

**REPORT TO CONGRESS ON THE
IMPLEMENTATION OF THE SUPPORT FOR
OVERSEAS COOPERATIVE DEVELOPMENT ACT**



November 2001

Submitted pursuant to the Support for Overseas Cooperative Development Act, 2000, as part of the Microenterprise for Self-Reliance and International Anti-Corruption Act (P.L. 106-306, Section 401), which amended Section 111 of the Foreign Assistance Act of 1961 (P.L. 87-195, 75 Stat. 424, as amended)

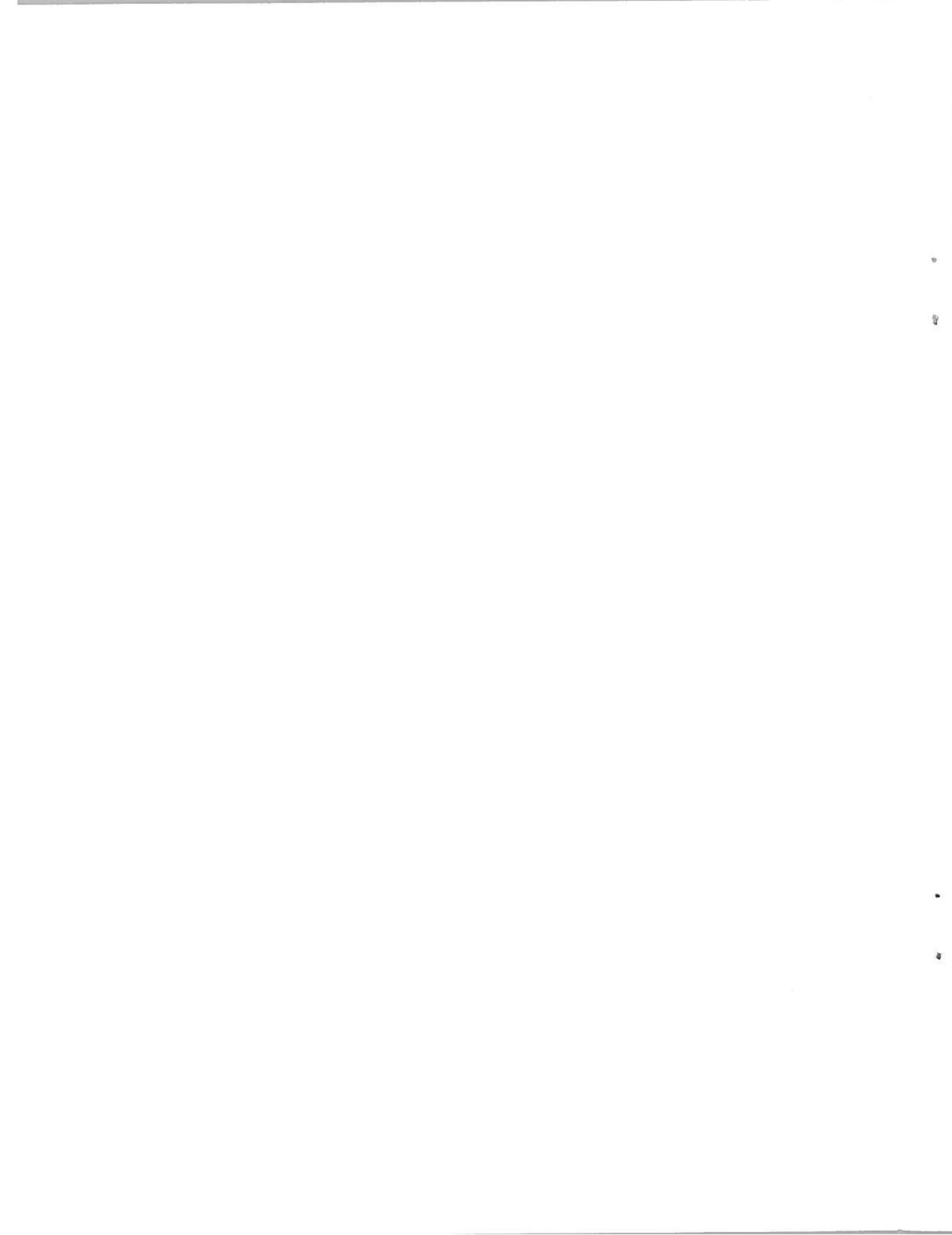


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Abbreviations

AAC/MIS	Americas Association of Cooperative and Mutual Insurance Societies
ACDI-	Agricultural Cooperative Development International-Volunteer Overseas
VOCA	Cooperative Assistance
ADB	Asian Development Bank
AECI	Agencia Espanola de Cooperacion Internacional (Spain)
AfD	Agence Française de Développement (France)
AFR	Africa Region
ANE	Asia Near East Region
ANERA	American Near East Refugee Aid
AusAID	Australian Aid Agency
BADEA	Arab Bank for Development in Africa (Sudan)
BHR	Bureau for Humanitarian Response
BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit (Germany)
BTCCTB	Belgian Technical Cooperation
CCA	Canadian Cooperative Association
CDO	Cooperative Development Organization
CDP	Cooperative Development Program
CHF	Cooperative Housing Foundation
CIADC	Centre for International Agricultural Development Cooperation (Israel)
CICM	Centre International du Crédit Mutuel
CIDA	Canadian International Development Agency
CLUSA	Cooperative League of the U.S.A.
COPAC	Committee for the Promotion and Advance of Cooperatives
CUNA	Credit Union National Association
DANIDA	Danish International Development Agency
DFID	Department for International Development (U.K.)
E&E	Europe and Eurasia Region
EZE	Evangelische Zentralstelle für Entwicklungshilfe
FAO	Food and Agriculture Organization of the United Nations
FCC	Finnish Cooperative Centre
FCH	Foundation for Cooperative Housing
FNF	Friedrich Naumann Foundation (Germany)
GTZ	Deutsche Gessellschaft für Technische Zusammenarbeit (Germany)
Habitat	United Nations Centre for Human Settlement
ICA	International Cooperative Alliance
IDEX	International Development Exchange
IDRC	International Development Research Centre (Canada)
IFAD	International Fund for Agricultural Development
IFAP	International Federation of Agricultural Producers
ILO	International Labor Organization
IRU	International Reiffeisen Union
JCCU	Japan Consumers' Co-operative Union
KAF	Konrad Adenauer Foundation (Germany)
KfW	Kreditanstalt für Wiederaufbau (Germany)
KF	Kooperativa Forbundet (Sweden)

LAC	Latin American and Caribbean Region
NCBA	National Cooperative Business Association
NCUA	National Credit Union Administration
NGO	Nongovernmental Organization
NRECA	National Rural Electric Cooperative Association
NTCA	National Telecommunications Cooperative Association
Phare	Poland and Hungary: Action for the Restructuring of the Economy
PVC	Office of Private and Voluntary Cooperation
SCC	Swedish Cooperative Centre
SDC	Swiss Development Cooperation
SIDA	Swedish International Development Agency
SOCODEVI	Société de Cooperation pour le Développement International (Canada)
SWISSAID	Schweizerische Stiftung für Entwicklungszusammenarbeit
Tacis	Technical Assistance to the Confederation of Independent States
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
VDC	Volunteer Development Corps
WFP	World Food Program
WOCCU	World Council of Credit Unions

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Executive Summary

As required by the Support for Overseas Cooperative Development Act, 2000, USAID reviewed past and present cooperative development activities in order to: (1) assess lessons learned; (2) develop guidelines for future support for cooperative development; and (3) determine how best the Agency can position itself to implement these guidelines. The review was done in partnership with the Overseas Cooperative Development Council and its member cooperative development organizations (CDOs).

History and Successes

USAID's partnership with CDOs began in the early 1960s. During the last thirty years, eight CDOs have managed \$1.12 billion in USAID-financed activities. This includes more than \$105 million in Cooperative Development Program grants designed to accelerate and expand the CDO's reach and impact. At present CDOs manage a \$160 million project portfolio in more than 60 countries.

USAID-supported cooperative development has achieved notable successes. The World Council of Credit Unions has reached more than 20 million credit union members in developing and transitional economies, members who have saved \$27 billion. NCBA's work with Indonesian cooperatives has helped them earn more than \$600 million from exports of furniture and commodities. ACIDI-VOCA has helped 166,000 Ethiopian and Malawian farmers save \$4 million in input costs and earn more than \$11 million on cash crops. More than 20 million rural Bangladeshis are served by rural electric cooperatives promoted and supported by NRECA. In only a decade NTCA's work in Poland resulted in 40,000 connections provided by six self-reliant rural telephone services. Over the same period, CHF has helped house three million families in nearly 100 countries.

Lessons Learned

Several important lessons have been learned from USAID's more than forty years of partnership with CDOs. Among these are:

- There is an essential link between cooperative success and cooperative principles, most especially those of member centrality and control;
- Cooperative autonomy is associated with success; cooperative subservience to external interests is associated with failure;
- Cooperatives function best when law and regulation provide a level playing field for competition with other enterprises;
- Governance structures must be strong, transparent and honest;

- Cooperatives must perform: to survive, endure and thrive they must be important to their members, their community, and sector of the economy;
- Support to cooperative development that creates dependency undermines the mutual self-reliance that is central to cooperation;
- Cooperatives must develop professional management in order to adapt, innovate, and take rational risks to satisfy the expectations of their owners; cooperatives succeed when they consistently deliver value to their owners; and
- Institution building takes time, normally more time than project cycles allow.

USAID's Goal

USAID's goal is to contribute to broadening and deepening cooperative development in agriculture, financial systems, infrastructure, housing, and community service in the developing and transitional economies. To achieve this USAID will:

- Direct central funding to CDOs in a way that assists them to develop and test innovative approaches to key cooperative development issues;
- Examine proposed programs in the context of the lessons learned about factors associated with the success of cooperative development;
- Focus assistance on specified stages of institution building, helping prepare cooperatives for commercial financing and joint ventures with US cooperatives and other firms;
- Identify ways in which cooperative development can appropriately contribute to sectoral programs focused on agriculture, financial systems, community-owned infrastructure, housing, and community services; and
- Strengthen cooperative development program evaluation and impact assessment.

USAID's Role

USAID's role in supporting cooperative development includes:

- Promoting enhanced and coordinated multilateral, bilateral, and foundation support for cooperative development;
- Encouraging expanded participation of US cooperatives in international cooperative development; and
- Enhancing and expanding the dissemination of successful approaches to critical cooperative development issues.

REPORT TO CONGRESS ON THE IMPLEMENTATION OF THE SUPPORT FOR OVERSEAS COOPERATIVE DEVELOPMENT ACT

Overview

For almost a century, cooperatives and credit unions have played a constructive role in the U.S. economy and civil society. At the end of World War II, the Cooperative League of the USA (CLUSA) provided money and manpower to help rebuild the Italian cooperative movement. During the 1950s, the Credit Union National Association (CUNA) put its own resources into the promotion and organization of credit unions in Latin America. By the early 1960s, other cooperative trade associations had formed groups –cooperative development organizations (CDOs) – to make their expertise available in the developing world [see *Annex I*].

USAID's long and mutually productive partnership with CDOs arose from and reflects the U.S. cooperative experience. The Agency's support for cooperative development began in the early 1960s with funding of both CDOs and overseas projects. Between 1971 and 2001, eight U.S. CDOs have managed USAID grants, cooperative agreements and contracts valued at \$1.12 billion. This includes more than \$105 million in Cooperative Development Program grants to strengthen CDO institutional capacities, accelerating and expanding their reach and impact. At present, CDOs are managing a project portfolio of an estimated \$160 million in more than 60 countries. A survey of bilateral and multilateral programs suggests that USAID is the single largest supporter of cooperative development; the contributions of American CDOs are also widely recognized.

Measured in terms of enduring impact on large numbers of members and on the ability of the cooperatives to compete and thrive in rapidly changing political and economic conditions, USAID-supported cooperative development programs have achieved some notable successes. There have been other cases when success has proved elusive – where cooperatives promoted or supported by U.S. CDOs have failed to fulfill their promise.

In a number of countries, government-owned or controlled “cooperatives”, have given genuine cooperation a bad name. In areas of the world where cooperatives have been supported or protected as a matter of policy, economic liberalization has frequently led to their rapid decline. In the former socialist bloc countries, cooperatives did not meet international standards of member ownership and control.

Reflecting this experience, USAID is committed to supporting genuine cooperation while recognizing that there are limits to what cooperatives can be expected to achieve. The Agency also recognizes that there are conditions in whose absence success is unlikely. Because the financial support that USAID can provide is limited to discretionary funding, an effective partnership requires that the Agency extend its role beyond that of a mere resource provider. This reformulated role should include intellectual leadership, advocacy for reform of cooperative law and regulation, and serving as a catalyst to attract a broad coalition of human, material, and financial resources. These efforts are and will

be directed in support of approaches to cooperative development that help create enduring institutions to meet the evolving needs of an expanding membership in a rapidly changing world.

As USAID continues its partnership with CDOs, priority will be given to those programs, projects, and activities that promise significant contributions to the Agency's Four Pillars of Development. These are:

- Economic Growth and Agriculture – encouraging economic opportunity, agricultural development, education and training, and effective management of natural resources to ensure the world's poor are able to take advantage of globalization, rather than becoming its victims;
- Global Health – contributing to improved child health, nutrition and women's reproductive health while addressing HIV/AIDS and other infectious diseases that undermine productivity;
- Democracy, Conflict, and Humanitarian Assistance – working to prevent man-made disasters resulting from conflict, responding to all forms of disaster, and using disaster relief as a first step toward enduring change; and
- The Global Development Alliance – serving as a catalyst to mobilize the ideas, efforts, and resources from all sectors in support of shared development objectives.

Organization of the Report

This report begins with an overview of the legislative context. It then reviews cooperation, discussing its meaning, history, and the lessons learned from international cooperative development. The report concludes with a review of USAID's role, including recommended program guidelines, funding, and new initiatives. A brief description of the report's preparation may be found in *Annex II*.

Legislation

This report is prepared as directed in the Support for Overseas Cooperative Development Act, 2000, passed by Congress on October 17, 2000, as part of P.L. 106-309, which amended Section 111 of the Foreign Assistance Act of 1961 (P.L. 87-195, 75 Stat. 424, as amended)[see *Annex III*]. The legislation states:

Not later than six months after the dated of enactment of this Act, the Administrator of the United States Agency for International Development, in consultation with the heads of other appropriate agencies, shall prepare and submit to Congress a report on the implementation of section 111 of the Foreign Assistance Act of 1961, as amended by subsection (c).

The legislation outlines the following rationale for support of cooperative development:

In order to strengthen the participation of the rural and urban poor in their country's development, high priority shall be given to increasing the use of funds made available under this chapter for technical and capital assistance in the development and use of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life. (§ 2151i)

Elaborating on this Section, the Support for Overseas Cooperative Development Act, 2000, provides specific guidance on the use of cooperatives in the U.S. foreign assistance program. In particular it states:

In meeting the requirement of the preceding sentence, specific priority shall be given to the following:

- (1) AGRICULTURE – Technical assistance to low income farmers who form and develop member-owned cooperatives for farm supplies, marketing, and value-added processing.
- (2) FINANCIAL SYSTEMS – The promotion of national credit union systems through credit union-to-credit union technical assistance that strengthens the ability of low income people and micro-entrepreneurs to save and have access to credit for their own economic advancement;
- (3) INFRASTRUCTURE – The support of rural electric and telecommunication cooperatives for access for rural people and villages that lack reliable electric and telecommunications services; and
- (4) HOUSING AND COMMUNITY SERVICES – The promotion of community-based cooperatives which provide employment opportunities and important services such as health clinics, self-help shelter, environmental improvements, group-owned businesses, and other activities.

Section (c)(1) of the Act includes a declaration of policy:

- (1) DECLARATIONS OF POLICY – The Congress supports the development and expansion of economic assistance programs that fully utilize cooperatives and credit unions, particularly those programs committed to:
 - (A) International cooperative principles, democratic governance, and involvement of women and ethnic minorities for economic and social development;

- (B) Self-help mobilization of member savings and equity, and retention of profits in the community, except for those programs that are dependent on donor financing;
- (C) Market-oriented and value-added activities with the potential to reach large numbers of low income people and help them enter into the mainstream economy;
- (D) Strengthening the participation of rural and urban poor to contribute to their country's economic development; and
- (E) Utilization of technical assistance and training to better serve the member-owners.

In preparing this report, emphasis has been given to the roles played by cooperatives in financial systems, agriculture, infrastructure, as well as housing and community services. Particular attention has been given to programs that reflect a commitment to international cooperative principles and address the policy directives contained in the legislation.

The Definition and Role of Cooperatives

The Support for Overseas Cooperative Development Act makes explicit reference to the international cooperative principles of voluntary and open membership, democratic member control, member economic participation, autonomy and independence, training and information, cooperation among cooperatives, and concern for community. In this report, adherence to the majority of these principles – not the mere use of the name “cooperative” – has been emphasized. It is noted that in much U.S. cooperative legislation, while there is broad consistency with the international principles, they are expressed differently.

In its “Statement on the Cooperative Identity,” the International Cooperative Alliance defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” Although flexibility is needed in judging what is or is not a cooperative, several elements are central to the definition of cooperation and integral to its success. These are member-user ownership, member-user control, returns based on patronage, limited privilege to capital, and a commitment to education.

Because the concept of cooperation has often been misunderstood and misapplied, it is important to be clear that cooperatives are independent, privately-owned, and democratically-governed business enterprises, created with equity financed by members who invest in order to benefit through their patronage.

USAID recognizes that cooperatives have played a significant role in the U.S. economy and that *genuine* cooperatives have contributed, and have the potential to contribute in important ways, to the economies of developing and transitional countries. Early U.S.

cooperative legislation expressed a rationale for cooperation that is valid in much of the developing world today. Noting the contrast between agriculture, characterized by individual production, and other forms of industrial production, the cooperative Standard Act states that “the public has an interest in permitting farmers to bring their industry to the high degree of efficiency and merchandising skill evidenced in the manufacturing industries.” This rationale applies not only to agriculture but to finance, infrastructure, and community services. Put in the context of development planning, the transformation of inputs into outputs and the contribution of outputs to achieving a purpose and overall goals, depends on a plurality of effective local institutions. Cooperatives are one such local institution with an underutilized capacity to contribute to incomes, employment, and the quality of members’ lives.

A market economy assumes relative equality between buyer and seller, whether with respect to assets, finances, information, or skills. When an imbalance favors either buyer or seller, distortions often result. These distortions perpetuate disincentives that undermine investment in productivity and growth. Cooperatives, while not a panacea, are a form of enterprise that can redress such imbalances by aggregating supply or demand and employing economies of scale to provide otherwise weak individual producers and consumers with access to information and professional management.

The History and Funding of Cooperative Development

For more than four decades, cooperative development has attracted support from national governments as well as a broad spectrum of donors, cooperative organizations, and other nongovernmental organizations (NGOs). USAID has enjoyed a long and productive partnership with CDOs, one that has paralleled and often contributed to the Agency’s approach to critical development challenges and issues. During the 1960s, cooperative development was a recognized element in USAID’s Latin America strategy with emphasis given both to credit unions and to producer cooperatives, with the latter integral to land reform programs in the region. During the 1970s, USAID supported similar programs in Africa and Asia. This included financing substantial capital investment projects, such as the creation of fertilizer manufacturing capacity in India; the setting up of rural electric cooperatives in the Philippines; and the establishment of regional interlending through credit unions and farm credit cooperatives in several countries. Other bilateral donors also actively supported cooperative development, both directly and indirectly through NGOs. Larger cooperative projects were financed by substantial loans from multilateral financial institutions to agricultural and cooperative development banks for lending to cooperatives and their members. Commodity monetization also played a role in financing cooperative development, most notably the European Union’s support for India’s Operation Flood program, which is designed to develop dairy farming using cooperatives.

By the mid to late 1970s, the bloom was off the rose. Management problems, the failure of land reform programs that included cooperatives, vulnerability to economic shocks, and political interference led to the contraction and collapse of a number of cooperatives that had once been considered “showpieces”. This resulted in institutionalized skepticism about the potential of cooperatives to effectively serve development objectives.

By the late 1980s and early 1990s, a more realistic appraisal of the role of cooperatives began to emerge. Economic liberalization and the replacement of state planning by market economies coincided with the recognition that cooperatives could redress some of the inequities that had begun to emerge. There was also evidence that a number of cooperatives had succeeded in delivering substantial benefits to their member-owners. Rural electric cooperatives in Bolivia, the Philippines, and, most notably, Bangladesh, delivered power to millions of rural households at a time when privatization concentrated investment in urban and industrial centers. Cooperative shelter programs in Central America provided a workable solution to the long-standing problem of housing the poor. A 1998 World Bank evaluation drew attention to the impact of cooperatives on India's dairy industry, concluding that they not only triggered sustained growth in production but also led to improved incomes, employment, women's health, and education. In some transition countries, new genuinely member-owned and controlled cooperatives played a role in easing the shift from planned to market economies. For example, in Poland credit unions, producer associations, housing cooperatives, member-owned farmer banks, and rural telephone cooperatives have enjoyed rapid growth and success.

At the same time, the residue from earlier problems has remained. The bad reputation of "cooperatives" that resulted from years of state domination and/or subsidies was followed, in some cases, by the withdrawal of state support and their rapid collapse. In Central and Eastern Europe, Central Asia, and Africa, the negative attitudes of potential members sometimes require CDOs to avoid using the word "cooperative". Some elements within the donor and NGO communities have also turned away from cooperatives. The Nordic countries, once strong supporters, have now limited their financing of cooperative development. Several NGOs, such as Technoserve and American Near East Refugee Aid, that had once actively promoted cooperatives have sought alternative ways to reach the poor.

Despite these challenges, the need for market-balancing institutions and evidence that cooperatives can, and do succeed, has led several important donor organizations to positively reassess their potential. International financial institutions, such as the International Fund for Agricultural Development, the Asian Development Bank, and the World Bank, along with bilateral donors, such as the Agence Française de Développement, Canadian International Development Agency, Belgian Technical Cooperation, and Deutsche Gesellschaft für Technische Zusammenarbeit, are supporting member-owned and member-controlled user organizations. Additional support is being provided by United Nations agencies (for example, the Food and Agricultural Organization and the International Labor Organization); non-US cooperative development organizations (such as the Finnish and Swedish Cooperative Centers, the Canadian Cooperative Association, the Société de Coopération pour le Développement International, Développement International Desjardins, Centre Internationale du Crédit Mutuel, the Japanese Consumer Cooperative Union, and the Australian Credit Union Foundation); and a range of U.S. and other voluntary organizations, including CARE and the Soros Foundation. This support reflects awareness of, and sensitivity to, the errors that limited the success of earlier cooperative development efforts.

The History of USAID-Supported Cooperative Projects and Funding

From the early 1960s onwards, USAID has supported cooperative development, consistent with Section 111, 123 and 601 of the Foreign Assistance Act of 1961. Between 1971 and 2001, an estimated \$1.2 billion in USAID resources have been managed by U.S. CDOs. This figure does not include the value of monetized PL 480 commodities used to support cooperative development programs. In the case of at least one program, India's Oilseed Growers' Cooperative Project, the commodity value exceeded \$100 million. In constant U.S. dollars the CDO portfolio has increased at least threefold since 1971 (see Table 1).

Region	Funding (U.S.\$)	Percent
AFR	160,617,053	13.4
ANE	108,813,596	9.1
E&E	285,286,389	23.8
Global/Multi-Regional	137,022,292	11.4
LAC	506,683,892	42.3
TOTAL	1,194,423,222	100.0

Cooperative development programs have taken place in more than 80 countries. The total funds invested in cooperative development have varied from very small amounts to more than \$40 million in the two countries of El Salvador and Poland (see Table 2).

Country	Funding (U.S.\$)
El Salvador	41,726,361
Poland	40,408,478
Bolivia	39,053,955
Guatemala	38,893,622
Honduras	31,600,824
West Bank/Gaza	30,434,211
Malawi	19,778,061
Uganda	19,460,320
Macedonia	17,399,443
Rwanda	16,484,964
Nicaragua	15,136,577
Egypt	14,599,210
Ethiopia	12,677,196
The Philippines	12,131,799
Bangladesh	11,854,311
Russia	11,007,868
South Africa	10,966,419
Dominican Republic	10,353,212
Azerbaijan	9,309,045

Similarly, the duration of CDO involvement in individual countries has varied from a few weeks or months to up to 24 years in the case of the National Rural Electric Cooperative Association (NRECA) in Bangladesh. Additionally, the World Council of Credit Unions (WOCCU) has been involved in Guatemala for 16 years, Bolivia and Lesotho for twelve years, and Ecuador for 11 years, while the Agricultural Cooperative Development International-Volunteer Overseas Cooperative Assistance (ACDI-VOCA) has been engaged in Poland for a decade and Uganda for twelve years.

USAID's partnership with CDOs has produced substantial success and, importantly, has contributed to considerable innovation in the approaches of USAID and other donors to several important development challenges. Examples of the types of impact that CDOs have had are illustrated below:

Financial Systems – The World Council of Credit Union's work in developing and transitional economies has demonstrated that poor people can save, mobilize substantial resources for their own development, and manage institutions that do not depend on external financing. More than 20 million credit union members in developing and transitional economies have saved in excess of \$27 billion. ACDI-VOCA's work has helped 64 Polish member-owned farmer banks to achieve returns on equity and assets as well as solvency ratios that are comparable with U.S. banks.

Agriculture – The National Cooperative Business Association's (NCBA) work in Indonesia and Central America has pioneered market linkages between U.S. firms and agricultural producers and artisans in developing countries. Over the last 13 years, NCBA-assisted cooperatives in Indonesia have exported more than \$600 million in spices, shrimp, fish, coffee, baby corn, mushrooms, and furniture. Last year, cooperatives supported by ACDI-VOCA in Malawi and Ethiopia saved their 166,000 members \$4 million in input costs while marketing cash crops worth \$11 million.

Excerpt from an Indian Farmers' Fertilizer Cooperative* communication to USAID.

"The Cooperative League of the USA (CLUSA), now doing business as the National Cooperative Business Association (NCBA), established a representative office in India in the early 1950s and, over a period of close to 40 years, built relationships with the Indian cooperative movement that led or contributed to a number of innovative projects and programs: the Intensive Agricultural Districts Program, the Cottage Industries Emporium, Super Bazaars, the National Cooperative Development Corporation, adaptation of Operation Flood – monetization of dairy commodities to create a dairy cooperative structure – to the oilseed and edible oil sector and the Indian Farmers' Fertilizer Cooperative (IFFCO). To quote from an IFFCO publication, 'The Cooperative League of the USA ... suggested to the Government of India ... establishment of fertilizer manufacturing facilities in the cooperative sector. The Government of India considered this a noble concept and approved the proposal. U.S. cooperatives, through Cooperative Fertilizer International (CFI) provided a million-dollar aid besides technical know-how.' A second CDO, ACDI-VOCA, played a major role in organizing CFI, raising funds and coordinating technical assistance."

* The IFFCO was founded in 1967 and began manufacturing fertilizer in 1974. With annual production of more than 5.2 million tons accounting for 17.5 percent of the Indian fertilizer market, IFFCO is India's largest fertilizer producer. It has been consistently profitable with turnover of \$1.1 billion in the fiscal year 2000-01.

Infrastructure – The cooperative approach to rural electrification, as demonstrated by NRECA in Bolivia, the Philippines, and Bangladesh, offers a uniquely effective way to reach rural people with electric power at a time when privatization programs have concentrated resources in supplying electricity to urban and industrial areas. In Bangladesh, 67 rural electric cooperatives have taken electric power to almost 32,000 villages and 20 million people, stimulating small industry and agriculture. In just ten years, six self-supporting rural telephone services promoted by the National Telephone Cooperative Association now serve 40,000 homes and businesses in southeastern Poland.

Housing and Community Services – Over the last decade, the Cooperative Housing Foundation has helped house three million families in nearly 100 countries – including Guatemala, Lebanon, Romania, the Philippines, South Africa, and Kosovo – with loans totaling more than \$60 million.

The innovative approaches of CDOs to development have not only been adopted by other international development organizations, but have resulted in substantial leveraging of funds to support similar work on a broader scale. In addition to the direct impact of their work, CDOs have also influenced a spectrum of policies and government programs ranging from rural telecommunications policy in Nigeria to cooperative law and regulation in Bulgaria.

Lessons Learned

Today, given the wide variety of competing demands for limited resources, it is incumbent on USAID to draw on lessons learned in the cooperative sector, extracting those lessons that appear to be associated with both success and failure. It is even more important that these are used to form the basis of informed Agency decisions on the financing of cooperative development programs to ensure that the conditions for success are present and the potential for the contribution of cooperatives is maximized.

In assessing cooperative development programs, the overall objective and standard for measuring success is increasing the number of cooperatives that not only endure but also provide increasing value to expanding numbers of members, while adapting to changing needs in a changing environment.

While ideally USAID and the CDOs should be able to draw on 30 years of project design, reporting, and evaluative documentation to identify both success and failure as well as their causal factors, an extensive review suggests that available documentation does not provide a systematic, focused assessment of performance and factors associated with success.

In the absence of rigorous evaluation, CDO reports of successes and failures were reviewed with an attempt to extract useful lessons as the basis for guiding USAID cooperative development programs and policies. This was supplemented both by a

literature review as well as a survey of other donor organizations, cooperative organizations, and NGOs. A number of lessons have been extracted from this review:

Cooperative principles – There is a clear and compelling relationship between a cooperative's success and its ability to meet its members' needs effectively, efficiently, and economically. This ability, in turn, appears inextricably linked to member centrality and control.

Autonomy – Frequently cooperatives that have been directly or indirectly subservient to the interests of an external body – whether the state, donor, or NGO – have failed to endure. Cooperatives that have been established as instruments of state have served neither their members nor the public at large. Cooperatives subordinated to the benevolent intentions of NGOs or donors have often proved equally ineffectual.

Cooperative law and regulation – In much of the world, cooperative law is a relic of colonial administrations. These laws prescribe rather than enable cooperatives. They permit and, in some cases, even encourage government control in place of member ownership. This can result in government policies and bureaucratic systems replacing member needs and business practices. Regulation – as important as it may be for the orderly and disciplined functioning of cooperatives – is often a double-edged sword, with rent-seeking displacing objective protection of the public interest.

Governance – The democratic control of cooperatives implies far more than the holding of periodic elections. The roles of the general body, board, and management must be appropriately defined. Each must be adequately equipped and willing to play its role, respecting the prerogatives of the others. In the end, the will of the members – moderated through interaction with their elected leaders – must be reflected in the services of the cooperative.

Salience – Cooperatives survive, endure, and thrive to the extent that they are important to their members, to their community and their sector of the economy. For the individual members, the cooperative must be important to their incomes or quality of life; for the community, the cooperative must be a significant economic contributor; and for the economic sector, the cooperative must achieve a scale at which it can compete with other forms of enterprise.

Most CDOs focus their efforts on “grassroots” cooperatives to achieve results. They point out that the national and regional cooperatives that were created during the 1960s, 1970s, and 1980s to promote, expand and service member cooperatives, have too often become a weight dragging down the entire structure, with the cost being borne by the local cooperatives they were designed to serve. It is important that the correct lesson be drawn from this experience: it is not that regional and national cooperatives have no role, but top-down cooperative structures seldom, if ever, work. To succeed, regional and national cooperatives must be created by strong, successful local cooperatives in order to meet their shared needs.

The major challenge now for cooperative development is for it to achieve initial success that will create the foundation for successful expansion. CDOs have helped cooperatives learn to become more effective and efficient. However, the scale is often so small as to have little impact and the cooperatives lack salience. Both the CDOs and the cooperatives they partner must now learn how to expand.

Support – Cooperatives succeed when they meet a significant need of potential members better than the alternatives. In their desire to see cooperatives achieve success, governments, donors, and even CDOs have felt compelled to achieve early results, rather than invest in strengthening member involvement and financial participation. Technical, financial, and policy support, carelessly conceived, designed, and delivered can lead to dependency and, when the support is withdrawn, to decline. Government support has often led not only to dependency, but also to government control.

Enduring success requires moving beyond external support before dependency develops, with the proviso that at each succeeding stage, the cooperative's growth is "bankable," that its plans are sound, and it has demonstrated the capacities that encourage commercial financing. Ultimately, support must come from the members of a cooperative; replacing this member support with outside funding damages rather than strengthens a cooperative's foundations.

Ability to compete – Cooperatives are business enterprises. To survive and thrive they must adapt to changing environments, innovate, take rational risks, and consistently seek to meet and exceed the expectations of their owners. This entails both progressive strengthening of performance as well as planning. From the Agency's perspective, cooperative development should be based on a carefully considered competitive strategy that confirms actual or potential competitive advantage.

Project Duration – The time a cooperative structure or movement needs to develop extends well beyond the normal project time frame. Focused on the project cycle, CDOs have designed and delivered specific interventions or a series of interventions that may or may not be consistent with long-term development objectives. This short-term approach can produce disappointing results, leaving behind cooperative institutions that may have modestly improved in a technical area or service delivery, but which remain financially or technically dependent. Rather than the organic development of the institution, distortions have been introduced because the short-term demands of the project rather than the long-term interests of the cooperative and its members have been given priority.

A related lesson has been that the short-term focus on delivery of "results" – whether measured in terms of inputs managed or in relation to direct delivery of services – has resulted in inadequate attention to the learning process and to the key cooperative development issues. These include achieving salience, market power and reach, effective advocacy, developing governance systems, stimulating entrepreneurial innovation, and risk-taking. These are important to cooperative institutions if they are able to consistently deliver value to their owners and adapt appropriately to changing needs and changing environments.

Bangladesh Rural Electric Program

With financing from USAID, NRECA has provided support to Bangladesh's Rural Electrification Board (REB). Since its start up in 1978, the rural electric cooperative program has reached more than 20 million people, with more than 1,000 new connections per day. Donor financing has now grown to \$1 billion from 15 donor agencies and \$70 million from the Bangladesh government. NRECA continues to work with the REB on such critical tasks as computerizing cooperatives, expanding the member services program, increasing loads and revenues, and introducing a small power generation program with 10 MW stations feeding directly into the grids of participating coops. NRECA's success has helped create an alternative model for rural electrification.

Broader impacts – A successful cooperative project that raises income levels should contribute to a number of other benefits, including improved nutrition, education and job creation. A recent World Bank cooperative project evaluation states: “This poses a question as to the relative efficiency of production projects that aim to reduce poverty directly, as compared to health, nutrition, and education projects designed to remove poverty indirectly, or area development projects designed to intervene simultaneously in a variety of ways.” In other words, a well designed and delivered cooperative development program can meet multiple objectives as – or even more – effectively as targeted projects.

Poland: Several U.S. CDOs participated in programs to assist in Poland's transition to a market economy.

- The WOCCU assisted in the creation of a Polish credit union movement that has grown to almost 400,000 households, 550 service points with assets of just under \$300 million.
- NTCA introduced rural and municipal telephone cooperatives that have raised access in the areas served from less than three to 11 phones per 100.
- CHF helped transform the housing market, demonstrating the cooperative approach with 1,500 new homes and renovations, creating a nongovernmental housing foundation, and leveraging \$40 million in private funds for housing.
- ACDI-VOCA helped privatize and modernize 300 cooperative banks with the top 64 achieving an average 3.1 percent return on assets, 27 percent return on equity and solvency ratios superior to those of U.S. banks.

Targeting the poor – If the goal is improving the income and quality of life of the poor, cooperative projects that are focused on the activities of the poor are more likely to successfully involve and benefit them. CDOs, and the cooperatives they foster, could potentially have their most significant impact on the world's poorest by providing them with initial entry into the marketplace for goods and services.

International Support

At present, USAID support for cooperative development stands first in the world among bilateral donor programs, followed by that of the Canadian International Development Agency. Although the individual investments are relatively small, there are large numbers of bilateral agencies, CDOs, PVOs, NGOs and even foundations that have focused part of their resources on cooperative development. Unfortunately, cooperative development investments are subsumed under a variety of different accounting approaches, which has resulted in incomplete information about the sector.

A number of donors that had earlier invested in cooperative development, such as the Nordic countries, have now significantly reduced their support because of disappointing results in some regions. However, there has also been a growing recognition that growth with equity requires renewed and enhanced investment in rural productivity. Given the large numbers of small producers relative to buyers of agricultural commodities, organizations that can aggregate and, optimally, add value to commodities are important to balance the power of the former relative to the latter. The notable successes of some cooperatives in meeting this need have encouraged donor organizations both to reassess their importance and to examine the reasons why earlier support produced unsatisfying results. In many cases there has been the recognition that the failure lay in treating the cooperative as an instrument for donor or government programs and then overloading it with resources and activities that could not be sustained.

USAID's Role

The Agency seeks to contribute to a rapid expansion in the numbers and reach of enduring cooperative structures that effectively and economically meet the evolving needs of expanding numbers of members in a changing social and economic environment. USAID also seeks to accelerate the transition from external support to self-reliance, from concessional to commercial finance, and from new-entrants to major players in local, national, and international trade and business. USAID will promote and support the development of significant financial and commercial links between cooperatives in developing and transition countries with U.S. cooperatives and others.

Given its previous experience, commitment of resources and recognition of the importance of cooperatives, USAID's goal is to contribute to a broadening and deepening of cooperative development in agriculture, financial systems, infrastructure, housing, and community services. This will result from a redefinition of USAID's role and a reformulation of its partnership with CDOs.

USAID's role has been almost exclusively that of a resource provider. While this has been important and substantial in relation to the total funding for international cooperative development, the demand for resources as well as the need to add value to those resources both argue for a shift in USAID's role.

USAID presently supports cooperative development through: (1) Cooperative Development Program grants to support capacity building; (2) global contracts and other awards that finance CDO work in microenterprise, utilities and other activities that extend beyond a single country; (3) mission funded awards that finance cooperative development projects, or related activities; and (4) commodity monetization that finances specific developmental activities related to cooperative development.

Given finite resources, the Agency must seek to maximize the return on its investments in cooperative development. Among the ways in which this will be done include: (1) incorporating reform of cooperative law and regulation into policy reform dialogues; (2) encouraging U.S. cooperatives and other firms to explore possible contributions to USAID's Global Development Alliance; (3) engaging bilateral and multilateral donors as

well as PVOs and foundations in a dialogue on expanding the financing of sound cooperative development; and (4) encouraging greater use of the extensive cooperative development expertise represented by Land Grant and other U.S. universities.

Cooperative Program Development

A cooperative can take a decade or more to become a fully self-reliant enterprise that plans, mobilizes resources, and provides value to an expanding membership. As it moves in this direction, the cooperative learns to be effective, efficient, and then how to expand. Each of these stages requires different types and magnitudes of resources, reflecting the different challenges that are faced.

Transforming a cooperative from a vision into an enduring institution depends on satisfying a number of critical conditions. Some are external and others internal. The more important are:

- Cooperatives organized to achieve a clear business purpose that fills an unmet member need;
- A legal and regulatory framework that allows a cooperative to operate as a legal entity on equal terms with its competitors;
- Receiving support without becoming dependent and providing support without creating dependency;
- Self-reliance in the cooperative's financial, management, and human resources and the ability to raise and effectively deploy resources from its membership and the market;
- Creating a core member loyalty through competitive services and education;
- Successfully making the transition to a professionally managed enterprise including the shift in board/leadership roles from management to policy governance;
- Learning to expand, ensuring that the processes critical to success are retained to provide the foundation for successful growth and reach; and
- Resolving sector specific obstacles/challenges whether through effective planning and management or through advocacy.

Bearing in mind the Agency's experience with cooperative development, the lessons learned, and the major challenges that must be addressed, USAID will approach future investments with the following considerations:

- There is a reasonable probability that USAID's investment will contribute to enduring, democratic institutions that benefit increasing numbers of users through their patronage and, by serving their members, to contribute to a sector, community, and nation;
- The organizations assisted conform with basic cooperative principles;
- The legal and regulatory environment is favorable to democratic, user-owned and controlled organizations or where there is a reasonable expectation that pilot projects will demonstrate the need and value of these reforms;
- The cooperative business responds clearly and directly to genuine member needs – not to needs seen through the eyes of governments or donors;
- There is a sound competitive strategy and financial plan that creates reasonable confidence in commercial success with priority given to projects that encourage participation and lead to long-term commercial relationships with U.S. cooperatives and other firms;
- There are no significant artificial controls, subsidies, market administration or other distorting factors that inhibit the commercial success of the cooperative;
- There is a long-term business and institutional development strategy and resource mobilization plan that (1) reflects a rigorous competitive analysis, (2) has attainable goals, (3) is based on sustained member contributions to the cooperative's capital base, and (4) incorporates a specific commitment to move from concessional to commercial financing;
- There is a clear, coherent, methodologically sound approach to leadership development, professional management training and member education; and
- There is a clear commitment to learning from experience, with mechanisms in place to document, disseminate, and apply the lessons learned.

Additional Program Considerations

Recognizing the time required for institutions to achieve maturity, USAID will consider support for cooperative development programs for specified periods, by which time the host country cooperative(s) will have achieved benchmark standards of eligibility for other donor funding en route to commercial financing.

To ensure that the wealth of past, present, and future cooperative development experience is not lost, steps will be taken to strengthen the project completion reporting and evaluation systems to capture lessons learned and to disseminate these through annual workshops and publications.

A number of cooperatives in the developing world have “graduated” from technical and financial support from U.S. CDOs and other international donors. USAID will encourage U.S. cooperative development organizations to enter into development partnerships in which their combined experience will benefit cooperatives in third countries. USAID will also support building and expanding financial and commercial relationships between U.S. cooperatives and firms and cooperatives in developing and transitional economies.

Cooperative Development Program Grants

Given the importance and complexity of issues faced in overseas cooperative development, USAID central support to U.S. CDOs will be refocused on development, testing, evaluation, and dissemination of solutions. Among the issues that deserve attention are those related to cooperative law and governance, business strategy, leadership development, professional development, member education, resource mobilization, and business alliances with the U.S. cooperative and corporate sector. The goal of the central grants will be to encourage dissemination of lessons learned, both within the CDOs and to the broader development community. Using workshops, publications and the internet, CDOs will be encouraged to strengthen the intellectual foundations for cooperative development through dialogue engaging cooperative promoters, local partners, USAID missions, donors, and NGOs. The USAID office responsible for administering these grants will take a leadership role in ensuring that cooperative alternatives are considered in addressing agriculture, financial systems, community-based infrastructure, housing, and community services.

New Cooperative Initiatives

Agriculture

Growth with equity depends on strengthening rural productivity. Cooperatives can play a critical role in ensuring the delivery of credit and inputs, in added value, and marketing. Current cooperative programs, even when effective, are often isolated and lack the volume necessary to achieve significant impact. Working with CDOs, USAID will explore initiatives that lead to broader and self-reliant agricultural cooperative structures. The specific initiatives that will be examined include:

- Identifying and removing the obstacles that limit the capacity of agricultural cooperatives to contribute significantly to meeting the 1996 World Food Summit pledge to reduce the numbers of undernourished people by half by 2015;
- Extending cooperative outreach to isolated communities, improving access to inputs, markets, and extension services;
- Integration of cooperatives into emerging international networks focused on organic foods, fair pricing, and value branding; and

- Participation of rural cooperatives in programs that seek to increase information access through technology.

Financial systems

USAID support for credit union development has helped demonstrate the critical importance of both savings mobilization and member ownership to strengthening rural financial systems. Savings can be as important for the poor as access to credit. Credit union system intermediation has helped link low-income groups with loans for microenterprise. USAID will continue to support the expansion and strengthening of international credit union development including:

- Working with CDOs to adapt microfinance, savings and equity mobilization to address rural poverty as consistent with the Africa: Seeds of Hope Act;
- Examining ways in which microfinance programs can support cooperative businesses which, by providing services, support large numbers of microentrepreneurs;
- Supporting efforts to promote appropriate legislation, regulation, and transparent supervision of credit unions as a distinct form of financial institution;
- Linking financial support to achievement of CDO-endorsed performance standards and ratings; and
- Exploring the ways in which cooperative and mutual insurance societies can protect credit unions and their members in areas where HIV/AIDS is endemic.

With some notable exceptions, agricultural credit has been one of the international donor community's most significant failures. A lack of institutional credit for farmers and for farmer-owned institutions remains a major impediment to development. Subsidized credit, excessive dependence on external capital, poor management, rigid lending policies, ineffective screening methods, lack of appropriate economic incentives, and absence of effective loan monitoring and contract enforcement have all contributed to the problem. USAID will work with CDOs to:

- Support the policy dialogue leading to appropriate laws and policies for agricultural credit;
- Promote successful agricultural lending models; and
- Encourage greater use of surplus commodity sales, the Development Credit Authority, loan funds and guarantee arrangements to help capitalize well-conceived, financially viable and effectively functioning, producer-owned farm credit systems.

Community-owned infrastructure

The magnitude of financing required to strengthen and extend the reach of electric and telecommunications infrastructures to the billions who need them lies well beyond USAID's means. However, the Agency can still play a significant role in enabling U.S. CDOs to continue to have a positive impact on infrastructure policies and programs funded by other donors and the private sector.

This effort is particularly critical given the urban and industrial bias that follows privatization of the power and telecommunications sectors in most countries. Power and communications are essential to the success of agricultural development, rural business, microenterprises, public safety, and health. Cooperatives can also play significant roles in such community-based infrastructure programs as irrigation system construction and maintenance, soil and water conservation, land development and rehabilitation, potable water and basic sanitation, and rural road construction. Just as they have in the U.S., cooperatives can take services to the unserved. To support this, the Agency will work with CDOs to:

- Encourage a legislative and regulatory environment that enables operation of member-owned cooperatives in multi-provider systems;
- Create and integrate revolving credit approaches to support investments in community-owned and operated infrastructure;
- Encourage multilateral institutions and U.S. financial, power, and telecommunications firms to enter into alliances with U.S. CDOs to address rural needs when competing for and implementing privatization programs; and
- Encourage better integration of cooperatives and cooperative-based infrastructure in rural development strategies.

Housing and community services

USAID is increasingly involved in community building in situations rife with conflict. Whether in Lebanon or Kosovo, CDOs have demonstrated that cooperatives can help bridge ethnic and sectarian differences. Community cooperatives provide employment opportunities while addressing needs for shelter, environmental improvement and support to microenterprise. As with telecommunications and power, privatization of health systems can lead to services being provided only to those who can afford them. In each of these areas, cooperatives offer a possible alternative solution. In concert with CDOs, USAID will:

- Redouble efforts to alleviate the impact of communities ravaged by the HIV/AIDS pandemic through support for credit unions, cooperative health care, and cooperative daycare centers;

- Identify ways to expand cooperative-based community finance as a means to accelerate local economic development for low-income urban and para-urban people;
- Explore ways in which cooperatives can improve access to, and the quality of food supplies and health services through “Child Survival” and other programs focused on “at-risk” populations;
- Continue to explore ways in which cooperative models can transform emergency shelter programs into long-term, self-help based shelter solutions; and
- Encourage cooperative approaches to resolving environmental and health problems like potable water, sewage treatment, and solid waste disposal.

The Funding of Cooperative Development

Within its budget limitations, USAID will seek to:

- Enhance the flexibility of existing funding mechanisms as well as CDO and cooperative access to such funds by:
 - (1) Exploring the possibility of Mission financing through Cooperative Development Program Grants;
 - (2) Consistent with the overall U.S. Department of Agriculture policy framework, expanding the opportunities for commodity monetization in support of cooperative development projects;
 - (3) Encouraging CDO participation in Child Survival programs to improve access to food supplies and health services;
 - (4) Encouraging CDO access to Development Credit Authority financing mechanisms;
 - (5) Exploring niche Indefinite Quantity Contracts in subsectors such as rural electrification and telecommunications;
 - (6) Encouraging U.S. cooperatives’ participation in projects with significant commercial potential through the Global Development Alliance;
 - (7) Encouraging greater use of the cooperative development experience and expertise of U.S. universities; and
 - (8) Encouraging other U.S. government agencies, international financial institutions, other bilateral donors, PVOs, non-U.S. NGOs, and foundations to co-finance longer-term cooperative development projects.
- Employ its influence with the world donor community to focus attention on cooperative development and critical cooperative development issues through hosting and participating in international conferences, raising the frequency and

level of contacts with the international donor community, engaging the expertise of U.S. academia, and exploiting the opportunities offered by the internet;

- Seek avenues for greater CDO involvement in sectoral policy reviews and planning; and
- Explore ways in which CDOs can encourage and facilitate higher degrees of U.S. cooperative participation in project planning, support, and evaluation.

Consultations with other government agencies

In preparing this Report on Implementation, USAID consulted with other agencies of the government, including the U.S. Department of Agriculture (USDA), the National Credit Union Administration (NCUA) and the Department of the Treasury. Initial statements outlining areas of coordination were prepared with and approved by USDA and NCUA.

U.S. Department of Agriculture

USAID and USDA agree that cooperative development fosters equitable economic growth and strengthens grassroots democracy in developing and transition economies. In the United States, USDA has been deeply involved in promoting cooperatives for agriculture, rural electrification and telecommunications. USAID and its partner CDOs have long drawn on USDA's intellectual and practical contributions, adapting this experience overseas. USDA and USAID recognize and support the work of CDOs whose contributions reflect decades of experience and expertise in cooperative development. There is a shared recognition that successful cooperative development abroad is grounded in support for autonomous, member-owned and controlled, cooperative businesses that operate within an enabling legal and regulatory environment.

USDA directly engages in overseas cooperative development through bilateral agreements, Cochran Fellowships and development projects that utilize USAID resources. These activities are managed through a number of USDA and USAID offices and missions. It is agreed that overseas cooperative development programs would benefit from improved coordination, recognizing the different roles appropriate to government agencies and private sector CDOs organically linked to U.S. cooperatives. USAID's Office of Private Voluntary Cooperation and USDA's International Cooperation and Development should seek to ensure coordination and coherence while providing general oversight and support for cooperative development programs.

USDA and USAID coordination will create powerful synergies that, within a common policy and program framework, will deliver more effective assistance programs. In particular, USDA can play a uniquely effective role in assistance to ministries of agriculture and environment, drawing on the U.S. approach and experience to encourage policies that encourage independent, autonomous, member-owned cooperatives. It is also recognized that U.S. CDOs can prove especially effective in delivering credible private sector cooperative development assistance.

To facilitate greater coordination and coherence in a coordinated and mutually reinforcing approach to cooperative development, USAID and USDA will explore and initiate joint efforts to ensure better coordination, sharing of information and delineation of roles and responsibilities that can best be carried out by USDA, USAID, and CDOs. Efforts will be also be made to evolve a common policy framework for cooperative development activities.

The specific initial areas where coordination will be pursued include:

- Development projects and activities with a substantial cooperative development component;
- Farmer-to-Farmer program activities that focus on cooperative business including better coordination with the Cochran program;
- Creating demand for U.S. commodities, technologies, and services through linking overseas cooperative development with U.S. suppliers and USDA overseas promotion and marketing programs; and
- Establishing a joint center of excellence in cooperative development that shares methodologies and experience from both U.S. and overseas cooperative development efforts. USDA and USAID should draw on long existing resources such as the Center for Cooperatives at the University of Wisconsin.

National Credit Union Association

The National Credit Union Association (NCUA) has provided support to international credit union development both through overseas consultancies in support of the World Council of Credit Unions' project activities, and the orientation and training of government officials and others from countries with active credit union development. To the extent that NCUA's resources permit, it will continue to extend this support focused in large part on assisting in the promotion of legislative and regulatory environments that support credit union development while protecting the interests of members and the public-at-large.

Cooperative Development Organizations

The Americas Association of Cooperative/ Mutual Insurance Societies (AAC/MIS)

AAC/MIS is one of three autonomous regional associations of the International Cooperative and Mutual Insurance Federation (ICMIF), founded in 1922. AAC/MIS includes 41 cooperatively oriented insurance societies in 21 North, South, and Central American countries and the Caribbean. These companies have joined together to promote cooperatively oriented, group-based insurance throughout the Americas.

AAC/MIS offers technical assistance and training opportunities to new and emerging member societies based on the principles of mutual self-help, democracy in ownership and governance, and equitable sharing of gains and losses. The association responds to requests from cooperatives, credit unions and trade union movements throughout the hemisphere that ask for assistance in forming their own insurance agency, department or company. They began receiving USAID funding in 1994.

ACDI/VOCA

ACDI/VOCA was formed in 1997 through the merger of Agricultural Cooperative Development International (ACDI) and Volunteers in Overseas Cooperative Assistance (VOCA). The U.S. agricultural cooperative community founded both organizations in the 1960s. As the international branch of the National Council of Farmer Cooperatives, ACDI/VOCA is a membership organization of U.S. agricultural cooperatives, farm credit banks, and national associations of farmers and cooperatives. ACDI/VOCA membership includes 31 of the largest grower, supply, and processing agribusinesses and farm credit banks in the U.S. The mission of the organization is to improve the economic well being of farmers worldwide by assisting agricultural and member-owned organizations to increase trade and achieve sustainable economic development. ACDI/VOCA's roots with USAID go back to 1962 and it is one of the largest CDO recipients of USAID funds.

Cooperative Housing Foundation (CHF)

CHF was founded in 1952 as the Foundation for Cooperative Housing, a non-profit association dedicated to the development of housing and related community services for low and moderate-income families. At the request of USAID, CHF became involved in international work in 1962, and CHF International was officially established in 1965. CHF currently has programs in over 30 countries. CHF works with a wide range of organizations to develop systems, policies and practices that increase access to affordable housing, community services and finance. Historically focused on housing, CHF now addresses concerns in the areas of environment, infrastructure, income-generation, civil society, health, and emergency management.

Land O'Lakes (LOL)

Land O'Lakes is a fully integrated food processing, marketing and agricultural supply cooperative. It was organized in 1921 to improve the marketing of dairy products by local cooperative creameries. Since that time it has grown into a business owned by more than 300,000 farmers and ranchers and 1,000 cooperatives in 27 states. LOL has combined sales in excess of \$10 billion annually around the world, making it a Fortune 200 company.

LOL began working directly with USAID in 1983. Their mission is to adapt their food systems expertise to create profitable businesses and drive economic growth worldwide. LOL is primarily working with sustainable agricultural cooperatives overseas to provide targeted assistance to improve their financial viability and member services.

National Cooperative Business Association (NCBA)

Founded in 1916 as the Cooperative League of the U.S.A. (CLUSA), NCBA is the oldest cooperative development and trade association in the U.S.. With over 300 cooperatives and federated organizations in farm supply, agricultural processing and marketing, banking and finance, insurance, housing, and healthcare, membership extends to over 100 million Americans and 47,000 businesses. NCBA is also the U.S. representative to the International Cooperative Alliance.

NCBA's assistance to developing countries began in India in 1953 and they received their first USAID grant in 1964. Since that time, international development has become one of the organization's three major divisions and NCBA has managed 105 long-term programs in 40 countries.

NCBA seeks to alleviate poverty by emphasizing empowerment and focusing on creating commercially viable activities that raise incomes. Primarily, this involves creating and strengthening financially sustainable cooperatives and other forms of member-owned businesses based democratic decision-making and economic return.

National Rural Electric Cooperative Association (NRECA)

NRECA is a U.S.-based membership organization of 1,000 consumer-owned electric utilities having over 60,000 employees, some \$62 billion in assets, and a grassroots constituency including more than 30 million people who own these utilities. NRECA resources have been made available in over 50 countries over the past 35 years with significant support from USAID.

NRECA began its international development initiatives with USAID in 1962. The international focus of NRECA's mission has two sides: 1) to create sustainable and replicable means of satisfying the growing energy needs of billions of people around the world; and 2) to provide and expand access to its U.S. constituency to participate in addressing a rapidly growing energy demand overseas.

National Telephone Cooperative Association (NTCA)

NTCA is a non-profit association with nearly 1,000 members representing 545 small rural telephone cooperatives and locally owned and operated telephone companies. NTCA was created as an independent organization in 1954 from the former "telephone committee" established by NRECA in 1949.

NTCA began receiving USAID funds in 1990. NTCA's international program helps communities develop strong, locally owned and managed telecommunications systems and where appropriate, make effective use of related information technologies. Fundamental to the program are the principles of partnership, self-help, and long-term sustainability.

World Council of Credit Unions (WOCCU)

WOCCU initially emerged from a U.S. institution, the Credit Union National Association (CUNA). Seeing the benefits credit unions could provide for the developing world, CUNA organized its World Extension Department in the mid-1950s. By the late 1960s, the present structure of the international system evolved, with the establishment of regional credit union confederations that evolved into the World Council of Credit Unions in 1970. CUNA/WOCCU has been receiving USAID funding since 1963.

The World Council of Credit Unions encompasses credit unions and related cooperative financial institutions in 86 countries. WOCCU is a trade association representing 90 million individual credit union members. Membership in WOCCU itself is comprised of regional confederations, national associations, cooperative associations and business/service organizations (primarily those providing insurance to credit unions).

WOCCU's long-term development projects focus on the creation of new credit union movements, strengthening of existing movements, strengthening credit union support organizations, developing credit union supervision systems and creating a private rating and certification agency.

Preparation of the Report

Preparation of the report included a review of USAID records on projects managed by CDOs; review of project documentation with specific emphasis on project reports and evaluations; surveys of international financial institutions, UN agencies, bilateral donors, NGOs and foundations; inquiries directed to a sample of U.S. cooperatives; and USAID staff and CDO representatives discussions of past experience and future program. Preliminary report drafts were circulated to those involved in the process and their comments have been considered in preparing the final version.

Historical data - Annual reports of USAID awards to contractors and grantees are available for the period 1971 through 1996. Individual CDOs provided data for 1997 to the present. It should be emphasized that while the CDOs account for the major portion of USAID cooperative development funds, not all of the contracts and grants they manage are primarily for this purpose. Additionally, contracts and grants managed by other organizations may focus on or include cooperative development activities.

Project Documentation - A relatively large sample of project documentation including designs, interim and final reports, consultant contributions and evaluations were obtained and reviewed by a consultant who assessed them from the standpoint of how well they served to inform and improve subsequent cooperative development efforts. The consultant also drew on a World Bank study to illustrate lessons that can be drawn from cooperative development experience.

Survey of Cooperative Development Policies and Programs - Approximately 135 development organizations were contacted to obtain information on their cooperative development policies, programs, and funding. These included bilateral donors (17); international financial institutions (17); UN agencies (13); international CDOs (27); international NGOs (52); and U.S. NGOs (7). A select number of U.S. foundations with international programs were also surveyed.

Task Groups - Four USAID-CDO task groups were organized to assess cooperative experience in relation to financial systems, agriculture, infrastructure, housing, and community services. The groups examined USAID-financed programs and the factors associated with success and failure, current programs, and future opportunities for cooperative contributions. Each group prepared records of discussions with supporting materials that have been considered in the preparation of this Report [see Annex IV for task group composition].

Legislation Related to Overseas Cooperative Development

Although directive language had been embedded in foreign assistance legislation since 1962, specific legislation on overseas cooperative development was not available until the "Support for Overseas Cooperative Development Act, 2000".

The following excerpts are from legislation supporting overseas cooperative development.

- 1) Section 111 of the Foreign Assistance Act: Development and Use of Cooperatives. In order to strengthen the participation of the rural and urban poor in their country's development, high priority shall be given to increasing the use of funds made available under this Act for technical and capital assistance in the development and use of cooperatives in the less developed countries which will enable and encourage greater numbers of the poor to help themselves toward a better life.
- 2) Section 123 of the Foreign Assistance Act: Private and Voluntary Organizations and Cooperatives in Overseas Development. (a) The Congress finds that the participation of rural and urban poor people in their country's development can be assisted and accelerated in an effective manner through an increase in activities planned and carried out by private and voluntary organizations and cooperatives. Such organizations and cooperatives, embodying the American spirit of self-help and assistance to others to improve their lives and incomes, constitute an important means of mobilizing private American financial and human resources to benefit poor people in developing countries. The Congress declares that it is in the interest of the United States that such organizations and cooperatives expand their overseas development efforts without compromising their private and independent nature. The Congress further declares that the financial resources of such organizations and cooperatives should be supplemented by the contribution of public funds for the purpose of undertaking development activities in accordance with the principles set forth in section 102 and , if necessary and determined on a case-by-case basis, for the purpose of sharing the cost of developing programs related to such activities. The Congress urges the Administrator of the agency primarily responsible for administering this part, in the implementing programs authorized under this part, to draw on the resources of private and voluntary organizations and cooperatives to plan and carryout development activities and to establish simplified procedures for the development and approval of programs to be carried out by such private and voluntary organizations and cooperatives as have demonstrated a capacity to undertake effective development activities.
- 3) Section 123 (h), "Bereuter Amendment", of the Foreign Assistance Act: The Congress recognizes that, in addition to their role in social and economic development, cooperatives provide and opportunity for people to participate directly in democratic decision-making. Therefore, assistance under this chapter shall be provided to rural and urban cooperatives which offer large numbers of low and middle-income people in developing countries an opportunity to participate directly in democratic decision

making. Such assistance shall be designed to encourage the adoption of self-help, private sector cooperative techniques and practices which have been successful in the United States.

4) Section 601, "Humphrey Amendment", of the Foreign Assistance Act: Encouragement of Free Enterprise and Private Participation. (a) The Congress of the United States recognizes the vital role of free enterprise in achieving rising levels of productions and standards of living essential to economic progress and development. Accordingly, it is declared to be the policy of the United States to encourage the efforts of other countries to increase the flow of international trade, to foster private initiative and competition, to encourage the development and use of cooperatives, credit unions, and savings and loan associations, to discourage monopolistic practices, to improve the technical efficiency of their industry, agriculture and commerce, and to strengthen free labor union; and to encourage the contribution of United States enterprise toward economic strength of less developed friendly countries, through private trade and investment abroad, private participation in programs carried out under this Act (including the use of private trade channels to the maximum extent practicable in carrying out such programs), exchange of ideas and technical information on matters covered by this subsection.

5) Appropriations Bill (the 20 percent privateness test), section 502- "Private and Voluntary Organizations" is a new general provision that repeats language previously carried under that heading in title II; the language prohibits funds for any US private and voluntary organization, except any cooperative development organization, which obtains less than 20% of its total annual funding for international activities from sources other than the United States government, but allow the Administrator of AID to wave this prohibition.....

6) Section 401, the Support for Overseas Cooperative Development Act, 2000, which amended Section 111 of the Foreign Assistance Act of 1961:

(a) SHORT TITLE- This section may be cited as the 'Support for Overseas Cooperative Development Act.

(b) FINDINGS- The Congress makes the following findings:

(1) It is in the mutual economic interest of the United States and peoples in developing and transitional countries to promote cooperatives and credit unions.

(2) Self-help institutions, including cooperatives and credit unions, provide enhanced opportunities for people to participate directly in democratic decision-making for their economic and social benefit through ownership and control of business enterprises and through the mobilization of local capital and savings and such organizations should be fully utilized in fostering free market principles and the adoption of self-help approaches to development.

(3) The United States seeks to encourage broad-based economic and social development by creating and supporting—

(A) agricultural cooperatives that provide a means to lift low income farmers and rural people out of poverty and to better integrate them into national economies;

(B) credit union networks that serve people of limited means through safe savings and by extending credit to families and microenterprises;

(C) electric and telephone cooperatives that provide rural customers with power and telecommunications services essential to economic development;

(D) housing and community-based cooperatives that provide low income shelter and work opportunities for the urban poor; and

(E) mutual and cooperative insurance companies that provide risk protection for life and property to under-served populations often through group policies.

d) GENERAL PROVISIONS-

(1) DECLARATIONS OF POLICY- The Congress supports the development and expansion of economic assistance programs that fully utilize cooperatives and credit unions, particularly those programs committed to—

(1) International cooperative principles, democratic governance and involvement of women and ethnic minorities for economic and social development;

(2) Self-help mobilization of member savings and equity and retention of profits in the community, except for those programs that are dependent on donor financing;

(3) Market-oriented and value-added activities with the potential to reach large numbers of low income people and help them enter into the mainstream economy;

(4) Strengthening the participation of rural and urban poor to contribute to their country's economic development; and

(5) Utilization of technical assistance and training to better serve the member-owners.

- (2) DEVELOPMENT PRIORITIES—Section 111 of the Foreign Assistance Act of 1961 (22 U.S.C. 2151i) is amended by adding at the end the following: “In meeting the requirement of the preceding sentence, specific priority shall be given to the following:
- (1) AGRICULTURE- Technical assistance to low income farmers who form and develop member-owned cooperatives for farm supplies, marketing and value-added processing.
 - (2) FINANCIAL SYSTEMS- The promotion of national credit union systems through credit union-to-credit union technical assistance that strengthens the ability of low income people and micro-entrepreneurs to save and have access to credit for their own economic advancement;
 - (3) INFRASTRUCTURE- The support of rural electric and telecommunication cooperatives for access for rural people and villages that lack reliable electric and telecommunications services.
 - (4) HOUSING AND COMMUNITY SERVICES—The promotion of community-based cooperatives which provide employment opportunities and important services such as health clinics, self-help shelter, environmental improvements, group-owned businesses, and other activities.”
- e) REPORT—Not later than 6 months after the date of the enactment of this Act, the Administrator of the United States Agency for International Development, in consultation with the heads of other appropriate agencies, shall prepare and submit to Congress a report on the implementation of Section 111 of the Foreign Assistance Act of 1961 (22 U.S.C. 2151i), as amended by subsection (c).

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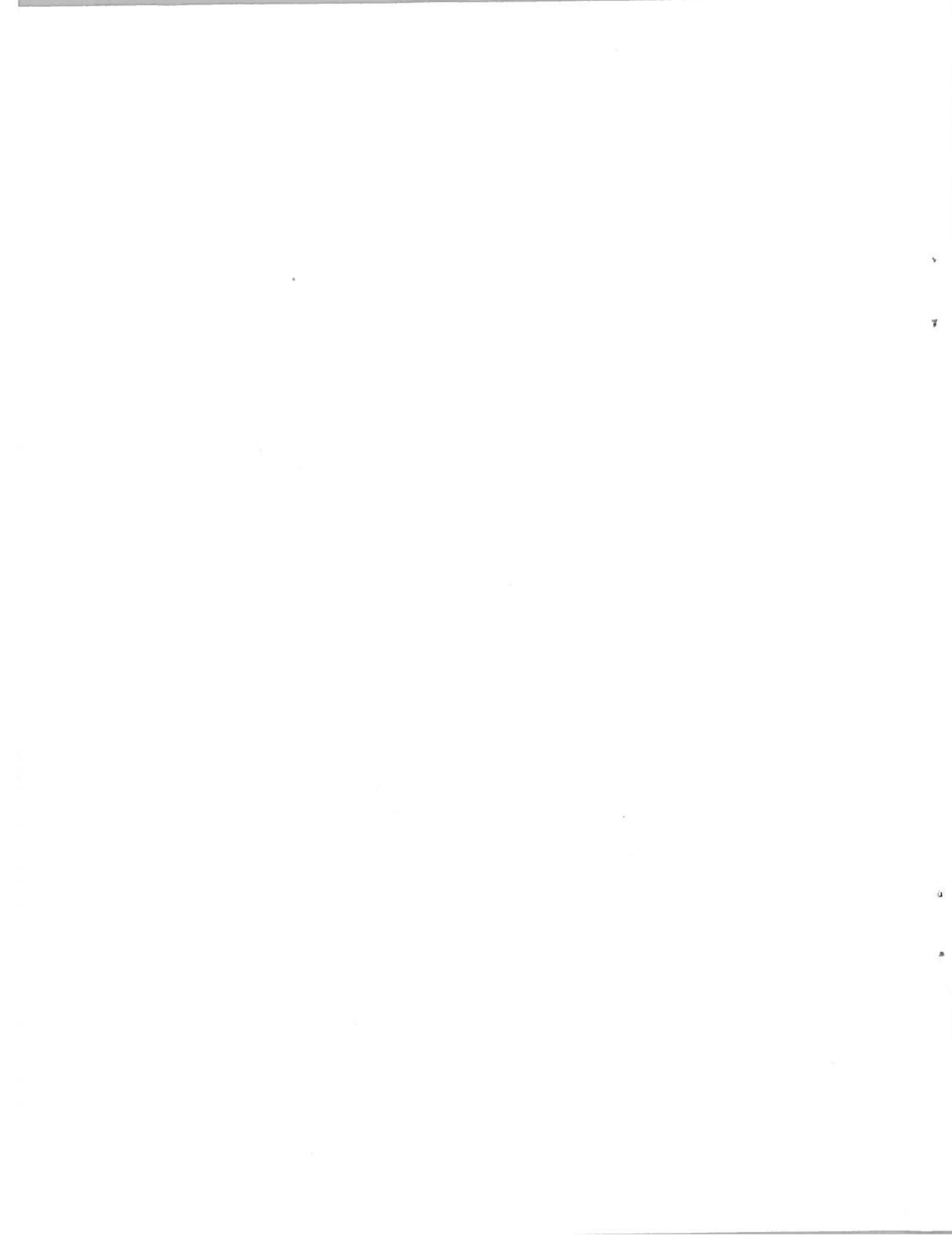
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