

# A significant factor, but not a panacea

Rural cooperatives support their members by integrating them more strongly into the value-added chain. But via forward and backward linkages, they can strengthen the entire rural economy, and hence rural regions as a whole – assuming of course that the conditions are favourable.

The United Nations has declared 2012 the “International Year of Cooperatives”. In doing so, the UN has paid tribute to the economic and social significance of cooperatives worldwide: “Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility” (Ban Ki-moon).

The notion of an entrepreneurially oriented cooperative as defined by Friedrich Wilhelm Raiffeisen and Hermann Schulze-Delitzsch (see pp. 6-9) can look back on a long tradition and has remained modern up to this day. Its success has become visible in several countries. Throughout the world, cooperative structures are important pillars of the economy in industrialised countries as well as in many emerging and developing countries, both in the finance sector, the commercial sector and agriculture.

In many countries, the critical food and income situation has once again brought the importance of an effi-

cient agriculture and the rural region into the focus of debate and political considerations. The causes of the food crisis are manifold: climate change, a shortage of capital, a lack of knowledge and infrastructure, national and international market and structural distortions as well as insufficient access to markets for the broad masses of peasants. It is depressing to note that the majority of those suffering from hunger live in rural areas. The agricultural sector has been neglected by the governments of the countries affected as well as by international organisations for too long; in a significant number of countries, hardly any agricultural policy or policy has been pursued that benefits rural areas.

It is up to the governments of the countries in question and the international community to do something. The aim has to be to produce more food, ensure that it reaches the consumers, and raise the income of the producers as a basis of rural development as a whole.

### ■ The significance of the rural economy

As a result of globalisation, economic relations and markets have changed considerably, right down to the local level. The one-sided integra-



tion of the emerging economies, above all of the agricultural sector into industry, has to be overcome by a strengthening of markets. Only in this way can it be ensured that agricultural value added, and therefore income in the rural areas, is enhanced.

This process has to be geared towards a multi-sector concept and take networking of systems and possible forward and backward linkages into account. In other words, it must not be restricted to agriculture but also has to include rural small business enterprises and the services sector. Agricultural and non-agricultural development should complement one another and lead to sustainable economic cycles and functional chains.

This implies that agriculture has to improve the way it makes use of its potential. Via an integration into markets, the agricultural sector can make a substantial contribution to local development, providing that agricul-

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Members of a cassava-producing cooperative in Brazil.

Photo: DGRV

Without the development of local and regional markets, access to them and the existence of institutions linking up markets, which is what cooperatives perform, an integration of the domestic economy will not be possible. Only then can agricultural producers become active participants and, at the same time, beneficiaries of development. The economic development of a country and its rural regions depends on various factors for which the governments

in particular share responsibility.

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### ■ What the government has to perform

The chief goal of any government has to be the creation and safeguarding of optimal living conditions for all strata of the population, above all of ensuring that the population are provided with high-value food.

Via its regulatory and process policy decisions, the government plays a crucial role in determining the course of development. Via its economic policy, and in particular via agricultural policy as a sector-related policy and regional aid, the government can create favourable conditions for the development of the rural economy:

- the regulatory policy framework (social market economy);
- securing ownership rights and rights of disposal;

- agricultural policy;
- improving the resource base, education and technical knowhow;
- improving economic and social infrastructure;
- strengthening rural areas by promoting structural change in agriculture and creating alternative sources of income;
- access to financing for agricultural enterprises of different sizes and for agribusiness;
- making use of comparative advantages in foreign trade with agricultural commodities and finished products.

The need can be derived from this to create an efficient, decentralised financial sector without any obstacles to access.

In many countries, agriculture has a low profitability. Combined with higher risks such as climate, price volatility, etc. and a frequent lack of security and the geographical remoteness of financial institutions, this results in medium-sized and small agricultural businesses in particular that bear a potential to grow encountering access problems regarding financing with outside capital. Here, in addition to establishing agricultural insurance and guarantee facilities, the government can boost rural finance via refinancing measures and simultaneously pursue an active structural policy in the agricultural sector.

Here, cooperative financial institutions play an important role in many countries. At the same time, it is up to the government to ensure that the real markets – the sales markets for agricultural products and input – develop and that access to them is unhindered, too.

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### ■ What can the role of cooperatives be?

Cooperating among agricultural businesses at different stages of the

tural value added really does flow back into the rural regions or triggers rises in income there so that technological and economic progress can be taken advantage of with investment, capacity increases, etc.

Development and social structures in rural regions and urban areas are closely interlinked and cannot be regarded in isolation from one another. This also means that the economic relations between the rural and the urban regions have to be developed in a manner ensuring that mutual development opportunities are not taken advantage of by the economically and politically stronger region to the detriment of the other one. By forming local and regional economic cycles and institutions linking up markets in rural areas, it is possible to not only reduce inter-regional transfer of rural value added and simultaneously regionalise positive development impulses given by increased value added but also benefit from value added locally.

value-added and supply chain is above all of considerable importance for small and medium-sized enterprises. This also includes cooperating in the context of contract farming in order to generate additional value added while simultaneously assuring quality. What counts is to strengthen forms of cooperation with which the market integration of producers can be ensured. Can cooperatives in the rural areas of developing countries assume an active role in such a process? This certainly will be the case if certain conditions are observed.

Cooperatives are often assessed very differently, and may be completely overestimated as an instrument by some while others will totally reject them. No doubt there have been setbacks in the context of development cooperation in particular. However, the reason for this is not the organisational form of the cooperative. In many cases, both in development cooperation and in international organisations, it was assumed that the economic and social problems of smallholders, for example, could be solved merely by founding a cooperative. Governments and also international organisations harnessed cooperatives for their purposes and

above all frequently initiated them via external means. It was a mistake to transfer a form of organisation which had developed organically for decades, in Europe for instance, without bearing the fact in mind that cooperatives are businesses, and without considering the special conditions in the respective country. Business administration aspects, the integration of the individual cooperatives into networks and combined systems, the significance of an external audit, etc. were frequently neglected in projects supported by development cooperation in particular. In addition, the image of "cooperatives" suffered from bad experience in the countries under communist rule.

"One-size-fits-all" will not work with cooperatives, either. Each country is different, and the cultures, the economic context and the problem situations will differ. The organisational adaptability of the notion of cooperatives is reflected by the successful systems in Europe, North America, Brazil, India, South Korea, Japan, and also in many developing countries. There are basic elements that have to be fulfilled everywhere: Cooperatives are the businesses of their members, and they are financed and controlled by them. The

basis is formed by the self-help of the members, self-responsibility and self-administration. This process may be accompanied externally, but it has to be oriented on the needs of the members. This mission of economic support represents the core of the cooperative: optimising members' value. In cooperatives related to agriculture, each member is an entrepreneur seeking access to the market, independently of whether it be a small, medium-sized or larger business.

In cooperatives, entrepreneurial action starts with the economic needs of the members. The individual and the individual business have a relatively weak position on the market. This is why they have to cooperate to create access to services and attain economies of scale, and to raise their own share of value added. Creating market links and enhancing a countervailing force in the market are crucial roles of cooperatives. The integrating role that cooperatives play for the domestic market is reflected in their creating links to distant markets. In particular, the establishment of regional and national cooperative centres as associations of individual cooperatives adds to an acceleration of the integration of individual cooperatives and their members into the national economy.

### Weaknesses

One of the weaknesses that many cooperatives bear is internal governance problems, i.e. a partial exploitation of powerful positions within the cooperatives, above all through better trained



Photo: DGRV

"Conference room" of a village bank in Laos.

*Without networking  
no success!*

and more influential members and a lack of knowledge among many members regarding self-control. This can only be checked by a consistent training system, external audit and supervision and an integration into combined systems. Without members' trust in their own business, the cooperative cannot develop as a business.

One commonly observed problem is insufficient contractual fidelity among members, and often also on the part of cooperatives themselves, regarding contractually agreed obligations to supply goods. By not taking advantage of value-added chains, cooperatives lose out on opportunities here in the long run. In addition, a disintegration of individual cooperatives and cooperative groups often develops. Alternative supply relations such as contract farming will then, quite rightly, be seen as more attractive by foreign bulk buyers in particular. Owing to a progressive "supermarketisation" in many emerging countries, the sales relations of each individual producer are changing. The demands of chain stores, as bulk buyers, will differ from those of small traders; here, cooperatives with agricultural links can only gain markets if they adapt to the changing conditions. At this stage, technological development alone, despite its potential to raise productivity and therefore form a basis for an accelerated development of the agricultural sector – has not yet had any impact on the market position of the producers. This means that first and foremost, it is an opening and securing of market access for the producers that has to be attained. Here, all alternatives ought to be made use of.

However, the proposals discussed in the context of the food crisis and the growing world population that correctly stress an increase in agricultural production, such as more agricultural



Photo: DGRV

research, yield increase through new production methods, larger production units, etc., frequently neglect a lack of market integration and the weak position of the mass of smallholders on the market. What counts is to set out from the existing structures, and adapt them step by step, i.e. large, medium-sized or small is not an issue, but rather efficiency, market access and the position on the market. In other words, the significance of cooperation is crucial, as is the close link between the real sector and the financial sector.

### ■ Success factors

Independently of their size and the composition of their members, the success of member-oriented, entrepreneurially successful cooperatives is tied to certain conditions:

- Cooperatives require a secure legal framework conforming to their mission as businesses of their members without the government being able to intervene in their business activities.
- Every cooperative has to be efficient and attractive. This implies that an individual cooperative must have a consistent economic policy, be

adequately organised internally and maintain well-trained management staff and employees.

- Every cooperative has to regularly subject itself to an audit of its economic status and its management. This also applies in particular to sustainably secure trust among the membership and the public.
- Cooperatives have to be part of networks based on the subsidiary principle, for this is the only way to ensure that they can benefit from the services of specialised central enterprises and associations and achieve additional economies of scale and economies of scope.

All in all, just like it is already the case in many countries today, in emerging countries too, cooperatives can not only support their members by integrating them more strongly into value-added chains, but they can also boost the entire rural economy, and hence rural regions as a whole, too, by forward and backward linkages. Here, cooperating in the context of contract farming is just as feasible as the development of cross-regional networks. The UN Year of Cooperatives offers opportunities for discussions and for successful implementations.