The AGRODOK-SERIES is a series of low-priced, practical manuals on small-scale and sustainable agriculture in the tropics. AGRODOK booklets are available in English (E), French (F), Portuguese (P) and Spanish (S). Agrodok publications can be ordered from AGROMISA or CTA.

1. Pig keeping in the tropics
2. Soil fertility management
3. Preservation of fruit and vegetables
4. Small-scale chicken production
5. Fruit growing in the tropics
6. Simple construction surveying for rural applications
7. Goat keeping in the tropics
8. Preparation and use of compost
9. The home garden in the tropics
10. Cultivation of soya and other legumes
11. Erosion control in the tropics
12. Preservation of fish and meat
13. Water harvesting and soil moisture retention
14. Dairy cattle husbandry
15. Small-scale freshwater fish farming
16. Agroforestry
17. Cultivation of tomato
18. Protection of stored cereal grains and pulses
19. Propagating and planting trees
20. Back-yard rabbit keeping in the tropics
21. On-farm fish culture
22. Small-scale production of weaning foods
23. Protected cultivation
24. Urban agriculture
25. Granaries
26. Marketing for small-scale producers
27. Establishing and managing water points for village livestock
28. Identification of crop damage
29. Pesticides: compounds, use and hazards
30. Non-chemical crop protection
31. Storage of tropical agricultural products
32. Beekeeping in the tropics
33. Duck keeping in the tropics
34. Hatching eggs by hens or in an incubator
35. Donkeys for transport and tillage
36. Preparation of dairy products
37. Small-scale seed production
38. Starting a cooperative
39. Non-timber forest products
40. Small-scale mushroom cultivation
41. Small-scale mushroom cultivation – 2
42. Bee products
43. Rainwater harvesting for domestic use
44. Ethnoveterinary medicine
45. Mitigating the effects of HIV/AIDS in small-scale farming
46. Zoonoses
47. Small farming
48. The Rural Finance Landscape

© 2006 Agromisa Foundation and CTA
Starting a cooperative

Farmer-controlled economic initiatives

Reitse Koopmans
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.

This publication is the result of a collaborative effort between AgriCord, Agriterra and Agromisa. The initiative was taken by Mr Kees Blokland, Managing Director of Agriterra. AgriCord provided a financial grant for publication. Agromisa and CTA are jointly responsible for production and distribution, with the assistance of Agriterra’s partner network.

Valuable comments were provided by Mrs Kareen Holtby of IFAP, Mr Cees van Rij of Agriterra, and Dr Anne van den Ban, Emeritus Professor of Wageningen University.

Credits for illustrations: ICRA, Agriterra, FAO and AEC/Euroconsult.
Contents

1 Introduction 6

2 What is a cooperative? 9
  2.1 Characteristics 9
  2.2 How cooperatives differ from investor-oriented businesses 12
  2.3 Cooperative business principles 14
  2.4 Types and levels of cooperatives 16
  2.5 Misuse of cooperative principles 17

3 Why are farmers interested in cooperatives? 19
  3.1 Advantages of working together 19
  3.2 Economic benefits 22

4 What is needed to form a cooperative? 24
  4.1 Starting the cooperative 24
  4.2 Committed leaders 27
  4.3 Other factors for success 29

5 Cooperative management 34
  5.1 Finding the balance 34
  5.2 Development of a cooperative structure 35

6 Statutes and by-laws 40

7 Finance 42
  7.1 Distinctive features of cooperative finance 42
  7.2 Sources of capital 43

8 Potential pitfalls 46

9 Establishing a cooperative 49
<table>
<thead>
<tr>
<th>Step</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Developing the initiative</td>
<td>54</td>
</tr>
<tr>
<td>2</td>
<td>Building consensus</td>
<td>56</td>
</tr>
<tr>
<td>3</td>
<td>Establishing a steering committee</td>
<td>59</td>
</tr>
<tr>
<td>4</td>
<td>Feasibility study and member survey</td>
<td>61</td>
</tr>
<tr>
<td>5</td>
<td>Organisational design</td>
<td>65</td>
</tr>
<tr>
<td>6</td>
<td>Member commitment</td>
<td>68</td>
</tr>
<tr>
<td>7</td>
<td>Involving other stakeholders</td>
<td>74</td>
</tr>
<tr>
<td>8</td>
<td>Starting up the enterprise</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>Useful addresses</td>
<td>78</td>
</tr>
<tr>
<td></td>
<td>Further reading</td>
<td>83</td>
</tr>
<tr>
<td></td>
<td>Appendix 1 Eight steps</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Appendix 2 Statements</td>
<td>86</td>
</tr>
</tbody>
</table>
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-
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.