

# Cooperatives in Conflict and Failed States

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## Synopsis

*Cooperatives are special purpose organizations that have unique attributes compared to other forms of enterprise. They are independent, member-owned and democratically governed businesses, created with equity financed by members who invest in order to benefit through their patronage. Cooperatives are built on a “collective identity and shared destiny.” This characteristic is the underlying factor in the rise of cooperative networks in the face of national and/or regional conflict and hostile, monopolistic alien enterprises and or middlemen/usurers.<sup>1</sup>*

*This paper details the distinct contributions, attributes and recent examples of how cooperatives achieve economic and social development during conflict and in failing, failed and recovering states including Bosnia, East Timor, Lebanon, Mozambique, Rwanda, Macedonia and Nepal. It concludes that cooperatives are often imbedded in cultures where violence is prevalent and they can result in rapid economic development as ethnic bridging institutions. They have successfully helped create jobs for returning minorities and ex-combatants to conflict regions, and been particularly effective when markets are distant and high-value. To become transformational, cooperative networks need to be created beyond initial ethnic or group minorities. While anecdotal and historical information confirms these cooperative impacts, more empirical data is needed to better identify traits that mitigate against violence and to make the case that cooperatives in such circumstances should be preferred development options.*

## **Economic Underpinnings of Failed States**

Fragile states are characterized by a lack of national unity and democratic processes, poor economic and physical infrastructure, and absence of an enabling environment for private property and commerce. Many lack basic personal protections. Fragile states are among the least developed nations with large pockets of poverty. They do not sustain a number of the basic functions of government: security against external and internal threat, order and justice, systems of law and personal freedoms - both civil and political. The institutions of failed states are weak and lack capacity, competence and resources. Power is frequently in the hands of state elites who exploit their positions for personal gain. External pressures can be sources of internal conflicts, and outside pressure from donors can encourage these nations expand political and economic freedoms. Donors may support groups, such as workers, agricultural producers and entrepreneurs that expand democratic space. An exclusive focus on democratic elections – rather than formation of democratic structures - can be counter-productive and impose a thin layer of democratic

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<sup>1</sup> See Annex A for discussion on cooperatives as special purpose organizations, Annex B on cooperative attributes in facing crises, and Annex C on their historical and developing country context as open and voluntary grassroots structures.

coating where there is a system of oligarchies and family-based rule without major changes in the basic features of the old structure.<sup>2</sup>

Local people must own their reconstruction program for it to be sustainable. Relief organizations may place too high a priority and prolong the efficient delivery of relief goods rather than focus on self-sufficiency. Sustainable reconstruction only occurs when the “disabling aspects of relief” have ceased. “Post-conflict societies need reconstruction because most people do not have the means to make their own living and must depend on relief from the outside. This is the crux of reconstruction and should guide all decisions in the reconstruction process. Any program that does not provide a livelihood is still relief.”<sup>3</sup>

Failed economies result in scarcity including disruptions in trade as well as loss of incomes, food and other essentials. Profits are enormous for those who have access to scarce goods, and combatants and their allies manipulate markets for profit and in order to pay for the high costs of weapons, armed groups and sustained conflict. The looting of infrastructure, stealing of animals and forced payments in kind and cash are the spoils of war. Thus, the goal of reconstruction is to get the economy operational and bring stability through re-energized small businesses and rural economies. “Linkages between commerce, conflict and reduction of conflict suggest the need for assistance that discourages wartime commerce and encourages commerce that depends on greater stability.”<sup>4</sup>

### **Cooperative Difference**

Cooperative development organizations<sup>5</sup> (CDOs) view the challenge of development in failed states with an economic perspective in looking at social cohesion and trust bonds, nascent forms of cooperation among small businesses and producers, and ways to strengthen producer-to-market links. A failed state like Southern Sudan or Somalia needs everything - good governance, basic health care, primary education, and clean water. Cooperative enterprises are among sustainable ways to finance governments and social services through taxes and their contributions to the economy. When donors substitute their resources for users’ obligations, a donor culture is created that actively inhibits reconstruction, economic development and business formation.

Humanitarian and relief organizations save lives after conflicts or natural disasters, yet they frequently distort local markets with donations. They create donor mentalities in which people accept handouts rather than self-help assistance. For example, in Southern

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<sup>2</sup> Sorensen, Development in Fragile/Failed States, (1999)

<sup>3</sup> Richard Hill, Post-Conflict War Reconstruction Programs, MIT conference, 1997

<sup>4</sup> Ibid

<sup>5</sup> Cooperative development organizations are recognized in U.S. legislation as organizations that focus on cooperative development and are organically linked to U.S. cooperative movements. They have been directly engaged in international development activities as mandated in the original Foreign Assistance Act of 1961. Similar cooperative development organizations exist in Canada (e.g., CCA, Desjardin, SOCODEVI), Europe (e.g., Swedish Coop Center, Raiffeisen, Rabobank), Japan (e.g. Cooperative Training Center) as well as developing countries (e.g., Cooperative Development Foundation of India).

Sudan, international NGOs are the economy – they provide grants to local NGOs, create jobs at compounds, stimulate imports for expatriates and provide hard currency that facilitates trade. While many of these NGOs carry out economic development projects, they are fundamentally non-profit entities. Their humanitarian perspective undermines economic self-help that is basic to enduring progress.

Cooperative approaches differ in failed or recovering states because they emphasize mutual self-help by stakeholders - an approach that not only succeeds, but also can thrive because of adversity. The economies of failed states are usually agricultural with limited industry and, in many cases; they lack mineral and other factor endowments. The performance and potential of most agricultural economies are limited by weak market linkages. In some cases, governing elites or guerillas are heavily influenced by Marxist ideology and strive for control rather than to open up economic opportunities.

Failed societies must create or transform their rural economies in ways that overcome constraints of remoteness, poor infrastructure, and cultural liabilities such as clan and family based monopolies. Their greatest asset is the ability to mobilize their people for social stability and economic advancement. Failed states need to create broad-based enterprises that add value to support the market chain without crippling the producers who need incentives to maximize their investment in productivity. Increased productivity is the only way that enduring growth occurs and producers must believe that the market is remunerative and stable.

For 200 years in diverse country settings, cooperatives have proven records of success in organizing entrepreneurs and agriculturalists to enhance resource values where there is little private capital, and limited productive human and physical capacity. These cooperative organizations succeed through mobilization of the poor, effective application of technical assistance, and generation of capital even when the initial capital base is extremely small.<sup>6</sup>

Cooperatives<sup>7</sup> work well in traditional societies where “mutuality” and informal cooperative activities are embedded in the form of common property, shared water and grazing rights and informal financial sharing among vendors in markets. Cooperatives may be a natural evolution in common property systems. Cooperatives function effectively well beyond “clan” and extended families because they offer economic benefits through collective action. Through focusing on where market links are weak, economic returns can be considerable when properly organized.

By uniting small producers, cooperatives are unsurpassed in their capacity to achieve economies of scale from the farm to market: economies in effective planning, scheduling, transportation, storage and improved quality. Cooperatives offer immediate benefits even

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<sup>6</sup> See Annex B of this document for historical perspective

<sup>7</sup> For the purposes of this paper, cooperatives are defined as independent, private, member-owned and democratically governed business enterprises, created with equity financed by members who invest in order to benefit through their patronage. There exist several definitions as well as attributes and values that have been enunciated by the International Cooperative Alliance and other cooperative organizations.

at modest levels of organization through bringing coherence out of largely chaotic, disorganized individual producers. Properly organized, coached and managed, cooperatives can have impressive economic results over a short period of time, such as increased quantity and quality of small producer products, branding and packaging, and outreach to high-end markets. In the longer run, cooperatives build member equity that remains in the village or community rather than flowing to major urban centers. This capital accumulation (or savings in the case of credit unions) is critical to sustained broad-based growth, and enhances the ability for small producers to withstand economic shocks due to human conflicts, economic downturns and natural disasters.

Many benefits of cooperatives are difficult to measure as noted below:

There are other, more general benefits of coops to which it is impossible to attach a monetary value. One is, no doubt, the establishment and strengthening of ties of friendship and partnerships among members... At an even more general level, the formation of a cooperative is one of those human activities that bring their own reward. For many groups, the fact of joining forces, be it even for a modest purpose, such as setting up a cooperative consumer store, has a great deal of symbolic value. It is an act of self-affirmation that fills people with pride and may even be felt as a beginning of liberation, particularly by long-suffering and long-oppressed groups.<sup>8</sup>

### **Cooperatives and Stable Societies**

Cooperatives bring special values to stabilization and democratization. The "devolving of power in stable and just ways" is the key issue where cooperatives appear to have a particular advantage compared to other types of organizations. Cooperative networks and integrated systems have a greater potential for broad scale recovery; and they engage more people as effective actors to help influence and democratize senior decision makers. Cooperative leaders have frequently been tapped for leadership roles in recovering states because they are seen as less partisan and effective at working with large groups in democratic practices.

Cooperatives have the potential to be a potent natural antidote to the forces that lead societies into violent conflict, and thus a stabilizing force.<sup>9</sup> They are, by their nature, organizations that combine:

- Peaceful channeling and acquisition of important economic and other basic needs
- Membership that is strongly motivated around these basic needs
- Sustainable indigenous roots
- A need for and appreciation of democratic management
- Economic systems based on a heightened level of trust

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<sup>8</sup> Albert O. Hirschman, *Getting Ahead Collectively: Grassroots Experiences in Latin America*, "Intangible Benefits and Costs of Cooperatives, 1984

<sup>9</sup> CHF International is a cooperative development organization with ties to housing and other types of US community cooperatives. It carried out an extensive two-year study on how to create stable societies including the important roles of cooperatives. Rick Hill contributed comments to this section.

- An appreciation of and active support for economic and political pluralism
- Expectation of responsiveness from leadership
- Confidence in the right of participation in governance

Within the range of civil society organizations, cooperatives have the potential to be more effective in reaching their goals because of the strong motivation of their membership and the natural selection of people who are motivated and want to participate in the open and democratic processes that directly benefit them in tangible ways.

Theories of conflict highlight a range of key factors. Some of the most commonly mentioned factors in determining the level of potential conflict are<sup>10</sup>:

- Motivation of political actors (those with a stake in the conflict compared to those with a stake in stability)
- Consolidation of power in the hands of a few individuals<sup>11</sup>
- Dynamics of power and leadership, and the choices relating to creating conflict traveling primarily from top to bottom
- Political situations that allow a few individuals to use violence to push forward a personal agenda for power
- Sense of unfairness in the allocation of basic resources
- High levels of distrust among groups
- Effective actors in changing political equations to those that favor stability

Cooperatives have the potential to act on each of these in ways that promote stability and peace including:

Stake in stability. Most of the societies prone to conflict have political and social conditions that allow power to be consolidated in the hands of a few individuals or groups. Those groups usually have a stake in the conflict because war has often allowed these actors to profit either economically or politically. In war it is typically the small and medium economic actors who have suffered the most, and consequently have the most motivation to build a stable society. Cooperative structures<sup>12</sup> represent large groups of these actors with a motivation to seek stability.

Pluralism. A parallel impetus is the desire to create greater economic opportunity for its members – a level playing field. Cooperatives are groups of motivated individuals who are looking for a way to allow more economic access. They are natural mechanisms for eroding monolithic control of resources, monolithic economic power, and monolithic political power. Also, by their nature, they are built on the principle that the

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<sup>10</sup> None of these factors is inevitably linked to escalating conflict, and in some societies several exist with relatively little conflict. Nevertheless, most studies have linked one or more of these with the causes of conflict.

<sup>11</sup> In a few rare cases, the cause of peace is served by consolidation of power in the hands of someone who uses the power to preserve peace (e.g. Thailand – 1980s). This is more the exception than the rule.

<sup>12</sup> The term “cooperative structures” is intended to indicate the characteristics of cooperatives whether or not they are formally organized as cooperatives.

organization serves all equally (or at least all have an equal chance to be served). They are, therefore, a homegrown constituency for the installation and maintenance of this basic democratic principal into the political society in which it operates.

Democratic management and leadership/building trust. Cooperatives are organized around a common need, and belief in the value of collective action. Strong cooperatives have devised management mechanisms that allow all members to feel like the organization serves their needs. Typically this means:

- Members demand responsiveness from leadership
- Members feel confident in the oversight of management
- Management structures allow oversight and transparency
- Management is based on fairly meeting the needs of all members.

Thus, a cooperative is a microcosm of a democratic political system. All of these management mechanisms – but particularly transparency – encourage trust among actors that may have reason to distrust each other<sup>13</sup>. People who lead cooperatives have bought into democratic principles of management – successful leaders have learned how to lead effectively with responsiveness, transparency, and fairness.

Access to resources. Cooperatives are organized to build better lives for members around improved access to resources – either better incomes (e.g. business associations, agricultural coops) or improved living conditions (e.g. housing cooperatives). They have the potential to be an effective path in opening up economic opportunity for those without it. Cooperatives can improve socio-economic status within communities, and reduce conflict and competition over the control and sharing of scarce resources (e.g., water user cooperatives).

Effectiveness in a conflict-prone society. Cooperatives represent an exceptionally organized, motivated group of individuals. When effective and well managed, they have the potential to form critical masses of political and economic power. When structured in effective apex organizations, they have proved able to play a significant role in national policies, the selection of national leaders and lobbying on behalf of their broad-based membership.<sup>14</sup>

## **Cooperatives in Recent Conflict Situations**

### **Ethnic Reconciliation in Bosnia**

Land O'Lakes<sup>15</sup> work in Bosnia is focused upon business activity as a conflict mitigation tool. The purpose is to encourage displaced people to return to their pre-war homes and

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<sup>13</sup> A recent study of this type is presented in the highly regarded work of Ashutosh Varshney of the University of Michigan, presented in his recent book *Ethnic Conflict & Civic Life: Hindus & Muslims in India* (Yale University Press).

<sup>14</sup> Presentation by Dr. Judith Hermanson, Executive Vice President, CHF International

<sup>15</sup> With \$6 billion in sales, Land O'Lakes is an integrated, national cooperative with 300,000 members and 1,400 local cooperatives, and today is the largest U.S. producer of feeds and number one in market share

for those who have returned to advance their economic opportunities. Jobs and increased family income are seen as key to the re-integration of displaced people, particularly minority rural groups that were subjected to ethnic cleansing.<sup>16</sup> Upon USAID staff's recommendation, Land O'Lakes used the words "association" and "cooperative" sparingly in the proposal. The review committee felt strongly that considering the early stages of the return process for minority refugees and the negative Yugoslav experience with cooperatives that associations had little chance of success. Yet, they were proved wrong.

Within the first two months, Land O'Lakes assisted local producers through market research based on available macro-economic data. The data suggested that there was a very large market opportunity for the traditional cheese produced within the geographic target areas of Srebrenica, Kotar Varos, Knezevo and Kupres, which had experienced some of the worst ethnic cleansing during the war. The data was presented at an open meeting to producers and left them with the open question, "Who is going to take advantage of this opportunity?" The meeting was the first time local Muslims and Serbs had contact since to the war.

At the meeting, several key people come forward who agreed to participate in an ethnically mixed working group and they met every two weeks. Land O'Lakes assisted them with a feasibility study for centrally located and community based cheese plants; and carried out additional market research at their request. After about six months, the working group requested information regarding cooperatives. Land O'Lakes helped them develop bylaws through a gradual process over three months so they fully understood the basic principles of a cooperative. Initially, they had to register as an association, and later, with favorable changes in national cooperative law, re-registered as a cooperative in September 2003.

The Board of Directors consists of seven members of whom two are minority Serbs; and the Supervisory Board has three members of which one is Serbian. The office is located in an ethnically mixed village primarily because the community donated the space. The cooperative packs and markets its member's sheep and cow cheese. The packing facility is located in a Muslim village. The packing facility has two staff, one Muslim and one

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for premium butter and deli cheeses. Land O'Lakes has been providing overseas technical assistance to cooperatives for 20 years.

<sup>16</sup> Srebrenica has become a victim of an international effort guided by sincerity, which has resulted in a dependency. "What do have for donations" is now a casual greeting on the street. Assistance has been provided to stabilize and sustain an individual's refugee return process. They get housing reconstruction materials, steel framed beds, wood cook stove, perhaps some garden seeds and implements, a few chickens, and a dairy animal with the usual formula of one cow or five sheep or five goats. Although sometimes a refugee return association is involved, the refugee is usually identified by an international aid organization to be a recipient of assistance. Actually when local refugee return associations have been involved, the corruption in the system is noticeable where housing reconstruction material or additional livestock are expedited with bribes. Even without the corruption the system of distributing donations is far from equitable.

Serb. The cooperative pays producers prices for their cheese that is 40 per cent higher than they have received historically.<sup>17</sup>

As a business, the cooperative has problems: accounts payable and receivable remain too high, creating a cash flow problem. Fortunately when this cash flow problem flattens out, the cooperative should do fairly well, the price of cheese to retailers provides them with a 15 percent margin.

The cooperative's success has played a role in mitigating conflict. The actual number of people who have returned due to the economic opportunity is difficult to determine, but there has been a dramatic increase in agricultural investment by those who have returned to their pre-war homes. In Srebrenica, there were 1,720 minority returnees in 2003, which is about 10 percent of the pre-war population. In rural ethnically mixed areas, about 6,500 homes were totally destroyed, and currently 500 families are engaged in agriculture, mostly livestock. In the Vlasic Plateau that is historically a sheep region, there is a 16 percent increase in minority returnees especially Bosnian Serbs. Because the land is near the former front lines, land mines remain a problem for agricultural development. These minority returnees are now making investments in physical assets, as they begin to perceive a more secure future. They have also seen the benefits of an improved competitive environment as the traditional buyers of cheese have increased prices. Regardless of the ethnic tensions, the cooperative serves as a venue for dialogue and that is where conflict mitigation begins.

In a post conflict situation, cooperatives accelerate the sustainability of returning refugees and the stability of the community. In Srebrenica, the livestock association has helped direct donations and assistance to recipients as a means to attract more people to return. Previous working groups were so chaotic that the "right people" did not want to return.

The Bosnian cooperative demonstrates that it is not too early in dealing with conflict mitigation to introduce cooperatives that are built on farmer networks and willingness to work together for economic benefit.<sup>18</sup>

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<sup>17</sup> In Bosnia, associations are not legal companies therefore they are limited in handling the production of members. Cooperatives are legal companies and associations can belong to a cooperative to provide value added marketing services. The vast majority of cooperatives in Bosnia are essentially shareholder companies with no participation in membership from the farm community. The genesis of these cooperatives is that when the economy collapsed in Bosnia, the socially owned (quasi-state) cooperatives collapsed and the municipality acquired their assets. At the end of the war the municipalities were dominated by nationalist parties, which removed the cooperative assets from their books by giving them to political allies and party members. Farmers own the cooperatives that Land O'Lakes is facilitating.

<sup>18</sup> Land O'Lakes established a working group of farmers to develop the framework of the association and the discussion came up as to how the delivery of assistance can be improved. The conclusion was that relative to agricultural donations, agricultural commodity associations or cooperatives are a necessity. The reason is that the refugee-return period of stabilization is relatively short but to sustain the returnees there has to develop a livestock or berry sector. Presently there are about 100 cows in Srebrenica municipality. To attract a dairy processor or make sufficient volumes of cheese there needs to be an association which can build a livestock sector by directing livestock donations to people who need them, providing training to

### **Farmer Coops in Montenegro**

As the last remnant of Yugoslavia, tensions in Montenegro were high when their leaders split from Serbia's Milosevic and permitted over flights by NATO planes to bomb Kosovo in early 1999. This small mountainous country has diverse nationalities and ethnic groups where 41 per cent consider themselves Montenegrin, 31 per cent Serbian; 7 per cent Albanian and five per cent Albanian; and 73 per cent are Orthodox, 22 per cent Muslim and five per cent Catholic

The Land O'Lakes project (8/1999 to 9/2002) coincided with ending of Allied strikes and faced strong initial anti-Western feelings. State collectives (zadrugas) had collapsed and dairy cows distributed to members. There were 55,000 dairy farmers who had only two or three poorly producing cows<sup>19</sup>. Three large dairy plants and several emerging private plants lacked quality milk, and were below capacity in which milk ran out as soon as it was delivered to small shops. Subsidies resulted in high prices to consumers and a lack of incentive to produce quality raw milk. There was not a single private farmer association in existence at the time.

The Land O'Lakes training programs began by sharing its cooperative values, mission and business practices with dairy farmers who requested help in forming coops including drafting bylaws and developing member services.<sup>20</sup> Training focused on the democratic governance and transparent structures. As coops were formed, a rating system was established to compare and create peer pressure among cooperatives to adhere to democratic principles and practices (e.g. open board and annual meetings with agendas and minutes; accurate and transparent financial books). Training emphasized open membership, and "doing" rather than merely talking about coops. As a result, elected Boards of Directors reflected member diversity who had different political views, religions and ethnic backgrounds.

Within a year, thirty-five farmer cooperatives were formed with 12,000 paying members, and a Farmer Trade Company to unite the cooperatives in purchasing inputs and marketing. The cooperatives were monetized through animal feed donations from Italy and the U.S. The project also assisted refugees from Kosovo who received donated cows but lacked know how in proper feeding and milking practices.

The cooperatives did not experience inter-ethnic, inter-religious and political conflicts. Because of training in rights and responsibilities, cooperative members rose up against several old-style leaders who tried to dictate policies. In May 2004, there are 48 well-functioning cooperatives in which 244 farmers own more than 15 milking cows. Pervasive dairy subsidies and extensive government interference has been eliminated and a modern

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returning refugees who do not have a tradition or experience with livestock, and work for the members to locate inputs and markets. A livestock association can turn the donated cow into a business. Associations have long-term goals for the community and agricultural sector, whereas aid organizations have short-term goals for the individual family.

<sup>19</sup> Only seven producers had more than 10 cows.

<sup>20</sup> While called associations, they were organized as cooperatives under an exception to the association law that permitted them to operate as group businesses.

private dairy sector has emerged. In addition, an alliance of 104 other types of cooperatives represents their members before the government.<sup>21</sup>

### **Reducing Ethnic Conflict in Macedonia**

Land O'Lakes carried out "The Ethnic Harmony Program" to reduce tensions because of the outbreak of violence between the ethnic Albanian and Macedonian communities in western and northern Macedonia. The U.S. State Department sent a delegation to review the situation on the ground and given Land O'Lakes contacts among the rural residents already established through its Seal of Quality program (SOQ), Land O'Lakes was asked to be responsible for the visit. The sheep sector, including cheese and lamb, was part of the SOQ as a "cottage industry." The State Department provided \$250,000 over about one year for ethnic harmony with a goal of maintaining multi-ethnic associations and business activities between Albanian and Macedonia producers. Participating shepherd organizations wanted to establish ethnically separate associations, but the project resisted these efforts.

Six multi-ethnic, local associations in western Macedonia were linked to an existing regional association with which Land O'Lakes had a close working relationship. In this region, there had been less discrimination and more trust among rural people, so the challenge was to keep external ethnic politics from adversely affecting the way producers live peacefully and do business.

The regional association of the locals developed a short-term crisis plan, which facilitated the delivery of spring lambs out of conflict zones to the market, and the delivery of feed to sheep in conflict zones. When conflict broke out in late February and early March 2001, the crisis plan went into effect. The local associations also helped producers identify mountain pastures outside of conflict areas since many producers were cut off from their traditional alpine pastures. Macedonia is a small country and the conflict actually affected a small area, but still some association members of both ethnic groups lost sheep and personnel - a couple of shepherds were killed.

The associations organized as cooperatives increased member returns for lambs and cheese by 15 per cent. Development of a White Paper strengthened ethnic cooperation. A number of working groups were established to address issues of production, processing, marketing, and the proper role of government. These groups were multi-ethnic and produced a unified sheep sector strategic plan.<sup>22</sup>

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<sup>21</sup> In May 2004, Radosav Rasovic, former Land O'Lakes deputy COP, updated the status of farmer cooperatives with the following leaders: Mijo Bojovic (Orthodox, Montenegrin), Pashko Vuljaj (Catholic, Albanian), Emin Sinanovic (Muslim, Bosnian), Gani Rexha (Muslim, Albanian), Radivoje Markovic (Orthodox, Montenegrin), Vuk Zukovic (Orthodox, Serbian), Dragan Zecevic (Orthodox, Montenegrin), and Branimir Vujacic (Orthodox, Montenegrin).

<sup>22</sup> Land O'Lakes proposal and quarterly reports as well as input from COP John MacKillop.

### **Lebanon Reconstruction**

Lebanon's war-torn physical and financial infrastructure has progressed over the past decade, but serious challenges remain. CHF International<sup>23</sup> is helping repair years of infrastructure damage and neglected roads, schools, sewer and irrigation systems. Income generation is key to this rural development initiative to strengthen community-based businesses including agricultural cooperatives.

The rural initiative works in nearly 70 villages with 174 projects valued at \$11 million of which 43 per cent is matching contributions. Democratically elected committees were formed where local residents fully participate in the identification, design and implementation of community projects. In conjunction with the Jammal Trust Bank, micro-finance programs are rebuilding financial institutions and reaching small businesses especially poor women-headed households.

The project was able to develop democratic leadership who now has a stake in stability and intervenes between religious groups to reduce violence. Village and cooperative leaders gradually have developed confidence in collective decision-making where previous municipal decisions were done in secret. Community ties were built between farmers, businesses and government officials that resulted in social integration and tolerance. Leaders of village councils became elected officials of their municipalities though most were motivated more by performing local public services and helping others than entering politics.

Major conclusions of CHF research based on project results indicates that:

- Enhanced socio-economic development reduces tensions and conflicts that can mostly be attributed to scarce resources such as agricultural equipment and water.
- Conflicts are reduced through collective actions based on community council processes that require consensus.
- Minorities are able to express their opinions and take part in decision-making, which has increased their feelings of security that, in turn, lessen tensions and conflict.<sup>24</sup>

### **Electricity as Peace Dividend**

Rural electrification can strengthen civic society in rural areas through strengthening local governments (e.g., lighting for town halls for evening meetings, police stations, community centers, street lights) and providing modern benefits including lighting for education, productive uses<sup>25</sup> and information through radios and television. Rural people gain a "connectedness" to the entire nation and enjoy the same electric benefits as their

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<sup>23</sup> CHF International is a cooperative development organization with close ties to U.S. cooperative housing cooperatives and community groups. It was formerly known as Cooperative Housing International.

<sup>24</sup> Unpublished key findings of CHF's Stable Societies Research led by Richard Hill, Director of Emergency and Transition Programs.

<sup>25</sup> Productive uses is a term that is used when energizing a village or area to denote those activities such as electric water pumps, carpentry and metal shops, sewing machines where electricity provides for greater increases in productivity. For example, an electric sewing machine is about 2,000 per cent more efficient (time saving) than a peddle operated machine.

urban brethren. In El Salvador, NRECA<sup>26</sup> assisted in the demobilization of 20,000 ex-combatants through providing electricity to former rebel held towns in which new homes, businesses, water systems, roads and other community facilities were electrified. NRECA found that 80 per cent of resettlement communities did not have electricity for 16,000 of the 20,000 ex-combatants.

In 1991 Ambassador William Walker traveled to the guerrilla stronghold of Santa Marta, near the Honduran border, and committed USAID to electrify the town as part of the Peace Accords. NRECA International built distribution lines to Santa Maria and surrounding rural areas as a showcase. Later the Secretariat for Reconstruction contracted with NRECA for major line extensions to eight former rebel towns in which 50 per cent of connections were for micro-enterprises and some 65 city halls were electrified to restore local government.

In May 1992, NRECA formed the Electric Cooperative<sup>27</sup> at Perquin that was energized in August 1994. The cooperative has a seven-person board of directors that initially was totally composed of ex-combatants. As a democratically elected board, it shifted to a mix of current residents and ex-combatants as part of grassroots reconciliation. As a result of electrification, Perquin underwent an economic boom and grew by 40 per cent (1996). House lighting and refrigeration are the heaviest loads and women benefit through labor saving devices such as electric corn mills and sewing machines. There is substantial savings on the cost of kerosene and candles. Based on an evaluation, residents of Perquin feel safer with public lighting and had enhanced feeling of prestige with electricity.

### **Alternative Development in Colombia**

In Departments of Antioquia and Nariño (outside of Medellin), Land O' Lakes is carrying out a Dairy Alternative Development Program that has already eliminated 158 hectares of illicit drugs within the first year; built a milk collection center, and strengthened three farmer cooperatives. The project expects to eliminate an additional 665 hectares of illicit cocaine crops by mid-2004.

In a violence prone region, the project has been successful because small farmer want to become dairy producers, and are quite willing to sign contracts to stop growing cocaine. The regular income from milk may be less than selling illicit drugs to narco-terrorists but it is safer and avoids aerial spraying on their lands. Farmers are able to avoid the constant threats from dealers and no longer fear for their lives or those of their family

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<sup>26</sup> The National Rural Electric Association is composed of about 1,000 electric generation, and transmission and generating cooperatives. For over 40 years, NRECA has built successful rural electric cooperative networks in Costa Rica, Philippines, India and Bangladesh.

<sup>27</sup> NRECA helped form another cooperative and provided power through an underwater cable to the Meanguera Islands that provides basic services to three islands that had been isolated and awarded to El Salvador by the International Court at Hague. The cooperative helped stabilize the islands through refrigeration for its fish catch and increased agricultural production through food processing, mulching grinders and use of electric tools (such as construction of fishing boats). It provided alternative income rather than reliance on smuggling and drug running. The first democratic elections on the islands were those held by the cooperative as a school for democracy. Ted Weihe, A Final Evaluation of the El Salvador Rural Electrification Project, 1996.

through illegal activities. By working together in a cooperative, they are able to gain sufficient income for their livelihood, expand the amount of land in quality pasture and forage (rather than cocaine) and benefit from cooling tanks and technical assistance to share in the added value of processed and branded fluid milk deliveries to Medellin. Cooperative development challenges include: insecurity to certain areas at times, lack dairy infrastructure and sufficient cows, and small producer education to gain confidence in their cooperatives.<sup>28</sup>

### **Recovery in East Timor**

Since 1994, NCBA's<sup>29</sup> assistance activities in East Timor helped build a network of agricultural coffee cooperatives with a membership of some 20,000 small-scale farm families (approximately 120,000 persons). With the end of Indonesian control in December 1999, the provincial cooperatives, which had been units of Indonesia's state-sponsored system, ceased to function. With NCBA assistance, these government-controlled cooperatives were replaced by genuine cooperatives<sup>30</sup> that are now member-owned and business-oriented.

The cooperatives focus on production and processing of specialty coffees for export since it is the country's principal cash crop. These coffee cooperatives are the largest private sector income-generating activity, employer, health care provider and exporter.<sup>31</sup> A survey by Indonesia's Central Bureau of Statistics found that East Timor had the country's highest percentage of rural poverty, with more than 36 per cent of the population living below the official poverty line (an equivalent of \$8.50 per month).<sup>32</sup> The great majority of East Timor consists of small-scale subsistence farmers. The NCBA project focuses on organizing and training farmer groups and their cooperatives in the production and processing of specialty crops primarily directed at the export market.

In 1999, the project was interrupted by the violence associated with the political transition and vote for independence. In August and September 1999, widespread violence fomented by armed militias caused tens of thousands of rural families to flee their homes and forced a temporary suspension of the project. The violence had its greatest adverse impacts on the rural population. There were a number of deaths. Rampaging militias destroyed thousands of homes and forced the long-term dislocation of large numbers of rural families. While no project staff lost their lives, they worked under very dangerous and trying conditions as they attempted to preserve project assets

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<sup>28</sup> Land O'Lakes Project Updates, 2004

<sup>29</sup> The National Cooperative Business Association, formed in 1917, is an apex organization of diverse types of cooperatives. It has been carrying international development since the 1950s beginning in India.

<sup>30</sup> NCBA has also assisted the development of other types of cooperatives, including for vanilla production, processing and export, consumer goods distribution, coffee shade tree production and the production of host trees for the vanilla plants.

<sup>31</sup> The coffee cooperatives consist of *Cooperativa Café Timor* (CCT)—the national level federation—sixteen local cooperatives, *Cooperativas Café Organico* (CCOs), and nearly 500 organized farmer groups.

<sup>32</sup> The official poverty line was based on a daily per person intake of 2,100 calories and the equivalent of \$156 annually for urban residents and \$ 8.50 for rural inhabitants. East Timor's rate of 36.2 percent of the population living below the already very low poverty ranked it below the country's other rural populations, such as West Kalimantan at 25 percent, and Irian Jaya at 24 percent.

and ensure the safety of their fellow workers and the cooperative members. The cooperatives experienced particularly heavy losses, with many buildings burned, much equipment destroyed, vehicles looted or stolen, and records lost.

Once the violence ended, the project became the initial economic development program to re-start its activities and provide immediate income-generating opportunities to thousands of Timorese.<sup>33</sup> The staff assisted the return of families from refugee camps in West Timor. The rapid renewal of activities provided urgently needed cash into the rural areas and performed a dual role of restructuring economic activities and placing them on a commercially sustainable basis while, at the same time, responding to the relief and rehabilitation needs.

The cooperatives were able to rehabilitate damaged facilities and achieve significant increases in production and processing. Immediately following the cessation of violence, the project provided short-term employment in repairing damaged facilities, identified the need for non-emergency food and consumer goods to supplement relief operations and reduced the high rate of inflation.<sup>34</sup> It established commercial channels for the procurement and distribution of consumer goods, construction material and farm inputs from West Timor and East Java and sold these items to small-scale traders in East Timor. The project employed several thousand Timorese in coffee processing; provided an immediate market for farmers to sell their stocks of dried coffee procurement remaining from the previous season; and re-activated the health care component serving the coffee growing families, a program that in 2003 is providing medical care to 10,000 patients per month.

Through its production of specialty coffees, the cooperatives brought subsistence producers off of the sidelines and into the mainstream economy. It demonstrates that small-scale farmers would respond positively to marketing opportunities that offer a reasonable chance for economic progress – a chance that was only possible through cooperatives.

Both the volume and the quality of East Timor coffees had declined markedly during the many years of civil unrest. As international buyers turned elsewhere for their supplies, prices dropped to such low levels that many producers simply gave up and turned to subsistence agriculture to feed their families. With the initiation of the cooperative project, the situation changed dramatically. The cooperatives improved quality so that East Timor could re-enter international markets. Farmers affiliated with the program agreed to abide by strict production and quality requirements. Through extension agents,

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<sup>33</sup> Many of the farm families had remaining stocks of coffee that they had not been able to sell during the coffee harvest season and the project was able to provide them with urgently needed cash by re-starting its purchasing activities. This injected the equivalent of several million in US dollars into the rural economy and helped make it possible for the farmers to rebuild their homes and lives and survive without being dependency on relief aid.

<sup>34</sup> As one example, the project procured food supplies and building materials in West Timor (a province of Indonesia) and sold them in the local East Timor markets at current Indonesian prices, which were considerably lower than the prevailing inflationary prices.

producers adopted modern techniques, which, in just two years, resulted in the East Timor specialty coffees commanding a premium price on the world market.<sup>35</sup> East Timor's cooperatives, and nearly 500 democratic affiliated self-help groups, procure coffee, process it and serve as linkages between the producers and the export market. A major emphasis is restructuring cooperative operations to enable them to handle the large increases in business volume resulting from the growing number of farmers entering coffee production. With the ending of donor support, the cooperative enterprises are proving to be fully capable of functioning as private sector businesses. They are able to organize production, provide farmer extension services, purchase the harvested coffee, and carry out its processing and marketing.

The East Timor experience demonstrates the ability of cooperatives to contribute quickly and extensively to economic recovery. Today, these cooperatives market 50 per cent of the national coffee harvest, employ 300 full-time people and 4,200 on a seasonal workers. They played a major role in the adoption of a new currency in the economy.<sup>36</sup> Financial analysis in 2001 indicates that the cooperatives are profitable - generating \$267,000 (10 per cent in profits assuming current market conditions). The average annual payment to a member is \$120 plus a dividend of \$14 depending on the costs of operating the health care component. A difficult challenge remaining is how to keep the cooperatives focused on business as they have assume additional social responsibilities since they are the only rural structure able to carry out primary healthcare.

### **Transition in Mozambique**

From 1996-2001, NCBA helped moved Mozambique from emergency distribution of free food and donations towards a market oriented rural economy in nine northern districts over five agricultural cycles. The project created a rich network of 75 local and regional democratic farmer associations, and 714 group-based agribusinesses through extension, training and the introduction of private sector cooperatives. Given the bad reputation of previous government formed "cooperatives," NCBA avoided the term but formed member-owned associations and rural enterprises based on cooperative principles and democratic structures.

A Michigan State University study<sup>37</sup> found that the emerging farmer associations in Nampula facilitated and brokered a range of agricultural services, including input supplies, marketing, credit and extension services. Associations expanded the delivery of inputs by reducing transactional costs and risks by aggregating demand, and through group guarantees for credit repayment. The companies responded to increased demand by introducing modern agricultural technologies especially in seeds, fertilizers and pesticides.

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<sup>35</sup> In 2002, coffee prices at below 50 cents/lb. hit the lowest levels since 1975. Specialty and organic coffees command a premium at about 15.65 cents per kilo to the average cooperative member.

<sup>36</sup> Case Study: Coffee Cooperatives of East Timor, [www.cooperativecenter.coop](http://www.cooperativecenter.coop), 2003

<sup>37</sup> Observations and Emerging Lessons from 1998/99 High-Input Maize Program in Nampula Province, Mozambique, No. 22E, Policy Analysis Department with MSU collaboration, September 2000

A study conducted by the Ministry of Agriculture's Department of Studies and Policies (October 10, 2001) documents the role of associations and found:

- During the last three years the number of associations is growing in cotton production districts, both in districts where conflicts are noticed as well as in districts free of conflict.
- A correlation between experienced associations and the reduction of conflict is found.
- 67 per cent of the associations working with the NCBA project have fewer conflicts with cotton companies.

The conflicts were economic in nature such as producers and companies who did not honor contracts and carried out side selling. The associations were able to fulfill the producers' agreements in the contracts and, at the same time, received better services and benefits for their members from the companies.<sup>38</sup>

In the early stage of transition, the project proved that Mozambican producers were ready and quickly adopted farmer cooperatives. These group-based businesses brought rapid economic development that reached over 25,000 smallholder families. Other benefits included a major expansion in functional literacy and numeracy for 2,523 rural producers of which 1,118 (43 per cent women were women). The project training resulted in a more profit-oriented attitudes and empowerment that was demonstrated through self-help initiatives in infrastructure building, dialogue with local government officials and ability to establish strong partnerships with private companies.<sup>39</sup>

### **Agricultural Recovery in Rwanda**

Given overpopulation with 90 per cent of residents in rural areas, land pressure may have been one of the causes of the Rwanda genocide. By the time fighting ended, large tracts of farmland had been abandoned, the coffee harvest declined by half and more than 80 per cent of cattle were lost. Many household enterprises had been destroyed and looted. Unlike East Timor, the donor community failed to quickly rehabilitate agriculture.

Rapidly ensuring fair market access for coffee growers and farmers picking coffee from abandoned fields is probably the most efficient and effective means to re-monetize the rural economy. Ironically, at the same time that relatively little is being done to reconstruct the coffee marketing and processing system, relief agencies are rushing to develop projects to inject funds into the rural economy.<sup>40</sup>

Most two million rural Rwandans were outside the country in refugee camps, which made it difficult to rebuild agriculture. A USAID assessment noted that the distribution

<sup>38</sup> Alex Serrano, former COP

<sup>39</sup> Mozambique Rural Enterprise Development Program, NCBA, Final Report, September 1995-October 2001.

<sup>40</sup> Rebuilding Postwar Rwanda, The Role of the International Community: "Support to the Economic Sector," USAID Special Study No. 76, 1996.

of free seeds, tools and food aid into the third season adversely impacted agriculture because many farmers relied on donations rather than economic self-help.<sup>41</sup>

The Rwanda Poverty Reduction Strategy (June 2003) sets a goal to reduce populations working in agriculture from 90 to 50 per cent within two decades and transform the subsistence economy into a market-based economy. To accomplish this goal, the emphasis is on the creation and strengthening of cooperatives<sup>42</sup>, especially for marketing and extension services. The goal is to produce higher quality coffee through the construction of washing stations: a difficult challenge since only a single poorly managed cooperative (UPROCA) produced 50 tons of washed coffee in 2001, that fell to 32 tons in 2002 and zero in 2003. For tea estates, 65 per cent are small holders and negotiations are underway on the share the cooperatives will have in the tea factories.<sup>43</sup>

Since February 2000, ACIDI/VOCA<sup>44</sup> has been operating a USAID-funded Title II food security program to address natural resource management, agricultural production and agribusiness development through the promotion of cooperatives for improved market access as well as the rehabilitation of farm-to-market roads. The program provides grants<sup>45</sup> and revolving funds to cooperatives to develop sustainable business strategies. In 2001 and 2002, ACIDI/VOCA assisted cooperatives to become qualified for Fair Trade in which greater returns are provided to producers, and for higher quality specialty coffees. Cooperative members were able to receive \$1.33/lb for 13 tons from a London specialty roaster; and \$1.36/lb for 18 tons from Community Coffee, a wholesaler in Baton Rouge, Louisiana, for their specialty coffee. The cooperative generated a net profit of \$32,000 in the first year and \$50,000 in the second year. Similarly, ACIDI/VOCA is assisting the Coopérative pour la promotion de la culture du riz dans le District de Bugarama to purchase fertilizer in conjunction with a loan from the Rwanda Development Bank. The cooperative has not missed a payment for the \$90,000 loan and has established a reliable credit rating.<sup>46</sup>

### **Rural Financial Systems in Rwanda**

The World Council of Credit Unions<sup>47</sup> is assisting the Rwandan credit union system to rebuild by expanding services and access to small savers and producers in rural areas without regard to ethnicity. The program works intensively with 17 pilot credit unions to strengthen their performance, increase their outreach and strengthen the national

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<sup>41</sup> Ibid

<sup>42</sup> Laws are currently being changed that would prohibit associations from undertaking for-profit activities and only legally constituted cooperatives can open bank accounts.

<sup>43</sup> COP Paul de Lucco

<sup>44</sup> ACIDI/VOCA is a merger of Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Development. ACIDI/VOCA is affiliated with the National Council of Farmer Cooperatives that represents agricultural and farm credit cooperatives in the United States.

<sup>45</sup> Grants are made to cooperatives to bring more value added to agriculture and, where possible, grants are coordinated with bank loans to develop their credit worthiness.

<sup>46</sup> COP Paul de Lucco and Suzanne Berkey, Rwanda's Recovery: Building Strong Business-Oriented Cooperatives, ACIDI/VOCA World Report, Spring 2004.

<sup>47</sup> The World Council of Credit Unions, located in Madison, Wisconsin, is an international organization that unites developed and developing country credit unions.

association, Union des Banques Populaires de Rwanda, which served 315,356 members in 2003.

In December 2001, the entire system of 148 banques populaires (credit unions) had more than 274,000 active voluntary passbook savings accounts with an average deposit size of \$101 per account. Despite the average of \$102 per passbook account, 66 per cent of passbook deposits are for less than \$23. The average loan size is \$215.

Tens years after the genocide, WOCCU field staff sees little evidence of discrimination and believes that the Rwandan people have gone through a process of substantial reconciliation. Credit union administration is fully integrated without evidence of ethnic difference. Credit union staff is hired based on their educational degrees and experience. For three and a half years, there has been only one isolated example of ethnic discrimination in credit union hiring involving a widow of a soldier from the previous regime.<sup>48</sup>

The increase in trust bonds is evidenced in a 2002 member survey in which 62 per cent of respondents indicated that they had a higher levels of trust in various institutions than the general population. Among credit unions, trust levels were higher than commercial banks (3.5 compared to 2.8 based on scale of 5). Credit union members exhibited substantially more trust working in groups than non-members.

The highest group memberships by household belong to informal group insurance and savings groups<sup>49</sup> (very high at 29.3 per cent and 25.9 per cent respectively) and much lower membership levels for other types of associations (business groups at 4.6 per cent, agricultural associations at 8.3 per cent, cultural groups at 2 per cent, PTAs at 7 per cent and community groups at 6.6 per cent).<sup>50</sup> This data suggests that cooperatives create stronger trust among members and have the potential for larger membership associations than other types of associations, since informal group savings and mutual insurance are embedded in the culture.

### **Coping Strategies in Nepal<sup>51</sup>**

Since 1996, Nepal is facing an escalating internal conflict between Maoist rebels and the government. Forty-six out of 75 of Nepal's districts are classified as highly affected and 20 as affected by the insurgency. As of 2003, violent clashes between Maoists and police/military have claimed more than 7,000 lives. The largest provider of micro-finance in Nepal is savings-based credit unions, especially in remote and mountainous areas. Credit unions have about 37,390 members, \$4.3 million in savings and \$2.6 million in loans with a 95 per cent repayment rate.

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<sup>48</sup> Adrian Rodriguez Arias, WOCCU COP

<sup>49</sup> High membership in informal associations or pre-cooperatives indicates a culturally affinity to the formation of formal cooperatives.

<sup>50</sup> Ragan Petrie, Rwanda Credit Union Member & Non-Member Survey, 2002

<sup>51</sup> These credit unions have been assisted by the Canadian Cooperative Association and Ford Foundation.

The estimated costs of the conflict to the economy are a reduction of 8-10 per cent GDP. The banking sector and its rural branch banks are prime targets of rebels. An estimated 20 to 30 per cent of the three largest rural banks, including the Agricultural Development Bank, have been robbed and vandalized. In some cases, Maoist guerrillas have forced micro-finance institutions to lower their interest rates to as low as 3 per cent per month.

Most rural savings and credit cooperatives in conflict zones have not been affected because they are member-owned and community based – compared to government institutions. However, there are cases where credit unions have been forced to reduce interest rates and equipment and infrastructure has been stolen. The credit unions have adopted several coping strategies:

- Information campaigns at local, district and national levels,
- Indirect dialogue with Maoists at the local level to assure them that they are member, not government institutions,
- Special security arrangements for cash and files including preparing two copies of each document, depositing cash daily in banks, a zero cash on hand policy to avoid looting, strong cash vaults and board members hiding cash at their homes when necessary,
- Temporary transfer of operations to district headquarters, and
- Immediate reconstruction, rehabilitation and re-launching of activities if credit unions are attacked.<sup>52</sup>

Maoists have made virtually no changes in commercial activities and farmers appear free to buy and sell in their markets. They have not replaced private shops with collectivized stores, nor attempted to collectivize farms. They have expelled and killed prominent alternative rural leaders; required local farmers to pay taxes (roughly 10-20 kilos of grain); and teachers and health workers remit 5 per cent of monthly salaries.<sup>53</sup> Because they are part of traditional systems and not affiliated with the government, credit unions have been able to continue operations though they must protect themselves from random looting.

### **Start Up in Afghanistan**

In northern Afghanistan in 2002, WOCCU carried out an assessment on the potential for credit unions and determined that they could be viable. With World Bank, CGAP and other funding, the project's first model credit union will be located in Mazar-e-Sharif, and another two in the rural north within a five-hour drive of Mazar. Credit unions will offer a combination of savings and loans within traditional Islamic banking practices. Since the people are very poor, the mobilization of savings will be difficult and take time given an average salary for a teacher, policeman and government worker is about \$30 to \$40 a month. Given years of upheaval and much of the population having fled, many refugees are coming back to their homes and find squatters. Lack of housing has caused very

<sup>52</sup> Namrata Sharma, Poverty, Micro-Finance and Conflict in Nepal, Canadian Cooperative Meeting in Ottawa, October, 2003

<sup>53</sup> Gersony, Sowing the Wind: History and Dynamics of Maoist Revolt in Nepal's Rapti Hills, 2003

high rents and is forcing families to live in a room of a home where everyone needs two or three small enterprise jobs to survive. Credit unions can provide affordable loans for home construction and financing small businesses. The initial three credit unions are expected to be operational in three months. An issue that is currently under consideration is how best to serve women, given cultural practices and customs

### **Potential in Southern Sudan**

Cooperatives anticipate helping to build an agricultural economy in Southern Sudan when peace accords are signed. Senior leaders of the guerrilla movement (SPLM) indicate that cooperatives are the “preferred development model.” A joint mission of U.S. cooperative development organizations in October 2003 concluded that cooperatives could assist in the transition from relief to development through:

- Successful return and reintegration of IDPs which is a daunting challenge but key to the future. It will occur only if there is appropriate planning (physical and other) and the fostering of economic opportunity through integrated community assistance including through community coops.
- The greatest assets of Southern Sudan lie in its people, agricultural potential and related value added production and trade. People are ready for peace and open to development opportunities. The timing of assistance is important so that donors and the future government of “New” Sudan can capitalize on the high expectations and realize concrete peace dividends in a timely fashion. Agricultural development by small producers may be advanced through cooperatives.
- Poor roads inhibit all social and economic development. Small trucking firms have been formed that operate as informal cooperatives for market vendors to bring in commodities for sale and purchase.
- Without electrification and telecommunications in at least core centers within major towns, significant development is impossible. Rural electric and telecommunications cooperatives are appropriate in rural areas where there is limited interest by investors and where systems are designed to serve rural densities.

CDOs commented on the new Cooperative Law that was judged to be too restrictive, but SPLM officials expressed a willingness to make changes and asked for support in developing model by-laws and cooperative training. As a result, a team of trainers was sent to Yei in January 2004 where participants easily understood fundamental cooperative principles because it was similar to their own self-help, group efforts. For example, they had worked together to accumulated capital from small merchants so that they could purchase large quantities of goods, transport them collectively and share the high transport costs. Participants, especially from the local market, see the need for collective action because of their remoteness to major market cities such as Kampala and Nairobi where it takes weeks with heavy travel expenses to sell exports (e.g., cattle), buy consumer items and get remittances from relatives abroad.<sup>54</sup>

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<sup>54</sup> ODC Southern Sudan Trip Report

## Conclusions

Two hundred years of cooperative development in the United States, Europe and in developing countries highlights the economic and social leverage they can bring to development efforts in failed, failing and recovering states.<sup>55</sup> In literally hundreds of situations where political and social tensions were high, and where important groups were marginalized, effective cooperatives were created and operated by organizing small producers and entrepreneurs with few resources into successful economic networks and social instruments of change that are able to overcome and resist violence.

Cooperatives are distinct from associations and other development approaches because these are group-based businesses with member ownership that require sound business management. By mobilizing social capital through group action, cooperatives can increase their scale of operation and the effectiveness, generate significant returns and thereby financially benefit members. Through member equity and savings, they insure responsibility and accountability. Their distinctive approach is to rely on market dynamics, achieve scale through cooperative networks, and operate as group-based enterprises in which risk and benefits are shared.

While many developing countries have weak or even hostile policies (and, legislation) concerning cooperatives, recent experience indicates that cooperatives (whether in name or substance) may be the first choice in development strategies in difficult political or economic situations.

Cooperative development efforts include both successes and failures, of course. The document attempts to show that cooperatives are more likely to succeed when cohesive groups have similar needs, and where governments, donors or development agencies do not impose cooperatives. Cooperatives galvanized basic commercial interests, and access markets with sufficient strength to permit at least modest margins for members.

Cooperatives in conflict or failed states are most likely to succeed under the following circumstances:

1. In many conflict prone societies, informal cooperation exists at the tribal and clan level, within the marketplace and in dealing with common property systems. Cooperatives can be built on these imbedded cultural norms. But to support development goals, they must be organized on business principles, first and foremost, which may require integrated efforts beyond a single homogenous group. In a significant number of instances, as illustrated in Bosnia and Macedonia, normally incompatible groups are willing to work together to further their economic goals. When multi-ethnic groups became convinced that the cooperative is organized equitably and managed effectively, the cooperative can grow rapidly, even when the groups had been unwilling in the past to work together.

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<sup>55</sup> See annexes A and B for background and history

2. As demonstrated in East Timor, El Salvador and Bosnia, cooperatives serve effectively as a means to induce displaced persons or ex-combatants to return to their homes and restart their businesses after their livelihoods have been disrupted or destroyed by conflict. In such situations, small producers rarely have sufficient capital and must work cooperatively to re-establish markets. In Mozambique and Rwanda, resource pooling and group-based businesses were an economic development alternative to relief and continued dependence.
3. In many conflict countries such as Nepal, Rwanda and Sudan, minorities or groups may be distant from markets and require collective action for economic development. Cooperatives address special needs of minorities by reflecting their cultural and economic settings as voluntary and member-owned businesses. They have frequently succeeded in creating market linkages from minority (e.g. Albanians in Macedonia, Basque in Spain, Mayans in Central America) to majority populations.
4. Cooperatives have also been successful in the integration of different ethnic or religious groups into a bridging institution such as farmers Montenegro and Bosnia, and ex-combatants in El Salvador. The history of cooperatives and credit unions is that they must grow as businesses beyond a single ethnic or group identity to become transformational. While primary cooperatives may remain rooted in one group as member-owned, they must be brought together through networks and value added processing or marketing (e.g. secondary level cooperatives) such as demonstrated by successful dairy cooperatives in India.<sup>56</sup>
5. The patterns of cooperative success in conflict situations indicates that they are particularly effective when rooted in their cultures, and they exhibit a surprising ability to resist outside oppressors or guerillas such as in Nepal, and can be quickly reconstituted during the recovery stage such as in East Timor.

This paper has been developed through extensive review of cooperative literature, and many current and former case studies where cooperatives have operated and been successful in conflict situations. However, project and financial data usually focuses exclusively on cooperative governance, membership and finance within a project context. Cooperative development organizations focus on business operations rather than the role cooperatives can play in mitigating conflict or sustaining members through difficult political and economic situations. While cooperatives have played prominent roles in economic recovery in countries emerging from conflicts, there is also little sociological documentation on the impact of cooperatives on reconciliation, democracy building and prevention of a return to conflict.

This paper offers strong anecdotal information to confirm the hypothesis on the role of cooperatives in conflict, failed and failing states. Yet, some of the assertions are hypothesis that remain to be proven. It is important to move beyond anecdotes to

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<sup>56</sup> See discussion in Annex C on India dairy coops.

empirical evidence. OCDC invites readers to suggest additional sources, or to work with OCDC members to undertake the required research.

## **Annex A: Cooperatives As Special Purpose Organizations**

U.S. assistance is increasingly being diverted from long-term development to humanitarian crises and failed, failing or recovering states. Rather than the supportive system of businesses, banks, municipal and county political systems, and other economic institutions that are essential for private business relationships and to foster investment, many nations exhibit ravages of failed systems—colonialism, central planning, tribal domination and tribalism as well as overtly anti-western cultures. In those countries, where at least the rudiments of civil authority are present, there are strong development opportunities even where economic, social and physical infrastructure is weak.

In the broadest concept, development involves investment in people through training and technical assistance. Development also requires an environment that can attract investments in land, factories, small and medium-size enterprises and strengthened communities and governance. In modern economic systems, investment requires an expectation of benefits and returns. Profit is the key driver that leads resource owners to attempt to make them more productive. Key business concepts like private property, usefulness of contracts and civil negotiations, among many others, provide tools used to build and expand these systems of investment. But, while these ideas have common roots, they have very important differences in their application and their effectiveness.

In the United States, we distinguish carefully between profit based or market businesses and non-profits because we see very different roles for them in our societies. The economic lifeblood of Western economies is the profits that go to families, individuals and outside investors in return for their labor or capital. But, we do not organize all of our activities for profit. Some organizations, like trade associations or business associations are designed to facilitate or support other businesses or individuals. Still others have philanthropic objectives. Usually, we define these organizations by the IRS code that identifies three major non-profit and non-taxed organizations: trade associations, business associations and 501 (C) foundations.<sup>57</sup>

Cooperatives are special purpose organizations with unique attributes that distinguish them from other forms of enterprises. Their business purpose separates them from NGOs nor non-profit organizations. The cooperative identity of users and owners with an emphasis on patronage rather than capital makes them structurally different from individually owned companies, partnerships or investor owned corporations. Cooperatives are member-owned, as are corporations, but are organized and managed on different principles and are regulated by different sections of the IRS code. Profits accrue not to the corporation, but to members and are not double taxed. The lines between non-profit and profit organizations are blurred with regard to cooperatives, and ordinary designations do not describe their unique business role, which includes an extraordinary sense of ownership (never achieved by ordinary corporate stockholders) as well as the

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<sup>57</sup> The vast majority of Private Voluntary Organizations (an USAID term) are 501(C) foundations.

high degree of “voluntarism” such as non-paid boards of directors and voluntary membership.<sup>58</sup>

Europeans view cooperatives somewhat differently than do Americans. Before the relatively recent explosion of non-profit numbers, cooperative in Europe were considered a third sector – neither traditional businesses nor non-profit organizations. In addition, Europeans traditionally have relied more on governments for social services and depend on the value-added tax more for government revenues. Therefore, at least part of the US stimulus for growth of non-profits was absent and the large growth in the non-profit sector has been more recent. They also attempt to distinguish between market and social economies. Cooperatives (e.g., cooperative businesses and credit unions), associations (e.g., not-for-profit voluntary associations) and mutual groups (e.g. mutual aid, funeral societies, insurance mutual, health care) are part of their social economy, allied with labor and consumer organizations. A major difference is that European social entities emphasize democratic processes in organization and management but prohibit distribution of profits, thereby eliminating a major reason for cooperative organization. This concept also eliminates part of the mutual aid component since some mutual insurance organizations refund surpluses to their members in the form of lower premiums.<sup>59</sup>

The benefit of this European typology is that cooperatives are seen primarily as businesses with a social purpose or goal, a type of organization in which service to members takes precedence over profits for investors or owners. While all forms of businesses exist to create value for owners, cooperatives have a different definition of value in that it extends well beyond dividends and investments. Of course, cooperatives must be profitable in order to compete successfully in the market place. In fact, a number of large consumer cooperatives, such as in France, collapsed and similar pressures are taking place in the United States. For example, large food chains increasingly provide natural foods in competition with natural food cooperatives and major agricultural cooperatives such as Farmland and Agway have gone out of business.

Similarly, the large number of failures among cooperatives in developing countries should also be seen as the result of their inability to compete effectively rather than a failure of the cooperative business model. As in the case of any business investment, cooperatives organized on weak business concepts, which lack access to markets or which provide services that do not interest consumers have little chance of success. It was hard to convince people that cooperatives could effectively respond to their needs, and they were developed outside of existing traditional networks, seen as alien and

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<sup>58</sup> Observers of the “non-profit” sector in the United States find it different to deal with cooperative concepts and their special status. For example, they cannot be categorized as large or small organizations, since most are small but some are multi-billion dollar organizations. For example, Lester Salaman, a world authority on non-profit organizations argues that cooperatives should be excluded from the non-profit sector since some are so very large that their inclusion would skew his descriptions of the size and numbers of participants in the non-profit sector. See Salaman, Defining the Non-Profit Sector: A Cross-national Analysis, John Hopkins, 1997).

<sup>59</sup> Defourny, et al, Social Economy: North and South, 2000

artificial, and frequently seen as extensions of government authority. Cooperatives may also fail due to cultural values that are inimical to cooperation. Yet, studies indicate that many traditional structures do have embedded within them strong social and economic networks that properly organized and mobilized can be very successful. A cooperative business model may be particularly suited for small scale, low technology enterprises that involve many small producers that can be organized to improve quantity and quality of their products.<sup>60</sup>

This distinction concerning the nature of cooperatives is crucial to understanding the different perspective that the United States, European and other Western cooperative development organizations take in international development programs, especially situations involving political tensions. PVOs and non-profits view cooperatives inappropriately as primarily non-profit, grassroots organizations and see them as convenient channels for donated goods or financial contributions. This concept undermines the capacity of cooperatives in many fundamental developmental roles because it ignores the unique capacity of cooperatives to build sustainable organizations that can mobilize both labor and capital, and focus outside assistance to strengthen families, communities and regions.

The integrity and resilience of cooperatives is grounded in membership ownership and control. The cooperative model can be built through sweat and equity in very trying circumstances and, historically, they have emerged and grown in difficult economic and social milieu. Even in good economic times, cooperatives can address exploitation from private businesses or middlemen that aggressively exploit smaller producers. But, it is critical to cooperatives that members are willing to accept risks (including financial losses) and benefits of membership, not merely vehicles for technical assistance or grants.

This issue is exacerbated when governments misuse cooperatives as quasi-government entities to provide soft loans, usually grants, and/or they are controlled by government officials, rather than creating a positive enabling environment and hands-off approach in which members own and control their own group businesses. The worst combination merges extensions of governments and PVOs and/or relief agencies that undermine cooperatives with donor resources and “directed” assistance. Rather than support, local investment and ownership and growth, such a model insures dependency, lack of initiative and, in many cases, decline and eventual failure. Many “dependent” cooperatives that are not owned and or controlled by members are merely cooperatives in name, not substance.

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<sup>60</sup> There are tensions inherent in cooperatives that can be obstacles to business success. In credit unions, the interests of borrowers can subsume those of savers (or vice versa) and boards of directors, especially if they are composed of representatives dominated by savers or borrowers, can favor one or the other and undercut the financial basis of the credit union. Similarly, cooperative members can opt for short-term gains such as buying or selling to the highest bidder rather than patronize the cooperative in good and bad market times. Cooperative member education is the key to assure that the board of directors and manager represent the broader membership.

## **Annex B: Cooperatives Attributes in Facing Crises**

Cooperatives have the following attributes in addressing conflict:

### Grassroots' Democracy

Cooperatives help build solidarity and building grassroots democratic businesses, which can have immediate and tangible benefits for members who may distrust the political systems and structures. They can be “schools for democracy” since they hold open elections to their boards, require transparent and open management, and serve their members - all of whom have one vote per person. Successful cooperative development is premised on the capacity of individuals and groups to drive their own development, and not rely on relief or outside donors to realize a better future.

### Diversity in Membership

Cooperatives are group businesses that provide tangible returns to individual members who define their own needs and have a personal stake in the success of the business. They create economic cooperation in fractured societies with participation open to all including women, ethnic minorities and those practicing different religions. Cooperatives have been effective at building economic and social ties across religious and ethnic barriers, and mainstreaming poor and discriminated groups into the conventional economies.

### Emphasis on Markets

Successful cooperatives worldwide emphasize markets; financial systems controlled by members and communities; and participation in economic activities in which cooperative members invest -- even if very little -- and share in the risks and returns of a group business. They rely on programs without handouts and insist on user fees/in-kind contributions.

### Economies of Scale

Cooperatives aggregate production and increase quality from many small producers so that they are able to compete for markets, purchase inputs and attract professional management. By establishing remunerative markets, cooperatives encourage and support farmer investments in modern technology. They enable large numbers of producers to enter value-added economic activities, such as exporting coffee, natural foods, cheese and other non-traditional products.

### Savings, Loans and Insurance

Credit unions help protect and maintain secure savings that, in turn, provide sustainable micro-credits to small producers and their businesses. They provide life and property protection to low income or underserved populations and lower their risks from unexpected events, including natural and manmade disasters.

Among micro-finance institutions, cooperatives and credit unions have a solid record of micro enterprise loans in Moslem countries since they address Islamic injunctions against

charging interest through their internal membership structure (rather than lending to the general public). These methodologies have been developed and refined in diverse settings including Indonesia, Jordan, Egypt, West Bank/Gaza, Albania, Uzbekistan, and Mali. Pilot credit unions are now being developed in Afghanistan.

#### Coop-to-Coop Market Linkages

U.S., Japanese and European cooperatives have promoted and sponsored cooperative development programs and member-to-member technical assistance for developing country cooperatives, especially in specialty coffee, organic cocoa, vegetables, herbs, etc. Extensive consumer cooperative networks in Japan and Europe have been in the forefront of these efforts and, to a lesser extent, U.S. natural food cooperatives.

During the 1960s, cooperatives were a preferred approach to land reform, breaking up of large estates, and helping small producers work together, especially in El Salvador and Nicaragua. Many of these “collective” cooperatives (e.g., land is owned in common) survived major political upheavals and rebellions, and have succeeded through development efforts that focused on improved governance and management, quality standards and higher value export products.

#### **Mobilizing Local Capacities**

At the time when countries are experiencing internal conflicts, cooperatives and group practices can be organized in refugee or displaced persons camps to create the local capacity in preparing for the shift from emergency to early transition. These group structures can better utilization relief supplies such as seeds, fertilizers and other inputs delivered and managed on a group basis, rather than to isolated producers. Small-scale processing equipment and credits to producer organizations can jump start the economy. For example, “Farming as a Business” is being taught to groups of subsistence farmers along with how to use improved seeds, pesticides and better cultivation practices in a northern Uganda displaced person camp.<sup>61</sup>

Once the immediate crisis moves beyond its early stages, the local population is left to cope with tremendous problems. Self-help and mutual aid approaches are sustainable solutions and common to many difficult recovery phases. In such circumstances, it is critical to properly identify where, when and how cooperatives may be usefully encouraged and supported to contribute to the crisis resolution and recovery.

Cooperatives have the capacity to enhance local communities cope, prevent and reduce the impact of crises. External and internal relief organizations and transition and disaster donors can:

- Promote and build cooperatives as self-help private, independent and autonomous organizations based on traditional forms of mutual assistance within the community.
- Tap into a worldwide systems, methods and networks of cooperative development organizations in many countries that can share how other cooperatives have responded to similar crises.

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<sup>61</sup> ACDI/VOCA Uganda PL480 Title II Program

- Gain an understanding of the “success drivers” for cooperatives including leadership, member involvement and business skills.
- Include cooperative expertise in multidisciplinary teams that access and respond to crisis and recovery.
- Insure that programs to support cooperatives in crises do not undercut their member-ownership, independence and reliance on local resources including equity.
- Avoid the term cooperative where prior experience has been poor or cooperatives were instruments of the state, and instead focus on the functions of cooperation.<sup>62</sup>

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<sup>62</sup> Edgar Parnell, The Role of Cooperatives and Other Self-Help Organizations in Crisis Resolution and Socio-Economic Recovery, International Labor Organization, 2001

## **Annex C: Cooperatives as Non-Discriminatory and Democratic Organizations**

### **Historical Context**

Just as there are literally dozens of business arrangements, there is no single—even central definition of the cooperative principles—even though cooperatives have existed for more than 200 years. A working definition based on the most fundamental concepts includes organizations that are:

Independent, private, member-owned and democratically governed business enterprises, created with equity financed by members who invest in order to benefit through their patronage.

The first principle of cooperatives since their founding is that:

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept responsibility of membership, without gender, social, racial, political or religious discrimination.

Open membership means that members must be potential users, accept the responsibilities and obligations of membership and that there is sufficient room within the cooperative for their participation in the business. The concept of non-discrimination based on other factors such as gender, race or beliefs is central to cooperative philosophy and tradition. In the English-speaking world, the Rochdale Society of Weavers, inspired by ideas of Robert Owen and William King, is considered the first cooperative<sup>63</sup>, the pioneer (though insurance, mutual associations and other forms of cooperatives can be traced back to Roman times). For more than 160 years, the Rochdale principles have included open and voluntary membership, democratic management, modest expectations concerning return on capital and dividends paid to members. Inevitably, these pioneers experienced familiar growing pains including frictions when members had to sell back their shares because of financial difficulties, suppliers who were wary of the small-scale initiative (a cooperative retail store), competition from established businesses that opposed the cooperative as a competitor—as well as occasions where ill-conceived investments were not profitable. On some occasions, tensions arose between members of various religious faiths. To ward off this sectarianism, the cooperative referred to the Third Cooperative Congress of 1832 in London, which concluded that religious and political beliefs should not be criteria for membership, or a basis of exclusion from a cooperative enterprise.

As member-owned and controlled businesses, cooperatives tend to reflect their national, political and cultural settings, and have also been vehicles for minorities to organize themselves democratically to deal with discrimination and to integrate into the

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<sup>63</sup> The Rochdale pioneers were the first successful consumer cooperative as distinct from rural agricultural and credit cooperatives. Consumer cooperatives are much more prevalent in Europe than the U.S. REI recreational stores are an example of a successful U.S. consumer cooperative.

mainstream economy. Noteworthy examples are: the Basque worker cooperatives in Mondragón<sup>64</sup> who organized to rebuild their economy after the Spanish Civil War, cooperative efforts in Catholic communities in Quebec and Nova Scotia spearheaded by Desjardins<sup>65</sup> and Antigonish cooperative movements, rural Protestant Christians in Germany who created the Raiffeisen<sup>66</sup> cooperatives, and the non-secular residents in Israel formed the Kibbutzim.<sup>67</sup> With the highest per capita number of cooperative members (2.5 million), Finland formed successful cooperatives that survived the Russian revolution, two World Wars and economic downturns and today are the largest employers in the country.<sup>68</sup> These cooperative networks were economic operations with membership based on social movements, but their growth reflected visionary leadership, economic investment and competent management.

During the Progressive Movement in the United States, many African-American cooperatives were created in the South<sup>69</sup>, and the Southern Cooperative Federation today represents rural poor African-American farmers who have steadily lost land acquired

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<sup>64</sup> The history of the Basque region has been resistance by local leaders to preserve their autonomy dating back to the 15<sup>th</sup> century. Basque members of skilled crafts and professions struggle to maintain their values of equity and democracy within their associations. As well as units of economy, the guilds also provided social benefits. Resistance came to a head when Franco outlawed free unions and banned strikes. The workers cooperative movement was intimately linked with the labor movement, separatist political parties and the Catholic Church. Mondragón is a predominantly working class town where the first worker cooperative was formed in 1956 based on “circles of study” groups. Today, it is a huge interlocking network of worker/industrial cooperatives. Whyte, Making Mondragón: The Growth and Dynamics of a Worker Cooperative Complex 1991.

<sup>65</sup> Named for its founder, the Desjardin movement began in Levis outside of Quebec City in 1900 with 131 members. Desjardin sought the support of the Archbishop and other Catholics leaders to begin similar credit unions (caisses) in their parishes. By 1914, 146 caisses existed and were united into a federation. Now, they encompass the largest financial network of credit unions, insurance and other financial services in Quebec. While political neutral, Desjardin system has been identified with the separatist Quebec movement.

<sup>66</sup> Raiffeisen is the model for credit coops based on principles developed in the mid-nineteenth century by a village major named Raiffeisen. Societies were to be small, located at the village level and composed of villagers who were allowed to join because of their personal character (creditworthiness). Societies were to be funded primarily by deposits and share capital of local members. Loans were to be dispersed with interest rates and repayment schedules fixed by the members themselves. Mutual trust in the members’ ability to repay was reinforced by the principle of unlimited liability, that is, every member was to be financially obliged to the full extent of his property to make good the debts of society (solidarity). Pischke, Rural Financial Markets in Developing Countries 1983. Formed in 1896, Rabobank in the Netherlands has a similar history and was based on the Raiffeisen system as a means to help Dutch farmers compete with “cheap” imports by gaining an ability to purchase fertilizer, machinery and other inputs. Both Raiffeisen and Rabobank were based on mobilizing savings and grew to become national and international banking networks still owned by farmers. Cooperatives and Cooperative Banks, 2001

<sup>67</sup> The well-known Kibbutz movement began in 1930s and grew rapidly in the 1950s as part of establishment of Jewish agricultural settlements. Allied with the Labor party, most Kibbutz are integrated socially and economically, but usually are not religious. Many do not have a synagogue. A distinguishing characteristic is that all members have common property rights and collective ownership.

<sup>68</sup> See history of the Pellervo cooperative movement

<sup>69</sup> As part of the Progressive Political Movement in the late 1980s, cooperatives were organized throughout the South as a means of dealing with monopolistic merchants and lack of capital by farmers. In Texas, many Black Farmer cooperatives were created because of discrimination. Cooperatives were part of last true challenge to capitalism in America. Goodwyn, The Populist Movement, 1978. Especially see Chapter 3: “The Cooperative Vision: Building a Democratic Economy.”

after the Civil War. Today, U.S. community development credit unions reach out to inner-city minorities and recent immigrants.<sup>70</sup>

In many developing countries, cooperatives were formed by religious groups, ethnic minorities or rural poor left out of the mainstream economy, including credit unions among lower income groups in Latin America formed by leaders of Catholic groups. Mayans formed agricultural/dairy cooperatives in Guatemala and coffee/cocoa cooperatives in Chiapas, Mexico.

*Cooperative literature recognizes this phenomenon as a vital sense of “collective identity and shared destiny.” It has been the underlying factor in the rise of certain cooperative networks in the face of national or regional conflict and hostile, monopolistic alien enterprises and/or middlemen/usurers.*

The defining period for cooperative solutions to the problems arising from crises was the late 19th and the early 20th century, especially in the aftermath of World War I and II where cooperatives were introduced or rebuilt in Europe and Asia as recovery programs. These cooperatives included fair systems of distribution through consumers’ cooperatives, creation of supply, credit and marketing systems by agricultural cooperatives, creation of employment and resettlement of ex-combatants through workers’ cooperatives as well as agricultural cooperatives such in Japan where large estates were broken up and turned over to producers.<sup>71</sup>

Cooperatives were again pivotal in the recovery and subsequent spectacular economic growth in South Korea following the cessation of hostilities at the end of the Korean War. In particular, the organization of agriculture and credit along cooperative lines was decisive.

The re-housing and resettlement of refugees in the Greek controlled sector of Cyprus has been substantially helped by cooperative credit and savings societies.<sup>72</sup>

While cooperatives in the North and South were often organized by ethnic minorities and religious or social movements, they can only achieve enduring success if they move beyond the original, narrower membership base. They remain rooted in their communities, but had to form networks outside this territory or ethnic group to expand. In some cases, the growth came from Church-based cooperatives that were unwilling to charge market interest on loans or savings. In most Latin American credit unions, the most successful moved from Church beginnings to solid community-owned and non-sectarian cooperatives. In other cases, primary cooperatives have remained centered on a single ethnic group (or, two cooperatives formed to satisfy different caste groups) within

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<sup>70</sup> Since 1993, the National Federation of Community Development Credit Unions has work with more than 100 community, church and civic organizations to promote credit unions in low-income communities. Rosenthal & Levy, Organizing Credit Unions, 1995.

<sup>71</sup> Edgar Parnell, The Role of Cooperatives and Other Self-Help Organizations in Crisis Resolution and Socio-Economic Recovery, ILO, 2001

<sup>72</sup> Ibid

a village, but the cooperative networks frequently tie many ethnic groups together into a successful, cooperative system.

## **Developing Country Context**

### Ethnic and Gender Diversity in India Dairy Coops

The National Dairy Development Board (NDDB) tracks the membership of primary cooperatives in India, the largest dairy cooperative system in the world with 12 million members in more than 100,000 primary cooperatives affiliated to 160 unions and 22 state-level marketing federations<sup>73</sup>. As of 2002, there were about 2.5 million women members (some of them members of 12,000 all women dairy cooperatives, with one or two cows. Over the years, the social makeup of this cooperative's membership has changed as it has grown. The upper "jati" ethnic groups of agriculturists were the first to join in Gujarat, such as the Patidars. But their interest in the cooperative declined as they concentrated on more profitable investment opportunities. The Kheda district is a typical example. The next in the queue<sup>74</sup> were the Khsatriyas, who joined in big numbers and stayed in the cooperatives. Then, the Backward Classes, Dalits and Tribals joined.

But, the picture of this evolving queue is not the same elsewhere. Mehsana attracted the Chaudhury caste, and Patidars who were dominant in Kheda but the region also includes substantial numbers of other sectarian and caste groups in the dairy cooperatives including Dalits, Muslims and Christians. The Patidars continued to focus on dairy and remained members of the cooperative and even passed on their expertise to Backward Classes and Tribals who worked in their cowsheds. Therefore, the lower casts or groups economically benefited from the expertise as well.

Sumul (Surat Milk Union), after Desai's and Patidars, concentrated on the tribals and now the tribals, who constitute nearly 60 per cent of the district's population, produce at least 80 per cent of milk. Since District Unions and NDDB closely supervise milk coops, the ethnic and caste conflicts rarely get out of hand. Dr. Kurien, the founder of the Anul Dairy cooperative system (Mother Dairy)<sup>75</sup> was able to prevent efforts in the 1960s and

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<sup>73</sup> The Dairy Board promotes, finances and provides a range of consulting services to India's dairy cooperative movement which, today, involves more than 12 million dairy farmers, 103,000 cooperatives, 160 or so cooperative unions and 22 marketing federations that, collectively, account for the lion's share of milk and milk products that move through formal (as opposed to informal) commercial channels. NDDB is also involved in oilseeds and edible oils (through a subsidiary that plays the same role in that sector as the Dairy Board does with dairy cooperatives), horticulture (support for the production, procurement and marketing of fruit and vegetables including establishment of the first electronic auction in India), veterinary pharmaceuticals, dairy equipment, etc. The Dairy Board's assets were just under \$900 million at the official exchange rate, or roughly \$4 billion in terms of purchasing power parity.

<sup>74</sup> In this context, queue has a special meaning. Women dairy producers line up in queues each day to deliver their milk and get paid. It is one the few and early examples of breaking down rural castes since members are not separated and are served in order that they arrive with their milk palls.

<sup>75</sup> Dr. Kurien was the first manager of the Kaira (now Kheda) district cooperative milk producers' union which was known as AMUL (Anand Milk Union Limited). Amul's success led the then Prime Minister, Lal Bahadur Shastri, to form the National Dairy Development Board to attempt to promote Amuls in other parts of India (just as had happened in Gujarat). Operation Flood, financed by European Union commodities, was the major way in which this was done. As part of Operation Flood, a Mother Dairy was established in Delhi. Dr. Kurien believed that the key to dairy development was marketing and the Mother

1970s by the Patidars who wanted Dalits to form a separate queue. But neither he nor the Milk Union of Kolhapur prevented nearly half of the villages from forming two cooperatives: one for the Dalits, and the other for the Patils and the rest. Some large villages have as many as 12 cooperatives to accommodate different groups. Some mergers are expected to occur over time.

Such examples indicate instances when strong milk cooperatives have been successful in teaching members to work together and concentrate on the organization's primary business objectives--better returns on their milk. Some of the villages in Gujarat even elect Baniyas or economically prosperous Patidars to boards and management positions, though they are in a minority simply so members can benefit from their business acumen.<sup>76</sup>

The Women's Dairy Cooperative Leadership Program by NDDDB worked with 50 milk unions from 1999 to 2002. An extensive analysis of its impacts in 50 villages indicated that the cooperative training improved the capacities of rural women in promoting savings and credit, income generation, better health, hygiene, functional literacy and legal rights. According to male leaders, the program significantly increased the involvement of women in dairy cooperative management. Since much of the dairy sector is dominated by women with one or two cows, the analysis indicated that the mostly illiterate women targeted in the project would contribute to strengthening the cooperative network. Women's participation rates increased by two or more on management committees of targeted cooperatives in the project compared to no increases in other cooperatives.<sup>77</sup>

#### Cooperatives as Agents of Democracy in Chile

During the General Augusto Pinochet dictatorship in Chile in the 1980s, cooperatives were politicized. Many rural cooperative leaders who were identified with the left fled the country. Conservative rural leaders tended to support Pinochet because of his role in preventing anarchy and promoting private business. The left leaning cooperatives joined the Civil Alliance in support of democratic forces, and Elsa Gardeweg, the leader of conservative cooperatives became the key advisor to General Pinochet on farm policies and social programs. A major leader of housing cooperatives, Ricardo Garcia unexpectedly became Minister of Interior in 1987 and tried to soften government anti-cooperative policies, including participation at a conference after the crackdown on the Civil Alliance. U.S. Ambassador Harry Barnes who participated in several cooperative training sessions and at the conference, used the occasions to demonstrate U.S. support for democratic forces.

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Dairy was the way to create a dominant position in the Delhi Market. (Subsequently the Mother Dairy was been spun off as an independent company that markets milk and milk products produced by cooperatives).

<sup>76</sup> Conversations with Somjee and Tom Carter. See: Sominee, Geeta and Somjee, A.H. Reaching out to the Poor, Macmillan (London) and St. Martin's Press (New York), 1989); and Cooperative Dairying and Profiles of Social Change in India Economic Development and Cultural Change, Chicago, 1980?.

<sup>77</sup> "Impact Assessment of the Women Dairy Cooperative Leadership Program," Catalyst Management Services, November 2002

In the run-up to the 1988 plebiscite in which Pinochet lost to a coalition of opposition parties, membership elections of cooperative boards of directors at several cooperatives (e.g. Talca) became a contest between political opponents and supporters of Pinochet. Electrification extensions by rural electric cooperatives took on political overtures with local rallies in support of Pinochet.

Cooperatives also became part of the network of the USAID-funded non-partisan groups organized as the Civic Crusade and later Participa<sup>78</sup>, the largest democratic education group. Monica Jimenez, a leading human rights leader of the Catholic Church, tapped many Catholic Church activists put together the first non-partisan movement in Chile. The training of volunteers was based on cooperative methodologies used in the earlier NED project. Participa carried out non-partisan forums, distributed registration materials and was particularly effective in voter registration and gaining strong turnouts in rural towns. As Crusade organizers went door-to-door, the local town officials blared pro-Pinochet messages from loud speakers.<sup>79</sup> After Pinochet lost the plebiscite in 1988, a number of cooperative leaders such as Carlos Caminondo, president of a large agricultural cooperative in La Union, were elected to the Parliament.

#### Coffee Cooperatives in Nicaragua

One of the last major opposition leaders to challenge the Sandinistas after they came to power in Nicaragua was Jorge Salazar, the leader of a large coffee cooperative composed of small farmer producers. In 1978, he moved his family from Managua back to a large coffee farm and resort hotel that his family operated in Matagalpa. He held traditional Conservative Party views in opposition to Somoza and as anti-Marxists, against the Sandinistas. After the fall of Somoza, he emerged as a natural leader and set out to replant and improve coffee trees during a time of near-anarchy. He secured food supplies and saw to the care of farms in the last weeks of the fighting as rural conservative leaders fled. He traveled the mountains of Matagalpa and northern Zelaya to convince several thousand small coffee growers to join his Matagalpa Growers' Cooperative. The cooperative had existed for a long time, but it previously had little financial strength because of crony capitalism and effective control by elites.

These cooperative activities became a springboard to the national agricultural leadership where he was one of founders and became president of UPANIC. When Sandinista farm organizers went to Matagalpa and Zelaya in late 1979, they discovered to their dismay that Salazar had already won the alliance of most growers and 7,000 small producers had joined the Matagalpa cooperative. Sandinistas wanted to break Salazar's hold on these growers. Many Nicaraguans recognized Salazar's charisma that put him in a position to challenge Sandinista leaders. He became engaged in trying to retain the productive backbone of the country and argued against fleeing of the middle class. Because of his rural popularity and farm cooperative following, Sandinista security agents assassinated him. After his death, he was accused of being a traitor plotting to overthrow the

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<sup>78</sup> "As a result of the Civic Crusade, the number of registrants rose to an astonishing 7.2 million, or 92 percent of the potential registrants of voting age," Paul Sigmond

<sup>79</sup> Weihe, "Cooperatives as Agents of Democracy," Promoting Democracy: Opportunities and Issues, 1988, and Weihe, "Cooperatives in Chile's Return to Democracy" unpublished, 1998

Sandinista government. Along with the killing of Pedro Joanquin Chamorro, his death hardened political lines between Sandinista Front and opposition forces.<sup>80</sup>

#### Building More Responsive Political Leadership in Rural Bangladesh

The network of rural electric cooperatives in Bangladesh is a significant part of the rural civil society. They provide another clear example where cooperatives have become “best actors” of human governance and strengthened local governance, and ensured transparency and accountability in management and operations—a social development described by Dr. Abdul Barkat and his colleagues in a year-long, extensive study.<sup>81</sup>

Since the poor have weak social networks and they are excluded from mechanisms that allow their voices to be heard, PBS (cooperatives) can play an important role in building trust and norms for coordinated actions to extend people’s freedom and to exercise choice by creating institutional structures that in turn create capabilities.

The study observed that participation in electric cooperatives could build trust and norms for coordinated actions towards government. A typical cooperative at the village level had two temples and two mosques. Given wide spread discrimination against women, rural electric boards are required to have “women advisors.” The impacts of electricity were dramatic in changing rural perceptions against dowries, arranged marriages, importance of young girls’ education, smaller family size and birth spacing. Much of this impact is attributed to modernizing impacts, rural job creation and watching TV.

#### Economic Recovery in Ethiopia

Since 1997, ACIDI/VOCA<sup>82</sup> has been assisting Ethiopian cooperatives with the transition from a socialist orientation that existed under the repressive Derg regime to a free market, business-driven approach. The reform government places a high priority on food security and self-sufficiency for which cooperatives have gained prominence in Ethiopia’s rural and agricultural development strategy. The new government proclamation revised outdated provisions and supports farmer-owned and controlled cooperatives. Farmer members at the grassroots level freely and democratically elect their leaders without government intervention. Cooperatives are no longer state instruments; they are member driven.

The growth and profitability of cooperatives in Ethiopia has removed their negative stigma. Market-oriented multi-purpose primary agricultural cooperatives have been restructured with independent boards of directors and managers and registered under new private sector cooperative legislation. Concurrently, cooperative unions have become business support units for primary cooperatives, now with greater economies of scale,

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<sup>80</sup> Shirley Christian, Nicaragua: Revolution in the Family, 1985

<sup>81</sup> Abul Barkat et al, Economic and Social Impact Evaluation Study of the Rural Electric Program in Bangladesh, 2002

bargaining power, and influence. To date, 1,587 primary cooperatives and 26 unions have been restructured and registered as private cooperatives and independent unions.

Governance is no longer a vexing issue. Books of accounts are regularly audited and no embezzlement or financial irregularities have been reported since cooperatives have been restructured. To change and revitalize cooperatives, several interventions were critical:

- (1) Organizational changes were required in which professional managers were hired to manage the unions, board members and managers were trained for their duties, and auditors—who were previously considered “fault finders”—were trained to conduct regular audits;
- (2) The cooperatives learned to operate as businesses in which membership is voluntary and based on profits and incentives such as patronage dividends (annual business plans are now required at both the union and primary cooperative levels);
- (3) The cooperatives needed to become creditworthy as evidenced by the Commercial Bank of Ethiopia (CBE) which is now providing inventory credit (in the past, cooperatives were isolated and none of their assets were acceptable as collateral); and
- (4) Savings and credit services needed to be institutionalized through the establishment of rural SACCOs so that local savings could be mobilized, and primary cooperatives as members of SACCOs could borrow working capital for grain purchases—a major breakthrough in rural finance.

More than 85 percent of the total inputs in rural areas are distributed through cooperatives, a major contributor to enhanced food security. Cooperatives are responsible for over 75 percent of coffee exports, the country’s major foreign exchange earner. Given the depressed coffee markets, the total amount of coffee exported has been stagnant at about \$160 million in 2002. However, some coffee unions are exporting high quality, organic and Fair Trade coffee to the United States, Europe and Japan, with premium prices.<sup>83</sup>

Ethiopia serves as an excellent example where cooperatives moved from top-down to voluntary private sector cooperatives with a national rural-based economic strategy and poverty alleviation plan. Cooperatives were successful because they reoriented and restructured themselves as private businesses that were able to increase member productivity and access national and international markets.<sup>84</sup>

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<sup>83</sup> Likewise, credit unions continue to grow in Ethiopia from 15 in 1972 with 5,446 members to 779 with 156,088 members in 1998, and assets from \$113,551 to \$31 million over the same period (WOCCU statistics).

<sup>84</sup> Summary of Case Study: Cooperatives of Ethiopia, [www.cooperativedevelopmentcenter.coop](http://www.cooperativedevelopmentcenter.coop), 2003

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