housing can also often obtain these economies, inefficiencies in administration and construction often result in higher-priced housing. In a seven-year period in Honduras, the cost of housing constructed by the Housing Cooperative Federation of Honduras (FEHCOVIL) averaged nearly 25 percent less than the subsidized low-income housing built by the national housing authority. This is consistent with the experiences of the Chilean cooperative housing movement, whose the pricing policies of housing cooperatives make it possible for that movement to produce housing at a level 15-20 percent below the prices of government and private builders. Lower default rates in the cooperative housing sector and the use of volunteer member labor in the construction process also combine to reduce significantly the overall costs of housing projects.

Concerning rural electric cooperatives, the issue of lowered costs is more complex. On the surface, many cooperatives appear to charge higher rates to customers than noncooperatives. This is often due, however, to the nature of the population the cooperative attempts to serve. With or without a cooperative element, the cost of providing electric power increases dramatically as the target population becomes more disperse and isolated. The few studies that have compared cooperative and noncooperative rates for electricity in a country have generally shown that cooperative rates are at least competitive with those charged by private and parastatal corporations. Rural electric cooperatives also achieve other cost reduction benefits, such as economies of scale, reduced theft and loss, and greatly reduced default rates.

Credit unions provide credit at significantly lower costs than informal credit markets, the relevant comparative institutions. While government programs have occasionally offered specialized agricultural credit at lower rates, this has been the result of implicit and explicit government subsidization of the credit programs.

Increased Returns to Members

The opposite side of lower costs for inputs or services is higher prices for products or output. In housing and rural electric cooperatives, providing members with higher income is not a major objective. In agriçulture and savings and credit cooperatives, it is.

Credit unions pay an estimated $75 million each year in interest and dividends to members, assuming an average dividend rate of 5 percent. Although this amount is far below the average rate of inflation in most of the developing countries, it does represent a pattern of savings and income. Agricultural cooperatives provide a higher return to members through the capture of the margins of middlemen, negotiated group contracts with buyers, negotiated access to export licenses and markets, development of new markets for traditional and non-traditional products, and product storage facilities that permit advantageous timing of sales.

Participation

Government-sponsored development programs tend to look on project groups as recipients of resource transfers. The planning, design, decision making, and implementation of the programs performed by government officials. Private profit-oriented firms working in an area view the groups as clients -- as vendors of primary products, suppliers of labor, or purchasers of goods and services. The planning, design, decision making, and implementation of the programs are performed by staff members of the firms.

One salient feature of cooperatives, and a few other forms of local organizations, is that they place a high premium on the participation of members in the operations and decision making of the cooperative itself. This participation takes place in planning and setting goals for the organization, evaluating the performance of the organization and its staff, and even in providing labor for the daily operations of the cooperative. The extent and nature of member participation change as the organization matures, with permanent staffs assuming more of the operational and objective planning functions, but cooperatives have remained faithful to the concept of member control and participation. The benefit to the member is that this participation promotes independence, self-reliance, and responsibility for the development and success of the cooperative.

Building Social Energy

Ironically, one important contribution of cooperatives to development could not be documented. For many people of the developing world, their experience with a cooperative is their first experience with a modern form of organization that neither patronizes nor exploits them. For most, it is their first experience with a corporate form of organization in a role other than as client or recipient. For most, it is their first experience with a stable organizational form that is designed to survive beyond the individuals who organized or managed it. And, for most, it is their first experience with a form of organization that encourages them to take an active role in their own development, and that asks for a commitment of their time and interest in their own benefit.

The development landscape is littered with the remains of projects that died when donor funding ended. Cooperative development projects have not been immune to this syndrome. In their case, however, there is sometimes a marked distinction between them and other types of development projects: the good that a cooperative has done may continue to be felt even if the cooperative itself does not succeed. In a review of grassroots development projects that had received assistance from the Inter-American Foundation in six Latin American countries, Albert Hirschman was struck by one problem: how does one explain collective efforts at grassroots development when there is no immediately antecedent activity or promotion? Closer investigation revealed that many people involved had participated in previous forms of collective action, including cooperatives. Although these earlier experiences may have ended unsuccessfully, their social energy -- that is, their desire for social change through collective action -- had never left them. This social energy had, in a way, remained in storage, ready to fuel later perhaps different types of collective action.[3]

Whether or not the cooperative itself succeeds or fails is almost immaterial in this context. What is important is whether some day a group of people, because of their experience with a cooperative, will be able to take destiny into their own hands. And that cannot be measured.

ADVANTAGES OF THE COOPERATIVE APPROACH

Various approaches to development are capable of providing the benefits described previously; with the possible exception of human resource development, they are not unique to cooperatives. The question is not just one of providing benefits, but of the relative advantages of doing so through a cooperative development approach.

The scant data of a comparative nature support the contention that a cooperative approach offers advantages. Among these advantages are lower costs than alternative forms of providing services, more cost-effective management, the ability to mobilize internal resources and to reach levels of the population that would not otherwise be reached by alternative means, and the development of a human resource base. In addition, the cooperative approach provides a means by which members can control the direction and orientation of the organization that serves them.

Compared with Public Sector Programs

Compared with public sector programs, cooperatives offer lower costs, lower delinquency rates, lower cost to the central government due to a general absence of interest rate and operating subsidies, and the ability to reach populations that cannot be effectively reached by a centralized bureaucracy.

The electric cooperative systems in Sircilla, India, displayed such an overwhelming advantage over the state electricity boards that the government of India decided to change its entire approach to rural electrification to expand the use of cooperatives in the system. In Bangladesh, the parastatal electric companies installed an average of only seven meters of line per employee, compared with an average of more than 200 for the cooperative sector. A sector study of agricultural credit in Bolivia found that the credit union system was better able to provide low-cost credit to farmers than the public agricultural bank. In Jamaica, the default rate in cooperative housing projects was less than 1 percent, compared with default rates of nearly 38 percent in public housing programs.

These are isolated examples. It is not possible to generalize from them to say that in all cases a cooperative approach is superior to a public sector approach. However, there are sufficient examples to warrant a more thorough examination of the relative benefits of cooperatives in development.

In many cases, it is more appropriate to view cooperatives as complementary rather than as alternative approaches to development. The major interest in cooperatives on the part of host governments and donor agencies stems from the realization that development programs should be organized around approaches to groups of people rather than individuals.[4]

Central government programs can reach target populations more efficiently and effectively if these are organized into cooperatives (or some other form of local organization) than they can individually. Also, cooperatives offer a stable institutional structure in areas where it is not feasible to establish permanent government offices. A relationship between the cooperatives and government can make government services more effective.

<u>Compared with Other Private Sector Alternatives</u>

In comparing cooperatives with other private sector approaches to development, it is useful to distinguish between formal and informal alternatives. Formal private sector alternatives to cooperatives include commercial banks, savings and loan associations, and finance companies for credit unions; semipublic and private utility companies for rural electrification; private developers for housing; and agro-businesses for agricultural cooperatives. The major differences between cooperatives and noncooperatives concern the population served, the direction of benefits, and the development of additional capabilities.

By design, cooperatives generally serve a different population than formal private sector alternatives. It is precisely because profit-oriented private institutions find it unprofitable to engage in small savings and lending programs, low-volume electrical hookups, low-income housing, and the provision of services to individual poor farmers that cooperatives are established in the first place. When formal private sector institutions have been used in development projects, they have invariably found it necessary to work with larger farmers, middle- to upper-class borrowers and savers, higher-volume electricity users, and higher-income housing. The advantage of the cooperative approach is that it does focus on groups that, if they are not the poorest of the poor, do represent a sector of the population that is not normally served by private institutions. The cost of achieving this is the cost and time required to develop viable cooperative institutions.

The direction of benefits is a real issue when comparing other private sector alternatives with cooperatives. Private companies must be concerned with earning a profit to distribute to the owners of the companies. These owners are not the population that buys goods and services from or sells products to the company. The benefits distributed to the target population concern services received, wages paid, and prices received and paid, but there is no incentive to maximize those benefits. To the contrary, the goal of a private institution must be to maximize profits, and the normal way to do this is to minimize benefits.

Private sector alternatives to cooperatives also have few incentives to invest capital in human resource development among the client population. The cooperative approach to development places a high premium on local skill development, both at the membership level and in the development of member capacity to serve in participatory, decision-making roles in the cooperative itself.

In some sectors -- notably rural electrification -- there is no informal sector alternative to cooperatives; informal groups have joined together to obtain small generators and produce power locally, but they have generally organized some form of cooperative (whether or not it is called that) to administer the operations. In other sectors, notably agriculture, credit, and housing, the informal sector is active and a real alternative.

The major advantages of cooperatives over informal private sector approaches are scale, permanence, and quality of service. Compared with informal savings and credit societies, credit unions have mobilized greater amounts of savings and provided loans to a broader range of individuals. Most revolving credit societies are able to lend to only one member each month, and the amounts of loans are small. Informal housing development tends to be substandard.

Formal cooperatives permit a larger scale of operations and provide a permanent presence in the local community. Informal societies tend to be smaller, ad hoc groupings that form and dissolve as situations change. There is a cost, however, in developing and nurturing permanent institutions that are not required for the informal societies.

ASSESSING THE BENEFITS OF COOPERATIVES IN THE DEVELOPING WORLD

Where cooperatives are successfully implemented, they have demonstrated a positive impact both on the immediate group of people that formed the membership of the cooperative and on the national development aspirations of the countries themselves. The presentation of benefits may appear too one sided. Cooperative projects have failed just as other types of development projects have failed. Many benefits cited here could be documented in only one or two cases. This presentation of benefits, however, results from the fact that this study was not intended to evaluate cooperatives. Instead, it was to indicate the positive contributions that cooperative programs, when successful, have produced and are capable of producing.

In saying that cooperatives have contributed positively to development, the authors recognize that many benefits are the result of the development effort itself: positive results would have occurred with any successful project, cooperative or not. The question is whether there is an intrinsic contribution to development that would not occur if any other form of development approach were followed.

The specific contribution of the cooperative approach to development results from four features of cooperatives themselves: participation, focus, direction, and permanence.

Benefits of Participation

Most development literature has accepted the conclusion that local participation in the design, goal-setting, and implementation of projects increases the likelihood that the project will succeed. Considerable personal risk is involved for individuals to join in a development program. When participation is an important ingredient of project design and implementation, individuals (members) are more likely to take those risks, adopt new technologies, and commit resources to the effort. This commitment is essential to success.

Cooperative projects place considerable emphasis on member participation, especially in the formative stages of the cooperative. This participation not only is a cost-reducing mechanism, but it also educates the members about the reasons, benefits, and legitimacy of the effort. It builds commitment to the success of the enterprise and develops skills that are necessary if the member is to participate in development in ways other than as the recipient of transfers or consumer of services.

Benefits of Focus

The essential focus of most cooperative development programs, whether sponsored by North American or European CDOs, is on independence and self-reliance. Unlike approaches that treat the intended beneficiary as a client or mere recipient of services, and create or depend on a continued dependency relationship between the beneficiary and the supplying organization, the cooperative approach is intended to develop independent decision making and control among the recipients.

It is the members of the cooperative who define needs and make long-range policy and strategic decisions about the course of the institutions, not a private entrepreneur or government agency. And the focus is on solving problems and achieving progress within the organization itself, not on waiting for services and benefits to be provided by external donors. In this sense, cooperative projects are different from integrated rural development projects, other public sector programs, and private sector businesses. They are designed to create independent, self-sustaining centers of on-going activity.

Benefits of Direction

The question of the direction of benefits is of crucial concern to the ultimate success in achieving measurable improvements in the quality of life of the populations being discussed. A private, profit-motivated enterprise must, by its very nature, treat the purchasers and suppliers of its goods and services as clients. The interests of this firm must be focused on minimizing the benefits to those clients to maximize returns to the owners of the enterprise. This direction of benefits conflicts directly with the objective of maximizing benefits to the target population.

Government programs tend to see this population as a recipient of benefits (although developing country governments frequently attempt to exploit the agricultural sector to support urban consumption and foreign exchange earnings). Although this orientation may in theory indicate a positive benefit to the recipient population, in fact the paternalistic approach of governments frequently leads to increased dependencies and inefficient resource allocations. There is little incentive in a government-sponsored program to seek either rational or efficient solutions and methods.

A cooperative, because the recipient or client population is owns the cooperative, has an automatic incentive for maximizing benefits to the members. Whether or not a given cooperative is efficient and able to produce those benefits is a different question -- the orientation for benefiting the member is inherent in the system itself.

Benefits of Permanence

Government projects come and go. Donor agency interests wane quickly. Informal societies form and disappear. But a cooperative project is designed to build permanence into the services, activities, and operations of a local organization. Permanence means that project benefits will continue to be produced far into the future, after donor and host government inputs cease.

This is the essential difference between projects that are designed to provide immediate benefits and those that are designed to build institutions. In the former, the benefit-cost ratio can be measured directly in the project. As no self-sustaining or on-going activity is contemplated, all benefits must occur within the time frame of the project itself. In an institution-building project, the inputs are viewed as a catalyst to some future activity and benefits. The numbers achieved during the life span of the project itself may be insignificant, but the ongoing nature of the institution is expected to produce a continuation of activities and benefits far into the future.

These features -- participation, focus, direction, and permance -- are not necessarily unique to the cooperative approach; other development strategies involving local organizations share many of these traits. Whether or not a given project involves cooperatives may not be as important as the way in which it incorporates these four traits in the project design and implementation. What is important about the cooperative approach is that it universally combines these four features into every project design.

NOTES

1 Several rural electric cooperatives in Columbia, Peru, and other countries have been nationalized and turned into state-run power utilities.

2 Seymour Martin Lipset, "Political Cleavages in 'Developed' and 'Emerging' Politics," in Cleavages, Ideologies and Party Systems, eds. Erik Allardt and Yrjo Littunen (Turku, Finland: Westermark Society, 1964).

3 Albert O. Hirschman, "The Principle of Conservation and Mutation of Social Energy," Grassroots Development 7, no. 2 (1983):3-9.

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CHAPTER THREE

A SUMMARY OF LESSONS LEARNED FROM THE COOPERATIVE EXPERIENCES

AID and other international donor organizations have sponsored and supported cooperative development projects for more than 20 years. Different types of cooperatives have been tried in a single country, as well as a single type of cooperative in several countries. The experiences have been as varied as the attempts. The question that has not been adequately explored is whether there are systematic similarities and differences in the experiences that can be used to improve the design and impact of future cooperative projects.

The original study design for this project hypothesized that five classes of variables would have an impact on the relative success and impact of cooperative development: project design, project resources, country characteristics, political environment, and the project environment.[1] In the refined design, project environment was extended to include the linkages of the local cooperative organization with its extended environment, and a category for internal management and characteristics was added.

This section summarizes the most important lessons that appeared to emerge from the experiences of the four cooperative sectors studied. The summaries are necessarily cryptic and general. More detailed information on specific lessons in the context of each cooperative sector appears in Volume Two.

SPONSORS AND RECIPIENTS

Differing Agendas

The key institutional players in the design and implementation of cooperative development projects -- the donor agency, host government, CDO, and recipient cooperative institutions -- are likely to have differing purposes or agendas.

The principal goal of CDOs is institution building -- working through the private sector to create viable cooperative business enterprises. From the perspective of the host government, however, cooperatives may be viewed differently: primarily as a means of delivering services and distributing patronage. Thus, the issues of enterprise development and sustainability are not taken seriously. Under these circumstances, when the services provided by the cooperative are viewed as a government responsibility, the chance of creating a sustainable institution is small. This has been a particular problem for cooperative development in Egypt, Rwanda, and Swaziland, and in many of the former British colonies of Africa and Asia.

In some instances, the cooperative approach may directly conflict with that of the government. Electric power in Latin America is a good example: one primary reason there are so few rural electric cooperatives in countries such as Columbia, Ecuador, and Peru is that attempts to interest the governments in rural electric cooperatives took place while these governments were nationalizing foreign-owned private electric power companies. The governments were simply not interested in replacing one form of private power utility with another.

Housing is another example of conflicting interests. Many governments have a housing authority with a mandate to plan, administer, and often construct shelter for the population. These activities often compete with the private sector, including cooperatives, both for scarce resources and for the credit and publicity of providing finished houses. Most housing authorities feel they can exercise greater control over the housing sector if they construct houses directly, and favor their own programs in the planning and implementation of housing projects.

The need of agricultural cooperatives for adequate commodity prices is often in direct conflict with national government policies that favor low food costs in urban areas.

AID itself has multiple agendas in supporting cooperative development. Although these may not be in direct conflict with the goals of CDOs, they often introduce distortions in the structure, location, and underlying rationale for the cooperative project. U.S. foreign assistance is intended to promote American political and security interests in the developing world. This goal influences the location of countries, areas, and types of projects that are supported, and may seriously affect the possibility of project success. In the initial stages of the cooperative development project in Honduras, for example, AID policy permitted new cooperatives to be formed only in areas where the regional cooperatives established by ANACH, the largest peasant union in the country, were inactive. This was difficult because ANACH cooperatives were found throughout Honduras. The cooperative contractor was obliged to establish initial cooperatives in areas where the agricultural potential was limited and the previous history of development efforts not encouraging.

The agendas of AID and the CDOs may also differ without necessarily conflicting. For example, the primary concern of WOCCU is to develop a viable worldwide credit union movement. AID does not fund credit union projects in every country, either because of internal AID priorities that emphasize certain countries or because of the individual interests of independent AID missions. Although not totally incompatible, the patterns of assistance to some country movements and no assistance to others create an imbalance in the regional confederations that makes sustainability more difficult.

In recent years, at least, AID has moved away from institution-building projects and placed greater emphasis on immediate benefits. This focus influences the resource mix and duration of projects, and has implications for the ability of a project to develop long-range, sustainable institutions.

Recipient cooperative organizations also have interests that may not be compatible with those of either the donor agency or the CDO. Since they are forced to deal with external agencies to obtain funding for programs, the recipient cooperative organizations often agree to projects even though they may not be fully committed to the objectives and strategies. Although there is no reason for all of the various participants in cooperative development to have the same objectives, the failure to recognize those differences when they exist greatly reduces the chances for a successful development effort.

Structural Rigidities

There is a fundamental contradiction between the funding mechanism of the international donor agencies, which require that projects be thoroughly planned (with targets specified in advance) before they are financed, and currently accepted development theory, which holds that projects are more successful when they are flexible, open, and subject to modification by the target population during implementation. Institution building takes time, is sporadic, must respond to changes in local conditions, and can be unpredictable. Growth and success are frequently accompanied by setbacks in project implementation that stem from uncontrollable factors such as political upheaval, natural disasters, and personnel changes.

The planning and budgeting processes of donor agencies, however, tend to be precise, focused on the short term, and insistent on clearly defined results. Insistence by funding agencies on detailed project plans prior to funding authorization and disbursement results in projects that cannot be readily modified to meet changing conditions or opportunities.

Nature and Background of the Sponsoring Cooperative Development Organizations

Most cooperative development projects in the Third World, whether sponsored by U.S. foreign aid or other donor agencies, are implemented by private cooperative organizations that derive their expertise from the success of their own national movements. In the United States, the major CDOs engaged in overseas cooperative development represent groupings of cooperatives organized along specific functional lines -- agriculture, credit, rural electrification, and housing.

It is therefore not surprising to find that the pattern of cooperative development projects financed by AID in developing countries parallels the structure and divisions of the U.S. cooperative movement.[2] A major question that has been raised by the CDOs themselves, but that should be addressed more thoroughly, is whether that approach represents a rational and beneficial pattern for cooperative movements in developing countries.

Dependency on Donor Funding

Cooperative development programs conducted by the U.S. CDOs are almost entirely funded by official U.S. foreign assistance funds. For the most part, the contribution of local cooperative organizations to funding external programs is minimal.

One major exception has been the international credit union movement. The commitment of private U.S. and other country credit union funds, and the mobilization of multiple donor agency funds, to support Third World credit union development are perhaps the most significant factors explaining the widespread existence, growth, and relative stability of the credit union movement. U.S. credit unions began supporting international credit union development as early as the 1950s, and committed 10 percent of the annual dues income of the national federation to support overseas cooperative development programs, even without AID funding. Furthermore, WOCCU has defined one of its major roles to be the mobilization of funding to support credit unions. There would undoubtedly be a credit union movement -- although much less extensive -- even had there been no U.S. government foreign aid program.

The same cannot be said for the other cooperative sectors. With the exception of CLUSA's support of cooperatives in India, there has been relatively little movement-to-movement assistance provided by U.S. cooperative organizations. The U.S. CDOs have not taken on a role of mobilizing financial and other resources from nondonor agencies to support cooperatives in their sectors, and have not been particularly successful in generating support for cooperatives among the other donor agencies.

The fact that there is little movement-to-movement assistance and few projects that are not funded by donor agencies means that the patterns of activities and goals are set more by the donor agencies than by the cooperative movement. Rather than the cooperative movement seeking support for a rational, long-range cooperative strategy, the situation is one of individual CDOs seeking and taking advantage of targets of opportunity within the framework of donor agency priorities and strategies. This has led to many instances in which the CDOs act as general contractors on projects that have nothing at all to do with cooperatives. The CDOs should develop long-range cooperative strategies and seek resources from multiple sources so that those strategies may be implemented.

Relationship of Cooperative Development Organizations with Cooperatives in Developing Countries

Ongoing CDO support of cooperative organizations in developing countries is important for the success of those organizations. For the most part, however, CDOs function as contractors or grantees, implementing projects funded by international donors, especially AID. This means, in essence, that once project funding ends the direct relationship between the CDO and the recipient cooperative organizations often ends as well.

Again, the relationship between WOCCU and credit unions in developing countries is different than that between the other CDOs and the cooperatives they helped establish and support. Of the five CDOs reviewed in this study, only WOCCU is a membership organization as well as an implementer of development projects: credit unions in developing countries, as well as most developed countries, of the world belong to, pay dues to, and participate in the leadership of WOCCU. This means that WOCCU maintains, through regional confederations and national federations, a continuous relationship with almost every credit union that was started or supported by an international assistance program. This continuous support and contact probably contribute to the coverage, spread, and relative stability of credit unions in developing countries: more effort, on a continuing basis, has been expended to support credit unions.

CDOs have had continued involvement with projects. CLUSA has had an ongoing presence in India for nearly 25 years, and has provided follow-up assistance to the National Federation of Agricultural Cooperatives (COAGRO) in Panama for more than 10 years. ACDI has had an ongoing relationship with cooperatives in Guatemala. And NRECA has had a long-term presence in the Philippines. But for the most part, CDO relationships with a cooperative have ended when the donor funding ended.

This ssessment does not imply that the other CDOs should develop into worldwide membership organizations. A number of factors that appear to be unique to the credit union situation have made this a rational approach. What is important, however, is that continued support and contact beyond the end of development projects are important factors in explaining long-term success; yet the format of development assistance to Third World cooperatives does not provide for support outside of the framework of development projects.

PROJECT DESIGN

The Time Horizon of Projects

There is unanimous agreement in the development literature that effective institution building takes a minimum of a decade, if not longer. The most successful cooperative development efforts received relatively large amounts of assistance, both in terms of the resources committed and the time involved in the project. For example, IFFCO, the successful Indian fertilizer cooperative system, was supported for 15 years. COAGRO, in Panama, has received continuing support and contact for 15 years. In Uganda, where the basic cooperative structure was still in place after the ravages of the Amin regime, continuous long-term technical assistance was provided for 10 years. The credit union movement in Ecuador benefited from external assistance for nearly 10 years and that of Bolivia for more than 8 years.

The time required to build a successful cooperative program varies according to the sector and to the complexity of the business decisions involved. Examples from the sector case studies suggest that agricultural and credit cooperatives require a much longer period to develop than do housing and rural electric cooperatives. This may result from the greater complexity of the organizations themselves, the functions they perform, and the decisions that must be made during the normal course of running the cooperative. Rural electric and housing cooperatives are essentially single-purpose cooperatives with a limited set of functions and a well-defined and manageable environment. Agricultural and credit cooperatives tend to be complex business organizations, with a great deal of internal variation, that operate in a constantly changing environment. Developing the necessary skills to cope with this level of complexity is a long-term effort.

The difference may also result in part from the educational and technical background of the individuals who assume management positions within the different type of organizations. Rural electric cooperatives almost always begin with highly qualified, paid managers. Housing cooperatives draw from a predominantly urban pool of talent to run the cooperatives. Credit unions and, to an even greater extent, agricultural cooperatives tend to draw initially on volunteer, local management talent. It takes longer to develop this talent to manage the business functions of the cooperative effectively.

A cooperative project of any magnitude requires time. Although it may be possible to build one single-purpose cooperative in the space of a two- or three-year project, an institution as complex as a federation or a complex multipurpose agricultural enterprise is a lengthy process.

There is a persistent tendency in project design to underestimate the time needed to create sustainable institutions. Although AID is aware of this problem, it continues to fund cooperative development projects in terms of a three- to five-year plan. Congress and the Executive Branch have a limited time horizon in terms of willingness to wait for visible results. No donor assistance project may be planned to last 20 years, but a commitment to long-term assistance is necessary when developing cooperatives among low-income groups.

<u>Immediate Benefits versus Long-Range Institution Building</u>

There is a tradeoff in project design between providing immediate benefits (resource transfers) and developing stable institutions. Project and program officers concerned with obtaining immediate results often eschew the cooperative approach entirely as too slow and cumbersome, or force a project design and set of activities that make it difficult to achieve long-range institutional viability.

This tradeoff is apparently one reason for the decline in the number of cooperative housing projects. When AID support of housing shifted from relatively small mission-funded activities to large, centrally financed guarantee programs, the major implementation problem for AID became one of how to build a large number of houses quickly. AID became less interested in committing time and resources to develop cooperatives as part of the process, when government housing authorities appeared to offer a faster delivery mechanism. Integrated rural development projects funded by the World Bank have seldom included cooperatives for the same reason.

System versus Project Orientation

The development of systems requires a long-range framework. Although projects may be more easily accomplished in the short run, the objectives of a short-run strategy may not necessarily be consistent with the requirements of a long-term one. The funding patterns and time frame of international donor assistance force a focus on short-term, project-oriented activities. And because they are dependent on donor agency funding, the CDOs find themselves forced into a role of pursuing targets of opportunity rather than developing and implementing effective long-term cooperative development strategies.

Risk

Participation in a cooperative carries a risk for the members -- an agricultural cooperative member can lose his crop or annual income; a credit union member, his savings; a housing cooperative member, his house. New cooperatives are like any other new business: they are weak, fragile, and often fail. Project designs seldom include mechanisms for reducing or spreading that risk.

The credit risks in rural credit programs are often borne entirely by the local cooperative. With lending ratios of 5 to 10 times assets, a modestly high default rate of only 10 percent can eliminate the entire assets of the local institution.

A large-scale rice cooperative project in Ecuador (the Land Sale Guaranty or Small Agricultural Enterprise Promotion Project) did not provide rice storage facilities as part of the project. When rains came early one year, the entire crop (and annual income) of the members was lost; farmers were unable to repay their loans and were declared ineligible for future loans. The program had succeeded in changing these small-scale farmers from day laborers to capital-intensive farmers, but the entire risk of failure was borne by the farmers themselves.

Many cooperatives engaged in marketing purchase the products from their members, then resell it to the market, assuming all of the marketing risk. UNIPACO, in Paraguay, was bankrupted by this practice, and numerous others have failed. In the United States, the common practice to reduce market risk is to operate on a commission basis.

Donor agencies and CDOs should be especially concerned about the risk inherent in hard currency loans to cooperatives. Cooperatives are generally not strong enough to absorb the devaluation risk. Only those cooperatives able to generate and capture hard currency earnings through export marketing should be considered for hard currency loans.

Credit unions have developed share insurance, stabilization funds, loan protection insurance, guarantee programs, and other mechanisms to reduce risk. Donor agencies should incorporate these and other risk-reduction mechanisms into project designs.

Second- and Third-Level Cooperative Organizations

Although U.S. cooperative approaches vary among the institutions, the general development model has included the development of second- and third-level cooperative organizations in a country. The CDO works to develop a minimum base of primary societies; it then supports the creation of a national or regional organization and works toward building the self-sufficiency of that institution. There are three basic reasons for this approach:

- It is difficult for an external development organization to develop and support individual base-level organizations;
- Cooperatives require vertical integration to achieve their full potential; and
- Further growth of a movement can be achieved only if a strong, central organization is in place.

For the credit union movement, this design has proved to be a rational strategy, and the existence of national-level federations has been largely responsible for the continued growth and viability of credit union movements that no longer receive AID assistance. In agriculture, the validity of this approach has been substantiated for both cooperative and noncooperative approaches since it combines the benefits of both solidarity and scale. But agricultural cooperative federations have not been as successful as credit union federations. UNIPACO in Paraguay, the Honduran Federation of Agricultural Cooperatives (FECOAGROH) in Honduras, and many others have not become viable organizations. The technical service organizations of the housing sector have been marginally sustainable but, with the possible exception of Chile, have not succeeded in generating substantial growth in local cooperative housing.

Two factors in the credit union experience may not be replicable in the other sectors. First, credit unions all deal with the same commodity (money) and, to a greater or lesser extent, face the same problems in dealing with that commodity. These problems invariably include interest rate policies, savings mobilization, bookkeeping, delinquency control, investments, and liquidity. Since these are common problems, a federation or confederation can play an important support role in helping individual credit unions identify and deal with the problems. Second, the credit union movement is capable of generating a substantial internal resource base through central credit union operations that can finance the central organization. The other sectors must rely on business volumes and spreads rather than on a capitalization pool, and are unable to generate the same capital base.

Although a federation design has decided benefits, one major problem is that the organization must be large to have an impact and perform successfully at a stage in the development process when the resource base of member cooperatives is too small to sustain the federation internally. Federations are often started too soon, with an inadequate resource base in terms of business volumes, members, capital, and donor support. The service structure that is put in place cannot be sustained by the member societies once donor assistance is withdrawn. Establishing a viable federation requires the extended commitment of an international donor over an extended period of time, something that is often lacking in project design.

Underlying Assumptions and Premises

Many assumptions and premises made by CDOs and local cooperative organizations (and even the donor agencies themselves) lock new cooperative organizations into long-term dependency relationships. Once a project has defined the need for initial and operating subsidies, and has accepted the premise that the cooperative cannot mobilize sufficient internal resources so that external capital is required, it has defined a situation that requires a long-term dependency on donor agencies and host governments.

Many assumptions underlying cooperative projects in the field affect the capital base of the new cooperatives. The basic design of cooperative projects has stressed subsidies and external assistance instead of capitalization and market-rate pricing. Cooperatives frequently fail because they lack the resource base and capitalization necessary to survive. This is often the direct consequence of depending on subsidies, and poor interest rate and pricing decisions.

PROJECT RESOURCES

The cooperative development projects examined in this study -- and, in fact, most formal cooperative organizations in developing countries -- have been promoted and financed by external donor agencies. The level of effort and resources devoted to these projects has varied substantially, from a $48,000 effort in agricultural cooperatives to a $190 million fertilizer cooperative in India. Although it is impossible to compare this vastly different array of projects, some general comments appear valid.

Amount of Resources

The amount of resources provided to a cooperative development project is not directly related to success. More resources do not systematically produce more or better results. The mix of resources, their proper tailoring to the local environment and expected outputs, and other factors are far more important in determining project success.

In-Country versus Short-Term Assistance

In-country resident technicians are most effective during the early development stages of a cooperative system. The introduction of a new form of organization is highly labor-intensive: making decisions, developing an understanding of the rationale for doing things, and building experience cannot be accomplished in short courses or by correspondence. Issues must be experienced and dealt with one at a time, as they occur. In this initial stage, resident technicians who can recognize issues and resolve them -- but, more important, teach local persons to recognize them and resolve them -- are probably indispensable.

A major issue, however, with in-country resident technical assistance is that it can foster excessive dependency on the resident advisers. As pointed out by several participants in the June 1984 Cooperative Advisory Group meetings, projects that have the greatest long-term success are those in which the technical advisers have adopted a role as coaches and advisers, effectively training their counterparts to function as program managers, rather than as executors of line functions. The selection of the technician has therefore been a major determinant of ultimate success. Although it is difficult to specify the ideal adviser, the basic characteristics appear to include multicultural understanding, adaptation skills, a focus broader than mere technology transfer, and sensitive business management.

At later stages of cooperative development, the types of issues and problems become more specific and technical. Also, local personnel need independence to learn effectively. At this stage, regional support or short-term assistance is desirable -- to meet short-term, specific needs. Perhaps the major reason for the widespread success of credit unions has been the existence of continued support and assistance to movements beyond the termination of bilateral programs.

Few international donor-assisted projects provide for continuing assistance to an established cooperative or cooperative movement. If the projects and CDOs do not have the resources to provide this follow-up support, the only organization that appears able to is Volunteers For Overseas Cooperative Assistance (VOCA), which can identify and coordinate short-term, skilled assistance. Unfortunately, most of VOCA experiences have not been associated with former cooperative projects. This relationship could be expanded.

External Seed Capital

Agricultural cooperatives and credit unions, and cooperatives in the rural electrification and housing sectors to a lesser extent, must be capitalized to reach significant business volumes: the amount of resources that can be generated internally is not great enough in the early stages to support a viable business operation. One way to accelerate growth is to provide external loans to build an initial pool of loanable funds. Nevertheless, the availability of external resources is a two-edged sword: too few resources stifle the growth of the movement; too many resources may exceed the absorptive capacity of the institution.

At the same time, externally provided seed capital should not substitute for internal resource mobilization. The availability of inexpensive external capital often discourages management from adopting the strategies and policies that are necessary for self-sufficiency. Participants in the discussions of the Cooperative Advisory Group argued strongly that cooperatives should strictly control their debt-equity ratios and not become overly dependent on external capital.

Pacing of Resources

The pace at which resources are provided to a new cooperative organization also influences the ultimate success of the project. When resources are provided too quickly, the result is often the mismanagement or misapplication of those resources. Providing resources such as seed capital at a moderate pace allows the local cooperative to develop the necessary skills to manage those resources properly. This applies particularly to those types of cooperatives that are engaged in an external business relationship with their members and the external community, such as agricultural and credit cooperatives. These rely on independent discretion and management of the resources by the leaders of the cooperative.

Subsidies

The issue of subsidies to cooperatives is complex. On the one hand, subsidies may be counterproductive because they create dependency relationships and prevent the cooperative from adopting realistic pricing and operating strategies. On the other hand, subsidies may be the only way to reach certain groups or provide particular services to those groups.

Many assumptions that conclude that subsidies are necessary -- particularly in the areas of subsidized interest rates -- have not been supported by research. Research conducted by Ohio State University during the past 15 years has consistently demonstrated that subsidized interest rates for small farmers are both unnecessary and counterproductive. A recent examination of housing prices in Honduras demonstrated that, in contrast to conventional wisdom, low-income housing was affordable by the target population without subsidized interest rates.

Experiences in agricultural cooperatives and credit unions have shown that subsidies often result in severe distortions of the business operations of the cooperatives. Although subsidies may be necessary during the start-up phase of a cooperative to provide staff for cooperatives that cannot yet afford salaries, the subsidies must be accompanied by a heavy emphasis on capitalization and member equity contributions.

At the same time, it can be argued that providing electric service to individual rural homes and businesses cannot be accomplished without subsidized capital and operations. Three factors account for this: the cost of stringing lines and providing service to remote, sparsely populated areas is very high; the low volume of usage would result in high electricity rates; and small low-income farmers cannot afford the pay the full rate for electricity in these circumstances. The issue in this case is not one of whether to subsidize the cooperative; instead, it is whether to provide electric service to this sector of the population. A subsidy would be required whether or not a cooperative approach to rural electrification were employed to reach this population.

The last point is important; the question of subsidies is not a single issue. It is not the cooperative that is subsidized, but the provision of a particular service to a given sector of the population, whether or not that service is provided by a cooperative. In this case, the issue of subsidies is a question of public policy rather than organizational form, and the two should not be confused. The question of subsidies to cooperatives is more properly debated when they represent an alternative to sound internal management.

MACROECONOMIC AND SOCIAL VARIABLES

A review of the project sample for this study indicates that, although the experience of different projects has varied, there is no consistent pattern of variation that can be explained by macroeconomic or social differences. Cooperatives may succeed in one country and not another, but not because of differences in country wealth, literacy, size, or growth rate. Even obvious limitations, such as the Moslem prohibition against interest, has not produced any pattern of less success among credit union experiences in Africa. This finding is consistent with the general conclusions of the past evaluations that have examined local organizations and integrated rural development.

Cooperatives that are engaged in a business activity do require a national economic environment that is open to competition. Where government is involved in setting artificial prices, creating and supporting monopolies through export and other licensing quotas, or does not tolerate independent business action or independent organizations, cooperatives appear to have little chance of succeeding.

POLITICAL ENVIRONMENT

Cooperatives are creations of the law, and government plays an important role in providing an appropriate legal and political environment for cooperative development activities.

The Role and Involvement of Governments

Although cooperatives have succeeded in a wide variety of political contexts, there is little doubt that central government support plays an important role in the success of cooperatives in a country. In extreme cases, the government determines which types of cooperatives will be allowed to operate. For example, the Philippine government decided to encourage electric cooperatives, whereas the Ecuadoran government decided not to encourage them. In the latter case, this decision simply precluded the formation of rural electric cooperatives at all. The decision to use or not use cooperatives appears to be unrelated to political tendency or ideology, as the Ecuadoran government actively supported agricultural cooperatives and credit unions.

The governments of the developing countries, especially those of the former British colonies of Africa and Asia, have taken a direct and active role in promoting and operating cooperatives. The cooperative departments (ministries) tend to be large (in Uganda, the ministry had 2,000 employees, in Tanzania an estimated 4,000, and as many as 5,000 in Kenya). These agencies play a role in promoting, registering, managing, and operating the cooperatives, with the result that there are large numbers of organized cooperatives in these countries.[3] Although governments have supported cooperative development, there is considerable debate over the benefit and long-term implications of that support. As one observer summarized:

> Government promotion of cooperatives is generally not seen as having produced healthy, independent cooperatives or viable cooperative movements. There remains a deep and stifling involvement of government in the day-to-day operation of cooperatives in most developing countries (registration, control) rather than helping cooperatives develop and grow at their own pace. Cooperative development, and the base of movements, remain weak.[4]

In extreme cases, governments use cooperative structures to provide services as agents of the government itself. When this occurs, the cooperatives involved tend to become increasingly dependent on government for subsidies and direction. In the official cooperative structure of Indonesia, for example, local cooperatives depended entirely on government budget support, and the managers and boards of directors of the cooperatives viewed themselves as government employees. Where government is actively involved in operations and management, the cooperative becomes more bureaucratic and less responsive to local control.

Conflict between Government and Cooperative Interests

There is a potential conflict of interests between cooperatives and national governments. Rural electric cooperatives, for example, are closely linked with government distribution networks. The general absence of rural electric cooperatives in Latin America stems primarily from the fact that, at the time cooperatives were first introduced, the national governments had either recently nationalized foreign-owned electric power companies or were in the process of doing so. Coupled with an emerging philosophy that electricity was a public service that should be provided by government, this nationalism biased most governments against any form of private enterprise in the electric power sector.

With the exception of Tanzania and, perhaps, Nicaragua, credit unions have succeeded in maintaining a private character. In many countries, particularly those of Africa and Asia, agricultural cooperatives are essentially service arms of central or regional governments. In many cases, these governments have adopted policies that favor urban consumers and foreign exchange earnings at the expense of low prices to farm producers.

Policies

Even when government is not directly involved in promotion and operations, cooperatives are often dependent on government policies, especially in the areas of pricing, import and export, interest rates, marketing, and subsidized credit. Adverse policies in one of these critical areas can make a successful cooperative difficult, if not impossible. Agricultural cooperatives are especially vulnerable to commodity price ceilings, monopoly marketing boards, and import and export restrictions. Credit unions are affected by inflation rates, subsidized credits, and interest rate ceilings. Rural electric cooperatives are affected by government-set utility rates and prices set by centralized power sources.

Cooperatives, supported by donor agencies and CDOs, have a legitimate role to play in educating national government officials and lobbying for appropriate policies and legislation.

Services and Resources

Often the government is committed to providing a certain level of development resources -- funding, extension agents, vehicles, and travel expenses --to cooperative projects, but unable or unwilling to honor this commitment. Projects that depend on staffing, mobility, or budget support from host governments invariably must be redesigned to provide those services internally. This has often prompted donor agencies and CDOs to keep government involvement to a minimum in both project design and implementation.

Partisan Politics

The international CDOs try to keep the cooperatives they assist out of partisan politics, but this is often difficult to maintain in practice. When an independent cooperative movement is successful, it may arouse antagonistic feelings on the part of the government or courtship by vying political groups. The organization of people, whether rural or urban, can create a power base that can be used for political ends -- by local politicians or by the central government.

Cooperatives whose leaders have engaged in overt partisan politics have generally not fared well in the long run. Many cooperative development projects have failed because of the cooperative's involvement in local politics. Governments change rapidly, and identification with one party or faction, or with one individual, can be fatal to cooperatives.

This does not mean that cooperatives must refrain from all political activity. Since the well-being of the cooperative itself is influenced by national and even state politics, there is a definite role for political involvement in terms of defining and lobbying for issues that are of legitimate concern to the cooperative.

Compatibility with Host Government Styles

There is an apparent conflict between the goals and style of many Third World governments and the concepts of private, independent cooperatives. This conflict appears to affect agricultural cooperatives more than any other sector as national governments use the cooperative label to organize rural areas. The conflict may take place at several levels and has numerous dimensions:

> Government Intervention. Much government intervention results from a void on the part of the cooperative system. When there is a weakness in cooperative leadership, an absence of effective cooperative structures, and no apex organization, developing governments tend to promote official cooperatives in rural areas. Once established, governments play a continuing role in managing the cooperatives. This is in direct contradiction to the preferred CDO model.
>
> Participation in Government-Sponsored Cooperatives. To what extent should cooperative development programs support or cooperate with official or government-sponsored cooperatives? Or, as a corollary, to what extent is it essential to insist on a separation between government and coopera-

tives? As one participant at the Cooperative Advisory Group meetings in June 1984 observed, "If you see cooperatives as agents of change in society, then it seems that you must have independent cooperatives. They must be capable of challenging the established way of doing things. Governments are inherently interested in maintaining the current way of doing things."

Limitations on Cooperative Independence from Governments. Yet, as another participant in the conference pointed out, even when a government is highly interventionist, three major issues should be considered, especially in rural cooperatives, if the cooperatives decide to pursue an independent course of action:

- Governments control critical processes such as marketing, export licenses, pricing, and distribution;
- If the cooperative insists on being private and independent in this situation, it might be forced into a marginal role -- marginal, nonregulated products or peripheral activities; and
- If the cooperative is forced into a marginal role, it loses its ability to influence government policy in critical areas.

PROJECT ENVIRONMENT

Resource Base

To become viable entities, cooperatives must have an adequate resource base with which to work. In practice, this means a sufficiently large number of members with sufficient resources to maintain the cooperative without an excessive overhead rate. This generally requires a mix of members -- both low and medium income -- to provide the physical and human resources necessary to move the cooperative forward. When donor strategies or other constraints force a cooperative project to concentrate on resource-poor individuals, the cooperative has little chance of achieving sustainability.

Agricultural cooperatives require adequate business volumes to generate sufficient income to support the cooperative. One CDO has concluded that the typical village is too small to support an agribusiness, which needs to have a base of 500-3,000 members. Unfortunately, many agricultural cooperatives are organized on too small a scale -- with too few potential members or too poor a membership base to provide adequate resources to the cooperative. This is invariably a design flaw that could have been predicted during project planning.

Credit unions require a sufficient volume of savings and loans to become and remain viable. Without that volume, the credit union cannot generate sufficient volumes and margins to cover expenses, provide an acceptable rate of return on savings, and build an adequate level of reserves. In general, this means that a mixture of low- and medium-income members is necessary in all credit unions, a mixture of rural and urban members is necessary in rural credit unions, and a minimum membership size is necessary in all credit unions.

Rural electric cooperatives require a load factor to become viable. In practice, this means a mix of high-volume industrial and commercial users to balance the low-density low-volume home users. Rural electric cooperatives face the dilemma that increasing the membership base does not necessarily improve the profit margins of the cooperative. As area coverage expands into less densely populated areas, costs per hookup increase exponentially. Hence, there are physical constraints to increasing membership; these can have a negative effect on the desired economies of scale.

Individual housing cooperatives do not require a minimum size to achieve or sustain their viability unless professional management is employed. Technical service organizations and federations, however, do require an adequate volume of new construction to generate sufficient income to promote new cooperatives and provide other services. The technical service organizations considered in this study had had difficulty achieving this minimum level of activity.

Building an adequate resource base is also critical for the success of higher-level organizations. Credit union projects need a sufficient number of viable local credit unions to sustain rational federations. The financial difficulties of the majority of credit union federations in Africa today result from the small credit union base supporting them. Agricultural federations require a sufficient number of local service units or member cooperatives to generate sufficient revenues.

The concept of a minimum viable resource base, although acknowledged in project design, has seldom been addressed adequately.

Organization around a Key Resource

To be successful, a cooperative should be organized around a key resource that can be effectively and efficiently mobilized, provided, or marketed by an institution. For credit, rural electric, and housing cooperatives, the key resources are obvious: money for credit unions, the inability to distribute electric power without some form of institution in the case of electricity, and the inability for individuals to gain access to housing resources for housing cooperatives.

For agriculture, the concept of key resource is more nebulous, and what at first appear to be adequate key resources turn out not to be during project implementation. Traditional crops, subsistence crops, and middleman margins have often not provided enough of a base to sustain a viable cooperative. Thus, the Agricultural Marketing Project in Ecuador found that the spread earned by wheat marketers was not sufficient to support a cooperative, and the basic grains cooperatives of Guatemala and Honduras could not achieve sufficient increases in production or marketing to sustain the cooperatives.

Agricultural cooperatives appear to be most successful when they are organized around a key stage in the production cycle that responds well to scale or technology -- which an institution can provide. This is typically in agro-industry, storage, marketing, and key crops:

- Rice cooperatives in Ecuador were successful during the transition from traditional farming methods to large-scale irrigation and water control, which required joint action. They failed when they did not provide adequate storage facilities to protect the harvest.
- IFFCO and the dairy, sugar, and oil-seed cooperatives in India are examples of successful cooperatives that are based on key agro-industry and processing operations. The Local Crop Storage Program in Rwanda is based on cooperative ownership of grain storage facilities.
- The current fruit and vegetable cooperatives in Honduras are strategically located in high-profit export activities.

In all of these cases, the key resource of the cooperative was a process or activity that required technology and a scale of operation beyond the capability of individual farmers. And in all cases, the key resource was involved with marketing or processing, frequently in association with export crops.

Importance of a Local Niche

Business-oriented cooperatives appear to have a better chance of succeeding when they can take advantage of a natural void in the competitive market. Credit unions, for example, provide savings and credit services to a sector that is not served by other financial institutions. Rural electric cooperatives function in natural monopolies. Agricultural cooperatives, however, are frequently found in highly competitive markets with well-established traditional vendors and suppliers. This makes it much more difficult to establish and operate a successful agricultural cooperative.

Assumptions

Many fundamental assumptions about the environment of a cooperative project have not been correctly assessed. The profit spreads of middlemen are usually not as great as assumed, and informal interest rates are probably a better indication of required rates of return in high-risk lending than the highly subsidized rates of development banks or international donor agencies. The government and an agricultural, rural electric, or housing cooperative may have fundamentally different pricing objectives.

As a corollary, to be successful a cooperative must be built around a service or product that is in fact a felt need of the potential members of that cooperative and for which there is effective demand. In numerous instances, cooperatives developed through foreign assistance projects are based on services that reflect the perception of the donor agency or CDO rather than the felt need of the potential members. Second- and third-level cooperative organizations based on representation or training and education seldom survive without continual subsidies.

These issues are seldom addressed adequately in project design papers. However, they can make it impossible to achieve the goal of establishing independent, sustainable cooperatives.

Cooperative Antecedents

Cooperative projects have greater success in situations in which there is a prior history of cooperative activity. One assumption that is implicit in nearly all cooperative projects is that cooperation is natural. In fact, agriculture and housing are highly individualistic activities in most traditional societies, and there is little indication of a predisposition toward cooperative activities, at least of the type needed to sustain a viable cooperative. Of the four sectors studied, only credit unions seem to be built on a foundation of precooperative activities. In nearly every society of the developing world, there are informal, revolving credit institutions that have a history of pooling community money, lending it to members, and recuperating those funds with interest.

Enclave Populations

Another characteristic of the member population influences the long-range prospects for success of a cooperative development effort. Cooperative projects are often organized with a membership base that represents a subsector or minority population within the society. This occurs because these groups often represent extremely low-income, disenfranchised sectors of the population and are a primary focus of donor agency concern.

Cooperatives with this membership base face two potential problems. First, it is difficult to gain acceptance and develop the necessary linkages to institutions and services that are dominated by the major ethnic or social groups. These often control banking and other services that are essential to the l·ng-range success and viability of the cooperative. Thus, it is difficult for the Indian cooperatives of Latin America -- the Canar Indian marketing cooperatives in Ecuador, highland Indian cooperatives in Guatemala, and many others -- to gain a regular access to bank, extension, and other services.

Second, organizations associated with enclave populations also experience problems with expanding a membership base beyond the limits of that population. The credit union experience provides an excellent example. One driving force behind credit union organization throughout the world has been the Christian church groups, especially the Catholic church. In Latin America, where 90-99 percent of the population is Catholic, church sponsorship served to legitimate credit unions. But in Asia, where Catholicism is a distinctly minority religion, credit unions have had difficulty developing a membership base among non-Catholics. Another example is the credit unions in England, which were first organized among West Indian immigrants. As a result, the movement has not expanded significantly beyond that sector of the population.

This appears to be a potential issue primarily for cooperatives that depend on an expanding broad-based membership, such as agricultural and credit cooperatives. It is less applicable to rural electric and housing cooperatives.

Linkages to External Resources

Cooperatives require linkages to other financial and social institutions. In some cases, these are intrinsic to the organization, such as the relationship between a rural electric cooperative and the national power company. In others, the linkages are the result of business activities. Credit unions require access to financial markets and banking services, insurance, education, and auditing. Housing cooperative movements require access to internal and external credits for construction.

MANAGEMENT AND INTERNAL ISSUES

One major difficulty of developing cooperatives is the need for fairly sophisticated management for organizations that are new, small (in most cases), and financially weak. Most cooperative development projects include technical assistance and training components, much of which concentrates on the operational aspects of cooperative development: including credit, financing, planning, management, cooperative philosophy, and history. However, weak management continues to be one major problem for developing country cooperatives. Many problems cited later in this section are a direct result of weaknesses in management.

Leadership

Strong, catalytic, and honest leaders are an absolute requirement for success during the early years of a cooperative. Beyond that period, needs change to strong, business-oriented, honest, and dedicated leaders. The success of cooperatives across the world is more dependent on this factor than any other. Yet the sector of the population that comprises cooperative members in the developing world has had little experience with leadership, management, and business. How to identify, develop, and sustain strong leadership is perhaps the most difficult problem facing cooperative development projects.

Pricing

Pricing is perhaps the most difficult management issue in developing cooperatives. Part of the pricing problem is the result of internal management decisions. Cooperative managers have a tendency to ignore the real costs of operating the cooperative as a business. To a great extent, this is a legacy of early cooperative principles that have not been updated to modern conditions. Too often cooperative developers and supporters, donor agencies, and local cooperative leaders have viewed cooperatives as social benefit organizations rather than as competing business institutions. The belief that a cooperative should, regardless of the situation, charge lower prices and provide higher returns to its members has often resulted in pricing decisions that decapitalized the cooperative.

This problem is reflected in credit unions in the outdated policy of charging no more than 12 percent interest. ACDI has calculated that a well-run agricultural cooperative must have a margin of 16 points to break even on small farmer, short-term agricultural credit. Data from Bolivia indicated that the minimum rate an agricultural development bank could charge its borrowers and break even on its portfolio was 21.8 percent, representing a spread of 13.3 percent over its concessionary development loan of 8.5 percent. At the time, the institution was charging less than 14 percent interest on loans.

Housing cooperatives have a tendency to subsidize costs in an attempt to reach the poor. These subsidies may prompt housing beneficiaries to cash in their equity at market value and move on (Haiti is a recent example of this), and impede the accumulation of legitimate reserves to meet operating emergencies. One rural electric cooperative in Costa Rica deliberately set a rate policy that was the lowest in the country, with severe consequences for the internal viability of the cooperative.

In addition to pricing decisions based on cooperative philosophy, many cooperative managers and staffs do not understand the true costs of operating a business. There is a general refusal among cooperatives to reward member investments with adequate rates of return. Managers frequently do not understand that operating at cost must at least mean operating at replacement cost. There is generally a failure to build adequate reserves, due both to a view of reserves as profits and to the inability to generate reserves on low-volume, low-profit operations. Cooperative development projects should develop the understanding among cooperative managers and boards, from the very beginning, that the cooperative itself becomes vulnerable if it does not price properly.

But another part of the pricing problem for cooperatives, particularly agricultural and electric cooperatives, is the intentional or unintentional pricing constraints imposed by national governments. In some cases, these may make it impossible for cooperatives to adopt survival pricing strategies.

As public utilities, rural electric cooperatives are directly affected by government pricing policies that set the rates the cooperatives must pay for power obtained from the national grid and the rates that the cooperatives may charge their members. These must allow a realistic margin for a cooperative to succeed.

Agricultural cooperatives are especially affected by pricing policies that result from government priorities and objectives. Developing country governments frequently use the agricultural sector to subsidize urban populations and national development objectives, adopting pricing policies that favor urban consumers and export earnings at the expense of the farmers. As one example, the government of Senegal used peanut exports to accumulate foreign exchange by setting artificially low prices to peanut farmers.

In situations such as these, agricultural cooperatives cannot possibly survive as rational business enterprises. As soon as a national government establishes a price-setting mechanism that is concerned with protecting the purchasing power of urban consumers and generating foreign exchange earnings, rather than the welfare of the farmer, the chances for establishing a successful agricultural cooperative business is significantly reduced.

Single versus Multiservice Cooperatives

At the center of a discussion of single versus multiservice cooperatives are two separate questions:

- Do new, embryonic institutions have the managerial capability to operate complex activities successfully?
- Does a single-purpose approach address enough of the issues present in a given developmental situation to provide a valuable alternative to the members?

These are quite different questions, and in this section the concern is primarily with the first. Credit unions and rural electric and housing cooperatives are traditionally single-purpose institutions, whereas agricultural cooperatives are generally multiservice institutions. The essential difference among them appears to be the developmental problem they address, and whether or not it requires a multi-dimensional solution.

Agriculture clearly does require such a solution, for the developmental problem includes inputs, technology, credit, and marketing and there is a natural interrelationship among information, supply, credit, and marketing operations. Rural electrification and housing tend to deal with single issues, whereas credit unions address multiple issues in terms of a single medium.

There are many examples of successful multiservice cooperatives. Credit unions tend to develop intc multiservice organizations, adding medical clinics, school supplies, agricultural inputs, and even marketing to their basic credit and savings services. Rural electric cooperatives have expanded to include other activities. Housing cooperatives have embarked on community development projects.

Additional activities necessarily require more sophisticated management than single-purpose cooperatives, and the examples of those failing to handle multiple activities successfully abound. But the successes in this area suggest the following conclusions:

- Multiservice cooperatives are most successful when the cooperative has started off with a single major product, and then expanded gradually to include other activities, based on experience and responsive tc the needs of its members.

- Multiservice cooperatives are most successful when the activities are divided into separate cost centers with separate, specialized management.

- Projects that are specifically designed to develop multiservice cooperatives require a longer time frame and considerably greater emphasis on management training.

Credit as a Cooperative Service

Many authors have noted the difficulty agricultural cooperatives have with managing credit programs.[5] Yet one cannot ignore the fact that credit unions, which deal only with credit programs, have been highly successful and sustainable institutions.

This apparent contradiction can perhaps be explained in two ways. First, for credit unions the funds that are lent to members are generated internally by the members themselves. In agricultural cooperatives, the funds tend to come from outside sources, such as donor agencies and government credit programs. Credit unions have also had the most difficulty in situations in which the funds lent derived from external sources. Thus, organizations may more effective in managing resources that are generated internally than they are in managing resources that are supplied by external agents.

Second, managing credit programs is the primary function of credit unions. In agricultural cooperatives, credit is an ancillary service that is usually perceived as being unimportant to the essential functions and major purpose of the cooperative. This suggests that organizations are more effective in managing activities that are perceived to be essential to the main purpose of the organization itself.

Member Participation

One comparative advantage of the cooperative model is that its approach involves members as participants rather than clients. This results specifically from the democratic structure of the cooperative, local ownership, development of local talents (managerial and otherwise), and membership involvement in decision making.

Evaluations of cooperatives, however, have generally concluded that, in many cases, the members are passive rather than active participants in the cooperative. In housing cooperatives, with the exception of some cooperatives that have implemented complementary activities, member participation tends to wane once the housing is provided, to the point at which the cooperative often becomes merely a mortgage administrator and collector of payments. The same syndrome is found in electric cooperatives: once construction is completed and electricity provided, the cooperative functions primarily as an administrator and bill collector.

A similar pattern is found in agricultural cooperatives. For at least the first five years, the regional FECOAR cooperatives in Guatemala were run by Ladino managers with little effective participation by the Indian membership. An evaluation of the ongoing cooperative development project in Honduras pointed out that members knew very little, if anything, about their cooperative. A formative evaluation of the ongoing local crop storage project in Rwanda concluded that not only were small farmers unclear about the benefits of joining the cooperative, but they also tended to participate very little in cooperative leadership and management decisions. Evaluators of the Farmer Services Center in Central Java (PUSPETA) Project in Indonesia strongly recommended more representation of primary society members on the regional's board of directors, lest the impression be given that the regional was a business entity separated from its affiliated primary societies.

In these instances, the distinct impression is given that, rather than dealing with a cooperative membership, one is dealing with a captive audience or -- as one commentator said -- a consumer interest group whose main responsibility is to buy the services offered. This finding is not surprising, given the history of cooperatives, particularly agricultural cooperatives, in the United States. According to Bennett, U.S. farmers tend to join cooperatives for the services they provide, but are apathetic about the socialization or training function of the societies. From the members' perspective, cooperatives work well in satisfying their pragmatic needs, but there is little real attachment or enthusiasm about the cooperative as a social group.[6]

The entire question of member participation is one that is not widely understood outside of the cooperative movement. Many evaluators of cooperative projects, searching for an indicator of member participation, have focused on attendance at annual meetings. But this a superficial measure that fails to capture the fact that participation patterns may change as a cooperative matures, and that meaningful participation as an owner of the cooperative may be appropriate only when there is a crisis or major decision to be made.

Member participation in a cooperative may be expected to change with the stage of development of the cooperative. In a new cooperative, active participation is critical for success: it develops loyalty and commitment to the organization when tangible benefits may be relatively small. Active participation on a daily basis serves to legitimate the cooperative to their members. In addition, many more new decisions have to be made in a new cooperative, and active member participation is needed to educate the members to the need and rationale for those decisions. As an organization matures, the operations become more routine, the number of decisions fewer, and loyalty must be generated more by the tangible benefits received than by philosophical commitment. Active member participation on a daily basis is not necessary in a mature cooperative. What is important is that the membership has the right (and the feeling that it has the right) to affect decision making in times of major issues and crises. This potential may never be used, but that is no indication that it does not exist.

Sustainability

Unlike many other development approaches, the cooperative approach treats the sustainability of the local organization seriously. Cooperative projects are intended to produce self-sustaining institutions.

For agricultural cooperative projects, the attainment of sustainability has often proved elusive. After 10 years, the four Bolivian agricultural cooperatives that Tendler studied were still providing services to members and representing their economic interests, but all four were still dependent on outside financing. Many, if not most, of the agricultural cooperatives of Africa and Asia depend heavily on continuing government support in the form of operating budgets and seconded personnel.

Agricultural cooperatives have had difficulty achieving sustainability for many of the same reasons that noncooperative agricultural projects have not attained it: the projects were not viable in the first place, the business volumes and spreads were not adequate to support the cooperative, and the emphasis on providing subsidized services conflicted with the business requirements of setting a realistic pricing policy. There is at least room for concern about whether an agricultural cooperative can meet the goals of providing low-cost, worthwhile services on one hand and becoming financially self-sufficient on the other, especially when project designs focus on resource-poor individuals and noncash traditional crops.

No data exist on the survival rate of credit unions in the developing world, so it is difficult to discuss the sustain-ability of individual credit unions. There is an indication that rapid promotion of numbers of cooperatives leads to later problems because many of the organizations are not viable. The typical practice is to merge the membership and assets of a failing credit union into another credit union so that services continue. The credit union movement in general has shown considerable stability throughout the developing world, but this has required a continuous infusion of capital, technical assistance, and support.

The sustainability issue is substantially different for rural electric and housing cooperatives. Sustainability for a rural electric cooperative is largely an issue of government pricing policies. For a closed housing cooperative, the issue of sustainability is largely moot, as the basic role of the cooperative once construction is finished is to service the mortgage -- there is no issue of a self-supporting business enterprise. For an open housing cooperative, there may be more of an issue of sustainability, as the cooperative is designed to attract new members and expand. But even the open housing cooperative does not have to achieve sustainability in the sense of an ongoing business enterprise that is dependent on margins from selling or buying goods and services in a competitive market.

Sustainability and the Federation Model

Many cooperative projects, especially credit union and agricultural cooperative projects, include the development of second- and third-level cooperative organizations, based on the argument that these structures are necessary to achieve economies of scale, continue project benefits beyond the termination of donor financing, and continue to expand the growth of cooperatives in the country. There can be little doubt that the federation structure is largely responsible for the growth and strength of the credit union movement throughout the world.

But there are also numerous examples of cases where the federations failed, and in doing so caused the failure of the individual cooperatives as well. The National Federation of Rice Cooperatives (FENACOOPARR) in Ecuador, UNIPACO in Paraguay, and FECOAGROH in Honduras are examples in this category. The relative lack of success in establishing viable second- and third-level cooperative organizations in the non-credit union sectors at least raises the question about whether new cooperatives can support higher-level organizations in the developing world, and at what cost this effort can be justified.

The differences between the credit union sector and the other cooperative organizations suggest some tentative conclusions about the viability of higher-level cooperative organizations. First, there is a large base of primary-level credit unions in the developing world. In most cases, this base is adequate to support the activities of the national federation. When it is not, the federations are weak and undercapitalized. This suggests that building higher-level organizations should wait until the initiative and support flow upward from the primary societies; in the absence of an adequate base of support, federations will probably have to be subsidized.

A second difference between credit and agricultural cooperatives is that credit unions deal with a single commodity, regardless of national setting. Problems can be identified and dealt with effectively at a central level (either the national federation or regional confederation). Thus, there is a business purpose in the credit union system for the higher-level organizations. When the cooperatives are engaged in different activities, or have no intrinsic reason to share or exchange resources, there is no business justification for a higher-level organization. Many of these federations are based on representation, training, or other services that are not critical in a business sense to the primary cooperatives, and financial support to the higher-level organizations is much weaker.

There is a real danger that higher-level organizations will siphon resources from the base-level cooperatives. This is an issue that should receive a more careful examination by all those involved in international cooperative development.

SUMMARY

The lessons presented in this section were extracted and summarized from the individual sector studies that comprise Volume Two. It was not possible to present all of the nuances or special qualifications that should be understood. The reader is encouraged to examine the specific sector reports for greater detail and explanation in the context of particular programs and activities.

There are obviously countless other lessons that could be drawn from reviewing the past 20 years of cooperative development experience. The lessons presented here appeared, from an examination of a specific subset of cooperative projects and a review by an international group of cooperative experts, to be particularly relevant to explaining the patterns of success and failure of cooperative projects.

The observations discussed in this section must be treated cautiously; they have not been subjected to empirical testing or evaluation. In the absence of a broad or consistent body of literature that has systematically examined the cooperative experience, many of the conclusions have been drawn from a limited number of observations. Until the conclusions have been validated, they should serve as working hypotheses for the planning, design, and evaluation of projects.

NOTES

1 See Annex B for a listing of the original study hypotheses.

2 This is not unique to the U.S. cooperative movement. Participants from the English and Swedish cooperative movements and the International Labour Organization in the Cooperative Advisory Group meetings in June 1984 confirmed that cooperative assistance from most donor countries tends to follow the pattern of cooperatives in those countries, and concurred that this pattern has inevitably caused difficulties in the recipient countries.

3 In Latin America, cooperative departments tend to be weak, underbudgeted, and understaffed, so there is less of a tendency for overt government involvement in the cooperatives themselves.

4 Jack Shaffer, "Some Observations Growing Out of Meetings with Selected Agencies Listed in the 'COPAC Directory of Agencies Assisting Cooperatives in Developing Countries'," p. 2.

5 See especially Judith Tendler, What to Think About Cooperatives, and David Fledderjohn, preliminary draft paper on the experiences of agricultural cooperatives in Central America.

6 John W. Bennett, "Agricultural Cooperatives in the Development Process: Perspectives from Social Science" (Paper presented at the ADC Seminar on "Cooperatives, Small Farmers, and Development," Wingspread, Wisconsin. Madison: Land Tenure Center) pp. 51-52.

CHAPTER FOUR

CONCLUDING OBSERVATIONS

The contributions of cooperative programs to development have been real and significant. Because of four inherent characteristics of the cooperative approach -- participation and involvement, direction of benefits, focus on independence and self-sufficiency, and permanence -- cooperatives offer distinct advantages for reaching donor-defined target populations with effective, cost-efficient, and sustainable development assistance.

One observation that has stood out during the course of this study is that cooperative development activities in the Third World are heavily dependent on donor agency financing and support. The five cooperative development organizations are dependent on one primary donor source -- AID. This pattern of dependency has had several consequences for cooperative development in general; the activities and focus of these five CDOs in particular; and, by extension, the work performed by other cooperative organizations in the developing countries:

- The patterns of development have been determined by donor agency priorities and interest. Where AID missions have been interested in cooperatives, there have been projects; where they have not, there have been no projects.

- There is no long-range cooperative strategy, either for a given country or for a given cooperative group. The decision to develop a project is usually made by the donor agency, rather than a cooperative movement requesting support. When the project ends, the support to a cooperative ends. If the donor agency is interested in establishing a federation, there is a federation; if not, then no federation is established.

- Rather than seeking support and funding for a well-thought-out cooperative strategy, the CDOs are, for the most part, following targets of opportunity, accepting projects where funding is available, and not working on projects or given lines of activities where it is not. An increasing percentage of the work of the CDOs is on noncooperative projects.

The cooperative movement, at least within the individual sectors, should develop a long-range strategy for cooperative development in the Third World. This strategy should be independent of donor strategies and priorities, and should represent a coherent plan for cooperatives based on business opportunities, markets, and local needs. This strategy should serve as a framework for soliciting donor support so that cooperative development takes place in a more orderly, long-range context.

Central to a long-range cooperative strategy should be a plan for financial independence. As long as cooperatives are dependent on donor interests for funding, development will be debilitated by the haphazard, inconsistent, and short-term perspective of the donors. Funding can, and should be, a multifaceted effort. Options include:

- Multiple donor sources, so that funding in a given country or product line can be supported from a different source if one donor will not support it;

- Movement-to-movement resources building a general or specific funding pool of private capital using a foundation or other mechanism;

- An international guaranty fund, patterned after the Housing Guaranty Program, to gain access to private capital markets for funding projects;

- An international cooperative financing institution, pooling funds from private and public sources; and

- The building of an international cooperative financing institution internally on the basis of internal capitalization from insurance or other capital mobilization option.

This list does not exhaust the possibilities for developing sources of cooperative financing that would reduce dependency on one or several donor agencies. The cooperative movement should undertake steps to explore the options and feasibility of establishing this mechanism.

In addition, data on cooperative experiences in the developing countries are inadequate. Although data required for decision making and planning in individual sectors are generally so specific that there is little need to develop a common data base, there are broad, movement-level statistics that should be collected, maintained, and shared among the cooperative institutions. General statistics, project information, and socioeconomic country data that broadly affect cooperatives could be developed as part of a shared data base. The CDOs should explore options for developing and maintaining this data base, and should expend more effort on improving internal data bases and statistics on those subjects that are of unique importance to their individual sectors.

ANNEX A

METHODOLOGY

ANNEX A

METHODOLOGY

The original study design used a select sample of experiences as the basis for an empirical assessment of key hypotheses about the cooperative experience. Data from these projects were to be analyzed in terms of a success profile that could be used to generate testable hypotheses. These hypothesis could then be built into overall guidelines for future cooperative development.

In fact, when the study team members examined the specific projects, they found that there was not a sufficient body of data to approach the project in this way. The team continued to use the major hypotheses and variable categories that had originally been planned for the study but had to rely more on external materials not related to the specific sample case studies to have a sufficient body of data to build even tentative conclusions. In retrospect, in the absence of the ability to custom-design a data collection methodology involving primary data collection, the original approach planned for the project was impossible to achieve.

In addition, cooperatives in the four sectors differ so much from one another that, were it not for the word "cooperative," they would not normally be studied as a common phenomenon. Credit unions deal only with money -- a commodity that is in demand worldwide. In addition, they generate their own resources. Electric cooperatives are concerned only with the provision of low-cost power. In most cases, the cooperatives do not produce the power; they serve simply as a delivery mechanism for it. Housing cooperatives provide low-cost housing. Once the houses are built and occupied, the cooperatives function primarily as administrator and bill collector. Agricultural cooperatives are more complicated because they often engage in a variety of activities and deal with a complex array of constraints endemic to the agricultural sector.

The nature of the sample in each of the four sections also differs. The credit union movement is global, vertically integrated, with headquarters in the United States. Thus, in this sector the sampling universe is the world, and the unit of analysis the individual country-level programs. Although agricultural cooperatives are also found worldwide, there is no equivalent international body to integrate them. The same holds true for housing and electrification. In these three sections of the study, therefore, the sample comprised of specific cooperative development interventions in which the respective cooperative development organizations were involved, and the unit of analysis was the project itself.

LIMITATIONS

There are several limitations in the study that are a direct consequence of design limitations and available data. First, this study from the beginning was intended to rely primarily on secondary sources: written project documentation and interviews with staff members and technicians of the cooperative development organizations. Budget and time constraints prohibited original data collection. This limitation meant that the study team could not specifically design a research methodology and generate the data needed to test the major hypotheses or the observations and conclusions of the interviewees: team members were limited in what they could study by what people before them had studied, observed, and commented on. Many hypotheses that the team planned to test, and many of the conclusions that the members would have liked to reach, were not treated in the available literature and could not be independently substantiated.

Second, this research has been conducted from the perspective of the donor agencies and cooperative development organizations. All documents that were reviewed were written from this perspective, and in only a few instances were team members able to interview host country personnel involved in the projects or to find external documentation on a project. Any conclusions that can be drawn from the study must be viewed from this perspective as well. Before they can be accepted as valid, some attempt should be made to verify them from the perspective of the recipient countries and local organizations.

Third, the experiences of cooperatives in the developing world is vast, even with the limits placed on the study. Coverage of some topics is therefore necessarily limited. The study team had to make some practical choices about what to include from the variety of observations and examples it encountered. This is necessarily a judgment issue. Many topics that the team members felt should be included were not because the data needed to explore them were not available. Others that were interesting, and perhaps worthy of mention, did not seem to fit into the conceptual framework, and were therefore not covered.

Fourth, there is an inherent risk in basing research on secondary sources: the researchers have no control over the data needed to support and test hypotheses. The consequence is data that are selective, incomplete, and incompatible. Much hard data -- statistics, financial, and general -- needed to do the study properly simply did not exist. Both in the evaluation studies the team consulted and in the project documentation itself, there was a notable absence of any kind of standardized reporting that would provide a basis for an empirical study. Some studies or reports included data; others did not. The few cases in which substantial data were available could not be compared with other cases for the lack of data. An earlier review of evaluation studies had arrived at similar conclusions:[1]

- It is not possible to compare processes or impacts across projects because of the absence of a consistent evaluation approach; and

- Evaluations do not address a common generic set of issues. If they at least addressed some common set(s) of issues at least some cross-project comparisons would be possible.

Frankly, the study team was surprised that organizations having such a vested interest in documenting their case had so little information about those experiences.

Fifth, there is a basic time problem with evaluative research, especially when it covers development experiences in the Third World. A study of this type needs waiting time, and team members had to abandon several promising lines of inquiry for lack of turnaround time.

In summary, the conclusions presented in this study are really hypotheses, offered with the caveat that they should be subjected to further examination. It is hoped that this research effort will help focus the study and understanding of cooperatives, the role they play, and their potential significance in the economic and social development of the developing countries. But the authors recognize that this is only a beginning for that effort.

NOTE

1 Development Associates, Inc., Evaluation of Cooperative Projects: Summary Analysis of Selected AID Evaluations, Report no. 3, (Arlington, VA: Development Associates, Inc., October 1980).

ANNEX B

ORIGINAL STUDY HYPOTHESES

ANNEX B

ORIGINAL STUDY HYPOTHESES

BENEFITS

- By mobilizing local resources, cooperative projects reduce the need for foreign exchange and government budget allocations.
- To reach a level of activity that can be sustained internally, cooperatives require seed capital above and beyond the ability of the initial membership to generate internally.
- Cooperative projects create an awareness and ability in the local population (membership) for local, independent action, which may be manifested beyond the immediate time frame of the project itself, or outside of the immediate limits and objectives of the project.
- Cooperative projects can reach population groups that would not normally be included in alternative project designs, including more marginal populations, smaller communities, etc.
- The cost-per-beneficiary of cooperative projects will be lower than for alternative delivery mechanisms.

IMPLEMENTATION

- Project success (level of accomplishments) will be directly proportional to the length of project in months.
- The more a project depends on a significant change in local behavior, the less successful it will be.
- The closer the style of the project is to local behavior patterns, the more successful it will be.
- The more a project depends on a significant change in local behavior, the longer it will take to accomplish.
- The lower the rate of literacy among cooperative members, the greater the problems of managerial capability will be.
- The lower the income per capita of project participants, the more difficult it will be to achieve a self-sustaining institution.
- A cooperative project design that works well in one cultural setting will have to be modified to work well in another.

- Cooperative projects are most successful when they are an extension of an organization or structure that occurs naturally in the local environment.

- A cooperative project requires the presence of a strong, legitimating individual (such as a priest or other similar catalytic individual) to be successful.

- Cooperatives require a strong business rationale to survive.

- Cooperative projects in a country that has traditionally used cooperatives as a patronage or control mechanism have less chance of succeeding than cooperative projects in countries that have allowed cooperatives to act independently.