

## **AGRICULTURAL COOPERATIVES AND FARMERS ORGANIZATIONS**

### **- role in rural development and poverty reduction -**

By Armando Costa Pinto

In the “Aide-Mémoire” of this expert group meeting, we can read that cooperatives provide the opportunity for poor people to raise their incomes; they are democracies empowering people to own their own solutions; they increase security for the members; and they contribute directly and indirectly to primary education for children, gender equality and reducing child mortality.

Is this true when discussing cooperatives in economic environments characterized by low economic growth, extensive differences in the distribution of wealth and considerable democratic deficits? Is it true in most of Africa and large parts of Asia and Latin America? Or is it so that the last 20 years of neo-liberal practices and partial globalization of markets have marginalized cooperatives and perverted the application of the model?

Allow me to clarify a starting point in this analysis. When talking about the role of agricultural cooperatives in rural development we are of necessity talking about the role of agriculture in development. When talking about agricultural cooperatives we cannot dissociate them from other farmers’ interest organizations, such as the unions or the commodity associations.

#### Farmer cooperatives and liberalization of markets

In accordance with the guiding principles of the cooperative movement, this model of organization is based on freedom of association, democratic equality with one member one vote, and independence from the state. These principles have been perverted in their application in many environments for decades. In many countries farmers were obliged to join cooperatives. In those countries, cooperatives have functioned as extended arms of the state. At the same time, cooperatives gained many benefits, such as exclusivity in the distribution of foodstuffs and export of agricultural products, fiscal exemptions, credits, donations, etc.

As the farmer was obliged to join a cooperative, he (female members were few at that time) never regarded it as his own organization. This was the case in many former Soviet States as well as in young free nations such as Mozambique, Zambia, Zimbabwe, Tanzania, and elsewhere else in Africa. This generation of compulsory cooperatives has come to an end, but we still have a few exceptions in place.

Very often, even when the farmer was not obliged to join a cooperative, these associative enterprises were manipulated by the government in place. This has been the case in many Latin American countries such as Guatemala, Honduras, Peru and Paraguay, as well as in Asian countries such as Sri Lanka, Iran and Iraq. Cooperative leaders have used cooperatives as political platforms, mortgaging their organizations in political processes for short-term gains. This generation of cooperatives controlled by

governments is still very much alive in a significant number of countries, although today the control is more subtle.

It is still important to underline these subversive practices where cooperatives are concerned. They explain many of the problems we face today when trying to give future perspectives to associative development in agriculture.

The fall of the Soviet system, the end of the one-party states in Africa and the partial globalization of world markets radically changed the environment where agricultural cooperatives act and interact. Everything happened suddenly and simultaneously. Due to the protectionism of the past, cooperatives were not efficient as enterprises and had very low capitalization from the members. Due to the compulsory membership system, farmers never understood the meaning of the cooperative organization and were not prepared to defend it. As a consequence many organizations collapsed, as in the cases of Kenya, Uganda or Zambia.

### Current situation in rural areas

With the neo-liberal policies of the last 2 decades, small as well as medium-size farmers were given little or no attention by governments, and by most of the multilateral agencies. During the last 15 years very little attention has been given to agricultural development and to the development of farmers' cooperatives and other farmers' interest organizations. This situation has led to a dramatic negative trend in Africa, a continent that is today a net importer of foodstuffs.

Consequently, during the last 15 years, very few development agencies, NGOs, bilateral or multilateral organizations have supported agricultural development. And even fewer agencies have been defending, promoting or supporting agricultural cooperatives. At the same time, very few governments continued to see rural cooperatives as important tools for development and allies in the fight against poverty. During this period, meetings with ministers and government officers have been painful exercises when the focus of the discussions was centered on small-scale farming or farmers' cooperatives. The World Bank, the bilateral agencies and most of the major NGOs followed the same path.

At the same time, the situation among rural communities continues to be very challenging. Let's look at some figures:

- 85 per cent of the world's 460 million farms are small-scale, of less than 2 hectares;
- 75 per cent of the population in Eastern and Southern Africa live in rural areas and are dependent on agriculture. Most farmers are unable to generate a sustainable income and live in poverty;
- Over 60 per cent of the farm work in Africa is done by women, most of them living in a state of poverty.

Subsistence is the tendency in production and the emphasis is still on meeting food security needs. Most of the stallholder farmers earn less than 2 dollars a day and are not organized. The smallholder farm sector in developing countries is largely left without necessary support arrangements in infrastructure, extension services, local processing

capacity, basic health care and education. They have not been included in policies to enhance their businesses in the liberalized market contexts. This has been the result of a deliberate process led by governments and international technocrats. The idea was simple and classic. Let the market function and do not save what should not be saved. Throw the rural organizations into the water and let's see which ones can swim.

At the same time, the price paid to farmers for their products has always been very low. In most cases, decade after decade, price policies have consequently punished farmers in order to benefit the urban clients of the ruling parties. For that reason, governments have been pressing prices down through price regulations and imports of staples from major producing nations. In many African countries, incentives for local farming have no longer been a priority.

### Successful cooperative initiatives

Last years' price increase of food staples and products such as bread, butter, pasta and vegetables led to a hysterical wave in mass media around the world and social unrest in several countries. The winners at that time were mainly those who were in control of the chain between the farmer and the consumer. However, there is no doubt that many farmers around the world also received part of the benefit, although a significant part of the price increase was matched by the price increase in factors of production such as inputs and fuel.

The present economic crisis presents new challenges to the farmer community as well to agriculture cooperatives. The projections of world population development need to be addressed with efficient initiatives to upscale agriculture production. The most important future limitations on agriculture development will be the availability of fresh water and the changing climate. Upscaling production in a world affected by climate change can accelerate the negative impact of plough agriculture or use of agro-chemicals. The agriculture sector absorbs a great deal of labor, generally with very low salaries or revenues. Even in developed countries such as Argentina, the agro-sector still employs 35 per cent of the manpower, for the most part with low salaries.

During recent years, farmers' interest organizations around the world have been promoting a new agenda for rural development and the development of farmer-owned organizations and enterprises. Developments in recent decades have also shown that, although cooperatives have been affected by many problems, they are still the most relevant organizational form for small and medium-scale farmers. Cooperatives have shown resilience in periods of crisis. Cooperatives have resisted the negative impacts of a rapidly changing environment. Cooperatives have been a privileged forum for discussing and finding solutions to common problems. Many new initiatives give hope for a renewed, member-owned, community-committed and independent agricultural cooperative movement.

Let me present a few examples of initiatives that give new strength to cooperative development in rural communities:

- *Farmers' organizations and value chains; Village Dairy Co-operative connects farmers with consumers in Kenya*

Githunguri Dairy Co-operative Society (GDFS), formed in 1961 in Kiambu district, was, up to the early 1990s, performing well. The cooperative was bulking and marketing milk, mainly to KCC<sup>1</sup>. The onset of liberalization however posed challenges to this trend. Access to livestock services and marketing outlets altered and the roles of dairy co-operatives changed. Most of them experienced a decline in active membership, low productivity, low milk intake, low prices, delayed payments, mismanagement and suppressed capitalization. As a result most dairy farmers experienced a decline in income.

From 2002 to 2007 GDFS benefited from donor support through empowering processes of self-organizational assessments, visioning and strategic planning exercises. These processes triggered a belief that the only way to increase the value of the members' produce was to market high quality, processed, farm-fresh dairy products.

The strategic planning had the result that an investment credit was secured from OIKO Credit and the East African Development Bank. Leadership and management training; development of business plans, policies and guidelines; member education and outreach on membership duties and obligations, as well as good farming practices have made the difference. By end of 2004, a dairy processing plant had been officially commissioned. By 2008 GDFS was among the top three milk processors in Kenya, controlling over 6 per cent of market volume in Nairobi. Active membership has increased by 77 per cent: from 6065 in 2004 to 10,742. Share capital has increased by 103 per cent: from SEK 7.3M to 14.8M. Turnover improved significantly by 164 per cent: from SEK 44M in 2004 to SEK 116.7M by 2008. The high degree of capitalization and the retained earnings have enabled processing plant capacity to expand from 130,000 liters to 300,000 liters of milk/daily. 37 farm input stores are functional, spread out in the zones. At a price of SEK 2.7/liter, producers obtain double the average price obtained in most outlets. A Savings and Credit Cooperative has been established to ease financial management. The former chairperson's leadership capabilities were appreciated in the wider-community and he was elected as the area member of parliament towards the end of 2007.

#### *- Malawi Lake Basin Program*

In early 2006, the Farmers' Union of Malawi (FUM) and the Malawi Union of Savings- and Credit Cooperatives (MUSCCO), shifted gear and started developing into a different kind of relationship. Instead of implementing individual projects, the organizations entered into a consortium agreement with the National Smallholder Farmers' Association of Malawi, (NASFAM), which, together with the Swedish Cooperative Centre, is implementing the Malawi Lake Basin Program. The program is governed through a consortium board, in which each organization has one vote. The concept is that each organization brings its specific experience to the table: FUM in national advocacy on agriculture, NASFAM in marketing issues, MUSCCO in member-driven

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<sup>1</sup> KCC- Kenya Creameries Co-operative, a state controlled marketing agency, formed in 1931 which later could not cope with competition upon liberalisation of markets.

financial services, and SCC with its experience of working with farmers' organizations in the context of Southern Africa.

The collaboration between the organizations has not only enabled deeper partnerships to be formed, it has also meant that positions have to be negotiated. The consortium has had to learn how to prioritize – and not compete – in order to find win-win solutions. This has, in turn, brought the Malawian organizations closer together. FUM and NASFAM are now doing joint advocacy and lobbying work, which would have been unthinkable a few years ago.

The first phase of the Malawi Lake Basin Program was evaluated in late 2008. It was concluded that the program is highly relevant and has been very innovative in its approach to poverty reduction in Malawi. The program has markedly strengthened the capacity of the Malawian organizations and farmer cooperatives. The consortium has provided an interesting model for joint learning.

*- Smallholder farming in Arusha, Tanzania*

The farmers' organization Mviwata in Arusha, Tanzania, with smallholder farmers and livestock keepers (80 per cent women) has been able to increase household incomes and improve food security through environmentally-friendly improved production and marketing of crop and livestock products. Inputs leading to this result were the construction of grain storage facilities, and the starting of new income-generating activities (such as poultry farming, bee keeping, skin collection and processing, tree nurseries and vegetable growing). Pastoralist members of society are now engaged in farming activities since livestock keeping is decreasing due to climate change. The work done has clearly decreased vulnerability while the capacity to adapt to climate change has been strengthened.

*- Organic Producers and Processors Association of Zambia*

Another successful case is the Organic Producers and Processors Association of Zambia, OPPAZ. The association contributed to poverty alleviation among smallholder organic farmers of Zambia by raising their incomes through the premium generated from the sale of organic products. This was a result of better access to markets, increases in production and quality improvements. The improvement in the welfare of participating farmers resulted in arousing interest among non-practicing farmers who have since adopted organic farming technologies. A group of farmers (140 females, 212 males) were able to retain their organic certification. The volume of production substantially increased for most organic products. Overall, there was improved access to remunerative organic markets. Cotton farmers obtained a 20 per cent premium and groundnut farmers increased their incomes by 29.4 per cent between 2006 and 2008.

*- Sustainable Development in the Tawahka Asangni Biosphere*

In Honduras, the cooperative organization ICADE has been highly involved in the sustainable development of communities in the Tawahka Asangni Biosphere.

Communities in the area have now been organized and trained in sustainable management and use of natural resources. In all the communities, campaigns were held in cleaning, reduction of forest fires, installation of tree nurseries, and reforestation of degraded areas and public places.

Food production and target population family incomes were increased and stabilized. Staple grain crop production increased by 60 per cent. In the 17 communities, systems for productive diversification were implemented using sustainable practices to include non-traditional products (tilapia) and agro-forestry systems for coffee and cocoa.

As a result, organized communities guard the forests to protect them, particularly the water-producing zones. Deforestation of primary forests caused by extensive cattle ranching and migrant farming habits has been reduced by 75 per cent, and illegal timber extraction has been reduced by 79 per cent. Fifty-eight farms are operating with intensive production systems.

#### Future perspectives for agricultural cooperatives

Farmers' organizations such as farmers' unions, farmers' cooperatives, farmer groups and commodity associations, as well as rural finance institutions, can play a key role in the development of rural areas in developing countries as well as in fighting poverty. We consider that six main areas of intervention need to be addressed by the different stakeholders in rural development and in the development of agricultural cooperatives:

- Organizational and business development;
- Gender equality;
- Market information and analysis;
- Sustainable agricultural production and climate change;
- Market access and sales;
- Financial services;
- Policy development and advocacy.

A cooperative is an association and an enterprise. Farmers' cooperatives need to have membership and the potential to develop economically. This means that the farmer must be able to access sufficient land and affordable credit and develop knowledge and techniques. The farmer needs to access market information and networks. Subsistence farming does not normally provide scope for cooperative development and contributes little to food security or poverty reduction. Differentiated strategies must be put in place to address the poverty and marginalization of subsistence farmers.

Rural poverty will not diminish dramatically as long as developing countries do not commit themselves to achieve better wealth distribution. In a couple of decades there will be far fewer people in the rural areas. However, the fight against poverty in the countryside will also very much depend on the macroeconomic development of the nations. Agricultural cooperatives need to give perspective to strategic alliances between large enterprises organized in cooperatives and smallholder family farmers.

In such a context, the state should act as:

- promoter and facilitator;
- generate policies and programs for the sector;
- develop infrastructure and adequate social services;
- facilitate the modernization of cooperative laws and regulations, eliminating existing barriers to cooperative development.

There are countries where the universe of the cooperatives is still village-based. One main consequence of this is the atomization of cooperatives, with a very small member base. Rural cooperatives with very few members never achieve the business volume that is required to develop and become an efficient tool for business development.

Among the most urgent matters, we would underline the need to strengthen the assets of farmers and cooperatives, i.e. strengthen material assets, such as land and cattle, as well as immaterial assets such as abilities and knowledge. It is also indispensable to promote deep economic, political and social reforms that lead to true participation, social justice and equity.

It is not all organizations that can collaborate in development, only those that consider it fundamental to mobilize people and promote the real exercise of human rights, seeking a fairer and just society. Farmers' cooperatives and farmers' associations are organizations of that type, well prepared to make a difference in rural areas when the political and economical environment is conducive.

Well, this is what I have to say, and as Robert Chambers once wrote, the last word is that there is no last word.

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Armando Costa Pinto  
Swedish Cooperative Centre, Development Director  
Agricord (network of international agro-agencies), Board Member