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A Policy Note on Agricultural Cooperatives in Africa

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The future of agricultural cooperatives (agri-coops) in Africa depends on whether their leaders and managers will be able to anticipate the organizational problems that may arise over time, and take the necessary precautions to ensure that member farmers remain focused and united. This note is the end product of the research and outreach activities carried out during the first year of the EDC project (July 2014–July 2015), which included:

- *An extensive review of recent (last decade) literature on African agricultural cooperatives;*
- *The organization of two multi-stakeholder workshops (in Addis Ababa and Washington DC);*
- *Two case studies about a large coffee coop in Tanzania and a large maize coop in Senegal;*
- *Analysis of data on 500 small and multi-commodity coops from Ghana;*
- *The presentation of preliminary findings at three international conferences (International Cooperative Summit-Quebec, ICA-Paris, and IAAE-Milan) and various local seminars across Africa; and*
- *A review process based on the feedback provided by the OCDC members[1] and Oxfam-GB.*

This note demonstrates the validity and applicability of the "Cooperative Life Cycle Framework," developed by the Graduate Institute of Cooperative Leadership, University of Missouri (GICL-MU), to explain "side-selling" and related organizational design and property rights problems (ODPR), which often render it difficult for African agricultural cooperatives to sustain their collective activities over time, in spite of the substantial economic incentives received through development interventions. Further, the note emphasizes the usability of the framework to: i) advise policymakers on how to adjust legal frameworks and be more selective in the allocation of economic incentives, so as to promote the development of agri-coops designed to anticipate and evade ODPR problems and ii) train and coach the leaders and managers of agri-coops on how to anticipate and evade ODPR problems.

Over the next two years, the EDC project will organize a series of "Cooperative Leadership Events," in collaboration with OXFAM-GB, in order to apply the Cooperative Life Cycle Framework and offer training, coaching, and mutual learning experiences to at least 200 leaders and managers of agri-coops. These events will also be used to collect additional cooperative-level data to feed further research and guide policy debates with governments, donors, and investors.

1 OCDC members represent the largest network of cooperative development organizations worldwide, including: NCBA-CLUSA, Land O'Lakes International, Global Communities, ACDI-VOCA, Communications Cooperative International, Cooperative Resources International, HealthPartners, National Rural Electric Cooperative Association, and World Council of Credit Unions.

Introduction

It is generally assumed that the myriad of smallholders populating rural Africa need to self-organize in order to benefit from development interventions. A plethora of organizations made up of smallholders can be found throughout rural Africa.[i] Although these organizations are known under different names – e.g., farmer organizations, rural producer associations, marketing or multipurpose cooperatives – they are generally driven by cooperative principles, such as one member one vote (or democratic decision-making), and benefits distributed proportionally according to members' patronage (or usage). This note focuses on these autonomous and market-oriented organizations, which have emerged over the last two decades or so across Africa in response to structural adjustment or market liberalization reforms. Agri-coops is the term used in this note to refer to these farmer-owned organizations.[2]

Recent literature reveals that agri-coops play a crucial role in facilitating the access of farmers to development interventions, particularly those that promote the dissemination and adoption of improved farming technologies and practices.[ii] Agri-coops improve the bargaining power of rural smallholders and reduce the transaction costs incurred by development agents. The latter are thus confronted with strong social and economic justifications to support agri-coops in providing credit, extension, input delivery, marketing, and other services, which help farmers increase their yields, technical efficiency, and environmental sustainability. However, recent literature also suggests that African agri-coops often fail to improve the commercial performance (i.e., the share of production that is sold in the market) of their members.[iii] Commercialization appears to increase significantly only when these cooperatives are able to bulk and market the output of their members. Available evidence indicates that only one third of the agri-coops in Senegal and Ghana and half of those operating in Ethiopia and Burkina have ever engaged in collective marketing activities. Even when cooperatives engage in collective marketing, the share of members' output that is sold collectively is rather small as farmers tend to side-sell most of their output through middlemen and spot markets. Further, African agri-coops engaging in collective marketing often fail to sustain these activities over time.

When side-selling by members increases, the health status of an agri-coop tends to decrease until these organizations become dormant (like empty shells) or cease to exist altogether.[iv] As member farmers tend to be cash constrained, agri-coops are forced to mobilize most of the resources required to cover the costs associated with service provision from external sources. However, external grants and subsidies are inherently scarce and volatile, whereas external loans and equity investments must eventually be repaid (with interest). Thus, agri-coops need to engage in collective marketing and retain part of the revenues in order to sustain service provision over time. In many cases, such an indirect capital accumulation strategy proved to be critical to consolidate and sustain African agri-coops over time. Hence, collective commercialization does not only have the potential to improve market access for smallholders and the profitability of their operations, it is also critical to extend the life of agri-coops and thereby the impact on farming systems.

Analysis

Our research – based on focus group discussions, case studies, and data analysis – stresses the validity and applicability of the "Cooperative Life Cycle Framework" (Figure 1) in explaining the difficulties faced by African agri-coops to mobilize and sustain collective marketing activities.[v] According to this framework, the life cycle of a cooperative commences when farmers (at least two of them) find an economic justification to self-organize (P1). In other words, cooperation is justified if it aids farmers to access new and more profitable markets and when the sunk costs associated with the establishment of a cooperative can be minimized through external financial support. Economic justifications of this kind appear to be particularly widespread in the context of Africa where smallholders are scattered across vast and remote rural areas, struggling to access profitable urban and export markets on their own, and facing strong incentives to self-organize in order to benefit from development interventions. For example, in Senegal we directly observed the mobilization of a large number of maize farmers in response to a development program by the United States Agency for International Development (USAID). The latter offered in-kind, logistic support to establish a new cooperative and link it to available value chains.

A cooperative established in this manner subsequently passes through a design phase (P2) during which it defines collective purposes, rules, and rights: what is the common interest of members? Who can be a member and who cannot? And, how to allocate decision and claim rights among members? In practice, organizational design is done rather hastily given the impetus that generally characterizes the early stages of collective action. This is particularly true in rural Africa, where societal pressure for quick action against poverty is arguably stronger than anywhere else.

2 It is important to stress that we do not discuss those cooperatives that are essentially parastatal organizations, which are centrally governed by state institutions.

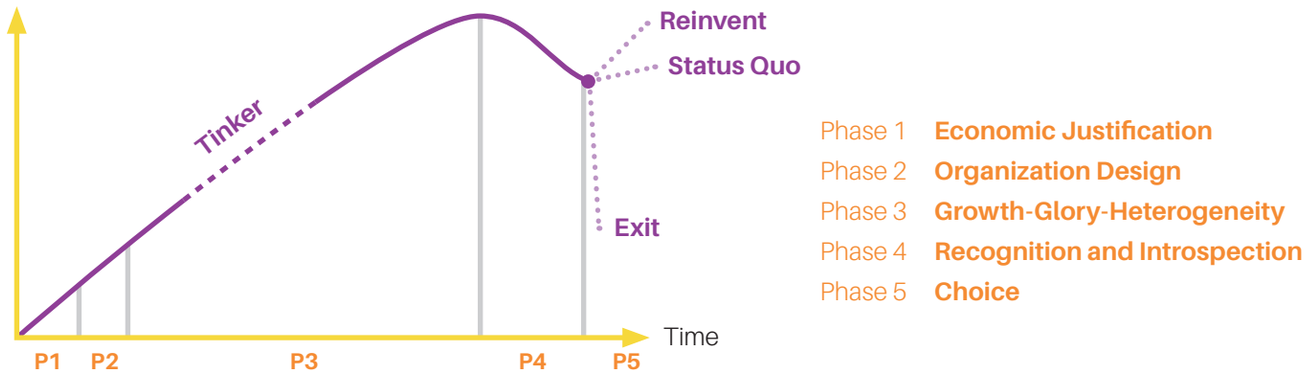

Figure 1 The Cooperative Life Cycle Framework (adapted fom Cook and Burress [2009]).[vi]

For example, the desire of Senegalese farmers to benefit from the above-mentioned USAID program appeared to be so strong to result in the establishment of a maize cooperative that had no written constitution and by-laws whatsoever. This shortfall became evident only in the aftermath of the first collective sale, when the rationale proposed by the cooperative leaders to redistribute earnings amongst members created internal tensions and conflicts. The potential role for external guidance and advice is apparent during this critical but commonly neglected phase.

The economic justification and organizational design phases are followed by a period characterized by growth, glory, and increasing heterogeneity in members' preferences (P3). Growth is defined by expansion in membership, increasing collective commercialization and investments in assets held in common (such as offices, warehouses, processing plants, personnel, vehicles, etc.), culminating in a so-called state of glory. However, growth also promotes heterogeneity in members' preferences and thus the rise of internal conflicts of interest. Heterogeneity in members' preferences is primarily driven by diachronic effects, which occasionally create a momentum for cooperation that is inevitably followed by an anti-climax, driving members apart in the pursuit of diverging individual interests. Using data from Ghana, we estimate that risk preferences of agri-coops' members become increasingly homogeneous during the first 10 years after establishment, and subsequently start to diverge.

Of course, cooperatives may witness increasing heterogeneity in members' preferences at an earlier or later stage of their life cycles, depending on their growth rate. Fast growing agri-coops are more likely to reach such a turning point early on, for various reasons: first, expansion in membership results in the incorporation of new members who tend to have different motivations, objective functions and time horizons than founding members; second, investments in common assets are not usually valued by all members in the same way; third, collective commercialization tends to create internal disagreements on how to redistribute earnings among members. The divisive effects of growth appears to be particularly strong in African cooperatives, which are typically established on the basis of principles of inclusion, solidarity, and equity. For example, in Tanzania, we documented how Fair-Trade certification led to the rapid growth of a major coffee cooperative – resulting in membership expansion, investments in community-based washing stations and increased collective sales – which in turn diluted the Fair-Trade price premium received by members, fueling internal tensions and conflicts.

The divergence of members' preferences gives rise to free-rider or agency cost problems. The agency cost problem arises when cooperative-level decision-making and financial administration become increasingly complex and thus lengthy or costly. In the Tanzanian case study, agency cost problems translated into reductions and delays in payments and service provision for members, who thus faced an incentive to side-sell their output. The free-rider problem instead arises when some members benefit from the services provided by the cooperative without paying the cost. In the Senegalese case study, the free-rider problem confronted the maize cooperative with the following dilemma: to either allow for "elite capture" and thus for the misappropriation of a disproportionally large share of revenues by members occupying leadership positions; or to oppose elite capture, and thus maximize the benefits of ordinary members, so as to create a disincentive for good leadership to arise and consolidate. Like agency cost problems, free-rider problems undermine members' willingness to put "skin in the game" and result in increased side-selling.

When confronted with these problems, a cooperative can decide to "tinker" or make adjustments to current strategies. Often these adjustments can ameliorate aforementioned problems by accessing outside resources of all types including capital (grants, subsidies, loans, or equity investments). Access to these resources provides the necessary economic incentives to settle internal conflicts of interest and contrast members' drift, as it turned out in the case of the maize cooperative in Tanzania. Although tinkering allows cooperatives to keep progressing through their life cycle, this option represents just a temporary fix, for external capital is scarce and gets diluted by continued growth in membership, investments, and commercialization. Cooperatives thus eventually enter a phase of introspection and problem recognition (P4), leading to the decision to dismantle or re-invent the organization or maintain the status quo and enter a state of dormancy (P5). Most agri-coops in Ghana appeared to choose the latter option and become empty shells awaiting to attract external funds.

Key messages

Economic incentives appear to be necessary to promote the establishment and growth of African agricultural cooperatives and the productivity, efficiency, and sustainability of member farmers. However, incentives alone do not seem sufficient to promote the rise of commercially viable agri-coops that are able to increase the amount of produce sold by their members. Our analysis suggests that economic incentives ought to be better targeted to selectively promote the development of agri-coops with well-defined membership rules, decision and claim rights, and a common purpose:

1. Well-defined membership rules mean that members' entry needs to be regulated – for example, through the adoption of entrance fees set in proportion to the expected economic gains of new members – and that members' exit needs to be facilitated – for example, through exit bonuses or compensations set in proportion to the contributions previously made by exiting members to their organization.
2. Well-defined decision rights mean that members need to be able to appreciate and trade the investments made by a coop, for example, through the adoption of shareholding mechanisms. The latter allow members to decide whether and how much to invest in a given common asset through the voluntary purchase of a number of equity shares, which can be traded with other members.
3. Well-defined claim rights imply that members' revenues and benefits need to be set in proportion to their contributions, for example, through the introduction of delivery contracts specifying the price and services to be received by members in proportion to the quality, quantity, and timing of produce sold through the organization.
4. A well-defined common purpose needs to be discovered through internal communication, for example, through the establishment of topic-specific committees for enabling regular members to voice their concerns and for leaders to inspire unity.

Well-defined membership rules, decision and claim rights, and common purposes are key to manage growth in agri-coops so as to curb divergence in members' preferences and thus the rise of agency costs or opportunities to free ride. Agricultural cooperatives that are able to evade the rise of agency cost and free-rider problems are more likely to mobilize and sustain collective marketing activities. However, only a minority of African agri-coops currently enforces well-defined rules, rights, and purposes. Many appear to be either at an infant stage of development or dormant, lacking any governance structure. Many others are characterized by open membership rules, vaguely-defined decision and claim rights, as well as asymmetric information between leadership and membership. Further effort is thus required to improve the design of African agri-coops.

1. First of all, the development of legal frameworks for guiding cooperative leaders and managers in enforcing well-defined organizational rules, rights, and purposes is recommended to African governments.
2. As law enforcement can be particularly challenging in the context of rural Africa, training and coaching sessions based on the life cycle framework are required to reach out to cooperative leadership and strengthen its organizational capacity.

These sessions should aim to aid cooperative leaders and managers to envision the potential adverse consequences of organizational growth on members' cohesion and collective commercialization. Cooperative leaders and managers that possess an intimate understanding of the life cycle framework can be expected to better realize the meaning and importance of well-defined organizational rules, rights, and purposes. Training and coaching sessions aimed at developing forward-looking cooperative leadership and management of this kind have also the potential to promote and facilitate knowledge sharing, mutual learning, peer-pressure and strategic alliances between agri-coops.

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