

USAID Policy Paper

Cooperative Development

**Bureau for Program and Policy Coordination
U.S. Agency for International Development
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I. Introduction

This policy paper on cooperative development makes the following points:

1. **Definition.** Cooperatives are voluntary, independent business enterprises formed to meet specific needs of their members through a common venture.

As private sector organizations, their development effectiveness is measured by the same standards as other private organizations.

In order for the members to realize the benefits from a cooperative it must first be a viable business enterprise.

2. **Rationale.** USAID supports the development of cooperative organizations because cooperatives embody aspects of the principles of voluntarism, democratic choice and the economic effectiveness of private enterprise that historically have shaped our own nation's development.

Cooperatives are able to reach and benefit sectors of the population that would not normally be served by other private sector institutions or direct government programs. The relatively permanent institutions created by cooperative development in the Third World provide an institutional framework through which other resources and programs can be channeled.

The high premium placed on member participation in the operations and decision making of the cooperative promotes independence and self-reliance encouraging members to take an active role in their own development.

Cooperatives offer an attractive alternative to public sector programs. The paternalistic approach of governments and absence of competition provide little incentive to seek efficient methods of product or service delivery. A cooperative, because it is recipient owned, has an automatic incentive to maximize benefits to the members.

3. **Environment.** To judge whether the cooperative will be successful, the local environment must be assessed to determine if it is supportive to the creation of a viable cooperative business enterprise. Some common factors influencing cooperative formation are:

Government attitudes and policies.

Effective management.

Cultural norms.

Marketplace.

4. **USAID Assistance.** USAID will encourage the development and use of cooperatives where they can be effective instruments for program and project implementation.

Institutional support to U.S. cooperatives will be centrally funded.

Cooperative activities under bilateral programs will be funded by the regional bureau and/or the country USAID program concerned.

Missions desiring assistance in assessing the local environment for cooperative development or in designing and planning cooperative activities should direct requests to the relevant USAID/W geographic bureau which will coordinate with other concerned offices.

A detailed examination of certain issues raised in this policy paper as well as a comprehensive analysis of factors affecting cooperative projects can be found in the report, "Cooperatives in Development - A Review Based on the Experiences of U.S. Cooperative Development Organizations, Development Alternatives Inc., Washington, D.C. 1984." This publication may be requested from PRE/CSBD, Agency for International Development, Washington, D.C. 20523.

Cooperatives are one type of local organization. Further policy guidance on the role of local organizations in USAID's program and on overcoming the limitations of local organizations can be found in the USAID Policy Paper, "Local Organizations in Development", March 1984, identification code PN-AAQ-157. This publication may be ordered in microfiche or paper copy from:

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II. Rationale for USAID Support to Cooperatives

Emphasis on the private sector for development is one of the Agency's four major policy approaches. (The others are: policy dialogue, institutional development, and technology transfer.)

This policy emphasis is supported by the Foreign Assistance Act, which encourages development assistance to be carried out as much as possible through the private sector. The Act also encourages development and use of cooperatives to strengthen the participation of rural and urban poor in their country's development.

USAID supports cooperatives because they fit in the mainstream of U.S. development philosophy. Cooperatives embody aspects of the principles of voluntarism, democratic choice and the economic effectiveness of private enterprise that historically have shaped our own nation's development. They provide a means of reaching large numbers of poor people through grass roots organizations, and offer encouragement and a means for the poor to pool their

resources to help themselves toward a better life. In pooling of resources (such as credit worthiness) frequently the whole is greater than the sum of its parts. One of the most attractive aspects of cooperatives is their potential for capital formation, a scarce resource in most developing countries.

III. Common Characteristics of Cooperatives

Cooperative forms of social and economic organizations exist throughout the world, engendered and molded by often quite dissimilar social, economic and political traditions. No single definition of "cooperative" would be adequate to describe the diverse activities that have been labeled "cooperative." But it is possible to identify certain common characteristics of cooperative organizations:

Cooperatives are private, voluntary and independent associations of persons joined together to achieve a common economic objective. They are democratically-controlled, for-profit business organizations whose members make equitable contributions to capital. They are normally operated on the principle of "one member - one vote," and benefits are distributed in proportion to the contributions of individual members. Along with freedom to join and bring assets into the organization, is the freedom to leave and take assets out. In some cases restrictions may apply to asset removal, but if so, this is known and freely accepted as a condition of membership when members join.

Such a definition highlights four major principles of cooperative organization:

A. Business Purpose. Cooperatives are formed primarily to serve an economic function. Although social ends are often an important purpose, unless a cooperative is successful economically, no long-lasting or self-sustaining social development can be expected.

B. Voluntary Membership. The decision to join a cooperative must be an individual one, based on one's own assessment of needs and of various alternative ways of meeting them. Personal identification with a cooperative, for instance through exclusive purchase of inputs from a cooperative store, is often critical to the success of the organization. Joining cannot be coerced if the cooperative is to be successful. Only when individuals have free choice will the organization be certain to be responsive to the needs and wishes of the members.

C. Democratic Control. All members of a cooperative should have the opportunity for a voice in its affairs, no matter what amount of share capital they may have contributed, and without regard to other positions they may hold either within or outside the organization. In practice, many cooperatives, particularly the larger ones, may proceed with little input from the great majority of their members, who may have little knowledge of, or interest in, management of the enterprise. It is the capacity for input which assures that management is responsive to the members. The provision for a particular form of democratic control sets cooperatives apart from

most other private firms; it is also a fundamental distinguishing characteristic between cooperatives and state enterprises.

D. Equity in Contributions and Benefits. Members of a cooperative should contribute share capital equitably, so that individuals or small groups cannot assume de facto control of the enterprise. Equitable contributions might be equal, or might be based on the economic size of members (i.e., equal assessment per acre of farmland or on a sliding scale) or anticipated use of the cooperative. A related principle is that members should benefit in proportion to the use made of the cooperatives, rather than in proportion to shareholdings. This ensures that those who through personal involvement have helped to build the organization will be rewarded on the basis of that involvement. By contrast, in private firms that are not cooperatives, both control and benefits are in proportion to degree of ownership.

Cooperatives organized under these principles can differ widely in their objectives, operations and autonomy. They can be service, production or market oriented. Cooperatives can be integrated into confederations. The credit union movement is a good example of this kind of vertical integration. Large cooperatives can begin as such or can result from merging many small primary societies (horizontal integration). They can be single or multipurpose, or begin as single-purpose and gradually add other functions. Businesses that are wholly owned subsidiaries of cooperatives also are considered within the category of cooperatives for USAID purposes.

USAID experience with cooperatives goes back to the Marshall Plan era. In the 1950s and 1960s cooperatives were supported extensively in Latin America, and to a lesser extent in other regions. This long experience has shown not only the potential of cooperatives for effective development, but also some inherent limitations. As indicated below, it is necessary to carefully evaluate the prospects for cooperative development within the local context.

IV. Assessing the Environment for Cooperatives

Local cultural traditions, government policies and practices, the political climate and other factors need to be assessed in evaluating the environment for supporting cooperative development in a particular country. Therefore, it is not practicable nor is it desirable to attempt to provide an all-encompassing prescriptive formula for support to cooperatives. The following are some of the more common factors influencing cooperative development, and can be used to judge whether the cooperative will be successful:

A. Governmental attitudes and policies. A government's posture influences the formation and success of all private enterprises, including cooperatives. Government support might take the form of enabling legislation, chartering services and perhaps financial assistance, fiscal and monetary policies that for example, encourage savings and open access to commodities and markets. A danger to be avoided is too much government involvement, which becomes intervention and negates the private and voluntary nature of the cooperative (if, for instance, a commissioner for cooperatives can appoint members of the management committees of local

cooperative societies for reasons not related to financial insolvency, etc.). Few cooperatives have achieved success when burdened with such degrees of government involvement.

B. Effective management. A competent, dedicated manager or management team often is the single most important factor for predicting success for cooperative development. The management approach and style must be compatible with the local environment. Ultimate success in institution building requires that management be subordinate to members, and be reviewed by members or their chosen representatives.

C. Cultural norms. Traditional societies have structures and practices, including management procedures and behavioral norms, that can have both positive and negative impacts on self-help and cooperative enterprises. It is necessary to be aware of both the positive and negative traditional values and norms that might facilitate or impede the formation and success of cooperatives. Cultural norms often are slow to change.

D. Test of the market place. Cooperatives should be judged by the same economic and other standards as any other type of enterprise. They should meet the tests of the market place in their operations. The economic effect of any subsidies should be carefully weighed. Barriers against market entry of competitive alternatives (an indirect subsidy in effect) should be evaluated.¹ Normally the existence of such conditions would be appropriate topics for policy dialogue.

Missions contemplating interventions employing cooperatives may call upon USAID/W offices for assistance. The primary source of technical assistance and training for organization and management of overseas cooperatives is the U.S. cooperative movement. Mission questions concerning assistance should be directed to the relevant geographic bureau, which will coordinate with the Private Enterprise Bureau/Office for Cooperative and Small Business Development and other USAID/W bureaus and offices as appropriate to provide the requested assistance.

V. USAID Assistance to Cooperatives

Cooperatives can be a useful and effective means for capital formation, for fostering private initiative and competition, and for directing grass roots efforts toward development objectives, at the local, regional and national levels. They can be used to reach large numbers of rural and urban poor and attack problems of basic human needs. All of these are important aspects of USAID's development assistance strategy. For this reason, USAID will encourage the development and use of cooperatives where they can be effective instruments for project and program implementation.

¹ If cooperative has been granted a monopolistic privilege to deal in certain commodities, it will behave much like a parastatal marketing agency. Such an entity would not normally be considered eligible for USAID support.

This support will be provided under two categories. First, USAID will continue to encourage U.S. cooperatives in their direct relationships with cooperatives in developing countries. Appropriate institutional support to U.S. cooperative organizations and funds to support independent cooperative-to-cooperative programs will be centrally funded. This centrally funded support will be provided subject to periodic reviews and the availability of funds, and in a manner that promotes USAID's objectives. (See also PD 73, 3/30/80, "USAID-U.S. Cooperative Organization Relationships.")

Second, USAID considers cooperative development an integral concern of its bilateral programs and will provide support in this context, subject to the principles in this policy statement, and other usual requirements of USAID's bilateral programs, such as project review and evaluation. Funding for these activities will be the responsibility of the regional bureaus and country USAID programs concerned.

The following additional principles apply mostly to the use of cooperatives in bilateral programs, but in a number of cases they also are relevant for centrally funded cooperative activities as well.

In general, all USAID assistance to cooperatives should have the goal of achieving, in the most effective and rapid manner, organizational self-reliance, self-financing and independent operational effectiveness to enhance their development impact. The kinds, amounts and methods of assistance can greatly influence the achievement of these goals.

USAID assistance might range from technical assistance (for example, training, management/organizational structure), to financing of capital for the formation or expansion of cooperatives. Both loan and grant assistance are possible. The primary target population should be the rural and urban poor.

Proposals to support cooperatives should be evaluated on their merit in the context of local circumstances, in terms of how closely they meet the general criteria above, and their expected impact on goals and objectives being addressed by the mission's long term development strategy. Linkages with other Agency policy objectives should be carefully considered, such as supporting and furthering policy dialogue and institutional development.

Assistance that has a multiplier effect is preferred, e.g., to a federation that is assisting primary level cooperatives, or to a primary level cooperative that will serve as a model on which to build other primary level cooperatives. In other situations, it may be more productive to work at the policy and regulatory levels. Again, the choice has to be based on local circumstances and development goals.

The multipurpose cooperative offers advantages that can be achieved by vertical integration of a variety of functions leading to the final sale of a product or service to the ultimate user. For example, a chicken production credit and marketing cooperative might finance farmer production, produce and sell feed, process, package and market both wholesale and through cooperative owned retail outlets. Multipurpose cooperatives require sophisticated management, increase the costs and risks of failure, and may be beyond the experience level of available management in some countries. In many cases, it may be preferable to consider several cooperatives with more limited purposes rather than one multipurpose cooperative.

USAID has assisted governments in arranging cooperative financing by providing grants, loans and loan guarantees. Host government financing can be arranged in a number of ways: loans to cooperatives through marketing boards, PL 480 generated funding, capitalization of special cooperative banks or international banks. Financing directly through the private sector is another possibility.

As the cooperative movement in a particular country passes from promotion and organization to operations, the need for more technically specified assistance increases. USAID's experience with overseas cooperative development has shown that this technical expertise is available from U.S. cooperative development organization. Particular technical requirements may involve the private non-cooperative sector, and universities. This wide choice of sources gives users an opportunity to weigh various factors in addition to cost, such as broadening institutional linkages and planning for future relationships.

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