

Starting a cooperative

farmer-controlled economic initiatives



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Reitse Koopmans

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Foreword

Agricultural cooperatives usually develop in rural economies during the transformation from self-sufficiency farming to full market production. At this stage farmers often start realising their weak individual economic position in the market. By joining forces and initiating economic cooperation, farmers can strengthen their position in the market so that they can jointly benefit.

This publication is intended to serve as a guide to support farmers' groups through the difficult process of starting a cooperative business and to help them find their way and make their own choices in developing a successful enterprise. We realise that this publication is only a beginning and we would therefore appreciate receiving readers' comments or descriptions of the experiences of farmers' groups. In order to facilitate discussion we have included a number of statements in Appendix 2.

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1 Introduction

Agricultural cooperatives have a long history of successes and failures both in the developed and the developing world. Certainly in different parts of the industrialised world the formation of agricultural cooperatives has played a major role in the development of agriculture during the last 150 years.

These cooperatives were usually initiated by small farmers, owners of family farms, as a response to their weak position in the market. By joining forces they could improve this position and obtain better prices and services for the purchase of inputs and credit and the marketing of produce. The result is that within the EU countries agricultural cooperatives now have a market share of about 50% of the entire turnover in the agricultural sector.

In developing countries, cooperatives for agricultural and rural development were introduced in pre-independence times. There were some success stories, but there were also many failures. One of the reasons for failure was that often the cooperative concept was misused for ideological or political purposes. Governments and parastatals tried to influence and control cooperative development from above and often for their own purposes. This resulted in many poorly developed or unsustainable cooperatives. Some developing countries are still faced with the remnants of these state-controlled 'pseudo-cooperatives'.

A cooperative should be seen as a private business organisation that is jointly owned and controlled by its members, who also use its services. The objectives of a cooperative are primarily economic. It is not an easy task to organise and successfully develop a cooperative and generally a rather time-consuming and complicated process. Market conditions, government policies and the legal environment should be conducive for such a development. Moreover, strong leadership and management capabilities should be available, together with sufficient financial resources. These are all factors which are often scarce in de-

veloping countries. Often it is better to consider other forms of cooperation: a private business or a family enterprise, a farmers' association or another formal or informal type of partnership.

It is a widespread misunderstanding that cooperatives are a typical instrument for developing the poor. History has shown that cooperatives often are not the most suitable institutions for the development of the poorest farmers. This is because these people are often the least able to finance and organise a cooperative. Usually medium and somewhat larger farmers take the initiative for developing a cooperative in order to overcome certain deficiencies in the market. However, once the cooperative has passed its pioneering phase, the smallholders and poorest farmers can join and reap the benefits from this affiliation.



Figure 1: Drying coffee beans in a rural cooperative

Under the influence of current trends in market-oriented reform, privatisation, decentralisation and participation, cooperatives are currently

being rediscovered as a suitable organisational structure for realising the economic initiatives of farmers. Agricultural cooperatives in which the members both participate and contribute can thus become powerful instruments for the development of the rural economy.

The potential of independent and genuine cooperatives as a tool for rural development is increasingly recognised by many governments, donors and non-governmental organisations. Governments, however, should no longer interfere with the development of cooperatives, except by creating and facilitating a supportive legal and economic environment.

Agricultural cooperatives can be organised in many different ways. There is no prescribed format or model because of the great differentiation between economic, institutional, social and legal conditions in many countries.