

# Service provision by agri-cooperatives engaged in high value markets

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## Box 1. Cooperatives

Cooperatives represent a business model in which members have an equal say in what their business does and equal share in the profits. Cooperatives are guided by strong commitments to their members' well-being. They commit to open membership and self-help and often seek non-market goals, such as gender and youth empowerment, increased influence over political processes, and community development. The development of cooperatives into viable businesses is a long-term process often involving buyers, government agencies, and NGOs. Rural development will benefit from a greater number of strong cooperatives and there is an urgent need to strengthen commitments to facilitate development of cooperatives, including developing innovative ways to strengthen their business capacities, improve the services they provide to their members, and tackle those features of political-legal frameworks that inhibit cooperative growth and development.

## Introduction

Markets for agricultural products with special quality, environmental, and social attributes can provide a profitable outlet for poor farmers in developing countries. However, participation in high value markets requires that farmers commit to deliver pre-identified volumes on time and in the required form and quality – a tall order in many cases. Agri-cooperatives play an important role in linking farmers to these markets; they forge business relations with distant buyers, realise economies of scale in processing and marketing, and provide advisory and other services to help their members respond to buyer demands (see Box 1). Examples of these services include technical assistance, training, and input and credit provision.

This note presents a practical approach by which cooperatives strengthen their ability to deliver impactful and financially sustainable services. In doing so, it recognises the challenges faced by cooperatives to design services that both meet the different needs of members and are financially sustainable. Too often cooperative services are supported by external actors with no clear vision of how to continue once project support terminates, leading to disrupted service offerings for members, and fragmented learning processes for cooperatives and their partners. Innovation is urgently needed in how services are designed, how they are implemented, and cost

recovery mechanisms. At the heart of the approach lies a focus on joint learning among stakeholders – cooperatives, their business partners, government agencies, and non-government organisations (NGOs) – to better tackle the complexity inherent in the provision of effective services to poor farmers.

## Philosophy and principles

The approach aims to deliver impactful and financially sustainable services and emphasises cooperative leadership, but recognises the role of partners for service delivery and financial support. Joint learning with partners and members is crucial, allowing for adjustment of service offerings in line with the members' needs and improved coordination among stakeholders (see Box 2).

The first principle is specialisation. This means that cooperatives focus on the set of services they can effectively provide, leaving other services to those who can provide them more effectively. Specialisation implies that cooperatives understand members' needs and circumstances and how they can best intervene with the resources at hand, and where others can contribute to the process by providing complementary services to members or by helping to build the cooperative's service capacity. Cooperatives need to be aware of the dangers of trying to provide too many services at the same time and thus spreading scarce resources too thinly.

## Box 2. Philosophy for building service capacity of cooperatives

- Cooperatives need durable partnerships for building their own service delivery capacity.
- External support is critical in the initial stages, with progressive member contributions in later stages.
- Membership-funded services correspond with the quality and impact of services.
- Transparency and accountability are key, from technicians to managers to funders.
- Joint learning through critical observation, analysis, and reflection improves services.

The second principle is progressive member contributions to cost recovery. During the early years of cooperative development – when most services are likely to be sourced externally – cooperatives focus on delivering a limited range of demand-oriented services and on expanding members' awareness of services and their related benefits and costs. Member contributions can come through direct payment for services, reductions in the price paid for deliveries to the cooperative, and proceeds from cooperative operations, such as processing. These may also offset the costs of service delivery. Cooperatives should be aware about costs and benefits of these services and engage with their members to promote awareness of the need to invest in services.

The third principle is joint learning for improved services, involving cooperative leaders, member representatives, and external supporters. Learning requires experimentation in response to the changing business context and the livelihood context of members, as well as critical reflections on processes and outcomes. Different service delivery and cost recovery models should be tested, along with diverse mechanisms for

## Box 3. Wamunyu dairy cooperative in Kenya

Training in dairy farming, facilitated through the cooperative, has improved practice in areas such as animal health, animal feeding, and birth spacing. The cooperative has also provided training in a wide range of other areas relevant to farmers, not just in areas related to its specific business (dairy farming). Training sessions were organised in subjects ranging from fruit planting to building and using fuel-efficient stoves, showing a wider focus within the cooperative on improving the general well-being of its members, and not just to improving its own business performance.

Source: Shaw and Alldred (2015)<sup>1</sup>

strengthening the cooperatives' service delivery capacity (for example, vouchers, on-the-job learning, and cooperative-cooperative business schools).

## Implementation

**Step 1 – Understand needs and capacities:** Cooperative leaders and partners should assess members' productive capacity and potential demand for services, and the cooperative's capacity to deliver effective services (see Box 4). Data and analyses shed light on members' capacity to carry out on-farm production. Analysis allows for the grouping of members by resources, capacities, and needs. At this stage it is important to reflect on the strengths and limitations of the current advisory service programme: What are its strongest elements? What are its weakest elements? Who is left out? How to increase financial sustainability and how to address particular needs through partnerships with other service providers – businesses, NGOs, government agencies, consultants?

## Box 4. Farming households with differentiated needs

The coffee cooperative Soppexcca in Nicaragua provides services to roughly 500 members. Data on livelihood strategies and assets were used to classify members into three groups. Group 1 depended heavily on off-farm income and had relatively small coffee plantations. Group 2 depended heavily on farm income, but also had relatively small coffee plantations. Group 3 stood out for its relatively large coffee plantations. On average, group 3 had roughly 5 times the coffee production compared to groups 1 and 2. While the other groups depended heavily on coffee for their income, group 1 earned most of its income off-farm – leaving little time for coffee production. By understanding the different needs and circumstances of their members, cooperatives are able to adjust their service offering to diverse clientele, differentiated by gender and age, and achieve increased impact and efficiency.

Source: Donovan and Poole (2014)<sup>2</sup>

**Step 2 – Characterise the local service offering:** What services are offered in the surrounding area and what are the strengths of these services in light of members' needs? Services may be offered by government agencies, local NGOs, buyers, and processors, as well as by well-established sister cooperatives and local consultants and businesses. Relevant information can be obtained through focus group discussions and key informant interviews – the key to success is a sufficiently deep and critical assessment of service offers in terms of specificity,

1 Shaw, L., and Alldred, S. 2015. Building inclusive enterprise in Africa: Cooperative case studies. Manchester: The Cooperative College.

2 Donovan, J., and Poole, N. 2014. Changing assessment endowments and smallholder participation in higher value markets: Evidence from certified coffee producers in Nicaragua. Food Policy 22: 1–13.

quality, coverage, and costs; and a strategic view on capacity-building needs and long-term partnerships for meeting identified needs from Step 1.

**Step 3 – Develop strategy:** The strategy identifies which provider provides what services to the different types of members. This requires alignment of strategies between the cooperative and various service providers – a challenging step for which external facilitation may be needed. This is a crucial element for achieving more impactful and self-sustained services in a given area. The strategy should also detail short- and long-term options for recovering the cost of cooperative-provided services, and sources of financial support at different stages of the process. Finally, the strategy should address major gaps in knowledge, include plans for monitoring the effectiveness of services, and present a learning agenda to guide future interactions among stakeholders. There is no blueprint to strategy design – creative thinking and a willingness to experiment are needed.

**Step 4 – Reflect, learn, and adapt:** Cooperative leaders, members, and external supporters should review progress on implementation of the programme and identify options for improvement. Possible refinements cover services offered, to whom the services are offered, how the services are delivered, what their impact is, and the extent to which costs are recovered. Two aspects are fundamental for the group to advance the advisory programme: a willingness to be self-critical about service design and delivery, and sufficient and up-to-date information on the effects and associated perceptions of the programme on members. In addition to service design, stakeholder learning should encompass bottlenecks encountered along the path to achieving progressive cost recovery from members, and options for

#### Box 5. Innovations in service design

To facilitate the use of production inputs by members, the Cooperative Agricole Sabarikagny du Haut Sassandra (CASAHS) in Cote d'Ivoire designed a credit programme around its purchases of cocoa using its own funds (held back from cocoa sales). Loans were delivered in the form of inputs, not cash. The cooperative also provided staff to assist with proper application of the inputs. This also helped to ensure that farmers did not resell the inputs. By 2013, 95 out of the 179 registered members had subscribed to the credit programme and 35 had actually asked and benefited from the arrangement for a total amount of around US\$29,000. A similar programme was designed to promote maize production. In response to a members' needs assessment, the cocoa cooperative supported members to diversify into maize production.

Source: CASAHS (2013)<sup>3</sup>

adjusting strategies to achieve greater sustainability in service provision.

External co-funding will often be necessary for implementation of steps 1 and 2, with a clear phasing out strategy from the very beginning to allow cooperatives to graduate towards steps 3 and 4 based on business consolidation, improved services, and progressive impact and cost recovery.

#### Partnerships required

This approach strives to build cooperatives' capacity over time to deliver impactful services, but it assumes that cooperatives will need strong partners along the way. Partners may include buyers, NGOs, banks, government agencies, and other cooperatives. For new or struggling cooperatives, partnerships for the design, monitoring, and refinement of the service programme will be critical. For well-established cooperatives, partnerships may be less critical for providing core services, but still necessary to overcome gaps in service delivery. Where partners are needed to provide complementary services, it is important to choose these partners well – in addition to technical skills, they require good listening skills, critical observation and thinking, and sound understanding of cooperatives and rural livelihoods. Where skilled partners are unavailable, exchanges with like-minded and similarly structured cooperatives may help. This cooperation promotes new forms of collaboration, such as cooperative-cooperative business schools, which may also work for newly formed cooperatives if sister cooperatives are more advanced and willing to share experiences and skills.

#### Strengths and weaknesses

The approach addresses an important gap in discussions on cooperative development: the implementation of an impactful and sustainable advisory service programme. Its strength lies in providing practical guidance for addressing the complex issues around cooperative service provision and its call for learning and innovation on how cooperatives and their partners respond to members' needs. However, success in implementation may not come quickly or easily. The approach favours those cooperatives with assertive leaders able to inspire change, a minimum amount of resources, and access to capacity development partners committed to empowering cooperatives (and making themselves redundant over time).

#### Best-fit considerations

This approach rests on a diverse group of farmers with access to a package of services that responds to their needs at a given point, and evolves over time as their needs become more sophisticated. Cooperatives play a major role in providing these services, and the better cooperatives are at doing so, the more viable they will be. Table 1 discusses possible service and delivery arrangements for three generic types of members.

3 CASAHS. 2013. Rapport: Projet Intrants CASAHS. Daloa, Cote d'Ivoire: Department Finance CASAHS.

**Table 1. Possible service and delivery arrangements for three generic types of members**

Member grouping	Types of service that may be needed	Potential service providers
Most vulnerable: Highly constrained asset endowments, where main focus is food security	<ul style="list-style-type: none"> <li>• Support to meet basic needs</li> <li>• Emergency credit</li> <li>• Assistance with major bottlenecks for production</li> <li>• Facilitation of services to address basic health needs</li> </ul>	<ul style="list-style-type: none"> <li>• Government agencies, NGOs and projects for assessing livelihood and health related needs</li> <li>• Cooperative services for securing basic assets (for on-farm production)</li> </ul>
Vulnerable: Members with moderate constraints in asset endowments for production, diversified livelihood strategies, but limited capacity to invest in inputs and services	<ul style="list-style-type: none"> <li>• Building human capital for improved crop management</li> <li>• Facilitating access to productivity enhancing assets</li> <li>• Direct provision or facilitation of credit services</li> <li>• Training programs for supporting livelihood diversification</li> <li>• Facilitation of services to address basic health needs</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperative services for enhancing on-farm issues</li> <li>• Government agencies, NGOs and projects for basic livelihood and health needs</li> </ul>
Least vulnerable: Members with few or no constraints in asset endowments for on-farm production, able to invest in inputs and services	<ul style="list-style-type: none"> <li>• Short term credit for production of cash crops</li> <li>• Access to inputs for value chain crop</li> <li>• Technical assistance for value chain crop</li> <li>• Assistance to access higher end organic and other niche markets</li> </ul>	<ul style="list-style-type: none"> <li>• Buyers/processors (e.g. technical assistance on specific issues in production/processing)</li> </ul>

### Impact and scalability

Various factors are critical for cooperatives and partners to achieve impact and sustainability at scale through advisory services: careful design of services; taking into account the needs of cooperatives to strengthen their service delivery capacity and the service needs of members; complementarity between cooperative and externally-sourced services; efficient delivery mechanisms with a constant eye on impact and cost recovery or securing sustainable funding; and having the right partners on board for critical programme design, service capacity development, and periodic reflection for programme improvement.

### Further reading

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