



## Global review of rural community enterprises

*The long and winding road to creating viable businesses, and potential shortcuts*

Jason Donovan  
Dietmar Stoian  
Nigel Poole



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Tropical Agricultural Research and Higher Education Center (CATIE)  
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# *Executive summary*

Government and civil society organizations are faced with the considerable task of promoting broad-based economic growth among the rural poor without compromising the natural resource base, while at the same time increasing the sustainability of their actions. In this context, rural community enterprises (RCEs) are increasingly being advocated because of their perceived ability to combine, with varying degrees of success, economic objectives with environmental and social objectives, such as sustainable resource management, improved local safety nets, increased influence over political processes, and member education. Recent changes in the political, legal, and market environment in developing regions offer possibilities for RCE development that simply did not exist before. Reduced barriers to trade, including tariffs, quantitative restrictions, and other barriers, provide conditions for enhanced export performance for both traditional and nontraditional products. Structural adjustment programs substantially reduced or eliminated state-backed marketing boards and production cooperatives, thus opening new spaces for RCEs in the commercialization of agriculture and forest products. In addition, emerging segments and niches in agricultural and forest product markets, such as organic, certified timber, and specialty fruits, provide incentives for new community-based business endeavors as well as attract external investments for upgrading RCE operations.

Against this backdrop, the Ford Foundation commissioned the Tropical Agricultural Research and Higher Education Center (CATIE) to work in collaboration with the University of London<sup>1</sup> and various local partners to carry out a comprehensive review of RCEs and their potential for promoting rural development. This review aims at better understanding of the nature of RCEs, their asset-building potential, the factors that contribute to their success, or lack thereof, and their ability to evolve into viable businesses capable of delivering economic, environmental and social impacts. We carried out 26 RCE case studies in the United States and 11 selected developing countries in Latin America

and the Caribbean, Asia, and Africa. These case studies cover a range of productive activities, including the extraction and processing of timber and nontimber forest products (NTFPs), the production of agricultural commodities such as coffee, cacao, tea, and banana, as well as services (ecotourism). RCEs were identified and analyzed in collaboration with local partners using common methodological guidelines, combining primary and secondary data collection.

Our review of existing research and discussions revealed a relatively large gap regarding the capacities of RCEs to engage in globalizing markets and effectively deliver benefits to their members. There is consensus that cooperatives and other forms of smallholder business organizations are more likely to develop into viable businesses when they emerge from local development processes, thus promoting a sense of ownership and asset building. However, there is a poor understanding of the duration and potential pitfalls of such processes and the long-term commitments required for securing RCE viability.

Recent discussions highlight that effective governance is vital to the overall success of RCEs, especially in more demanding market environments. At the same time it is acknowledged that effective governance is difficult to achieve due to the multiple interests of stakeholders (e.g., new members versus old members, management versus directors and members), limited business experience by board of directors and members, and the high costs of coordination and communication between them. There is consensus that political–legal frameworks are not conducive to RCE development. On the other hand, there is little discussion or evidence of the capacity of governments and service providers to meet effectively the needs of RCEs, their members, or their business partners along the value chain. Discussions have yet to address fully several important aspects related to the design of more effective RCE development strategies, nor has systematic analysis of the minimum asset endowments (natural, physical,

<sup>1</sup> In the initial stage of this research, collaboration was with Imperial College London (2006), which, at the time, was a constituent college of the University of London. In 2007, following Imperial College London's separation from the University of London, collaboration was transferred to the School of Oriental and African Studies (SOAS) (2007-2008).



social, human, financial) required for RCE development been carried out. Of particular importance is the need to gain more insight into opportunities for improving technical, business development, and financial services for RCEs and, equally important, of better articulating them.

### Findings from the case studies

**Land tenure is important but not a *sine qua non* for the initial stages of RCE development.** While most RCEs depend directly on natural capital for their business operations, endowment levels vary widely, both at enterprise and farm household level. In many cases, natural capital at the aggregate (enterprise) level is relatively high, while at the farm level it is limited. Formal land titling is uncommon. Though land tenure is a prerequisite for using land as collateral for credit, its absence—especially for sampled cases—does not imply an imminent threat to the flow of natural resources from producers (collectors) to the RCEs. Both our sample and the literature provide ample evidence that investments by small producers, for example in perennial crops, also take place in the absence of legal access to the resource base.

**Significant physical capital accumulation by RCEs is possible, but limited processing capacity and rural infrastructure remain key constraints.** Several RCEs have made significant investments in physical capital worth hundreds of thousands of dollars, if not several million dollars. Despite these considerable investments, which, in many cases, were realized through donor funding and/or credits, most RCEs are not equipped with state-of-the-art technology or facilities. In terms of processing capacity, only a few RCEs produce finished products for consumption by final consumers (e.g., honey and poultry). Most sampled RCEs have processing capacity for semifinished products, such as dimensioned sawn wood, cocoa butter and powder, and coconut oil. RCEs without basic processing capacity tend to be among the least consolidated RCEs in the sample. In terms of external physical capital, few RCEs have year round road access, 24/7 electricity, and secure telephone and Internet connection.

**Most sampled RCEs are highly undercapitalized, irrespective of size and scale of operations.** This situation results, in large part, from the inherent constraints

of the legal form of the RCEs (e.g., cooperative and associations), weak management, and limited willingness of members to invest in the RCE. Chronic undercapitalization implies constrained working capital available for RCE business operations (including short-term credit services for members), forcing RCEs to borrow from formal and informal financial service providers; this in turn reduces the net benefits received by members. Access to credit is highly variable: RCEs with greater access are those with long-term business relationships with buyers, relatively stable production volumes, and niche market orientation (usually certified).

**RCEs can accumulate high endowments of social capital among members and with buyers and development agencies.** In several cases, social cohesion is high among members, reflected in membership growth, strong corporate identity and commitment to RCE development. In other cases, social capital is limited, with members' conception of the RCE as just another intermediary. Internal cohesion was more common among RCEs oriented toward international niche markets. Several RCEs have been successful in establishing long-term trust relationships with a few buyers. There was little evidence in our sample of significant impact by RCEs on local or national political decision-making processes. Several RCEs have forged long-term relations with donor and development agencies and nongovernmental organizations (NGOs). In most cases, donor and government support (in this order) have been critical for RCE establishment and development.

**Relatively little attention has been paid to building human capital for RCE administration.** Among board of directors (BoD) and management there is an overall shortage of trained personnel from within the RCE. BoD members and managers often acquire their skills through a learning-by-doing process. Mandatory rotation of BoD members, and at times, managers, create irregular learning curves, hampering RCE performance and strategic orientation. In several cases, rules and regulations for critical areas of RCE operations do not exist. Even in cases where they do exist, they are not always monitored or enforced. Despite these limitations, there is evidence that, over the course of time, BoD members and managers become progressively capable of administering RCE operations and less dependent on outside support in terms of funding and business administration.

**There is no single legal form that adequately addresses the realities and needs of RCEs.** The choice of the legal form of RCEs often implies trade-offs in terms of taxes versus no taxes, capital accumulation versus capital disbursement, internal versus external decision control, member versus nonmember participation, among others. However, in many cases, not even the “second best option” is chosen, due to lack of business vision, legal inexperience, and inappropriate advice by NGO and development agencies (e.g., priority for conservation rather than business development). As a result, the legal form of RCEs may impede long-term development.

**Weak RCE management capacities remain a major impediment for RCE growth and development.** In some cases, RCEs management is carried out mainly by the board of directors or general assembly. On the upside, participatory decision making legitimizes major RCE decisions. On the downside, development of clear strategic perspectives can be hampered which such democratic processes are combined with weak skills and capacities of local RCE administrators. Though several RCEs have received external support for business administration—usually in the form of externally funded managers or direct administration through NGO staff—this form of business administration is prone to be unsustainable. In most cases, a clear exit strategy exists that allows for progressive development of local skills and capacities does not exist.

**A service environment conducive to RCE development rarely exists.** Services are often incomplete, insufficiently focused, rarely coordinated among different service providers, and usually without clear entry and exit strategies. In addition, many RCEs face difficulties in clearly expressing their needs for technical, business development, and financial services, as they can only demand what they know. Many RCEs have yet to receive effective services, at reasonable cost, and according to their specific needs. Technical services, for example, tend to focus on production and processing of low-value products for local markets or international markets. Financial services, on the other hand, are often provided in isolation from business development considerations. Moreover, while technical and financial services for RCE development are readily available, there are hardly any specialized business development service (BDS) providers for the rural sector.

**Long-term accompaniment is critical to RCE development.** Without long-term assistance from NGOs, several sampled RCEs would not be where they are. Related services are critical for linking with buyers, improving quality, obtaining certification, and developing effective administration and export procedures. In addition, accompaniment by buyers and processors (embedded services) can play a critical role in RCE development. Such services are critical for acquiring specialized production capacities, development of business vision, product placement, and resolving various issues related to export and import. Buyer-provided technical, business development, or financial services are usually offered in the context of long-term business relationships. However, these tend to be limited to a few RCEs participating in niche markets (organic, certified timber, fair trade).

**Many RCEs exhibit low levels of productivity and processing capacity.** Low farm productivity is due largely to lack of improved genetic material, low use of fertilizers, inappropriate pest and disease management, and overall limited knowledge of good agricultural practices. Among the forest-based RCEs, technical skills for timber and NTFP management are relatively well-developed, due largely to intensive support from development agencies and NGOs (often with a focus on biodiversity conservation). An overarching challenge for RCEs is quality control from the farm/forest to the collective enterprise. None of the sampled RCEs provides incentives to its members for quality production.

**With few exceptions, participation of women in RCE management and decision making is very limited.** In some agricultural and NTFP-based RCEs, women play a critical role in harvest and processing (on farm or in factory) but are largely excluded from the boards of directors. In the case of timber-based RCEs, women also tend to be excluded from production related processes. In many cases, cultural factors and women’s domestic tasks largely prevent them from playing a more prominent role in RCE related decision making. Even women beyond the age of child-rearing responsibilities do not readily find their way into RCE decision-making boards, suggesting that strong barriers to entry exist. There is an urgent need to identify women who are interested in RCE administration and to strengthen their entrepreneurial and leadership skills.

**Despite limitations, several RCEs have demonstrated capacity to generate income for their members.**

Employment generated by RCEs ranges from anything between a handful of employees to several hundred staff. In most cases, RCEs employ between 10 and 20 staff. Only in cases where processing plays a major role is significant employment generated. Income generated by RCE members figures prominently among overall income sources. However, in none of the cases sampled do RCE members live exclusively on RCE-derived income. Certified RCEs tend to pay prices exceeding those paid by local intermediaries. Some forest-based RCEs pay significant annual dividends per member. In situations where local marketing conditions are relatively poor, RCEs have managed to pay significant price premiums (up to 50%) by linking directly with international buyers.

**RCEs enhance community development beyond their own membership, though the overall scale of impact varies widely.**

By their very nature, forest-based RCEs tend to provide benefits to a larger portion of community members, thereby increasing overall impact on the community. Agricultural RCEs, on the other hand, typically represent only a subgroup of a given community, though certain forms of certification (fair trade) and enterprise philosophy make them invest part of their proceeds in community development (e.g., schools, road construction, wells for drinking water). One of the areas in which RCEs clearly stand out is their capacity for sound natural resource management. This is not only reflected in the high degree of certified enterprises but also in the generally low-input agriculture or forestry they practice. External support provided by environmental NGOs has strongly focused on improving the environmental performance of RCEs.

**The long duration for RCEs to reach maturity (about 30 to 40 years) compromises the viability and impact of related processes.** This will be even more critical in the future, given rapidly globalizing markets

for agricultural and forest products and related services (e.g., ecotourism) and the concomitant rise in competition among enterprises. This highlights the need for shortcuts to RCE development processes. Comprehensive support policies and strategies are needed. These in turn require enhanced technical, business development, and financial services, better articulation between them, and close collaboration between the different service providers and donor/government agencies, along with forging alliances with the private sector buyers.

**RCE development is not inherently compatible with “triple bottom line” performance.**

To become economically viable businesses, a focus on “enterprise” is paramount. Compatibility of the economic goals of RCE development with environmental and social objectives is most feasible when sustainable production modes are in place or strived for. Examples include sustainable forest management, organic agriculture, and fair-trade-certified operations. It needs to be borne in mind that these examples refer to niche markets and hence, do not provide broad-based solutions for rural development. Outside of these niches, social and environmental objectives are also feasible but are second-order objectives in RCE development. In situations where environmental management and broader community development are paramount, and where niche market orientation is not a viable option, approaches other than RCE development may be required.

We conclude with recommendations for improving the overall service environment for RCE development. These are provided for the following three stages of RCE development: pre-emergent, emergent, and mature. In addition, recommendations distinguish between three types of organizations that provide services: generalist providers, specialist providers, and research and training centers. Recommendations incorporate such cross-cutting themes as gender promotion, sustainability in service delivery, trust development, and multi-stakeholder learning.

# 1 Introduction

## Changes in the development context

Throughout sub-Saharan Africa and remote sections of Latin America and southern Asia, the livelihoods of the poor depend heavily on small-scale agriculture and community forest management as a source of cash income, household maintenance, and employment. Despite increasing urbanization in many parts of the South, poverty remains mainly a rural issue. Projections suggest that over 60% of the poor remain rural as late as 2025 (IFAD 2001). An emphasis on small-scale agriculture and forest management is attractive from a poverty reduction and conservation standpoint, given the reliance on unskilled labor, dispersion in rural areas with high poverty incidence, and potential for providing incentives for sustainable resource management. However, achieving poverty reduction and conservation through such measures will depend heavily on the capacities of the rural poor to organize effectively into viable businesses capable of engaging with markets.

Over recent decades, smallholders have faced dramatic changes in the political, legal, and market context in which they operate. Globalization combined with structural adjustment programs, and the general tendency toward greater democracy and decentralization, have opened up new opportunities while demanding far greater capacities in production, organization, and marketing. The progressive liberalization of world trade through, for example, successive rounds of General Agreement on Tariffs and Trade (GATT) negotiations and the establishment of the World Trade Organization (WTO), have created opportunities for Southern producers and traders to access more easily Northern markets. In particular, efforts to reduce barriers to trade in agricultural and food products, including tariffs, quantitative restrictions, and other trade barriers through the Uruguay Round, provide necessary conditions for enhanced export performance for both traditional and nontraditional products. The volume of food trade increased 2.1 times from 1980 to 2003—or 3.4% annually, faster than the growth of GDP/capita in the world (2.6%) (Reardon & Flores 2006). Trade liberalization coincided with rapid growth in demand for nontraditional

products, especially fruits and vegetables, seafood, and meat products, as well as dramatic improvements in transportation, storage, and communication technologies.

In addition to increased trade flows, globalization is apparent in the increased interconnectedness of the agricultural and forest producers, traders, and processors. This results largely from the increased emphasis on food quality and safety and traceability by major processors and retailers, governments, and consumers. Niche markets (e.g., organic agriculture, fair trade, certified timber) and otherwise higher-value markets (e.g., tropical fresh fruits, off-season vegetables, and specialty items, such as berries) are among the fastest growing food sectors and can offer opportunities for increased value added by smallholders, given their relatively high labor supervision requirements. According to the United Nations Conference on Trade and Development (UNCTAD), the market for certified organic foods in Europe and North America was estimated at US\$25 billion in 2004. It is estimated that smallholders produce up to 70% of organic products imported into the North. According to Fairtrade Labeling Organizations (FLO) International, consumers worldwide spent US\$2.5 billion on fair trade products in 2006, involving some 1.4 million smallholders and laborers worldwide. Growth in these markets is part of a larger trend in the consumer demand driven by growing interest in health and well-being, hitherto rising discretionary income, and increased interest in environmental and social responsibility. Related impacts on smallholder–buyer relations include:

- consumer markets widely diversified beyond basic commodities, and final consumption goods having a high level of value added beyond the raw material value
- demanding product quality specifications required by processors and distributors, often translating into stricter supply relations with suppliers in the South, and opportunities for higher prices
- increased complexity in developing country markets in response to the emergence of domestic supermarkets and increased incomes and sophistication among urban consumers

- increasing divergence between the products consumed in developing countries and the products produced for developed-country consumers, thus requiring technical capacities usually outside the experience of smallholders and communities

## Defining rural community enterprises

For government and civil society organizations looking to increase their impact on rural poverty and the sustainability of their actions, rural community enterprises (RCEs) represent a promising option. These enterprises are believed to foster economic growth and equity and provide incentives for sustainable natural resource management. It is advocated that RCEs have this potential because of some unique institutional and economic features that distinguish them from traditional companies (see Table 1.1). In the context of this study, we offer the following working definition of RCEs: *businesses based on the production of agricultural or forest products and services, which are owned by small- and medium-scale producers and pursue multiple objectives, with profit maximization as only one among many goals.* Typically, other important goals include community development, improved local safety nets, increased influence over political processes, and member education. RCEs are found across industries and market segments, including specialized food and agricultural products (certified wood, organic agricultural

products), and large-volume, low-value segments where competition tends to be fiercer (e.g., conventional sugar cane, coffee, and rice). They include raw material suppliers, vertically integrated processors of products, and participants in markets for environmental services, including ecotourism.

Recently there has been considerable enthusiasm shown for RCEs in response to falling commodity prices, diversification of consumer markets into higher value segments, and structural changes in markets (World Bank 2000, 2001, Antinori & Bray 2005; Molnar *et al.* 2006; USAID 2006, Donovan 2007; Penrose-Buckley 2007). However, such interest is not new: the link between rural development and cooperatives was a common element in development approaches during the 1960s and 1970s, usually involving strong participation by development agencies for reasons other than smallholder income generation (e.g., cheaper food supplies and increased export earnings). Interest in cooperatives declined sharply during the 1980s, due largely to structural adjustment policies that reduced government involvement in the rural sector, combined with the generally weak economic performance of rural cooperatives.<sup>2</sup> Reasons for the renewed interest in smallholder and community-led business organization include:

- *New market opportunities:* Reduction of tariff and nontariff trade barriers, combined with the rapid

**Table 1.1** Institutional features of conventional firms versus RCEs

	Conventional firm	RCEs
Owners	Investors, stockholders	Affiliated members or registered community members
Legal form	Sole proprietorship, partnership, incorporated company	Cooperative, association, or incorporated company (stock owned by RCE members)
Objectives	Profit, return on investments (stock price, dividends)	Employment, capitalization, dividends, public goods/services, sustainable resource management
Management structure	Owner(s) or managers	Board of directors, managers, and/or general assembly
Decision control	Executive officers, shareholders, auditors, board of directors	Board of directors and general assembly
Capitalization restrictions	No restrictions, externally generated	Stipulated by RCE statutes; community legal framework
Distribution of residual claims	Proportional return on investment	Proportional by usage among members or equal distribution among members

Sources: Mendoza & Ton (2002), Antinori & Bray (2005), Boyd (2005)

<sup>2</sup> Recent writings on the failures of state-driven cooperative development during the 1960s and 1970s include Brass (2007) in Peru, Canterbury (2007) in Guyana, Mumbengegwi (1998) in Zimbabwe, and Mporogomyi (1998) in Tanzania.



growth in demand for labor-intensive and/or environmentally and socially responsible agricultural and forest products (e.g., certified organic and fair trade markets, certified timber, fresh fruits).

- *Decentralization and privatization:* Structural adjustment programs substantially scaled down the state's role in smallholder agriculture and community forestry, effectively reducing or eliminating state-backed marketing boards and production cooperatives. This has opened new spaces for small-scale activities in the production and commercialization of agriculture and forest products and services.
- *Changes in the development agenda:* Civil society organizations have become responsible for delivering many services once delivered by the state (Wennink & Heemskerk 2006), and have adapted their objectives and activities to maximize their effects and impact in terms of reduction of poverty and social exclusion.

However, relatively little is known about the capacities of RCEs to engage effectively in increasingly complex market environments while at the same time deliver sufficient benefits to their members. While globalizing markets offer the potential for higher prices and incentives for environmental stewardship, they also require smallholders to comply regularly with on-time delivery of quality products in sufficient volumes and at competitive prices. The long-term viability of RCEs rests upon the ability to secure the advantages for smallholders and communities related to:

- *Lower costs:*<sup>3</sup> RCEs can increase scale economies in production, processing, and handling. By combining resources among members, RCEs provide an institutional framework for increasing scale, pooling risk, developing trust-based relationships with buyers by reducing information asymmetry and opportunism among smallholders, and promoting the sharing of information and the facilitation of contract enforcement.
- *Increased bargaining power:* RCEs can provide increased bargaining power vis-à-vis downstream buyers and processors. For buyers and processors, instead of investing time in negotiating with individual producers over small volumes, they can negotiate with a RCE for a large quantity.

This generates space for negotiating higher prices for products and inputs.

- *Enhanced social welfare:* This may include cultural and political empowerment and enhanced ability to shape the political-legal process, regarding such issues as access to government services, tax concessions, infrastructure investments, subsidies, or resource access (tenure). Local communities may benefit from RCE-generated employment and investments in services normally the responsibility of government, such as infrastructure and welfare programs.
- *Increased access to services:* RCEs provide services related to input supply (purchase in bulk for resale to members), technical services, credit, and access to higher-value markets. In some cases, services are provided by external organizations, rather than RCEs themselves. NGOs and banks often target RCEs to lower their transaction costs and exploit economies of scale in servicing groups rather than to individual producers.
- *Realization of environmental benefits:* The ability to reconcile poverty reduction and resource conservation goals depends in part on the institutional arrangements that shape the incentives faced by RCEs and their members. RCEs provide an institutional framework for promoting conservation by lowering costs for processing and marketing and facilitating services for the implementation of sustainable management practices. They can also reduce certification costs on average by coordinating inspection, monitoring production, and transmitting information.

Securing these advantages creates costs, which can be high, especially if RCEs are not managed efficiently and access to essential resources is scarce. A typical RCE may be charged with purchasing inputs for members (including certification), bulking produce from members, paying them, processing into semi-elaborated products, arranging certification, and coordinating with buyers and external service providers. In addition, RCEs are often charged with providing capacity-building services for their membership. Rural poverty will be affected by RCEs to the extent that they provide their members with

<sup>3</sup> Dorward et al. (2005) identify four types of costs incurred by smallholders as a result of market liberalization: 1) costs of production (inputs, labor, services); 2) costs of meeting demands for rents (taxes, duties and bribes); 3) costs of coordination (searching, screening, and investing in relationships and potential investors); and 4) costs of limiting opportunism (establishing mechanisms for protection against opportunistic behavior). Relative to larger-scale producers, smallholders tend to be disfavored in meeting most costs, except for those associated to accessing and supervising labor.



needed services and that these services benefit their members, either directly (asset accumulation) or indirectly (community development).

### **Organization of this review**

This review aims to understand better the nature of RCEs, the dimension and distribution of returns from RCEs, the related development challenges, and the factors that facilitate their success or lack thereof. In addition to a comprehensive review of the existing debates and discussions related to RCE development, this report presents results from 26 case studies of RCE development from the United States and 11 selected countries in Latin America

and the Caribbean, Asia and the Pacific, and Africa. The discussions that follow are divided into four chapters. Chapter 2 reviews themes, issues, and debates in the literature related to RCE development that have emerged over the past decades. Chapter 3 outlines our methodological approach, particularly regarding the selection of countries and RCE cases, and the steps taken to collect and analyze primary and secondary information. In Chapter 4, we present the main findings from our case study analysis. Chapter 5 draws upon the findings from the literature review and the case study analysis to identify recommendations for the Ford Foundation and other donors in their support of RCE development.

## 2 Issues and debates in RCE development

### Overview

Rural community enterprises typically fall into the category of small and medium enterprises (SMEs), given their number of employees, production volumes, and annual turnover. Official definitions of SMEs tend to focus on the number of employees and the annual turnover, but these criteria vary widely across regions and from country to country. According to Beck *et al.* (2003), in the European Union, small- and medium-size enterprises have between 11 and 50 and 51 and 250 employees, respectively, while in the United States, definitions vary between 11 to 100 and 101 and 500 employees for small- and medium-size enterprises respectively. In developing regions, the economic and social contexts suggest lower ceilings for SMEs, for example a maximum of 100 employees and an annual turnover of less than US\$ 3 million, according to the Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB).

Relatively little research has focused on the development of collective enterprises for advancing the goals related to sustainable rural development, namely poverty reduction, resources conservation, and social inclusion. Rather, discussion has tended to highlight the institutional arrangements for organizing smallholders into collective enterprises for increased market access and the related challenges for responding effectively to members' demand for effective services.

These discussions utilize various terms for smallholder and community-based enterprises, including "cooperatives," "producer associations," "rural producer organizations," "community forest enterprises," "micro and small enterprises," and "farmer organizations." The definitions vary in terms of the enterprise objectives (implicit or explicit), institutional arrangements for administration and resource management, and relation to the local political-legal context. Thus, for purposes of simplicity, here we use the term "rural community enterprises" (RCEs) in the broad sense to refer to enterprises collectively owned by smallholders.

### Organizational forms and structures

This section examines several of the key issues related to the organizational setup of (RCEs). These issues include objectives for RCE growth and development; legal forms for RCEs, namely cooperatives and producer associations, and the opportunities and limitations of multitiered organizational structures.

### Objectives for RCE growth and development

A number of different stakeholders, both internal and external to RCEs, influence the goals and objectives set by RCEs for their growth and development. Among these are:

- *RCE members*: improved livelihood opportunities and security, through access to commercial services (credit, output markets, and technical services), lower transaction costs (trust, grading, etc.), and improved information flow
- *RCE management*: maximize profits (greatest possible surplus for retention or disbursement to members), better positioning in higher-value and growing markets, through increased scale (lower costs) and increased capitalization
- *NGOs and government agencies*: reduce rural poverty, environmental conservation, social inclusion, gender equity, increased competitiveness (increased export performance), and empowerment

Such interests may or may not be in harmony. According to LeVay (1983), it is not uncommon in RCEs, as in other entrepreneurial ventures, for tension to arise between the objectives of keeping the organization small and intimate and allowing it to grow. From a management point of view, enlarging the scale of the RCE may help to increase business performance. Nevertheless, active RCE members may judge matters in a different light. They have every incentive to demand the greatest possible returns to the raw product that they supply. The RCE may be viewed primarily as a means of achieving such returns, not as a profit-seeking entity in its own right. As for the pursuit of growth, if this results in lower per-unit returns or in an extension of the membership, there may be considerable dissatisfaction amongst the active membership. An increase in the number of members dilutes control.

RCE priorities may also be influenced by NGOs and government agencies, whose objectives may or may not be in line with those of the RCE membership. For example, NGO objectives to extend RCE coverage to include poorer and more vulnerable groups may conflict with members' desire to restrict access to accumulated capital and control. A consensus may result in the adoption of a particular set of goals, acceptable to all parties, but it may also mask dissatisfaction on the part of some stakeholders. Which objectives prevail depends upon the relative strengths of the various parties.

Recent research focused on forest-based RCEs in Mexico and Guatemala (Bray & Merino Pérez 2002, Antinori & Bray 2005, Stoian *et al.* 2007) illustrates the potentially complex nature of the trade-offs related to RCE development:

- *Empowerment*: General assemblies often make key decisions on personnel, resource management, and marketing without a clear understanding of the technical, financial and management issues involved in RCE operations. Moreover, they may not recognize the right of their elected manager to manage.
- *Human capital promotion*: Leadership positions often change every few years, increasing costs as experienced people leave and inexperienced and sometimes incompetent people enter. As these posts rotate every few years, organizational learning becomes irregular, resulting in economic losses caused by improper management decisions.
- *Community development*: General assemblies may view the RCE more as a source of jobs and profit sharing than as an enterprise based on sound business principles. Communities may set relatively high wages and favor the use of profits for dividends or investment in community works rather than RCE capitalization.
- *Conservation*: Emerging groups in communities may see conservation as a primary objective and object to large-scale resource extraction, resulting in conflicts between management for multiple uses (e.g., NTFP harvesting and processing, tourism) and management for timber.

Despite these challenges, evidence suggests that RCEs have been able to combine democratic participation, environmental stewardship, and economic efficiency, with varying degrees of success. In Mexico, Antinori

& Bray (2005) argue that RCEs have distinct advantages and resilience in achieving a balanced social and environmental performance based on an overall enabling political–legal framework, high endowments of natural capital, and previous experience in community organization for common property management. In Guatemala, an active RCE sector has emerged with a strong emphasis on the sustainable management of timber and nontimber products for international markets (see Box 2.1). In general, improvements in environmental performance tend to raise costs only modestly, or they have proven cost-effective or even profitable (Vogel 2005). In the agricultural sector, an increasing number of companies market under fair trade standards, whereby prices received by RCEs are negotiated by a third party, often well above the conventional price (Raynolds *et al.* 2007). Nevertheless, future increased investments in environmental and social performance is limited by uneven commitments within sectors, limited demand for “green” and fair trade products, and in some cases, higher costs (Vogel 2005).

#### Externally versus internally driven organization

RCE organization can emerge largely based on local efforts, such as social movements or other forms of collective action for political and economic objectives. These internally driven RCE developments are often in reaction to external shocks (natural resource degradation, severe price fluctuation) and based to varying degrees on local or traditional community institutions (Bosc *et al.* 2002). RCEs have also emerged from externally driven approaches pursued by external actors, mainly NGOs and government agencies, for the promotion of poverty reduction and sustainable resource management, among other objectives.

Externally driven approaches have been viewed as a major source of the failure of RCEs, often for using the wrong conceptual approach, being ignorant of the local social structures and other local conditions, and demonstrating a tendency to create dependency. In the context of state-driven agricultural organization programs in California's horticultural sector during the 1920s, Tobriner (1924) found that cooperatives that were the result of local effort provided a more solid organizational base for long-term collective business

### Box 2.1 Cooperation between government, civil society and rural communities for multi-objective RCE development in Petén, Guatemala

The Petén region of Guatemala had long been subject to illegal logging, widespread forest fires and disputes over the access to its timber and nontimber resources. The emergence of a community-based social movement and increased environmental awareness led to the establishment of the Maya Biosphere Reserve in 1990. The multiple use zone of the reserve was opened up by the government for a concession system under which both industrial and community concessions became certified under the scheme of the Forest Stewardship Council (FSC). To date, two industrial and 14 community concessions have been certified. The majority of the latter operate community-based sawmills for processing of precious woods such as mahogany and tropical cedar. RCE development, promoted strongly by donor agencies and local NGOs, has led to an increased sense of forest ownership, a drastic reduction of forest fires, and the generation of local employment and income (Carrera *et al.* 2006). In some cases, up to 30% of RCE utilities are reinvested in social projects, while dividends have been paid at the end of each year amount to roughly US\$ 140–\$210/community member (Stoian *et al.* 2007).

development. Where externally driven approaches had been applied in California without accompanying investments in building a sense of ownership by members, the results were disappointing: “There is no question that outsiders can organize cooperative associations even when the farmers themselves feel little desire to cooperate. Once a boom for cooperation is started...a cooperative association can be erected upon no firmer foundation than enthusiasm.” In 2008, results from online debate among development practitioners sponsored by FAO, IFAD and others on “The Failures of Farmers’ Organizations” highlights the misgivings about externally driven approaches:<sup>4</sup>

- “Imposing the formation of producers’ associations from the top and political interference are some of the reasons for failure” (N. Parthasarathy)
- “Reasons for failure of farmers organizations are NGOs’ involvement in the association formation: farmers are organized by NGOs and are directed by these agencies without involving them.” (F. Ahmad)
- “Our experience has shown that producer cooperatives have failed in several fields, mainly because of the institutional factors. A cooperative needs to be registered and gets to be governed by the cooperative law, making it mandatory for it to be headed by a government official.” (S. Mysore)

On the other hand, internally driven approaches often require investments in building capacities, where learning is often based on trial and error and can take several years to several decades to achieve, depending on the

local capacities and political and marketing contexts. These costs may be reduced in marketing environments where transaction costs are relatively low and quality and volume requirements are minimal, such as conventional products for international markets or low value products for local markets. However, in the context of more demanding markets, externally driven approaches need to succeed given the importance of outside actors (e.g., NGOs, private sector) in organizing RCEs and building their capacities, especially in the initial stages of RCE development. There is evidence that over time RCEs may become less dependent on external actors for their survival. For example, during its early stages of development, the cacao cooperative El Ceibo in Bolivia depended extensively on the German Development Service (DED) for managing contacts with international buyers in Europe as well as providing technical support. As noted by Bebbington (1996: 204): “Before becoming the strong organization that it is, El Ceibo has benefited from the support of NGOs and specialist institutes. Clearly, the relationship evolves—professionals and NGOs initially helped strengthen El Ceibo, which as it becomes stronger, has begun to question their role.” Based on lessons learned in the organization of NASFAM, an externally driven farmer organization serving almost 100,000 Malawian smallholders, Chirwa *et al.* (2005: 5) recommend: “[external support] should not rush [RCE] expansion but should patiently allow [RCEs] to learn to be effective and efficient before they begin to expand, which may involve errors and a slow road to [RCE] financial independence.”

<sup>4</sup> For details see: <http://www.mediavince.com/gaif08/blog/?lg=en&topicid=17>

In summary, both externally and internally driven approaches can work. In both cases, membership commitment can be maintained by effective mobilization and governance based on principles of democracy and accountability and clear expectations about entry conditions and potential benefits. In either case, existing organizational structures in target communities can be good building blocks for RCE development (Kachule *et al.* 2005).

### Organizational forms: rural cooperatives

RCEs can take several different legal forms, including cooperatives, associations, corporations, and communal land grants (*ejidos*), each with specific implications in terms of decision making, benefit sharing, growth and expansion. The optional organizational form depends on the characteristics and needs of the RCEs in a given market environment. Here, we examine the dominant RCE legal form, the cooperative. The organizational principles that differentiate cooperatives from other legal forms were adopted in the mid-1800s in response to negative changes in worker–management relations wrought by the industrial revolution in England. As they emerged in Northern countries, cooperatives developed a more or less shared set of principles related to how they should be owned and governed, including voluntary and open membership, democratic member control, member economic participation, autonomy and independence, and education of members (Shaw 2006). Cooperatives aim to provide services to their members at cost, including transport, bulking, credit, processing and marketing, among others. Unlike corporate dividends that reward investors with a share of profits, dividends paid out by cooperatives are designed to adjust for underpayments for products delivered (selling price—price paid upon delivery of product) as well as for overcharges for services rendered (price paid for services—costs of service delivery), usually calculated on an annual basis.

Successful organization and development of rural cooperatives is a formidable task even under the best of circumstances. This is largely due to the complex institutional framework of cooperatives that combines different interests and aims within a single enterprise form (Vitaliano 1983, Nilsson 2001, Cook & Plunkett 2006):

- *Separation of the ownership and control:* Cooperatives do not provide management with

stock ownership or stock options based on a cooperative's performance. This creates a control problem, as managers may take decisions that lower the value of the RCE's residual claims (e.g., increase pay, reduction of services, increased dues), and RCE members do not have full and immediate rights to their invested capital, thus limiting their ability to respond to ineffective management performance. To ensure that members remain the primary beneficiary of collective action, most boards of directors of cooperatives are made up of RCE members.

- *The "free rider" problem:* When a new member joins a cooperative, he/she gains access to all assets that earlier generations of members have accumulated. Further, new members generally pay only a small entrance fee to join the cooperative, which dilutes the equity of existing members. It is difficult to justify to members that they should invest in the cooperative development when they have to share this investment with others, the free riders. Likewise, when a member leaves a cooperative, he does not have access to the assets to which he has contributed.
- *Conflicting goals:* The board of directors has a responsibility in the short run to act in the best interest of the cooperative even if its actions have a negative long-term impact. Management may be unable to pursue goals in the long-term interest of its members via a more efficient and financially sound business. In addition, there are times when growth and diversification are the appropriate strategies, but management does not have the experience to implement effectively these strategies.
- *Divergent planning (investment) horizon:* Because members have different planning horizons, it is difficult to make optimal investment decisions. As the accumulated assets (residual rights) cannot be transferred when members withdraw, the planning horizon of members is thus reduced. Members who will not still be members at the time when an investment pays off will oppose it, so that a number of potentially profitable investments, particularly long-term investments, will not be realized. Capital growth is thus hindered and the overall value of the enterprise is reduced.

Evidence suggests that the institutional limitations of cooperatives can be overcome with careful institutional design and effective leadership. For

example, Lerman and Parliament (1993) argue that cooperatives can overcome the institutional limitations for generating investment by members. In their analysis of investment levels by 60 U.S. cooperatives between 1973 and 1987, they found that, on average, cooperatives financed almost half of their total investment with member equity—nearly the same proportion of total investment financed with equity by investor-owned firms. They suggest that this was due to special mechanisms of per-unit returns and allocated patronage refunds that cooperatives implemented to broaden their equity retention opportunities and thus sustain their growth in competitive markets. An emerging literature on hybrid cooperative forms highlights the potential for increased incentives for investment from members and nonmembers alike (see Box 2.2).

Throughout large sections of developing regions, however, cooperatives have only recently emerged as self-governed business organizations. Whereas cooperatives in the North began as producer-initiated and -financed self-help actions, where government played little or no direct role (Chloupkova 2002), the development of cooperatives in the South has been characterized by extensive government involvement in all aspects of the development process. During the colonial period, cooperatives were considered “instruments of acculturation and education that could progressively uplift the rural population toward a more modern level” (Pollet & Develtere 2007). Cooperatives were created by colonial administrators, with vast administrative and technical apparatus set up for control and technical assistance. Membership in cooperatives was often compulsory.

### Box 2.2 Innovation in the institutional design of rural cooperatives

In the context of increased competition and expanding trade opportunities, as well as structural changes in food systems, cooperatives have to increase their access to internal sources of financial capital to implement growth strategies and remain competitive. This will require them to innovate in organizational form (Chaddad & Cook 2004). Cook & Plunkett (2006) identify three hybrid cooperative structures that relax some of the restrictions on traditional cooperative:

- *Proportional investment cooperative*: ownership rights are nontransferable, nonappreciable and redeemable, but members are expected to invest in the cooperative in proportion to their use. Proportional use is calculated by measuring each member’s average usage of the cooperative over a given period and calculating the member’s minimum equity capital requirement based on relative patronage. Such production rights give both a right and an obligation to supply.
- *Member–investor cooperative*: ownership rights are appreciable and redeemable, with net earnings distributed to members in proportion to shareholding in addition or instead of patronage. Cooperative may distribute cash dividends in proportion to member shares or set policies that allow for appreciability of residual claims. When residual claims are appreciable, members have more incentives to invest and retain equity in the cooperative as they are explicitly compensated for their investment.
- *New generation cooperative*: ownership rights are in the form of tradable and appreciable delivery rights restricted to current members. This model introduces ownership rights in the form of delivery rights that are tradable among members. Members are required to make upfront investment in delivery rights in proportion to their usage so that usage and capital investment are aligned. Success of this model depends on the demand for delivery rights and implementation of rules for the proper functions of a market for delivery rights.

For existing cooperatives, conversion from traditional to hybrid can resolve some the inherent weaknesses of the traditional model. However, such adoption will be challenging in developing countries, where poverty and risk aversion may limit smallholders ability to invest in cooperative development.



Following independence, a populist nationalist approach to cooperatives was adopted by many countries. During this time cooperatives were seen as instruments in realizing natural unity and in promoting economic strategies related to import substitution and reduced food costs for urban areas. According to the International Labor Organization (ILO 2001, 11), they were “unsuccessful and costly experiments carried out on the basis of joint agricultural production, collective and state farms as a way of increasing smallholder production and productivity.” State-led cooperatives frequently became sole suppliers to state marketing boards for commodity crops and were subject to price controls. Cooperative ministers had the power to, and frequently did, intervene in board matters by appointing directors and managers, controlling all business operations and making membership of a cooperative compulsory (Shaw 2006).

In response to structural adjustment programs of the 1980s, state-led cooperatives were privatized and came under the control of their members. Those that were able to compete as businesses survived. In most countries the new restricted role of government was codified in new cooperatives laws recognizing cooperation as private, autonomous businesses. Civil society became the new patrons of the cooperative sector, as part of their efforts to address rural poverty reduction through increased market access. Evidence suggests that in some cases government involvement in cooperative development is slowly reducing, but remains inconsistent and erratic. In Africa, it ranges from nearly no interference for cooperatives in Cape Verde and Uganda to high levels of direction and interference in Nigeria and Egypt (Shaw 2006). Legislative liberalization is recent or current in South Africa, Ghana, Kenya and Rwanda. In Kenya and Uganda, cooperatives proved themselves ill-prepared for the withdrawal of government regulatory powers in 1997, which resulted in wide-spread corruption and mismanagement. In India, the cooperative model in the majority of the states remains characterized by high levels of government control and intervention. Ramesha (2003) reports that dormant membership, lack of participation of members in management, lack of professionalism, and undue political and bureaucratic intervention have worked together to undermine the majority of Indian cooperatives. There has been much criticism of levels of state intervention at district and regional levels and there is an extensive

literature discussing the negative economic and social impacts of the current environment for cooperative development.

### **Organizational forms: producer associations**

Producer associations are another frequently chosen organizational form, which are often more flexible and less complex than the cooperative form. While their basic structure is similar to that of a cooperative—with a board of directors, including president, vice president, secretary, and oversight committees—in an association, members may have more flexibility to shape how the RCE interacts with external actors and may be subject to less interference from government agencies. For example, in Malawi, the National Smallholders Association of Malawi (NASFAM) chose to register as an association rather than as a cooperative because, according to the law in Malawi, a government official has to sit on the board of every cooperative (Penrose-Buckley 2007). In the Dominican Republic, associations emerged as a compromise to rigid cooperatives structures based on collective production and marketing that emerged in the agrarian reform period (Meyer 1989). Associations afforded Dominican smallholders individual responsibility for their own parcels and the right to receive the net benefits from those parcels while maintaining the benefits of collection action for some activities (e.g., provision of credit and purchase of inputs). In general, there is reason to view associations with caution, as in some cases they are not designed per se for business activities: they do not permit the distribution of profits to their members and members can be personally liable for an association’s debts. They also run the risk of being perceived as a noncommercial venture by members, government agencies and other service providers, and downstream buyers and processors.

### **Multitiered organizational structures**

Multitiered organizational structures represent an option for reducing the high fixed costs often associated with marketing, certification, and investments in processing for higher value markets (Figure 2.1). At the first tier, activities are usually related to production (extraction), including first-stage processing, and the bulking of products among individual members. First-tier organizations can be independent organizations (formally registered RCEs) or informal groups organized by the second-tier organization. The latter can facilitate organizational processes

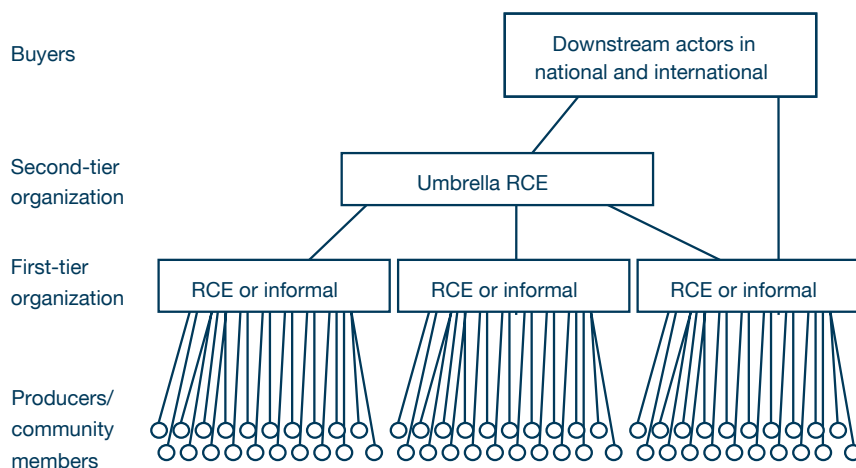
and labor division and thus be more amiable to externally driven development processes. The number of first-tier organizations under the umbrella of a given second-tier organization depends on supply factors (geographical dispersion of members, costs associated with transport and communication) and well as demand factors (benefits on increased volume and investment from additional members). Second-tier organizations are often charged with bulking among first-tier organizations and a range of management and administrative functions: the facilitation of certification (e.g., organic, fair trade, forest) and financial services (mainly credit and/or advance payments) services. Second-tier RCEs play a critical role in providing technical, managerial and organizational support to first-tier RCEs and facilitating overall capacity development (Chirwa *et al.* 2005). This may include establishing membership and leadership structures and rules, external auditing, and establishing new RCEs and dividing RCEs which have grown large and unwieldy.

The success of second-tier organizational structures depends on adopting clear and transparent rules, procedures, and structures that allow for effective response to changing opportunities and constraints. Rules and regulations should effectively establish norms of behavior within the second tier and between second and first tiers, with systems for monitoring and applying sanctions for noncompliance (Chirwa

*et al.* 2005). A balance is needed between democratic participation by members and hierarchical control by managers at the second tier. In addition, attention must be paid to the potential for internal conflicts over economic and social objectives that can arise between first- and second-tier RCEs. Conflicts may emerge between increased investments and employment generation among first-tier RCEs and increased productivity and efficiency through centralized processing by second-tier RCEs. If not adequately addressed, these internal conflicts (e.g., profits versus employment or social investments) can result in increased production and administration costs and lost opportunities for value adding.

### Issues of governance

Governance relates to the establishment, enforcement, and monitoring of the set of rules and procedures for decision making, benefit sharing, investments, and strategy formulation. Effective RCE governance based on transparency, democratic decision making, internal accountability and control, can promote trust and reduce opportunities for opportunism and has been identified as a key factor for success in RCE development. In general, however, effective governance is particularly challenging in the context of RCEs given 1) multiple interests of management and members, 2) limited business experience and resources of members, and 3) high costs for communication and coordination in rural areas. For example,



**Figure 2.1** Inter-RCE organization for processing and commercialization of agricultural and forest products

evidence from sub-Saharan Africa highlights the limitations of RCEs in developing effective and durable governance structures. Sampled RCEs suffered from low membership, weak organizational structures and lacked capacity to address the needs of their members (SCC 2005). In addition, many RCEs inherited structures based on existing community governance systems frameworks or utilized by-laws provided by the government. In neither case were rules or regulations adapted for the specific needs of their RCE development. Financial controls and record keeping were often weak. Additionally, many RCEs had problems in meeting the financial costs of member participation. This was particularly apparent at the regional and national levels where effective coordination with members demands considerable resources. Meeting the costs of transport, interpretation and meeting expenses were cited as particular problems. Newer RCEs have been reluctant to learn from the experience of long-established ones, especially as related to governance matters (e.g., tenure of office, conflict of interest, affiliations, and codes of conduct). A common perception among members was that management committees/boards took advantage of their situation in convening meetings, for example, primarily to claim for an attendance allowance.

### **Establishment of rules and regulations**

In the context of RCE governance, well-designed rules and regulations are critical for ensuring open and understandable election procedures; division of legal responsibilities between the board of directors, managers, and members; internal control mechanisms; and distribution of benefits; among other issues. In his review of some 400 RCEs in Chile, Berdegué (2000) finds that all of the economically viable RCEs have implemented a formal system of rules and regulations for structuring the relations between members and administration, as well as between administration and outside actors (NGOs, buyers, processors). Critical among these are rules that govern the boundaries of the RCE; that is, who has rights to receive RCE benefits and who pays the costs of RCE operation. Among the poorest performing RCEs, economic benefits are not exclusive to members, where prices paid to members were the same as prices paid to non-members. However, only registered RCE members were obliged to attend meetings (incurring opportunity costs) and make financial contributions (through reduced payments for products delivered to RCE).

Another institutional feature that characterized more-successful RCE development was the ability to match the benefits of membership (e.g., increased prices) and the costs of RCE membership. However, when the RCEs are unable to deliver higher prices or other benefits than those offered through conventional marketing channels, the rules tended not to adjust to the reality. This resulted in members revaluing their commitment and reducing deliveries to the RCE and increasing deliveries to middlemen (side selling). In addition, Berdegué identifies two other factors that contribute to RCE success: 1) strong member participation in RCE decision making, facilitating a relatively strong sense of ownership among members, and 2) relatively high levels of pre-existing social capital, which allowed for effective conflict resolution among members and with outside agents.

In their study of RCE development in Senegal and Burkina Faso, Bernard *et al.* (2007) find that 38% of RCEs in Senegal and 84% in Burkina Faso had formalized rules and regulations, but with varying degrees of success. Most of the RCEs in these two countries had installed a 'control commission' to overlook the activities on the board of directors and had implemented formal accounting systems. Indeed, a general impression derived from their case studies is the considerable importance given to formalization in defining and implementing administrative procedures. However, such structures did not always translate into significant impacts on the quality of the services provided to members—especially when RCEs were under pressure to deliver public goods (e.g., training, access to land, inputs). Results indicate that greater management capacity is related to increased performance for RCEs in Senegal. However, when greater management controls are motivated more by a concern for egalitarianism, as in the case of Burkina Faso, than for market integration, they are a negative factor for RCE performance. Similarly, delivery of public goods by an RCE is associated with lower performance, acting as a tax on members. They suggest that the negative relationship between performance and the level of controls exists in cases where equity and solidarity are prioritized over efficiency: for example, allocation of credit based on lottery or the frequent rotation of senior management posts among members. In the context of severe lack of resources, formalized administrative procedures thus seem to be motivated more by equity in benefit sharing than by efficiency in the formation of benefits.

Drawing on evidence from Mexico, Antinori & Bray (2005) discuss how traditional community governance can be grafted on to RCE governance structures. Community governance derives from a mix of indigenous customs and agrarian law. Many communities practice a system of rotating civic and religious responsibilities among members based on merit accumulated by service in a rising hierarchy of civic positions, or *cargos*. Votes on major decisions affecting the community are taken in the general assembly in which each registered member has a vote. Common property management responsibilities fall to authorities named in the agrarian law, including the *Comisario Ejidal* (*Ejido* Supervisor). These offices are typically unsalaried and unspecialized toward forestry or any other management skill. Such organization has been adapted to the organization of a RCEs, for example 1) the *Comisario* is the enterprise manager and all administrative posts are treated as community service assignments, integrated into the *cargo* system, 2) managers are appointed from the community to auxiliary positions not part of traditional structures but responsible to them, 3) professional managers are hired from outside the community, 4) paid administrative positions exist on a semipermanent basis and are not part of the rotational cargo system, and/or 5) experienced or respected members of the community form a sort of board of directors with general assembly meetings as shareholder's meetings. The board of directors function can be filled by respected elders who have passed through the traditional governance systems. Conflicts over decision management and control are common, however. Manifestations of which can include:

- *Hierarchical relationships versus democratic governance*: Community general assemblies may not understand the technical, financial and management issues involved in the RCE, yet they make key decisions. Community members who are also employees may not appreciate the demands of the job.
- *Interplay between traditional and enterprise structures*: Governance posts must legally and most commonly change every three years, although some communities change RCE managers even more frequently. While short terms are regarded as an important measure against corruption, it also has costs as experienced people leave and inexperienced, sometime incompetent, people enter.
- *Accountability and corruption*: A lack of effective and legitimately based controls on management

makes it relatively easy for political elites to manipulate and dominate the general assembly (e.g., Klooster 2000). Moreover, poor financial management and weak communication skills can create confusion and suspicion even where corruption has not occurred.

### Professional versus volunteer management

Given the increasing complexity of agricultural and forest-product markets, an important issue in RCE development is how to balance the principle of democratic control and retain the imperative of effective management. In many cases, this calls for professional management. However, RCEs have been reluctant to offer sufficient compensation to attract the best or most appropriate management, instead relying on NGO support and/or board members (Bebbington *et al.* 1996, Antinori & Bray 2005, Donovan 2007), which often results in limited business capacities. Anderson and Henehan (2003) and Lele (1981) argue that internally-sourced RCE managers seldom have much experience in business, financial management, or marketing and senior management posts are often occupied by members of the board of directors. RCE board members often fail to fully understand their roles and responsibilities, as they are almost always staffed from within member ranks, often with limited experience in business management or marketing. As a result, board members tend to provide too little or too much oversight. For RCE members to carry out their democratic responsibilities properly (e.g., strategic decision making, formulation of rules and regulations, performance monitoring) they must be well informed about the organization's affairs and performance through frequent and accurate communication between members and the organization, whether from directors, management, or employees. However, in many cases, RCEs are lax in providing sufficient, timely information about the organization and operations. For example, many RCEs provide very little information about their financial performance until long after the end of the fiscal year.

To be sure, effective management of RCEs by members is possible. The case of El Ceibo in Bolivia provides a convincing example (Bebbington *et al.* 1996), whereby long-term partnerships with donors and NGOs played a key role in capacity building in RCE administration among the membership base. However, such examples are rare in the literature.

The reluctance by RCEs to hire professional management may result from: 1) potential trade-offs between long-term RCE development and members' short-term demand for higher prices; 2) local empowerment over all resource management and RCE operations, especially in the content of limited oversight abilities of RCE management by the board of directors and general assembly; 3) limited supply of affordable, yet competent, professionals in report rural areas, and 4) lack of long-term business strategies by RCEs, especially when RCE performance has been acceptable for several years under the leadership of members and NGOs.

### Issues of inclusion

Another important issue related to RCE governance is that of inclusiveness. Inclusiveness has two dimensions: an internal one, addressing the extent to which RCE members participate in the RCE operations, and an external one, addressing the extent to which community members can belong to a RCE. Regarding the former, in their analysis of RCE development across eight Southern countries, Couture *et al.* (2002) argue: "a pre-requisite for members' involvement is an operational democratic governance structure. A cooperative must belong to its members, not simply in theory, but in practice as well. Members' involvement is essential at all levels of the cooperative's functions—entrepreneurial, financial, managerial and social." However, in practice, RCE members may be reluctant to participate in RCE governance for reasons which include the following: 1) economic benefits from RCE services are low, 2) overall income derived from RCE activities makes a minor contribution to total income, taking into account that smallholders typically pursue a variety of economic and productive activities most of which fall outside the reach of their RCE), and 3) there is limited opportunity for influencing the outcome of RCE operations or strategies. Bernard *et al.* (2006) argue that no clear consensus has emerged in the literature regarding whether more or less participatory governance is more conducive to RCE development. The case for less participatory governance rests on the notion that leaders provide technical expertise, drive and continuity, while too much participation by inexperienced members may impair an RCE's capacity to identify and pursue higher-income generating strategies. On the other hand, more participatory governance may allow for enhanced sustainability and effectiveness of

the organization as it helps to adjust decision making to local conditions and customs.

Several studies conclude that the poorest are rarely members of more successful RCEs (i.e., those able to provide economic benefits), often due to their lack of complementary assets to participate and effectively benefit from RCEs. In their study of RCEs in Malawi, Chirwa *et al.* (2005) conclude that limited household assets may lead to their being (a) less able to gain from [RCE] services and membership; (b) less able to afford the time and cash costs of membership; and (c) less welcome to existing [RCE] members who may see them as posing difficulties in [RCE] management. In Senegal and Burkina Faso, Bernard *et al.* (2006) find that within communities, poorest households were not systematically excluded from RCEs; however, benefits for households from RCE activities remained highly limited, due mainly to severe lack of funding for RCE growth and development. They suggest that these RCEs performed well in the provision of soft services, such as information and technical advice, but lacked resources to provide their members with necessary access to processing infrastructure and transportation means. Overall, income generated through RCE participation tended to be marginal, and although socially inclusive, their impact on poverty was limited. The correlation between exclusiveness and level of benefits is highlighted the case of El Ceibo in Bolivia, which has diversified into organic and processed markets for cocoa beans and chocolate, among other products. As described in Bebbington *et al.* (1996), for smallholders to join El Ceibo, they must first join a first-tier cooperative, which requires at least 1 ha of cocoa production and make an entry payment proportional to the estimated value of the cooperative. For first-tier cooperatives to join El Ceibo, they must purchase a share, which in 1996 cost roughly US\$ 15,000 (30% paid up front, and 70% paid over five years). For El Ceibo members, the benefits of affiliation include higher prices, input provision, access to technical support, and organic certification.

### Role of women in RCE governance

Women have traditionally been excluded from membership or governance of RCEs, despite making a contribution to the enterprise. In countries like India, Nepal, Bangladesh, Sri Lanka, and Pakistan, women comprise just less than 10% of total membership (Prakash 1999). In their study of cooperatives in



Africa, Hussi *et al.* (1993) argue that in most African countries, participation by women in RCE governance remains extremely low. In Uganda, the following gender issues were identified: overall low participation of women in RCES due to the dominance of male lead in cash crop production; minimal representation of women in leadership and management of RCEs, low intensity of women's participation—among the few women who are members or hold leadership positions, there is reluctance to express their views openly (Mugisha *et al.* 2005). A significant underrepresentation of women in decision-making structures was reported with half of all management committees having no women members. Case studies in Ghana provide some evidence of more women's engagement (Shaw 2006), whereby higher participation of women has been achieved as the result of the promotion and implementation of gender equity policies. This is reinforced by support for gender equity from external stakeholders in the cooperative—notably the Fair Trade organizations (Shaw 2006). There are still some prevailing laws that place barriers for women's participation in agricultural cooperatives and/or farmers' associations, such as land ownership and household headship.

At the same time, a limited number of women-only RCEs have emerged; however, most business development projects oriented specifically toward women have been centered on microenterprise development, which often occurs in informal sectors or sectors with otherwise low growth opportunities. For example, in India, there are an estimated 8,171 women-only cooperatives, most of which are related to cooperative banks, consumer stores, and fruits and vegetable vendors (Prakash 2003). Do these provide a model to promote women's engagement in the cooperative sector? Or should mechanisms to promote women's participation be a part of a governance model? Other strategies to improve gender issues in RCEs also need to be addressed. Overall, the issue of gender in RCE membership and governance has yet to be seriously addressed.

### Issues of elite benefit capturing

The issue of benefit capturing by powerful members within RCEs has been discussed as a hindrance to long-term RCE development. In his analysis of forest-based RCEs in Mexico, Klooster (2000) finds evidence of a “forestry elite” that circumvents the democratic

potential of RCEs and common property management: “communal institutions ought to provide a system of checks and balances to maintain the accountability of communal authorities and forestry administrators, but the forestry elite finds ways to circumvent such checks on its power. The forestry elite dominate communal institutions through intimidation, manipulating elections, dodging oversight, and discouraging participation in community assemblies. Threats, violence, bribes, and the manipulation of reciprocal obligations are common tools of internal politics.” Chirwa *et al.* (2005), suggest that elite benefit capture is more likely to occur during the initial stages of RCE development when RCEs are more likely to gain from strong, centralized leadership unconstrained by bureaucracy and when RCE members lack basic literacy, business skills, and experience. Under these conditions, local elites can more easily “capture” the organization and allow leaders to misuse RCE resources. Leadership succession may also pose problems in these circumstances, and accountability to members may be problematic where external support organizations are more important sources of capital and resources than RCE members.

On the other hand, Bernard *et al.* (2007, 22) fail to detect any obvious signs of elite capture of benefits among RCEs in Africa: “Weak performance of (RCEs) in creating benefits for their members must thus come from another factor than elite capture. Indeed, we have seen that high concern with equity in setting up bureaucratic procedures, which is effective in fending off elite capture, may occur at the cost of efficiency.” Bebbington *et al.* (1996: 201) found little evidence of elite benefit capture in the case of El Ceibo (Bolivia): “over time there has been a progressive decentralization of administration in the organization. There are now various loci of decision making,...., such that power is somewhat dispersed among several teams and its Administrative and Overview Councils.” The apparent lack of elite capture in El Ceibo can be attributed to relatively high levels of pre-existing social capital acquired in the social movements in Bolivia.

### Political–legal environment

From a political–legal perspective, the major challenge for promoting viable RCEs is to ensure that regulations effectively address their underlying development problems, including limited access to suitable land, lack of infrastructure, high transaction costs,



low levels of technology, restricted access to services, and limited capacities. Here we examine several key elements of the political level framework, including government intervention in RCEs and other overall general environment, infrastructure investments, and property rights regimes.

### Regulations for RCE organization and development

Critical analysis of the nature and impacts of political-legal frameworks related to RCE organization and development has not been a priority, and what evidence exists is patchy and superficial. In Latin America, since the implementation of structural adjustment programs, governments have generally left the development RCEs to smallholders themselves, the private sector, and civil society. While this has opened the door for RCE development, it also left RCEs highly dependent on NGOs for inputs and know-how—the implications of which are discussed in the following section. In instances where smallholders and the private sector are especially weak, the lack of government support for overcoming constraints

related to deficient infrastructure, lack of information, and limited capacities has led to outcomes similar, if not worse, than those of previous development periods where the state played a much more active role (see Box 2.3).

In Africa and Asia, evidence suggests that government involvement in RCE organization and development has been reduced over the past decade, but remains inconsistent and erratic. In Africa, involvement ranges from no interference or support at all for RCEs in Cape Verde and Uganda to high levels of direction and interference in Nigeria and Egypt (Shaw 2006). Legislative liberalization is recent or current in South Africa, Ghana, Kenya, and Rwanda. Kenya provides an example of a liberalization process partially rescinded. With the withdrawal of government regulatory powers in 1997, cooperatives proved ill-prepared and the results were largely negative, including rampant corruption and mismanagement, failure to hold elections, illicit payments, and theft. In response, the government intervened in 2004 with a new act that reintroduced state regulation through the office of

### Box 2.3 State-led versus market-led rural development approaches in Guyana

In Guyana, agricultural policy over the past several decades has aimed to promote the expansion of nontraditional agricultural exports (NTAEs) and increased domestic food supply. However, the related approaches to cooperative development and smallholder organization have varied dramatically. During the 1970s–1980s, under the state-led approach, in addition to restricting the importation of a wide range of foods, policies focused on: 1) nationalization of sugar industry, 2) formation of cooperatives and marketing boards for increased efficient in input and output markets, 3) provision of credit through development banks, and 4) research on food processing and preservation. Overall, the programs were not effective, resulting in severe shortages of food. Sugar production levels were halved, due to lack of management experience, labor unrest, and insufficient investment. No radical land reform was carried out, despite claims of its necessity.

In 1988, the government launched a structural adjustment program (SAP) in which emphasis was placed on improved price incentives and expansion of exports. In the case of rice, the SAP proposed that irrigation and drainage charges be adjusted to levels that cover operating and maintenance costs. However, by shifting the cost burden to smallholders, the SAP had little hope of increasing incentives for increased output. Similar policies were suggested for the promotion of NTAEs, but here too, the lack of infrastructure and external support emerged as an obstacle to increased output. In addition, issues of land tenure have yet to be fully addressed. Overall, the export sector has performed poorly in recent years: in 2005 export earnings were below levels for 1997, having declined from US\$593 million to US\$490 million. In this context, a case can be made that the market-led approach has performed even worse than the state-driven approach in addressing the underlying development problems of limited access to suitable land, poor drainage and irrigation, low prices, low levels of technology, ineffective services, and limited capacities.

*Source: Canterbury (2007)*

the Commissioner for Co-operative Development (Wanyama 2006, in Shaw 2006). In Uganda, the withdrawal of state support and regulation in 1991 also had negative consequences for cooperatives which were similarly unprepared, also resulting in large-scale mismanagement. As a result in Uganda, a large number of cooperatives collapsed, but unlike Kenya, the government did not re-engage with the sector (Mrema 2006, in Shaw 2006). In India, the RCE sector remains characterized by high levels of government control and intervention (Ramesha 2003, in Shaw 2006). There has been much criticism of levels of state intervention at district and regional levels and there is an extensive literature discussing the negative economic and social impacts of the current regime.

### **Regulation of the general business environment**

Southern countries tend to regulate business activity more than Northern countries across areas such as business entry, employment regulation, contract enforcement, creditor rights, credit information sharing systems, and bankruptcy (World Bank 2004). However, heavier regulation is often associated with inefficiency in public institutions (longer delays and higher cost), increased corruption, lower productivity, and reduced investment. The situation is further complicated by weak enforcement capacity and monitoring systems. Heavy regulation also encourages expansion of the informal economy. In Bolivia, an estimated 82% of business activity takes place in the informal sector, and in timber-rich countries such as Peru, Brazil, Indonesia, and Cameroon, informal activities are estimated at about 50 to 90% of the volume of timber extracted, transported, and traded (Contreras-Hermosilla 2003). In many cases, regulatory frameworks grant considerable power to government agencies to intervene in business organization and development, resulting in fewer start-up enterprises, reduced performance, and lower member participation. For example, forest-based RCEs in Guatemala must hire professional foresters to elaborate management plans and seek approval regarding their statutes and internal regulations, regardless of local capacities (Carrera *et al.* 2006). In Mexico, at least seven regulations and export licenses have to be in place for RCEs to export *chicle* gum (Forero & Redclift 2006). In the southern Indian state of Karnataka, the triennial auction system for NTFPs operated by the Forest Department rewards external concessionaires rather than the permanent local forest-dependent peoples (Shaankar *et al.* 2000).

In their analysis of African firms' perceptions of the regulatory framework in which they operate, Gelb *et al.* (2007) found that perceptions varied according to countries' level of income. Among those at the lowest end of the income spectrum, the most severe constraints were those dealing with the ability to plan work and produce (macroeconomic stability, electric power, and finance). At the next higher income level, constraints emerged related to the quality of governance and the capability of the state to provide important services, specifically corruption, taxation, and security. At the highest level (in this case, South Africa), the most pressing regulations are those related to labor and the availability of skilled labor, which become more binding as economic activity becomes more sophisticated and the capacity of government to enforce regulations strengthens. Gelb and colleagues conclude that for firms in the middle level, the outlook is most difficult, as changes will require long-term efforts to deal with weak governance and low state capacity. Among the lowest income countries easing infrastructure constraints, such as electric power, may have an especially large payoff in business opportunities.

The ILO has invested considerable efforts in improving the political-legal framework in Southern countries; however, with limited evidence of success (ILO 2005). On one hand, it is difficult to determine the extent to which a policy change (and not other factors) has resulted in better firm performance and in the reduction of poverty. On the other hand, change itself is difficult to achieve. It often requires a combination of training, adequate salaries for lower official, higher penalties, political will at the higher levels, and the development of a strong anti-corruption culture. It also requires that RCEs know their obligations and rights and can appeal to other government bodies or social and business organizations for assistance.

### **Infrastructure**

Infrastructure access improves the likelihood of RCE success by reducing production and transaction costs, increasing access to members (labor) and reducing the costs of accessing product and factor markets. In addition, improvements in communication and road services imply gains by reducing distance to agricultural markets (Fay & Morrison 2005). However, current levels of infrastructure investments in developing regions are low, at roughly 2 to 4% of GDP

(World Bank 2005). Sub-Saharan Africa lags significantly behind all other regions in access levels for all infrastructure services (Table 2.1). In addition to access, quality and reliability of infrastructure are critical issues in many countries. For example, in Nigeria, only 19 of 79 power plants work, and daily electricity output has plunged 60 percent from its peak, with blackouts costing the economy \$1 billion a year (Wines 2007). The one bright spot in sub-Saharan Africa is the advance in wireless communication technologies, which were introduced in the late 1990s (Allen 2003).

### Property rights

Another often-debated issue related to the political-legal environment for RCEs concerns property rights and access to the natural resource base. Small land-holdings throughout the South are often held under systems of customary tenure rather than under formal land titles. In this context, it is important to distinguish between two types of customary rights: 1) those recognized by the state in the form of usufruct rights, and 2) customary rights that are not recognized by the state and potentially conflict with state-imposed land tenure.

There is much debate as regards the impact of customary tenure on rural poverty and the tensions that arise when the state seeks to impose its rules on formal land tenure in areas where customary land rights prevail. This is especially true in remote areas often neglected by the state due to poor access and/or low resource endowment. Advocates of customary tenure systems pursue a differentiated argumentation (Cross 2002). They argue, for example, that land ownership per se is not the main issue; rather it is access to social capital related to customary entitlements. In their view, a network of social relationships and the corresponding set of institutions (rules of the game) provide a solid

basis for accessing natural resources—with or without legally valid land titles. In these situations, the state can concede usufruct rights which are akin to ownership in that they cannot arbitrarily be removed, and they allow for loaning, renting and pledging. There is growing consensus that security of land tenure does not always imply legal land titles, as customary rights when built on solid social capital and reinforced through the concession of usufruct rights by the state can provide a similarly firm basis. Land degradation under customary tenure may thus be due to a lack of knowledge on sustainable agricultural production and inputs rather than the lack of land titles (United Nations 2003). Similarly, Randrianarisoa and Minten (2001) and Deininger *et al.* (2006) found little effect of tenure on increasing agricultural productivity or contributing significantly toward poverty reduction.

The most common counter argument is that land-bound effective, long-term and sustainable development is incompatible with customary rights regimes. Land titles for smallholders have been shown to increase investment in land, inhibit environmentally unsustainable practices, augment land values, permit a shift in the balance of crop mix in favor of cash crops, promote better adapted technologies of production, allow inheritance from parents to children directly, and reduce conflict. They provide a basis for reallocating land to more efficient users (through land markets) and, if accompanied by a low-cost and formal means of verifying land ownership status, improve credit access (de Soto 2000). Recent evidence in Nicaragua suggests that smallholders' ability to respond to market opportunities may be limited by insecure tenure status; in particular, relatively high-value tree crops (e.g., coffee, citrus, bananas) are less likely to be grown on rented than on owner-cultivated plots (Bandiera 2007). During both the colonial and

**Table 2.1** Infrastructure indicators, by region

	Sub-Saharan Africa	East Asia and Pacific	South Asia	Latin America
Electricity (% population access to grid)	24	88	43	89
Water (% population with access to improved sanitation)	58	78	84	89
Roads (% rural population living within 2 km of all-season road)	34	95	65	54
Teledensity (fixed line/mobile subscribers per 1,000 people)	62	357	61	416

Source: World Bank (2005)

post-colonial periods in Africa, most development professionals (certainly in the earlier years), colonial governors, land commissions, and missionaries tended to favor these viewpoints, with opposition coming, at various times, from national-level producer associations and nationalist politicians (Cross 2002).

### External support services

Access to the right combination of externally sourced services at the right time is critical for RCE development. This point is highlighted by numerous studies, including Tandler (1988) and Bebbington *et al.* (1996) in Bolivia, Chirwa *et al.* (2005) in Malawi, and Nittler and Tschinkel (2005) in Guatemala. The discussion below addresses approaches for facilitating RCE access to the financial, technical, and business development services.

### Financial services

Since the 1980s, development practitioners have focused on how to increase the poor's access to financial services. Historically, access by the poor to commercial services has been limited due to weak competition in the banking sector and the high risks and transaction costs (real or perceived) associated with lending to micro, small, and medium enterprises. Directed and subsidized credit programs have done little to achieve increased access by the poor to financial services (Gonzalez-Vega 2003). More recently, emphasis has been placed on sustainable microfinance institutions (MFIs), which aim to reach poor households based on sound financial procedures, which include cost-recovering rates and management autonomy (FAO 2005). However, the success of MFIs in reaching households, often urban-based, has yet to spill over into increased access to financial services for established RCEs, whose service needs are more related to liquidity and risk management. In their analysis of MFI in Nicaragua, Bastiaensen & Marchetti (2007:148) conclude that as MFI focus their objectives on poverty alleviation, they cease to contribute to the strengthening of RCEs: "Much less attention is therefore dedicated to longer-term investment credit and access to risk capital. It is this type of capital, however, that is largely absent from current micro-credit supply and that could allow poor capital-constrained entrepreneurs to engage in more sustainable changes in their livelihood strategies." Bastiaensen & Marchetti argue for subsidies to reduce the transactions costs, either directly to rural clients

(through a voucher system) or to subsidies directed at clients. In addition, RCEs may benefit by strengthening their ability to mobilize and manage internal funds from members and donor agencies.

### Subsidies for RCE development

Subsidies are a specific form of financial services, which are at least as important as credit for RCE development. Three types of subsidies can be distinguished: 1) strategic subsidies that cover investments in infrastructure and other RCE development needs; 2) long-term subsidies that cover operational and investment needs; and 3) short-term to midterm subsidies as a specific form of start-up capital. Strategic subsidies can be critical for overcoming low resource endowments of RCEs, especially when directed toward investments in infrastructure (e.g., buildings; machinery for processing), commercial services (market studies), and revolving credit funds. The case for long-term subsidies is based on the idea that RCEs can be important providers of public goods to smallholders and communities (LeVay 1983). According to Rondot and Collion (2001, 9), "Member dues usually bring in little, and profits from the RCE's economic activities are limited due to increased market competition. Outside funding from aid agencies is a major portion of a RCE's financial base, raising fundamental questions of this situation and its ambiguous nature." Potential negative impacts alluded to by Rondot and Collion include: over-ambitious expansion of RCE activities, and subversion of RCE objectives, whereby RCEs focus more on obtaining subsidies from donors than on providing services to their members. This could even happen in case of short-term to midterm subsidies, though these typically seek to provide the start-up capital needed to push RCEs toward financial self-sufficiency.

Though literature provides little evidence about the effectiveness of short-term to midterm vis-à-vis long-term subsidies, the issue is not without debate. On one side, Rondot and Collion (2001) call for long-term subsidies for RCE operations from both national and international sources. The middle position is reflected by Chirwa *et al.* (2005), who recognize the need for subsidies but recommend that they be time-bound and based on specific, measurable objectives. On the other side, Couture *et al.* (2002, 82) argue that "technical, material or moral support (including know-how transfer) is generally preferred to direct financial

assistance, because of the risks involved in creating dependence on outside funding.” Bebbington *et al.* (1996: 202-203) provide an example of the importance of strategic subsidies for RCE development, as well as the difficulties of reducing subsidies over time: “[the RCE] has reached a point where it could begin to assume a far greater role in financing its activities. ...However, [it] is so accustomed to receiving grant support that it does not look to commercial capital markets or other enterprises for investments or joint venture....Aside from simple dependence, this relationship is a disincentive to [the RCE] to rely on using sources other than its own for reinvesting in the business, developing human capital, building management capacity, etc. This situation is aggravated by the fact that donors back winners.” A key issue that has not been addressed is whether financial transfers channeled through traders, processors, or other agents to smallholders or communities would have a larger impact on rural poverty.

#### **Technical and business development services**

Traditionally, technology transfer approaches were pursued by government and civil society for upgrading the capacities of smallholders. These approaches typically focused on a narrow portfolio of technical issues that were provided to select groups of beneficiaries identified within a given project framework. Services were provided free of charge for the duration of the project, with little consideration given to sustainability. In the 1990s, a consensus emerged among donors that such traditional approaches were limited in their impact and coverage and that the development of markets for these services would improve access to more effective services over the long term (Field *et al.* 2000). In addition, there was increased recognition that RCEs required a range of services to help them operate efficiently and grow their businesses with the broader purpose of contributing to economic growth, employment generation, and poverty alleviation (World Bank 2001). Specifically, they include enhanced technical services (technical advisory and training for quality control, processing, and pest/disease management) and business development services (BDS), such as market facilitation, technical, advisory, and training services for business organization and administration, and access to information. Inspired by the apparent success of MFIs in reaching the poor through market-based service delivery, debates emerged in the 1990s regarding market-based

approaches for the delivery of technical and business development services.

As presented in the World Bank’s *Guiding Principles for Donor Interventions* (2001), donors advocated moving away from services offered free or heavily subsidized by state organizations—primarily conventional training and technical assistance—toward the development of markets for services, whereby small and medium enterprises (SMEs) emerge as clients with willingness and ability to pay for services. In this context, donor investments were required on the demand side (increasing the understanding of service needs and ability to pay) and the supply side (strengthening the capacities of service providers to respond effectively to the demands and needs of RCEs). However, the development of service markets in the rural sector has proven especially challenging given 1) limited willingness and ability to pay for services by smallholders and RCEs, especially for those with which they are unfamiliar, 2) lack of critical mass of demand for sustaining commercial delivery, and 3) relatively high risk associated with developing new products and exploring new markets. In general, the market development paradigm’s failure to address how to build service markets in the context of persistent poverty and weak institutional frameworks means the donors and governments will continue to play a major role in the RCE development for a wide range of services, including those related to business organization and development (Philip 2003).

In recent years, the market development approach has been downplayed, and the more pragmatic market-based approach (MBA) has emerged. The MBA placed less importance on distinguishing between public or private providers and the need for providers to fully recover their costs. Rather, MBA stress that providers deliver services in a more sustainable and market-oriented way, which often includes greater incorporation of the private sector. There have been a various isolated pilot MBA projects aimed at facilitating the link between smallholders and higher-value national and international markets (e.g., Field & Knopp 2003). Although frequently effective in creating immediate benefits for participants, few of these pilot projects have been scaled up or been able to demonstrate sustainability (Christoplos 2008). Nor has there been much discussion on how relevant, but often fragmented, experiences can improve the design



of government and donor policies. Projects still consist of heavily subsidized efforts to link the products and services of selected smallholders and RCEs to growing markets. In some cases, they have retained a mainly technical orientation (e.g., training and infrastructure development for production and primary processing), while adding a market linkage component, which may consist of little more than elaboration of a business plan and ‘linkage’ with a single buyer. Many of these projects have no explicit rationale for how they will promote competitive market strategies beyond the specific targeted beneficiaries or even beyond the time frame of the project.

Clearly, there are opportunities to promote RCE development through effective technical and business development services, but related approaches will require moving from isolated projects to sustainable reform in the services and market relationship relevant to the RCEs and their members. There have been growing calls to look beyond short-term interventions and to take a more systems-oriented approach, seeking to identify more ambitious and comprehensive interventions that will deliver benefits throughout a given sector (Dawson 2003). Christoplos (2008) identifies several key elements of a market systems approach to service design:

- *Sector-wide orientation:* Government and donor-funded services are skewed toward smallholders alone as the default target groups for public investment in poverty alleviation. If services are to have a significant impact on the livelihoods of the rural poor, they must include other private sector actors such as buyers and processors.
- *Upgrading skills and capacities of service providers:* Service providers must upgrade their own capacities and skills if they are to achieve (sustain) high impact services. This, in turn, requires the development of methodological and technical support programs for service providers which go beyond one-off training events.
- *Mitigating the risk of market orientation:* Access to useful information for assessing the trade-offs related to market participation will help the poor to make informed decisions about what risks to take. Information and decision tools are required for better understanding of how different markets operate; transparency in prices, regulations and standards, and assessment of economic potentials and the potential risks.

- *Promoting trust and transparency:* This can be achieved by providing information on buyers and sellers, holding RCEs and their partners accountable for their contractual obligations, facilitating arbitration mechanisms, and promoting multi-stakeholder platforms to discuss the interests of different actors.

### Embedded services

In some cases, services provided by downstream buyers and processors in the context of existing commercial relationships (embedded services) can be equally, if not more, important than those provided by government agencies and NGOs (Hitchins *et al.* 2004). Embedded services may include product design advice, technical advice on production, storage, and quality control; market information; strategy formulation; loan guarantees; loans and grants; and short-term credit. Embedded service delivery works partly because it can be financed within the cash flow and margins of existing commercial relationships and take advantage of previous investments in infrastructure and relationship building. For buyers and processors, incentives for investments may include enhanced reputation vis-à-vis competitors, stronger relationships with suppliers, and enhanced product quality. There has been little systematic research carried out of the availability of these services across sectors or regions or regarding their impacts on RCE development. For example, the willingness of buyers and processors to invest in the provision of embedded services is likely to depend on the related benefits and costs (including risks), which in turn depend on RCE resource endowments and market orientation, among other factors. Thus, it is possible that only the most advanced RCEs have access to embedded services such as credit and joint marketing efforts.

### Generalist versus specialist service providers

At the most basic level, two types of service providers can be identified depending on the range of services offered: generalists, who offer an array of technical, business development, and financial services for promoting rural development in general (conservation, health, poverty reduction, etc.), including RCE development, and specialists, who focus on a particular type of service (technical, business development, or financial). As noted by Penrose-Buckley (2007), generalists may also have certain advantages over specialists, especially in the early stages of RCE



development. They often have greater legitimacy with local populations, with extensive understanding of local socio-economic issues and the needs and priorities of local communities. They often support a range of development projects that address development problems from different angles, including, local governance, and gender relations, and are well-placed to address wider issues related to the political–legal environment. On the other hand, they hardly ever offer the full service package needed by most RCEs in their start-up and consolidation phases. Generalists often lack sufficient experience to develop the administrative, organizational, and marketing capacities of RCEs effectively beyond the initial stages of development. Moreover, they may have reservations about promoting RCEs to the extent that RCE development implies trade-offs with other objectives, such as environmental conservation.

Specialists, on the other hand, tend to offer a narrow range of advanced skills in supporting RCEs. Because of their strong focus on developing economically viable businesses, they may focus their support on those smallholders most able to meet market demands. In efforts to meet project objectives and market demands, they may place less emphasis on building effective democratic institutions for RCE development. The choice between generalist and specialist agencies will depend on donor objectives and the stage of development among the RCEs targeted for support and, depending on the area of intervention, on their very availability: generalist organizations may play a more critical role in the initial development stages of RCEs, while more advanced development beyond the initial stage is likely to require regular access to specialized technical, business and financial services. In this context, though, specialized BDS for the rural sector are often not readily available and, hence, turn out to be the Achilles' heel in service delivery to RCEs.

### **Integrated service delivery**

Few RCEs have ready access to the mix of technical, business development, and financial services by public and private agents required for their development, due in part, to the fragmented nature of service delivery. Given that any one service provider is unlikely to have the competencies to provide the array of services required for RCE development effectively, synergies

may be derived from coordination of service delivery among different providers. For example the financial service providers may face reduced risk for their loans if accompanied by BDS that increase administration and marketing capacities; BDS, in turn, may benefit from increased quality and productivity provided by technical services.

Based on evidence from 30 case studies, Sievers & Vandenberg (2007) identify success factors for BDS-financial service linkages for urban and rural microenterprises. They claim that while the number of impact studies available is small, evidence suggests that combined delivery results in significantly higher income for clients, indicating that BDS and credit costs may be recovered through client fees. A well-structured linkage must be voluntary (the enterprise is free to take both or only one service) and the two types of services must be managed separately (either within the same provider or between two providers). Separate management ensures that costs of and revenues from each service can be properly monitored. When the linkage is voluntary, the provision of services will be driven by demand; that is, RCEs will only agree to pay for services that meet their demands and help to raise their profitability. In turn, demand-driven services can increase the sustainability of MFI and BDS providers by generating income (fees, interest) but also by securing client loyalty (repeat business) and by increasing the client base.

### **Summary**

Issues and debates related to RCEs have focused mainly on organizational forms and structures, enterprise governance, market access issues, and the role of the political–legal framework in shaping opportunities for long-term development (see Table 2.2). There is general consensus that cooperatives and other forms of smallholder and community business organizations are more likely to develop into viable businesses when they emerge from local development processes, thus promoting a sense of ownership and asset building, in particular human, social, physical, and, as a result of the former, financial capital. However, there is a poor understanding of the duration and potential pitfalls of such processes and the long-term commitments required for securing RCE viability. Given the general lack of awareness of how lengthy and demanding these processes tend to be, it does not come as a surprise that there has been little

**Table 2.2** Summary of major issues and debates in RCE literature

	Issues and debates in RCE literature
<b>Business organization and development</b>	<ul style="list-style-type: none"> <li>• RCEs are believed to produce a number of social and economic benefits at community and household level, without compromising the natural resource base. However, relatively little is known about the challenges facing RCEs in balancing goals of income generation, social equity, and resource conservation. Surprisingly little is known about how long it takes before RCEs are fully viable and self-sufficient in terms of funding.</li> <li>• Bottom-up processes for RCE development can provide a solid base for RCE development, but often at the expense of short-term impacts. Externally driven processes are more likely to deliver impacts in the short term but suffer from weak governance, poor sense of ownership, and limited sustainability. An unresolved issue is how to design better internally driven approaches for achieving viable RCE development in reduced time.</li> <li>• Legal form determines critical aspects of RCE development, including ownership, governance and management structures, liability, tax regimes, distribution of profits/dividends, and capital accumulation. It is well-documented that cooperatives face limitations to capitalize, and in the past they have been subject to high levels of government interference. Associations tend to be more flexible in set up and operation, but face even greater challenges to capitalize. It remains unclear to what extent specific legal forms promote or hamper the long-term development of RCEs, and whether conversion from one form into another may be a viable alternative when reaching a certain development stage.</li> <li>• Scale matters, although there is little evidence under which conditions approaches to microenterprise development may be superior to SME development and vice versa.</li> <li>• Multitiered RCE structures can increase efficiency through economies of scale, labor division, and professionalization of management at higher tiers. However, effective governance of, and coordination within, tiered structures require considerable investments in communication and consensus building, which must be compensated through increased benefits.</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• The development of RCEs appears to be fostered by the formalization, enforcement and monitoring of rules and procedures for decision making, benefit sharing, and investments. Competence and mutual understanding is required among managers, boards of directors, and members, but low investments in communication often hamper trust and consensus building.</li> <li>• Little consensus exists on whether more or less member inclusion in governance is conducive to long-term RCE development. Greater inclusion enhances a sense of ownership and helps meet the social objectives of the organization, while less inclusion may allow for more managerial efficiency and continuity in decision making.</li> <li>• Effective RCE governance requires clearly defined rights and responsibilities for members, directors, and managers. However, where educational levels and business experience are limited, it is unclear how best to develop such capacities. Are RCEs with internally sourced managers more viable than those with externally-sourced managers, or vice versa? Is any one model superior to another at different points in time, for example in the start-up versus consolidation phases? Or is there no clear-cut picture?</li> <li>• In many cases, RCEs are governed by boards of directors with limited skill sets for business administration. Moreover, mandatory rotation of board members often leads to irregular learning curves that hamper overall RCE development. There is little evidence on how to address these shortcomings without jeopardizing broad member participation.</li> </ul>
<b>Asset building</b>	<ul style="list-style-type: none"> <li>• While building of financial and physical capital has been documented for a number of RCEs, there is a poor understanding of opportunities for building human, social, and natural capital through RCE development, and the interrelationships between these assets.</li> <li>• It remains unclear to what extent minimum asset endowments are prerequisites for successful RCE development. It may well be the case that without minimum levels of human, social, and natural capital RCE development efforts are doomed to fail.</li> </ul>

*Continued on next page*

Table 2.2—Continued

	Issues and debates in RCE literature
<b>Gender</b>	<ul style="list-style-type: none"> <li>• Women may be members of RCEs, but they have traditionally been excluded from RCE governance and management. Women-only enterprises have been promoted in response to the cultural and institutional barriers to their participation in mixed cooperatives. However, these have tended to be small in scale and with limited growth prospects.</li> <li>• There are very few examples in the literature of women leading RCEs and related development processes. It remains an open question whether cultural context or lack of compatibility between household and business roles are the major factors impeding a stronger role of women on the boards of directors or at management level. The issue of gender in RCE governance has yet to be addressed seriously.</li> </ul>
<b>Political–legal environment</b>	<ul style="list-style-type: none"> <li>• Governments can play a major role in promoting RCEs by removing barriers to, and providing incentives for, their development. However, evidence suggests that RCEs contend with a myriad of regulations related to start-up, taxes, and export/import procedures, etc. This situation is complicated by weak enforcement of laws and related rules and regulations. Market liberalization is relatively recent in most of Africa, where the possibility that government support translates into interference remains a threat to RCE development.</li> <li>• Current levels of infrastructure investments in developing regions are low. Sub-Saharan Africa lags significantly behind all other regions in access levels for all infrastructure and basic services. In addition to access, quality and reliability of infrastructure are critical issues in many countries.</li> <li>• Small landholdings in the tropics are often held under systems of customary tenure. Debate regarding the impact of customary tenure on rural poverty is inconclusive. To what extent is secure access to natural resources a prerequisite for viable RCE development?</li> </ul>
<b>External support services</b>	<ul style="list-style-type: none"> <li>• Effective technical, business development, and financial services are key for successful RCE development. In practice, however, they tend to be insufficiently articulated and focused to meet the needs of RCEs during the development process. There is no evidence for integrated service provision by any one provider, be it an NGO, government agency or project. BDS are considered to be the Achilles' heel in the provision of services to RCEs.</li> <li>• Over the past years, the success of microfinance institutions in reaching poor individuals has yet to translate into increased access to financial services for RCEs. The current micro-finance focus on poverty reduction has failed to contribute to the strengthening of RCEs, which tend to require longer-term finance and access to risk capital.</li> <li>• The provision of technical and business development services continues to depend heavily on projects, most of which have no explicit business development strategy with a view on the long run and increased RCE self-sufficiency. Exit strategies are complicated by smallholders' and RCEs' limited willingness and ability to pay for services.</li> <li>• Services provided by buyers and processors in the context of existing commercial relationships (embedded services) can be as important as those provided by governments and NGOs. However, the willingness of buyers and processors to invest in these services depends on the related benefits and costs, which in turn, depend on RCE asset endowments, among other factors.</li> <li>• Public–private partnerships with regard to RCE development and related service delivery are a promising option, but not yet fully explored.</li> <li>• The need for more specialized services increases as RCEs mature beyond the start-up phase. More generalist providers (e.g., rural development NGOs) have advantages in the early stages of RCE development: e.g., greater legitimacy with local populations and better understanding of local socioeconomic issues. However, they often lack sufficient experience to develop the complex administrative, organizational, and marketing issues for growth and development beyond an initial stage effectively.</li> </ul>

debate, let alone in-depth analysis, as how to create viable shortcuts to RCE development.

Despite these shortcomings in understanding the complexity of RCE development processes and the lack of strategies that allow them to turn into viable businesses in shorter periods of time, progress has been made in several aspects. For example, recent discussions highlight that effective governance is vital to the overall success of RCEs, especially in more demanding market environments. At the same time it is acknowledged that effective governance is difficult to achieve due to the multiple interests of stakeholders (e.g., new members versus old members, management versus members), limited business experience by board of directors and members, and the high costs of coordination and communication between them. As a result, RCE governance structures tend to be weak, often resulting in a low sense of ownership among members and overall poor

business performance. There is broad consensus that political–legal frameworks are not conducive to RCE development. On the other hand, there is little discussion or evidence of the capacity of governments and service providers to meet better the needs of RCEs, their members, or their business partners along the value chain. Discussions related to RCEs have yet to address fully several important aspects related to the design of more effective RCE development strategies. For example, few studies have estimated the impact of RCEs on poverty reduction, environmental conservation, and community development. Systematic analysis of the minimum asset endowments (natural, physical, social, human, financial) required for RCE development has yet to be carried out. Of particular importance is the need to gain more insight into opportunities for improving technical, business development, and financial services for RCEs and, equally important, of better articulating them.



# 3 Methodological approach

## Case study selection

Primary data collection was carried out in 12 countries in Latin America and the Caribbean (Bolivia, Dominican Republic, Guatemala, and Mexico), North America (United States), Asia and the Pacific (India, Vietnam, and Papua New Guinea), and Africa (Ghana, the Gambia, Malawi, and Uganda). The United States was included because of existing experiences with tribal enterprise development by Native Americans and the country's strategic importance to the Ford Foundation.

Country selection aimed to ensure a broad coverage of different experiences in RCE development, based on the following criteria: socioeconomic performance (e.g., variation in HDI and GNI per capita) and political, legal, and regulatory frameworks, including state intervention in RCE development, institutional arrangements for production, processing, and commercialization by small- and medium-scale producers and RCEs. Table 3.1 presents, for each of the selected countries, indicators of socioeconomic performance and salient features of the political–legal framework. In terms of economic performance, the majority is at the lower, middle, or low income level. Exceptions include Mexico, Dominican Republic, and Guatemala as upper middle income countries and the United States as high income. On average, the Human Development Index<sup>5</sup> (HDI) for the selected countries rises and falls with income. One exception is Guatemala, which has an HDI rank below its income rank, due in part to large discrepancies in income distribution. Another exception is Vietnam, which remains quite poor but has a much higher HDI ranking than many countries with higher per capita incomes. Selected counties from sub-Saharan Africa have a low HDI index. Since 1990 it has stagnated, partly because of economic reversal but principally because of the catastrophic effect of HIV/AIDS on life expectancy (UNDP 2006). The agricultural sector, including forestry and fishery, is most important in the selected African countries, with contributions to GDP varying between 33% and 35%. Agriculture is also important for the economies of Guatemala, India,

Papua New Guinea, and Vietnam (GDP contributions from 22% to 26%). In Bolivia and the Dominican Republic, agriculture is relatively less important, with contributions to GDP of 11% and 15%, respectively. In the United States and Mexico, the agricultural sector plays a small role in the overall economy, with contributions to GDP of 2% and 4%, respectively.

Emphasis was also given in the country selection process to incorporating a diverse range of political and legal frameworks for RCE development. In the case of the United States, Mexico, and Bolivia, these include formal land grants to indigenous and/or peasant communities by central governments, along with the right to commercialize forest and other products. In the Petén region of Guatemala, rather than land grants, communities have been granted the right to obtain renewable 25-year concessions for the harvesting and commercialization of forest resources. Papua New Guinea presents a contrasting situation, where rural communities hold formally recognized customary rights to natural resources and where state agencies play a key role in RCE operations (marketing and processing). Among the selected Latin American and Caribbean countries, donors and NGOs have played a leading role in promoting RCE development, in particular in the Dominican Republic, Bolivia, and Guatemala, while in the case of several of the selected Asian and African countries, government agencies and quasi-governmental marketing boards have been critical for RCE development, for example in Ghana, India, and Malawi.

Twenty-six RCE case studies were carried out, with one to three case studies per country. RCEs were selected, together with local data collection partners, with the aim of ensuring broad variation regarding:

- *Stage of development*: distinguishing between incipient or start-up (focus on production and organization), consolidation (focus on increased value adding), and mature (focus on increased management and administrative skills, diversified market contacts, and formalized business relations, as well as increased efficiency)

<sup>5</sup> The human development index (HDI) is a composite measure of three dimensions of human development: living a long and healthy life (measured by life expectancy), being educated (measured by adult literacy and enrolment at the primary, secondary, and tertiary level), and having a decent standard of living (measured by purchasing power parity, PPP, income).



- *Organizational structures*: single versus two tier; management models (internal versus externally sourced managers); access to resources (common versus private property)
- *Product and market orientation*: national versus international markets; agricultural and forest products or services (e.g., ecotourism).

## Data collection methods

Data at the RCE level were collected based on a questionnaire that consisted of the following eight sections:

- 1) *General information*: RCE legal form; certification benefits and costs; production trends; access to natural resources; enterprise goals; asset endowments (human, social, natural, physical, and financial capital); services provided to members
- 2) *Internal structure and governance*: membership levels, organizational structures, management models, coordination; internal conflicts, rules and regulations, incentive structures, women in RCE operations and decision making
- 3) *Political–legal framework*: laws, rules, and regulations related to small and medium enterprise development, natural resource management, land tenure, incentives, tax regimes; political–legal and regulatory barriers to RCE development
- 4) *Economics and technology*: investments, savings, and dividends; sources of capital; marketing strategy; use of technology, including Internet; sources of competitive advantage; internal and external limitations for development
- 5) *Chain integration*: relations with buyers; access to information; friction with buyers; buyer-provided services
- 6) *Outcome and benefits*: employment generation; impact of RCE on skills and knowledge of members; income generation by members through RCE participation; RCE investments in community development
- 7) *Service needs and finance*: technical, business development and financial services utilized; funding and cost-recovery mechanisms for service delivery; limitation of service providers; unmet service needs
- 8) *Future projections*: growth potential; benefit capturing and delivery.

Questionnaire design included both open-ended and closed questions; the former type was preferred

for capturing in-depth appraisal from the RCE perspective, while the latter was considered critical for achieving comparable results across the sample. In general, we aimed to obtain as much quantitative data as possible and as much qualitative information as needed. Quantitative information focused on production, processing, sales, economic impact, and investments. In many cases however, such data were not readily available in view of limitations in accounting and record keeping at the RCE level. Within each RCE, one to four stakeholders were interviewed, depending on the size and organizational complexity of the enterprise and the availability of RCE stakeholders. These were interviewed on-site over the course of eight months (November 2007–June 2008). The respondents were mainly managers, including general managers as well as production and sales managers. Each questionnaire was reviewed by authors at least twice for completeness and accuracy. In nearly all the cases, we requested that our partners conduct follow-up interviews on-site or by telephone to respond to our comments and questions. Questionnaire data were triangulated by authors through direct questioning of the different organizations (RCEs, service providers, other enterprises) and analysis of secondary information, particularly that available on the Internet.

Although the sample cannot be considered representative of the national or international population of RCEs, we considered it crucial to draw on existing contacts, experiences, and knowledge of local partners and authors since information on the population of RCEs at the national or international level is generally scarce and difficult to obtain. Moreover, a representative sample is not required for the objectives of this report, which aims at evaluating the overall successes and limitations of RCEs in increasingly globalized marketplaces and their ability to generate tangible benefits for their members and surrounding communities, including the social and environmental goods and services.

Potential limitations associated with this methodology include:

- *Lack of useful information on the political–legal framework*: Detailed and timely information on the laws and regulations in selected countries impacting RCE development is scarce.
- *Potential bias*: Survey data may be biased by limited number of RCE interviewees in each RCE case study (mainly limited to managers). Data

**Table 3.1** Characteristics of selected countries for RCE case studies

Country	Per capita GNI at PPP (US\$)	Human development index (HDI)	Agriculture as % of GDP	Salient features of political-legal framework related to RCE development
<i>Latin America and Caribbean</i>				
Bolivia	2,450	.69	15	Tenure rights for indigenous communities; strong donor and NGO presence for nontraditional agriculture & community forestry
Dominican Republic	6,210	.75	11	Long-standing government and donor commitment to organic agriculture
Guatemala	4,060	.67	22	Community forestry concessions (Petén) and government/donor support for specialty coffee production
Mexico	8,950	.82	4	<i>Ejido</i> common property regimes, extensive support for community forest enterprises
<i>North America</i>				
United States	37,500	.95	2	Native American tribal enterprises (common property) in agricultural, forest and tourism sectors
<i>Asia and the Pacific</i>				
India	2,880	.61	23	Long-standing government support to social forestry, including forest management and sale of NTFPs
Papua New Guinea	2,240	.52	26	97% of land held by small producers with legally recognized customary rights
Vietnam	2,490	.71	23	Dynamic transition economy with strong role of government in rural economic affairs
<i>Africa</i>				
Gambia	1,820	.48	n/d	Strong government involvement in community forestry
Ghana	2,190	.53	35	Strong government involvement in marketing cocoa beans
Malawi	600	.40	38	Strong government involvement in RCE organization
Uganda	1,440	.50	33	Strong government involvement in RCE organization

Sources: World Bank (2005), UNDP (2006), CIA World Factbook (2006)

triangulation through services providers, buyers, and secondary information is employed to improve objectivity.

- *Incomplete data and high costs for data collection:* In some cases, RCEs do not maintain written records, thus limiting availability of information on production, costs, and prices. In other cases, RCE managers are reluctant to address “sensitive” issues such as conflicts among members or with buyers and service providers.

These limitations notwithstanding, the methodological approach provided useful primary information at a relatively low cost. It has the merit of determining relative capacities of RCEs, i.e., how the capacity in one RCE relates to that of another. It is also capable of highlighting aspects of comparative advantage that are useful for the development of RCEs. The approach is also relatively efficient in summarizing a large body of information relevant to RCEs and the institutional context in which they operate.



# 4 Insights from case studies

## Salient features of the case studies

The sampled RCEs capture considerable variation in terms of legal form, market orientation, and level of processing (position in the value chain) (Table 4.1). Salient features of the sample include:

- **Legal form:** Cooperatives and associations are the dominant form. Interestingly, several RCEs operating in relatively demanding international market environments are organized as associations (e.g., BANELINO, Chichan Há), despite the limitations of capitalization. A few RCEs are organized as corporations (e.g., Menominee Tribal Enterprises, FORESCOM, Smallholder Tea Company), while others have no legal form at all (e.g., SMART, Tsyunhehkwa). Complicating matters is the fact that some RCEs are legally organized as cooperatives but in fact are without community ownership. For example, the CCGS Cooperative is wholly owned and managed by the Coffee Industry Cooperation (a government agency in Papua New Guinea) as part of its Coffee Credit Guarantee Scheme for facilitating credit to smallholder coffee producers. In India, both LAMPS and VGKK are controlled by external agents, the former by a departmental government and the latter by an NGO.
- **Market orientation:** For roughly 50% of the sample, at least half of the total income is derived from international markets, often niche markets (organic, fair trade, certified wood). The majority of the internationally focused RCEs are found in Latin America. Two RCEs in Africa have obtained fair trade certification (Kuapa Kokoo and Kasinthula Cane). Organic certification was not reported from RCEs in Africa or Asia—even in cases where organic production systems have been (partially) adopted (e.g., Nama ACE and Rahama). The result of this is that RCEs in Latin America and the Caribbean, in general, have developed a more international orientation than their counterparts in Asia and Africa, due to the strong role of international NGOs in RCE organization and reduced presence of state in the rural sector.
- **Level of processing:** Most internationally oriented RCEs produce semifinished products (e.g., cocoa

butter and powder, green coffee, *chicle* gum, dried tea, and dimensioned sawn wood). They usually focus on only one product: Nama ACE—hot pepper; Smallholder Tea Company—dried tea; BANELINO—banana; and Consorcio Chiclero—*chicle* gum. Several have managed to overcome the regulatory and logistic hurdles for fresh fruit export (e.g., BANELINO—banana; Thanh Son—litchi). A few RCEs stand out in terms of level of processing (e.g., El Ceibo—cocoa butter, cocoa powder, chocolate) and diversification of supply (e.g., Menominee—dimensioned sawnwood, uncut logs, pulp, shavings, chips, tree bark). Most of the RCEs oriented toward national markets specialize in undifferentiated products with low levels of processing, but with a more diversified product offer (e.g., LAMPS—various NTFPs; Buzaama ACE—coffee, rice, sunflower oil).

## Externally versus internally driven organizations

To examine the role of different actors in the creation and development of RCEs, we divide the sample into two parts. Table 4.2 presents RCEs with more than 10 years of experience and Table 4.3 presents those with fewer than 10 years' experience. Among RCEs with more than 10 years' experience, the vast majority can trace their origins to extensive government involvement in RCE development. This includes all of the forest-based RCEs. Box 4.1 highlights the case of Menominee Tribal Enterprises, which has evolved over the past 100 years, with extensive interaction with the U.S. government for access to national resources, financing of infrastructure, and subsidies for sustainable forest management. The origin of the forest-based RCE in Mexico, Noh-Bec, shares many features of the Menominee case. Both Menominee and Noh-Bec have evolved into major commercial operations. Menominee harvests some 14 million board feet of sawn timber annually, while Noh-Bec is the single largest exporter of mahogany in Mexico. In other cases, government involvement has been critical for start-up; however, the development pathway has tended to focus more on goals other than RCE development, for example, conservation in the

Table 4.1 Salient features of RCE case studies, by region and country

Region	Country	RCE	Legal form	Products / services offered	Major Market (% total sales)
Latin America and Caribbean	Bolivia	El Ceibo	Cooperative	Cocoa beans, butter and powder; chocolate	International (75%)
	Bolivia	Co-op Agrícola Integral 'El Campesino' (CAIC)	Cooperative	Brazil nut	International (100%)
	Dominican Republic	Bananos Ecológicos de la Línea Noroeste (BANELINO)	Association	Fresh banana	International (100%)
	Dominican Republic	Confederación Nacional de Cacaocultores Dominicanos (CONACADO)	Association	Cocoa beans, cocoa butter, cocoa liquor	International (100%)
	Guatemala	La Voz que Clama en el Desierto (La Voz)	Cooperative	Green coffee	International (100%)
	Guatemala	Federación de Pueblos Mayas (FEDEPMA)	Association	Green coffee	International (100%)
	Guatemala	Empresa Comunitaria de Servicios del Bosque (FORESCOM)	Incorporated company	Precious and semiprecious tropical sawn wood	International (85%)
	Mexico	Chichan Há	Association	Logs, rough sawnwood, furniture	National (100%)
	Mexico	Consorcio Corporativo de Productores y Exportadores en Forestería (Consorcio Chiclero)	Cooperative	Chicle gum	International (100%)
	Mexico	Productos de Bosques Tropicales Certificados de Noh-Bec (Noh-Bec)	Cooperative	Rough sawnwood, dimensioned sawnwood, posts and poles	International (85%)
North America	Mexico	Prestadora de Servicios X-Yaat (X-Yaat)	Cooperative	Cultural tours, food service, ecotourism	National (90%)
	United States	Menominee Tribal Enterprises (Menominee)	Incorporated company	Logs, sawnwood, bolt wood, pulp wood, saw dust, shavings, chips	National (100%)
	United States	Tsyunhehkw Organic Farm and Retail	None (project)	Fresh and processed vegetables, health and nutrition education	National (100%)
	Gambia	Tumani Tenda	Cooperative	Ecotourism and cultural tourism, event organizing	National (55%)
Sub-Saharan Africa	Ghana	Kuapa Kokoo	Cooperative	Cocoa beans	International (100%)
	Ghana	Rahama Farmers Group	Cooperative	Organic pepper (uncertified), garden eggs	International (50%)
	Malawi	Kasinthula Cane Growers	Incorporated company	Raw cane	National (100%)
	Malawi	Smallholder Tea Company	Corporation	Tea	International (100%)
Asia & South Pacific	Uganda	Buzaama Area Co-op Enterprise (Buzaama ACE)	Cooperative	Green coffee, rice, coffee seedlings	National (100%)
	Uganda	Nama Area Co-op Enterprise (Nama ACE)	Cooperative	Hot pepper	International (100%)
	India	Kesla Poultry Co-op Society	Cooperative	Live broilers	National (100%)
	India	Large Scale Adivasi Multipurpose Society-B.R. Hills (LAMPS)	Cooperative	Various nontimber forest fruits	National (100%)
	India	Vivekananda Girijana Kalyana Kendra (VGKK)	Project	Honey, Gooseberry, other NTFPs	National (100%)
	PN Guinea	CCGS Cooperative	Cooperative	Green coffee	International (100%)
	PN Guinea	Samarai Murua Agricultural Centre (SMART)	Project	Virgin coconut oil, soap	International (95%)
	Vietnam	Thanh Son	Association	Litchi	National (55%)

### Box 4.1 Origins of Menominee Tribal Enterprises in the United States

The Menominee Reservation's current boundaries were set in 1854 by a treaty with the U.S. government. The reservation consists of about 220,000 acres of forest. However, it took more than 50 years for the Menominee to obtain full rights to manage their land. In 1856, a small sawmill was established to meet the needs of the community. The sawmill began processing pine for sale outside the reservation in 1871, mostly from dead and down timber. Over the next 15 years, approximately 100 million board feet of logs were cut for sale. In 1890, the Menominee received permission from the U.S. government to cut green timber at an annual rate of 20 M board feet. This was the first attempt to calculate an annual allowable cut in the United States. Over the next 17 years, 290 M board feet of timber were cut and sold.

In 1905, a windstorm blew down roughly 40 million board feet of timber. This prompted the U.S. government to provide funds for the construction of a modern sawmill to process the down and damaged timber. The new sawmill allowed the Menominee to process their timber efficiently. Over the next 50 years, more than one billion board feet were processed at the mill. The related profits, coupled with a successful lawsuit against the federal government for forest mismanagement, resulted in more than \$10 million dollars in the Menominee Trust Fund by 1954. The Menominee were able to construct a hospital and a clinic and establish a law enforcement and judicial system. Since its inception, the forest-based RCE has been the backbone of the tribal economy. The enterprise directly generates hundreds of thousands of dollars in salaries and benefits to its employees and gives predictable work to the logging contractors and their employees. No other business surpassed the forestry enterprise's impact on the tribal economy until a casino operation was inaugurated in 1987. It is the oldest tribally owned and managed commercial forest operation in the United States.

*Source: Huff & Pecore (1995)*

case of LAMPS (India) and cultural preservation in the case of Tsyunhehkwá (United States).

NGOs, in partnership with local community leaders, played a critical role in the organization of several of the RCEs, including El Ceibo (Bolivia) and Kuapa Kokoo (Ghana). In the case of El Ceibo, extensive, long-term technical assistance and well-planned subsidies, combined with some luck, made possible the development of local capacity and market and product diversification (see Box 4.2). In the case of Kuapa Kokoo, cocoa is highly significant both culturally and economically, external support was available at the right time for growth and expansion, and social capital was high prior to RCE development (see Box 4.3). The case of La Voz in Guatemala stands out for the critical role played by an international buyer in the upgrading of production and marketing skills. With export-provided assistance, La Voz became the first exporter of organic coffee in Guatemala.

Most sampled RCEs were established less than 10 years ago (Table 4.3). These relatively-young RCEs tend to be characterized by 1) strong orientation toward the

international market in general and niche markets in particular, 2) strong NGO support, and 3) increased presence of the private sector, including large enterprises and buyers. Among those with an international orientation, NGOs have played a prominent role in their organization. Examples include CONACADO and FORESCOM from Latin America and Thanh Son from Vietnam. FORESCOM is the result of decades of investments in securing commercial rights to the resource base, upgrading business and technical skills for forest management and wood processing, and project-provided marketing services. CONOCADO has been a major beneficiary of international development agencies (e.g., USAID, DFID), which has been critical for CONOCADO's successful expansion of its membership base and export volumes, adaptation of improved production technologies (certification), post-harvest (e.g., fermentation) practices, and access to new markets in Europe.

Surprising is the continued high level of involvement by government agencies in the creation of RCEs in some countries, for example India and Papua New Guinea. Similarly, in Mexico, the government has  
(Continued on page 46)



### Box 4.2 Origins of El Ceibo, Bolivia: Role of long-term donor and NGO partnerships

Since its creation in 1977, El Ceibo has evolved into a complex and multifunctional business organization including processing, market development, and technology. El Ceibo's early work revolved around marketing of cocoa for domestic and export markets. However, problems with cocoa quality led the government to withdraw El Ceibo's export licence in the late 1970s, but El Ceibo continued marketing in Bolivia, which was aided by the 400% increase in cocoa prices from 1976 to 1980. In 1980, El Ceibo expanded its activities with a large grant from the Inter-American Foundation. Purchasing a truck and boosting its operating capital by \$100,000 allowed El Ceibo to increase its local purchases and compete more effectively with local traders. In the early 1980s, El Ceibo expanded its activities beyond marketing. Production of chocolate began in 1984, initially for the national market and subsequently international. In 1982, a technology generation, adaptation, and transfer program (Coopeagro) was established in response to pest and disease problems and weak public-sector support.

By 1985, El Ceibo had improved the quality of its cocoa enough that the government returned its export licence. Since then, the export market has driven El Ceibo's operations. El Ceibo's links to donors, and its German volunteers, helped access fair trade and organic product markets in Europe and develop a network of contacts, a range of products, and a system for organic cocoa production. By 1989, El Ceibo was Bolivia's seventh most important exporter of nontraditional products. In 1993, El Ceibo exported US\$518,000 worth of cocoa products (beans, powder, and butter). To manage the range of activities, El Ceibo has had to develop technical, administrative, and commercial management capacity. In part, this has been supported by donor-funded advanced training programs. Another critical contribution has been the continued presence of technical and economic advisors from the German Development Service (DED), who have played important roles in developing El Ceibo's management systems and human capital. El Ceibo's activities have thus evolved to link its marketing operations with both product transformation and technology generation to support that marketing.

*Source: Bebbington, et al. 1996*

### Box 4.3 Origins of Kuapa Kokoo, Ghana: Importance of local leadership

When the government of Ghana partially liberalized cocoa markets in 1992, several community leaders saw an opportunity to organize to sell their cocoa to the Cocoa Marketing Company (CMC), the state-owned company that is the single exporter of Ghana cocoa. No official support was offered to would-be licensees, as it was believed that this would constrain competition and the emergence of a new private sector in cocoa trading. Considerable obstacles had to be overcome in order to comply and obtain a licence to trade, for example:

- Operate in at least three cocoa growing regions from the outset
- Provide collateral and financing for operations (i.e., CMC provided no advances for future deliveries)
- Set up fully equipped buying centers: scales, sacks, tarpaulins, and grates to store cocoa professionally
- Pass inspection by the Quality Control Division of Ghana Cocoa Board (CCB).

By mid-1993, when regulations were to be implemented in the upcoming season, smallholders attempting to start a new, collectively organized company had been effectively thwarted. While they were looked on favorably by some in CCB, they lacked capital and credibility. At this point, community leaders linked up with two development NGOs, SNV and Twin Trading. Each offered support the local efforts to get a new RCE up and running. After a short and intense mobilization—consisting of awareness-raising and village-level discussion about the historic change in the trading regime and the idea of starting a new RCE—there was an upsurge of interest in joining the initiative. About 2,000 smallholders from 22 villages volunteered to organize their facilities to satisfy the authorities and committed to deliver at least 100 MT of cocoa beans per village. The REC was formed, named Kuapa Kokoo Ltd. with a handful of local leaders representing three regions and with financial backing from a loan guarantee by Twin Trading. Kuapa Kokoo presented a business plan to the CBC to obtain a licence to trade, which was approved.

*Source: Tiffen et al. 2004*

**Table 4.2** Origins of selected RCEs with 10-plus years of existence

RCE	Date of foundation	Current membership	Description
Menominee (U.S.)	1908	8,500	See Box 4.1
Buzaama ACE (Uganda)	1951	350	For most of its existence, Buzaama ACE operated under the control of various government ministries. However, since the late 1980s, following market liberalization reforms, Buzaama ACE has been forced to compete with private-sector operators. Advances to date have been supported mainly by members, with limited support from government.
El Ceibo (Bolivia)	1977	700	See Box 4.2
La Voz (Guatemala)	1979	140	La Voz progressed from selling conventional coffee to local intermediaries to selling certified organic and fair trade coffee directly to U.S. buyers. Long-term assistance from buyers was critical, providing technical assistance, certification, marketing, and loan guarantees. Government agencies and NGOs also provided assistance in co-op organization.
LAMPS (India)	1982	966	Start-up facilitated by Cooperative Dept through District Cooperative Bank to promote tribal development, particularly to increase economic benefits from the collection of NTFPs. NTFPs purchased from the local communities and auctioned by the LAMPS to the highest bidder for processing and marketing. NGOs and various projects played an important role in capacity building related to forest management.
Noh-Bec (Mexico)	1983	216	The <i>ejido</i> Noh-Bec was founded in 1934 and for most of its existence was dedicated to <i>chicle</i> extraction. In 1983, the forest concession granted to the state-directed forest enterprise MIQROO terminated, thus opening the door for community forest management (CFM). Government agencies and donors (GTZ) played a critical role in establishing the overall political–legal framework, as well as providing technical assistance for establishing Noh-Bec.
Tsyunhehkwa (U.S.)	1993	4,000	Tsyunhehkwa is a project sponsored by the Oneida Indian Nation, with three components: agricultural production, cannery plant for processing, and retail operations. It provides training in food production and processing and organizes community events around white corn production.
Kuapa Kokoo (Ghana)	1993	45,000	See Box 4.3
VGKK-Honey (India)	1995	869	Since 1988, the local NGO VGKK took over operations of a failing LAMPS cooperative, creating VGKK-Honey. Support has been received from various agencies: Biodiversity Conservation Network and Ford Foundation.
Tumani Tenda (Gambia)	1997	203	Village-owned and village-operated camp for providing development income for the village, including medical and educational facilities, which were not being met through income from agriculture. Various government agencies provided critical support related to business and architectural planning, materials, marketing, and forest management.

(Continued from page 43)

played a major role in the organization and capitalization of Consorcio Chiclero, donating infrastructure and providing major grants and soft loans. On the other hand, much less state support has been made available for RCE creation in less-traditional sectors, such as ecotourism: X-Yaat, an ecotourism venture not too distant from Cancún has received only marginal support from NGOs and international tour agencies. In contrast, Tumani Tenda's ecotourism

operations in Gambia have been heavily supported by government agencies. In Uganda, the organizational structure and membership of Buzaama ACE and Nama ACE are determined by legal and organizational frameworks administered through government agencies. Kasinthula Cane and the Smallholder Tea Company in Malawi were pushed by the government following the privatization of the sugar industry and tea industries, respectively.

**Table 4.3** Origins of selected RCEs with less than 10 years of existence

RCE	Date of foundation	Current membership	Description
Chichan Há (Mexico)	1998	134	Chichan Há emerged as a result of changes in Mexican common property law that allowed the division of <i>ejido</i> territories among groups of <i>ejido</i> members. It is the largest (137 members) of five work groups of the <i>Ejido Caoba</i> and operates on an independent basis from the other work groups in the extraction and commercialization of timber.
CONACADO (Dominican Republic)	1989	8,200	Formed in response to the low international cocoa prices of the late 1980s with considerable technical and financial assistance provided by the government and international development agencies, growing to become the world's largest single exporter of organic cacao beans.
Kasinthula Cane (Malawi)	1999	282	Kasinthula Cane was initiated by the government in 1996 to address poverty in southern Malawi and the need for increased sugar output by the local sugar processor (Illovo). The government facilitated negotiations with Illovo and transferred irrigation scheme land and infrastructure to a trust.
BANELINO (Dominican Republic)	2000	275	With extensive government-backed technical and financial assistance, BANELINO began organic production in 1998 following destruction by Hurricane Georges. It is one of only eight banana enterprises worldwide to be certified fair trade.
Kesla Poultry (India)	2001	442	Kesla Poultry organizes production of fresh poultry products among tribal women to sell in local poultry markets. Support by NGOs motivated women to take up poultry and facilitated grants and technical support. Government has provided critical assistance for infrastructure.
FEDEPMA (Guatemala)	2002	92	FEDEPMA is a second-tier association of NGOs addressing economic and social issues of indigenous communities. Among its activities is the promotion of smallholder coffee, for which it provides technical assistance, training and credit.
Smallholder Tea Company (Malawi)	2002	1,000	See Box 4.4
SMART (PNG)	2002	29	SMART is a project of the Cocoa Coconut Institute, which emerged from a merger between the Cocoa and Coconut Research Institute and Cocoa and Coconut Extension Agency and is responsible for all cocoa and coconut R&D in PNG.
Cooperatives CCGS (PNG)	2003	1440	Cooperatives CCGS is a project of the Coffee Industry Corporation, which is a "privatized" version of the former coffee marketing board.

Continued on next page

Table 4.3—Continued

RCE	Date of foundation	Current membership	Description
FORESCOM (Guatemala)	2003	11 (community concessions)	FORESCOM provides technical services (resource manager function, nursery production, road construction), marketing services, and group certification. It was organized as part of the exit strategy of a large-scale USAID project on community forest management.
Nama ACE (Uganda)	2003	712	Similar to Buzaama ACE in structure but with an international market focus, Nama ACE has experienced rapid growth in membership and exports since 2003, due in part to government incorporation of additional first-tier RCEs.
X-Yaat (Mexico)	2003	7	Grassroots initiative that offers sustainable tours of El Señor community and its surrounding environment and environmental education to local youth and the tourism industry. Support was provided by donors for financing infrastructure.
Consortio Chiclero (Mexico)	2005	1,500	Consortio Chiclero was formed from the merger of two government organizations: <i>Chicle</i> Pilot Plan (organizational assistance and pensions schemes for <i>chicle</i> extractors) and Union of <i>Chicle</i> Cooperatives (marketing and political activism), to enhance positioning in international markets.
Rahama (Ghana)	2005	20	Rahama is informal, with major difficulties in capitalizing and increasing value addition. Extension support for production offered by Ministry of Food and Agriculture is the only source of external support.

Membership among the sampled RCEs varies widely depending on sector (tourism versus agriculture versus forest), age (performance), market orientation, and role of external agents in RCE organization. Among the agriculture RCEs, the three cocoa-based RCEs are among the largest: Kuapa Kokoo with 45,000 members, CONACADO with 8,200 members, and El Ceibo with 700 members (plus another 1,500 nonmember suppliers). Such high membership levels reflect 1) that cocoa production takes place in relatively remote areas with few other commercial on-farm production possibilities and 2) large investments by international donors in cocoa expansion. Several other RCEs had membership levels between 200 and 700 members: for example: BANELINO (275), Kasinthula Cane (283), Kesla Poultry (442). Among the forest-based RCEs, membership level is determined by community population, which varies widely across the sample: from a low end of 216 in the case of Noh-Bec to an upper end of 8,500 in the case of Menominee Tribal Enterprises. With the exception of Tumani Tenda—which has open community membership—membership levels among timber-producing RCEs vary little over time, as membership rights are only acquired by inheritance.

Figure 4.1 examines the relationship between RCE age and membership levels. Generally, the youngest

RCEs are those with lower membership levels (e.g., Rahama, X-Yaat, SMART), while the more mature RCEs have larger membership levels (El Ceibo, Kuapa Kokoo, CONACADO). Where there are notable exceptions (large membership growth over short period of time), such as Consortio Chiclero, Cooperative CCGS, and Nama ACE, this is the direct result of government involvement in RCE organization. In the case of Consortio Chiclero, it is important to note that the RCE was born out of the merger of two formerly independent RCEs, thus a large membership base already existed. In the case of Cooperative CCGS and Nama ACE, such high membership levels are likely to be the result of government promotion of RCE development. RCEs organized in the mid-1990s to early 2000s (e.g., Kasinthula Cane, Kesla Poultry, Smallholder Tea Company, CAIC) have achieved relatively high membership levels required for processing and international marketing.

### Objectives and service offer

Here we examine the relative importance of various objectives, such as profit, higher income, and capitalization, as compared to social and environmental objectives. Table 4.4 presents a ranking of RCE objectives as reported by RCE leaders.

### Box 4.4 Origins of Smallholder Tea Company, Malawi: Uphill struggle from the start

The predecessor to the Smallholder Tea Company (STC), the Smallholder Tea Authority (STA) was formed shortly after Malawi's independence. By 1990, 2,400 ha had been planted by 4,900 smallholders, who were required to register and work with the parastatal STA. The STA effectively supported smallholders with free seedlings for plantation establishment, free extension, tea and maize inputs on credit, and regular on-farm collection of harvest tea with first payment within 10 days. However, the pressure to continue expansion meant that the STA was never financially strong. During the 1990s, increased political interference in the board, diversion of transport to politicians' use, increasingly late payment, farmer demands for higher prices, declining STA staff, and collapse of the input credit system led to severe financial difficulties for the STA, a collapse in field and factory operations, and alienation of smallholders who responded by selling to local estates. These local estates welcomed high-quality smallholder tea and better utilization of factory capacity and began to offer interlocked input credit and extension advice, some also offering health, education, and social services.

After 2002, the STA was dissolved and the STC was established, as well as its governing body, the Smallholder Tea Growers Trust (STGT) formed with three growers, two managers, a lawyer, and an accountant. Management and debt were slimmed down and restructured with new appointments, with a strong mandate to minimize operation costs, produce quality tea, pay farmers on time, and operate within the cash flow of the company. Since the reform a large number of farmers have returned to STC and are receiving much better services, although some blocks have formed their own association and continue to sell to estates and indeed have started operating their own tea factory. The case illustrates the difficulties in establishing RCEs, the resilience and determination of smallholders in the face of a long decline in service to tea production, difficulties from political interference and the importance of lean but effective management and services.

Source: Chirwa et al. 2005, Tiffen et al. 2004

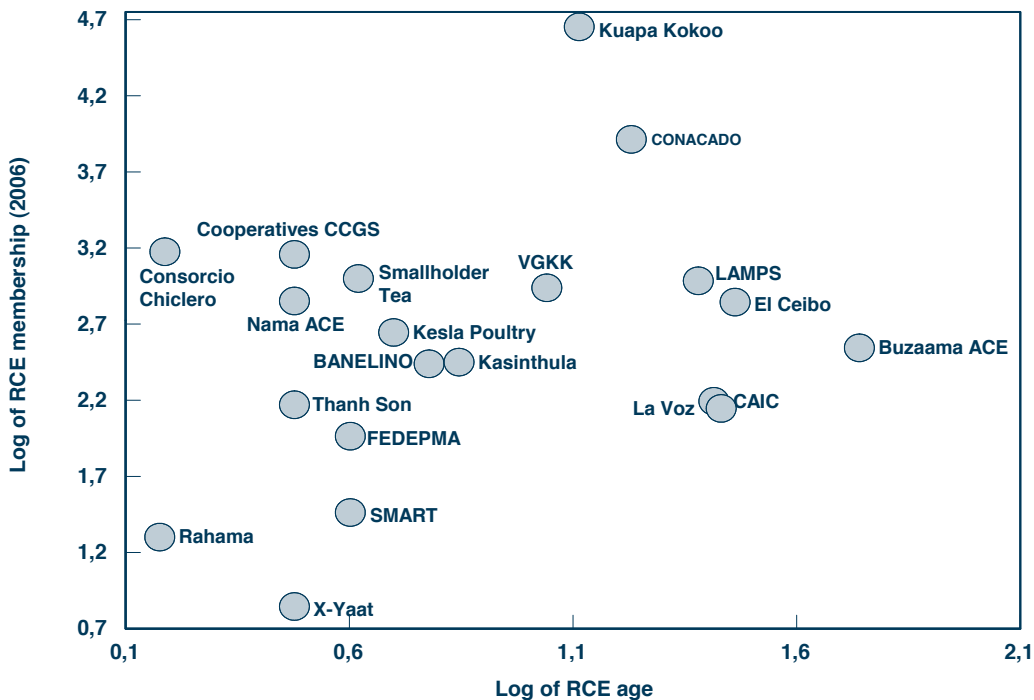


Figure 4.1 Relationship between RCE age and membership level (n=20)

- *Higher income:* In most cases, income generation for members is the primary goal. Only in the case of LAMPS and the two U.S.-based RCEs was income not ranked first. In the case of Menominee tribal enterprises, community development through employment generation and income for tribal government are main objectives, followed by sustainable forest management—a requirement for maintaining tribal reservation status. Interestingly, income generation for members was not a major objective: annual dividends per community member vary per year depending on profits available and community development needs but usually do not exceed US\$ 300. The primary focus of LAMPS is sustainable resource management and increasing member income by forcing local intermediaries of NTFPs to negotiate directly with LAMPS (administered by state-appointed officials).
- *Community development:* As expected, community development is a major goal for most RCEs based on common property management, such as CAIC, FORESCOM, Chichan Há, and Consorcio Chiclero. It is also ranked highly by these RCEs engaged in certified fair trade. However, in some cases (e.g., BANELINO) tensions have emerged between RCE administration and RCE members over the use of fair trade “premia” for community development, with members arguing for higher returns when prices are low rather than investments in community development.
- *Capitalization:* Capitalization ranks second only in limited cases (e.g., Kesla Poultry, Nama ACE, FORESCOM), all of which are relatively incipient and oriented toward higher-value markets. The overall lack of importance placed on capitalization suggests: 1) institutional limitations of RCE to capitalize, trade-offs with members’ demand for higher returns, and 3) limited strategic planning skills of RCEs and their service providers.
- *Environment and conservation:* Environmental and biodiversity conservation ranked highly as an objective when RCEs were orientated toward

**Table 4.4** Ranking of RCE objectives

RCE	Profit and higher income	Community development	Capitalization	Environment/conservation	Political advocacy and cultural identity
El Ceibo	1	3	4	2	5
CAIC	1	5	4	3	2
BANELINO	1	2	4	3	5
CONACADO	1	2	4	3	5
La Voz	1	3	5	2	4
FEDEPMA	1	2	4	3	5
FORESCOM	1	5	3	2	4
Chichan Há	1	4	2	3	5
Consorcio Chiclero	1	4	3	2	5
Noh-Bec	1	4	3	2	5
X-Yaat	1	5	3	4	2
Menominee	5	1	3	2	4
Tsyunhehkwa	4	2	5	3	1
Tumani Tenda	3	2	4	1	5
Kuapa Kokoo	1	2	4	5	4
Rahama	1	4	2	3	5
Kasinthula Cane	1	2	3	4	5
Smallholder Tea	1	4	2	5	3
Buzaama ACE	1	3	2	4	5
Nama ACE	1	3	2	4	5
Kesla Poultry	1	3	2	5	4
LAMPS	2	3	3	2	5
VGKK–Honey	2	1	4	3	5
Cooperatives CCGS	1	2	4	3	5
SMART	1	3	2	4	5
Thanh Son	1	4	3	5	2



international markets for organic products, for example: El Ceibo, FEDEMPA, BANALINO, and La Voz. On the other hand, it can be assumed that several noncertified RCEs have a relatively low environmental impact due to their limited asset endowments: for example, Buzaama ACE sells organic fruits although it has no certification and no explicit orientation toward conservation—its members simply do not have access to chemical inputs. In the case of forest-based RCEs, conservation was more highly prioritized—in several cases environmental conservation is a precondition for access to forest resources as established by the state: Noh-Bec, Chichan Há, Tumani Tenda, FORESCOM, LAMPS, and Menomonee Tribal Enterprises.

- *Political advocacy and cultural identity:* In most cases political advocacy was not a major focus of the sampled RCEs. In the case of FORESCOM, however, decisions were taken to separate commercial aspects of community forest management

(FORESCOM) from the more social aspects, under the auspices of the social organization ACOFOP (*Asociación de Comunidades Forestales de Petén*). Tsyunhehkwa—a project of the Oneida Tribe in the United States—stands out for its focus on cultural preservation, especially the preservation of traditional varieties of white corn and the traditions related to food preserving and agricultural harvesting.

To meet these objectives, most sampled RCEs offer some form of technical assistance and training, related mainly to production technologies and disease/pest management (Table 4.5). Social services include funeral payments for members (e.g., CONACADO, Noh-Bec, Smallholder Tea Company) and financial contributions to community development, including infrastructure development (e.g., Menominee, La Voz, Kuapa Kokoo). In the case of timber-based RCEs, such as Noh-Bec and

**Table 4.5** Services offered by RCE to their members

RCE	Technical assistance and training	Credit	Storage and transport	Certification	Social services	Resource management
El Ceibo	X	X	X	X	X	
CAIC		X	X	X	X	
BANELINO	X	X	X	X		
CONACADO	X	X	X	X	X	
La Voz	X	X		X	X	
FEDEPMA	X	X		X		
FORESCOM	X		X	X		
Chichan Há			X	X		X
Consorcio Chiclero	X	X	X	X	X	
Noh-Bec					X	X
X-Yaat						
Menominee					X	X
Tsyunhehkwa	X				X	
Tumani Tenda		X		X	X	X
Kuapa Kokoo	X	X	X	X		
Rahama		X				
Kasinthula Cane	X	X	X	X	X	
Smallholder Tea	X	X			X	
Buzaama ACE	X	X				
Nama ACE	X	X	X			
Kesla Poultry	X	X	X	X	X	
LAMPS	X		X			X
VGKK-Honey			X		X	
Cooperatives CCGS	X	X	X			
SMART	X		X			
Thanh Son	X		X			

Menominee, services provided for members are usually limited to common-pool resource management. RCEs play a critical role in making certification accessible to smallholders and communities through group certification programs. RCEs that offer the lowest level of services include: LAMPS, Rahama, Buzaama ACE, and X-Yaat.

Nearly all the agriculture- and NTFP-based RCEs offer finance to their members. In most cases, funding for RCE credit programs is provided by NGOs, government programs, or private banks (in limited cases), and the cost of credit varies widely, from 5% APR for Kasinthula Cane to 15% APR for La Voz. In no case were credit programs funded from RCE earnings. In general the offer of credit to smallholders can be critical for building a sense of ownership and expectations of independence among RCE members. It is difficult for rural people with little education to solicit loans directly from banks and large lending institutions because they do not have the proper guarantees, do not have an existing credit history, do not understand the extensive paperwork that is required, and often are ashamed of their inadequate language and social skills. Credit must be managed carefully by both the RCEs and the borrowing members, or such programs can severely weaken long-term RCE development prospects and in some cases, lead to failure (see Box 4.7 for example).

## Asset endowments

This section examines the asset endowments among the selected RCEs, focusing on the following five capital forms: natural, physical, financial, social, and human.

### Natural capital

The richness of the natural resource endowments of the RCEs varied. Several forest-based RCEs are among those with the highest natural capital endowments. In the case of Menominee Tribal Enterprises, natural capital includes 120,000 ha of forest with five main commercial species. Noh-Bec operates on 18,000 ha of tropical forest and has the largest concentration of mahogany in Mexico. However, several others of the sampled RCEs (e.g., Noh-Bec, Chichan Há, and FORESCOM) are highly dependent on the sale of a limited number of high-value timber products (mahogany and tropical cedar), whose long-term availability may be in decline (SmartWood 2005). LAMPS and VGKK–Honey are two forest-based RCEs that face serious constraints in terms of access to the natural

resource base. In both cases, all aspects of forest management and commercialization are controlled by the state forestry department. Without radical changes in policy, these RCEs are not likely to develop much beyond their current stage. In a few cases, viable forest-based RCEs have emerged as traders and processors, with limited backward linkages to members and low levels of natural capital. These RCEs, which include, CAIC, Consorcio Chiclero, FORESCOM, LAMPS), demonstrate the potential for viable RCE development independent from direct access to natural resource base. FORESCOM competes directly with local intermediaries for the purchase of raw materials from independently owned and operated community forest concessions. NTFP-based RCEs, such as CAIC, Consorcio Chiclero, LAMPS, maintain relatively loose affiliations with their members and maintain low barriers to RCE membership.

Where collective access to the resource base prevails, a range of access agreements exists: substantive ownership rights (e.g., *ejidos* in Mexico, tribal nations in United States, ancestral lands in PNG), to usufruct rights (CFMA agreements in Gambia, community concessions in Guatemala), to customary rights (NTFP collection in northern Bolivia). Menominee Tribal Enterprises has practised sustainable forest management on its land since the mid-19th century when it was granted tribal nation status by the U.S. Congress. With the exception of Menominee Tribal Enterprises, community ownership or usufruct rights within the sample has been obtained only within the past 20 years. In Mexico, agrarian law provides communities (*ejidos*) with secure land tenure, including the right to harvest and sell trees. In Guatemala, successful lobbying of NGOs supported by development projects and donor agencies led to the granting of community forest concessions. Access to the resource base implies usufruct rights for 25 years (renewal possible) under the condition that the management units become certified under the scheme of the Forest Stewardship Council within three years after being granted the concession (Carrera *et al.* 2006). In Gambia, access to forest resources has provided a base for RCE development, but much institutional reform remains to be done if RCEs are to have a significant impact on poverty reduction over the long term (see Box 4.5).

With few exceptions, access to the resource base among agriculture-based RCEs is through customary rights

held by individual RCE members or households, rather than through land titles. For example, only 20% and 10% of members of BANELINO and CONACADO, respectively, have land titles. In the case of RCEs in Guatemala, all members have land titles that were awarded as part of the Peace Accords of 1996; however, these titles have yet to be formally lodged with the government, as this would imply additional costs in legal and administrative fees, suggesting that overall risks perceived by RCE members are relatively low. One exception is Kasinthula Cane, where the resource base has been granted to the RCE and held in trust by a government-established organization (Kasinthula Cane Trust). The 760-ha area has been divided into 280 parcels among RCE members (members' average holding is 2.7 ha). In most cases where resource access is individually owned, only a small percentage of members have legally registered land titles, usually between 10% and 30%. Another exception is Cooperatives CCGS (Papua New Guinea) where members have collective customary access to their resource base.

In several cases, high endowments of natural capital among agriculture-based RCEs have played a key role in their development. For example, both RCEs in the Dominican Republic (CONACADO and BANELINO) benefit from favorable growing

conditions for organic production relative to other countries. Unlike most of Central and South America, crop diseases such as *black Sigatoka* (banana) and *Moniliasis* (cocoa) have yet to take hold in the Dominican Republic—resulting in lower production costs and higher productivity in organic production for members of CONACADO and BANELINO. Other agriculture-based RCEs with relatively high levels of natural capital include Kasinthula Cane and Kuapa Kokoo for example, with 760 and 90,000 ha total area under production, respectively. In the case of FEDEPMA and La Voz, total area is relatively small (between 68 ha and 144 ha, respectively), but production takes place on highly suitable land (e.g., coffee on high-altitude, volcanic soils, near a major tourism center). At the RCE member level, natural capital tends to be limited, however, with the average farm size between 0.5 and 3.5 ha per member (e.g., CONACADO, BANELINO, La Voz, FEDEPMA, Kasinthula Cane).

#### Physical capital

Among internationally oriented RCEs, the sample shows that major investments in physical capital have been achieved in a relatively short period of time. Examples include BANELINO (banana packing

#### Box 4.5 Community access to forest resources in Gambia: Recent achievements and future challenges

Community Forestry in the Gambia grew out of the realization that the Forestry Department alone was unable to protect the forest resources effectively. In 1987, the department drafted a proposal for the introduction of community forestry. The legal framework emerged in the early 1990s and conditioned resource access to a community's successful completion of three phases: 1) a preparatory phase during which the forest management plan is prepared; 2) a preliminary phase during which the communities demonstrate their capacity in forest management; 3) and a consolidation phase during which the communities gain further forest management skills, resulting in a Community Forest Management Agreement (CFMA). The CFMA grants usufruct rights for three years. Forest management plans have to be approved by the Divisional Forest Officer. Communities, through their forest committees, are required to open a bank account into which all revenues from the forest management activities are received. These funds can be used by the community to finance development activities at the community level. In addition, they must pay out a certain proportion (~40%) for reinvestment in their forest. While exempted from all licence and permit fees, they are also required to pay 15% of their collections into the National Forestry Fund as a contribution toward the development of the forestry sector. In this context, CFMA is designed more for promoting community forest management than for long-term viable RCE development. That is to say, the requirement that proceeds from forest management be reinvested in community development and used to subsidize the government's forest programs provides few incentives for RCE development of a more commercial nature.

Source: Bojang & Reeb (1998)

shed, storage facilities, banana transport infrastructure, vehicles, fertilizer production facility, and equipped offices) and Tumani Tenda (five guest cabins, restaurant, conference hall, and on-site community infrastructure). In addition, relatively large endowments of physical capital exist among the newly established, forest-based RCEs, such as Chichan Há, FORESCOM, and Consorcio Chiclero. Several RCEs have made significant investments in physical capital worth several hundred thousand U.S. dollars (e.g., Kuapa Kokoo, CAIC, FORESCOM, BANELINO, Noh-Bec) and up to several million U.S. dollars (e.g., El Ceibo, Menominee Tribal Enterprises). In many cases, related investments were realized through external donor funding and/or credits, and most RCEs are not well-equipped with state-of-the-art technology or facilities. Typically, equipment and machinery were purchased secondhand, lowering initial investments but resulting in higher maintenance and operating costs. In most cases, regular maintenance has been deferred due to unavailability of spare parts, limited willingness of RCEs to invest, and limited technical capacities of RCE staff or external support service. For example, both Chichan Há and Noh-Bec report major inefficiencies in milling operations due to lack of maintenance. Kesla Poultry has a relatively high level of physical capital endowment, which includes four retail and wholesale outlets in urban areas, each equipped with small-scale poultry processing equipment (e.g., scales, freezer, defeathering device, scalding tank, and killing cone). In addition, each RCE member has invested in on-farm poultry rearing infrastructure. These investments were highly subsidized by government agencies and NGOs.

A low endowment of RCE-owned physical capital is common among agriculture-based RCEs oriented toward domestic markets with little or no support from government agencies or NGOs. Examples include: VGKK–Honey and LAMPS in India, Buzaama ACE and Nama ACE in Uganda, and Rahama in Ghana. In these cases physical capital consisted of little more than an administrative office, basic storage facilities, and rudimentary post-harvest and/or processing machinery and equipment.

Among the sample organizations, access to “public” infrastructure varied widely, but in general it represents a constraint to RCE development. Less than 20% of the sampled RCEs have year-round road access, 24/7

electricity, and secure telephone and Internet connection. For the majority of the RCEs, one or several of these factors constrain RCE operations. Impassable roads during parts of the year cause delays in delivery of raw materials and finished products (e.g., CAIC). Regular and irregular power cuts and limited capacity to generate their own electricity increase production costs (e.g., Nama ACE, Buzaama ACE), while limited number of telephone lines (only one to two lines at RCE level and highly limited number of lines among RCE members) and low speed and intermittent Internet connection increase transaction costs and undermine coordination and internal and external communication. In limited cases in Africa, basic infrastructure (electricity, telephone) is not available (e.g., Rahama), which seriously limits development potential. In addition, Internet access is not available in the majority of the RCEs sampled in Africa and Asia (e.g., LAMPS, Nama ACE, Cooperatives CCGS). Even when a telephone connection is available at the RCE level, in many cases, most members do not have telephone access, thus increasing the cost of internal RCE communication.

### Financial assets

Most sampled RCEs are highly undercapitalized irrespective of their size and scale of operations. However, the extent to which the lack of financial resources restricts RCE development varies:

- *Critical, barely able to cover operational costs:* Nama ACE, Buzaama ACE, and Rahama, with financing based on annual membership fees that are less than US\$ 5 per year. While this may simplify administrative procedures, it does not provide for the development of a full range of RCE services nor for long-term capitalization. These organizations face an especially difficult task to capitalize, as they will be unable to develop new services or improve existing ones without additional capital, while members will be unlikely to support increased capitalization without new and better services.
- *Severe, but able to cover operating costs, but dependent on outside assistance for investments:* BANELINO, CAIC, CONOCADO, La Voz, FEDEMPA, and X-Yaat from Latin America; Tumani Tenda and Kasinthula Cane from Africa, and VGKK–Honey LAMPS, Cooperatives CCGS and SMART from Asia and the Pacific. These finance their activities via deductions in payments, with payments by RCE members proportional to

their usage of RCE marketing services. In some cases government agencies subsidize operations (e.g., Cooperatives CCGS, SMART)

- *Sufficient for covering operating costs and stimulation of long-term growth:* Only in the case of Menominee Tribal Enterprises and El Ceibo were significant financial assets reported. In the case of Menominee, this is largely due to a long track record of sound business administration, large volumes of timber sales, and high levels of social capital within the tribal nation that allows for long-term investment in RCE operations.

Access to financial services is highly variable. For RCEs with long-term relationships with buyers, relatively stable production volumes, and niche market orientation, formal credit from international not-for-profit lending organizations (e.g., Shared Interest, EcoLogic Finance, Oikocredit) is a viable option. In the case of several RCEs oriented toward niche markets, grants were made available from NGOs, government agencies and foundations, for example: X-Yaat (Expedia), Tumani Tenda (president of Gambia), and Kuapa Kokoo (Twin Trading, Body Shop International). Nearly all the financial services received by Noh-Bec, Consorcio Chiclero, and Chichan Há for infrastructure development and processing facilities were provided by government-backed projects at highly subsidized or zero interest rates. The U.S. government provides Menominee Tribal Enterprise with annual subsidies of US\$ 1.5 million for forest management and periodic grants for expansion and maintenance of the processing facility. In the case of Kesla Poultry, government and NGOs have facilitated investments in infrastructure totaling US\$ 2 million in recent years. The use of credit and donations ranged from investments in facilities and processing technologies (e.g., El Ceibo, FORESCOM, Kuapa Kokoo) to near insolvency (e.g., Kasinthula Cane).

A few RCEs have achieved significant levels of working capital (e.g., Consorcio Chiclero, CAIC, FORESCOM), mainly acquired through loans. Among major externally financed investments by RCEs in recent years are US\$ 1.5 million in infrastructure by BANELINO, US\$ 1 million in construction projects by El Ceibo, and US\$ 150,000 in purchase of land and irrigation equipment by Kasinthula Cane.

Several RCEs report very limited access to credit for financing growth or offering short-term credit services to members (e.g., Rahama, Nama ACE, Cooperatives CCGS). In such cases, members must rely on informal lending options that typically imply very high interest rates. Access to crop insurance was not reported by any of the selected RCEs.

### Social capital

A proximate indicator of social capital formation between members and RCE administration is change in membership levels. Several RCEs exhibited strong membership growth over the past five years, reaching as much as 200% for BANELINO. All of these RCEs are positioned in higher value markets, have professional business administration, and receive high levels of support from donors and governments:

- *CONACADO:* 15% increase in membership over the past five years
- *Consorcio Chiclero:* 30% growth in membership between 2004 and 2006
- *Kuapa Kokoo:* Marked increase in membership levels over the past five years (~80%)
- *La Voz:* Slight increase in membership level over the past five years (<5%)
- *Thanh Son:* Membership increased ~100% since 2002

In the case of Buzaama ACE and Nama ACE, overall membership levels have increased moderately over the past five years. However this is due to government assignment of additional first-tier groups to RCEs, rather than voluntary decisions by smallholders based on costs and benefits of RCE membership. In other cases, membership levels have remained unchanged or declined. In the case of El Ceibo and several forest-based RCEs (Menominee, Noh Bec, Chichan Há) high barriers to membership restrict growth. Cases where declining membership was observed include:

- *FEDEPMA:* Moderate decline in membership levels over the past five years (~20%), partially due to inability to generate price premiums for organic coffee
- *SMART:* Membership declined nearly 5x between 2002–2006, due to lack of export activity (2005–2006) and establishment of a competing processing plant.

Among RCEs with the lowest levels of social capital are LAMPS, VGKK–Honey, Buzaama ACE,



Rahama, SMART, and X-Yaat, which in addition to declining membership, report friction regarding internal operations. These RCEs are administered by volunteer or government-paid staff with little or no member involvement and are characterized by restricted access to services.

An indicator of bridging social capital is the quality of relations with downstream buyers and processors. Several RCEs have been successful in establishing long-term trust relationships with a small number of buyers. This has led to secure market outlets, also in times of high market volatility, and access to embedded services (e.g., financing, loan guarantees, and technology transfer). Examples include: CONACADO with 10-plus year relationships with four international buyers, La Voz with a 10-plus year relationship with U.S.-based coffee importer, and Consorcio Chiclero with several 5-plus year relationships with importers in Japan, Europe and the United States. While some friction has been reported, mostly related to prices, quality, and communication, the long duration of these relationships implies mutual benefits for RCEs and their business partners.

Several RCEs have also forged long-term relations with government agencies and NGOs, for example,

Cooperatives CCGS (Coffee Institute), Kesla Poultry (PRADAN), CAIC (SNV), and El Ceibo (DED). Such partnerships have been instrumental in assisting RCEs in overcoming the problems faced in the initial stages of RCE development related to capital accumulation and strategic orientation. In general, our sample suggests that innovation in production or marketing, at least in the early states of RCE development, comes from NGOs and buyers, for example, La Voz (first cooperative in Guatemala certified organic with help from a U.S.-based buyer) and Kesla Poultry (seller of fresh broilers to various retail locations). Kuapa Kokoo presents a unique example of social capital formation between RCEs, NGOs, and buyers (see Box 4.6).

#### Human capital

Human capital endowments are assessed at two levels: board of directors (BoD) and management. In general, there is a shortage of formally trained personnel from within RCEs. BoD members and managers often acquire their skills through “learning by doing” processes, based on trial and error. In some cases mandatory rotation of BoD members and at times, managers, every two to four years implies irregular or zigzag learning curves, hampering RCE

### Box 4.6 Kuapa Kokoo and the Divine Chocolate Company

The decision to launch a Fair Trade chocolate company in the UK was made at the Kuapa Kokoo general assembly meetings in 1997. With the help of the NGO Twin Trading and Body Shop International, Divine Chocolate Ltd. (formerly The Day Chocolate Company) was launched in 1998. The company tackled the difficult task of financing a company without handing over ownership to those who had capital. Through the intervention of DFID, who provided a loan guarantee, it was possible to issue one-third of the shares of Divine Chocolate to Kuapa Kokoo. The other investors were Twin Trading (53%) and Body Shop International (14%).

All of the cocoa in Divine Chocolate comes from Kuapa Kokoo and is purchased on fair trade terms. Divine bought 1,200 tons of cocoa from Kuapa Kokoo in 2006. However, 98% of Kuapa Kokoo's production is sold at commodity prices to the state-run marketing board in Ghana. Kuapa Kokoo invests a fair trade premium into schools, clean drinking water, mobile medical clinics, and women's entrepreneurship projects for the significant percentage of women cocoa farmers who are Kuapa Kokoo members (60% of the national executive board of Kuapa Kokoo are women). As owners of Divine, the farmers have two seats on the Divine corporate board, a share in the profits, and a seat at the table of global trade. Divine's sales were \$18m in 2006, and recently Divine launched a U.S. affiliate that is 33% owned by Kuapa Kokoo. In 2006 Body Shop International transferred its entire interest in Divine Chocolate to Kuapa Kokoo, making the cooperative the single largest shareholder. Today the balance is held by Twin Trading (43%) and Oikocredit (12%).

In 2007, the U.K.-based Divine Chocolate Company paid out its first dividend to Kuapa Kokoo (US\$ 93,000).  
Sources: Tiffen et al. 2004, *The Economist* (2007)



performance and strategic orientation. Despite these limitations, there is evidence that over the course of time, RCE BoD members and managers become progressively capable of administering RCE operations and thus less dependent on outside support in terms of funding and business administration. For example, Menominee Tribal Enterprises and El Ceibo stand out as having acquired relatively high levels of human capital among elected board members and administrative staff. In some cases, high levels of human capital exist for business administration based on externally sourced managers or extensive support from NGOs. For example, Kesla Poultry and FORESCOM, both with fewer than 10 years' existence, have good business administration capacity but depend heavily on NGO and project

support to maintain professional staff. Without such external support, both of these RCEs would be highly vulnerable to changes in market conditions and general management challenges (Table 4.6).

However, in other cases, human capital endowments from internal or external sources have yet to develop fully (Table 4.7). For example, strong public-sector involvement in the operations of Cooperative CCGS and SMART (both in Papua New Guinea), have not led to strategic positioning of RCE in the coffee or coconut oil markets, respectively. In the case of LAMPS and VGKK–Honey in India, community members have only a marginal role in RCE administration, which is carried out by government or NGO representatives. Competition among NTFP

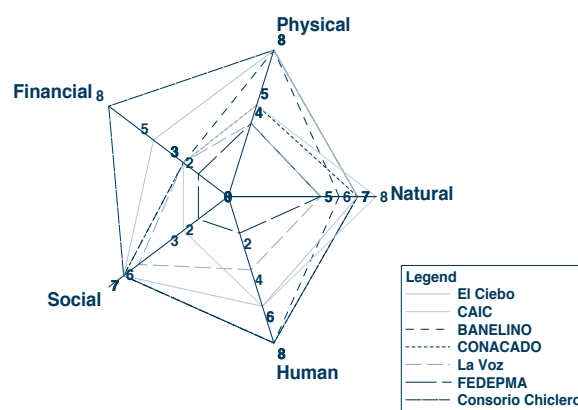
**Table 4.6** RCEs with relatively high levels of human capital

RCE	Human capital (business administration and special skills)
BANELINO (Dominican Republic)	<ul style="list-style-type: none"> <li>- General manager with 10 years' experience (MS degree) + five-member staff</li> <li>- Selection of personal based only on professional qualifications</li> <li>- 70% of producers able to comply with organic and EurepGap certification</li> <li>- Management of certification schemes: organic (2000) + fair trade (1996)</li> </ul>
El Ceibo (Bolivia)	<ul style="list-style-type: none"> <li>- Until recently, managers (general, production, sales) from community, but no professional background; rotation system (on a four-year basis)</li> <li>- Long-term sales manager and production manager in the processing plant with autodidactic skills acquired over many years</li> </ul>
FORESCOM (Guatemala)	<ul style="list-style-type: none"> <li>- Professional manager, with marketing staff provided by international NGO</li> <li>- Experienced technical staff for forest management and timber marketing</li> <li>- 3-plus years experience in production and processing of complex timber operations</li> </ul>
Consortio Chiclero (Mexico)	<ul style="list-style-type: none"> <li>- Advanced communication and coordination skills for maintaining business contacts in Japan forged over many years of trial and error</li> <li>- Builds on lessons from previous government-led <i>chicle</i> sector initiatives, efforts made to provide transparency and demand-oriented services</li> </ul>
Kesla Poultry (India)	<ul style="list-style-type: none"> <li>- NGO managed and operated with highly trained technical and marketing staff</li> <li>- Staffing costs are covered from RCE revenues</li> </ul>
Tsyunhehkwá (United States)	<ul style="list-style-type: none"> <li>- 10-plus years experience in the production of organic agriculture and meat products</li> <li>- Professional manager plus three area supervisors (agriculture, canary, retail)</li> <li>- Research capacity for organic production and product development</li> </ul>
CAIC (Bolivia)	<ul style="list-style-type: none"> <li>- Full-time, (semi-) professional, nonmember staff for business administration and accounting, legal assessment, general medicine, and chemical engineering</li> </ul>
CONACADO (Dominican Republic)	<ul style="list-style-type: none"> <li>- General manager with 12 years' experience (BS degree) plus three-member staff</li> <li>- 100% of producers comply with organic certification requirements</li> <li>- International certification schemes: organic (1992) and fair trade (1995)</li> </ul>
Noh-Bec (Mexico)	<ul style="list-style-type: none"> <li>- No professional manager—key decisions taken by BoD and general assembly</li> <li>- Highly experienced technical staff for forest management and timber marketing</li> <li>- 15-plus years experience in production and processing of timber operations</li> <li>- FSC certified since 1994, on-site specialist in wood kiln drying</li> </ul>
Kuapa Kokoo (Ghana)	<ul style="list-style-type: none"> <li>- Paid staff of nearly 200, including managers, depot keepers, drivers, security personnel, accountants, and messengers</li> <li>- Management of fair trade certification schemes (1995)</li> </ul>

traders is restricted by government decree (traders must buy through RCE, rather than through community members).

### Comparative analysis of asset endowments

Figure 4.2 compares asset endowments across agriculture and NTFP-based RCEs in Latin America and the Caribbean. In general, financial assets are low across all six RCEs, followed by physical capital. El Ceibo, Consorcio Chiclero, CONACADO and BANELINO stand out in terms of overall asset endowments. These are followed by CAIC and La Voz. Low asset endowments of FEDEPMA partially reflect its difficulty in marketing members' organic coffee. (FEDEPMA is managed by an NGO dedicated to community development and political advocacy.)

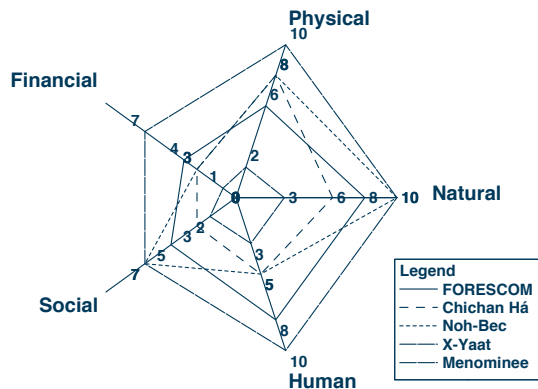


**Figure 4.2** Asset endowments of selected agriculture and NTFP-based RCEs from Latin America

**Table 4.7** RCEs with intermediate/low levels of human capital

RCE	Human capital (business administration and special skills)
FEDEPMA (Guatemala)	- NGO managed and operated highly trained in organic production techniques - Management of certification schemes: organic (2002), C.A.F.E. practices (2005)
La Voz (Guatemala)	- No professional management or technical staff - 25-plus years of training in organic production techniques—first cooperative in Guatemala to obtain organic certification) - Sophisticated understanding of quality issues from long-term exposure to tourists
Chichan Há (Mexico)	- 15-plus years' experience in production and processing of complex timber operations - Management of FSC certification scheme since 1991 - Limited business administration and marketing ability, with high staff turnover
Kasinthula Cane (Malawi)	- Professional management and technical staff (external) - Six years' experience in organizing production of sugarcane and coordinating its processing and marketing with the national sugar processor
X-Yaat (Mexico)	- Volunteer, part-time manager with four years' experience, takes operational and strategic decisions, coordinates with clients, and organizes RCE members
Tumani Tenda (Gambia)	- Manager with eight years' experience (community member) - Range of capacities for support operations (tourist guides, accounting, food service) - Knowledge of community forest management certification schemes - First-place winner of National Environment Competition (1997)
LAMPS (NTFPs–India)	- No professional business manager, with operating decisions taken by Forestry Department official and secretary (charged with commercialization) - Limited interest shown by managers in RCE development as business operation
Thanh Son (Vietnam)	- Volunteer manager from community, elected every two years - Members with basic technical skills for production and post-harvest management - Limited capacities for business administration and marketing
Cooperatives CCGS (Papua New Guinea)	- Business administration provided by Coffee Industry Cooperation - Producers with basic skill in coffee production and primary transformation - Highly limited understating of international markets or certification systems
SMART (Papua New Guinea)	- Business administration provided by Cocoa and Coconut Research Institute, with little participation by RCE members - Limited understanding of international markets or certification systems by RCE members

In the case of forest-based RCEs in Mexico, Guatemala and the United States, overall asset endowments are higher than those for agriculture and NTFP-based RCEs from the region (Figure 4.3). Endowments are highest across the five asset types for Menominee Tribal Enterprises and Noh-Bec. Relative to Menominee, Noh-Bec is markedly weaker in human capital due to lack of professional management. Their limited growth in financial and social capital reflects the tensions inherent in common-property based resource management between RCE capitalization and community development and dividend payments. Both Chichan Há and FORESCOM have achieved moderate endowments in the relatively short period of time since their creation—eight and seven years respectively. The future development of the ecotourism RCE X-Yaat will require significant investments in all five asset types.

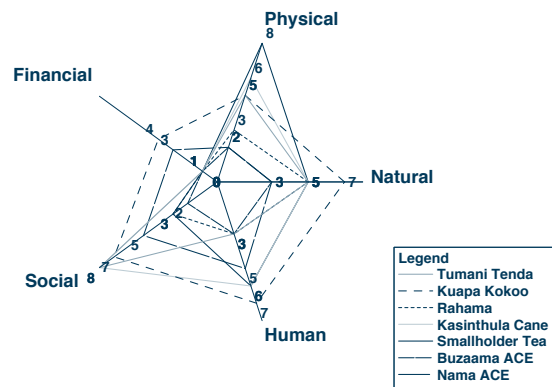


**Figure 4.3** Asset endowments of selected forest-based RCEs from Latin America and United States

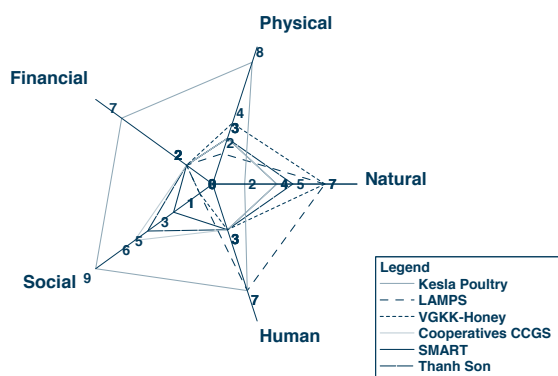
Asset endowments among the selected African RCEs (all agriculture based) vary widely but in general reflect low financial and physical asset endowments (Figure 4.4). Kuapa Kokoo and Kasinthula Cane stand out in terms of overall asset endowments (although Kasinthula Cane has critically low financial stock due to high debt burden). Emerging RCEs include Tumani Tenda and Nama ACE, both of which have achieved considerable capitalization in a relatively short period of time—nine and four years respectively. However, it should be noted that Tumani Tenda has very low financial asset endowments, depending mainly on donations for growth

and development. Its future development may depend on a more business approach to ecotourism and increased internally funded capitalization. Those RCEs with relatively low asset endowments are Buzaama ACE and Rahama.

Among the sampled RCEs of Asia and the Pacific, Kesla Poultry stands out in overall asset accumulation (Figure 4.5). Its endowment of natural capital is low, but small-scale poultry rearing only requires small amounts of land. Kesla’s human asset endowments are high, but this largely reflects strong involvement of an experienced local NGO in RCE operations (Pradan). Future development of Kesla will require increased local capacity for RCE administration and strategic decision making. Overall, as compared to sampled RCEs from Africa and Latin America and the Caribbean, those from Asia and the Pacific have lower endowments of financial, physical and social capitals. This is especially pronounced in the case of LAMPS and VGKK–Honey, where RCE administration is carried out by government- and NGO-appointed representatives, with little community participation or buy-in from downstream chain actors (buyers are required to buy from LAMPS rather than deal directly with NTFP extractors or local communities). In the case of RCEs from Papua New Guinea (Cooperative CCGS and SMART), social capital endowments are higher than those for India due to more market-based approaches followed by RCE leaders (representatives of government-backed industry associations). Endowments of natural and human capitals are comparable to those of the sampled African RCEs.



**Figure 4.4** Asset endowments of selected RCEs from Africa



**Figure 4.5** Asset endowments of selected RCEs from Asia and Pacific

### Organization and management structure

Twenty out of the 26 sampled RCEs are legally constituted as cooperative or producer associations. When asked about the advantages of these legal forms, all responded that it the cooperative form was well-suited to their needs, highlighting the advantages related to tax exemption, ease of establishment, and membership with internal decision control. Only in one case are there plans to change legal form: given restrictions on capital accumulation under its current legal form (association), FEDEPMA is in the process of forming a wholly owned corporation to deal with processing and marketing of its members' organic coffee. Other advantages that were mentioned include access to state services and appropriateness for local conditions (i.e., participatory decision-making processes). Only El Ceibo (Bolivia) reported paying taxes on income, albeit at a lower rate than other business forms (16% rather than 20%). However, both RCEs from the Dominican Republic (BANELINO and CONACADO) expressed reservations regarding their current legal form (producer association) due to a recent proposal to tax net income regardless of legal form.

In three cases, RCEs are organized as incorporated companies: Menominee Tribal Enterprise, FORESCOM, and Kasinthula Cane. In terms of advantages, it was noted that the incorporated company legal form offered flexibility in financial and management operations, leading to more professional management and technical staff and overall better relations with buyers. While payment of taxes on net income was required in all cases, this was

not mentioned as a major disadvantage. Rather, the major disadvantages identified were 1) increased difficulty in receiving donations from the government and international donors and 2) lack of understanding among members as to the operations of the corporation, leading to perceptions that professional staff received unfair access to benefits over members. In three cases, no legal form at all was detected, as the RCEs have yet to emerge from underneath project or NGO structures. These results suggest that none of the current options of legal forms (cooperative, association, incorporated company) adequately addresses the realities and needs of RCEs at certain critical stages of their development. No hybrid forms of cooperatives or associations were detected in the sample.

Table 4.8 highlights key features of the organizational structure of the sampled RCEs. Several of the RCEs are governed entirely by the board of directors or general assembly, with no professional managers for RCE operations, namely Noh-Bec, Rahama, Tumani Tenda, and Chichan Há. On the upside, this governance structure legitimizes major RCE decisions over resource management and benefit distribution. Evidence suggests that they have been able to guide RCE operations through relatively complex resource management, production, and marketing operations. On the downside, development of clear strategic perspectives is often hampered and operational decision making processes are especially complex and slow. In the case of Noh-Bec, for example, potential buyers of certified mahogany must present their proposals directly to the general assembly, which are then decided upon by consensus voting. In some cases (Chichan Há and Noh-Bec), board members are subject to frequent rotation or turnover (every one to three years), thus requiring continuous investments in the development of business administration and marketing skills among board members.

In other cases, long-term support in RCE administration has been provided in the form of direct control by NGO or government staff (e.g., FORESCOM, Kesla Poultry, FEDEPMA, LAMPS, Cooperatives CCGS, SMART). While this may ensure minimum capacities and skills in the early stages of RCE development, it is prone to be unsustainable unless a clear strategy exists for local skills' development and phasing out. In cases of NGO support, there is the issue of termination of funding, which may leave RCE managers without

sufficiently developed administration skills and thus highly vulnerable to changes in market conditions or buyer relationships. In general, the development of phasing out strategies through local skill development is a long-term process, which is not thoroughly compatible with project structures and funding (incentive) structures. Staff of NGOs or government agencies may perceive few incentives to build local capacities. For example, VGKK–Honey (India) relies on RCE earnings to support community development projects. Curiously, government appointed managers, such as those found among the RCEs in Uganda, Papua New Guinea, and India, neither create a sense of local ownership nor effectively tackle the complex tasks of RCE administration.

In general, agriculture-based RCEs present relatively low barriers to the entry of potential new members. These may include approval from the board of directors, and payment of an entrance fee. In cases of organic certified RCEs, members must be willing to convert to organic production systems—including

three-year transition period during which production cannot be sold as organic. For example, in the case of La Voz, potential members must comply with strict production requirements of organic coffee and a US\$ 40 entrance fee charged to new members. New members must also be approved by the board of directors and must convert 25% of their coffee to certified organic coffee. In the case of some fair-trade certified RCEs, increased membership is not a priority given overall limited size of fair trade markets for certain products (e.g., BANELINO, La Voz).

The case of El Ceibo illustrates the challenges faced by cooperatives once a significant level of capitalization has been achieved: to prevent “free riding” of new members, El Ceibo charges new first-tier cooperatives US\$ 20,000–28,000, reflecting the value of previous investments in building and chocolate processing equipment, among other things. However, this policy has been criticized by nonmember cooperatives that sell to El Ceibo but do not receive dividend payments, as they are not former members. In the case of forest-

**Table 4.8** Characteristics of RCE organizational structures

RCE	Management staffing arrangement	Degree of formalization of rules and regulations	Barriers to membership
El Ceibo	Contracted (internal)	Medium	High
CAIC	Contracted (external)	Medium	Low
BANELINO	Contracted (external)	Medium	Medium
CONACADO	Contracted (external)	Medium	Medium
La Voz	Contracted (external)	Medium	Medium
FEDEPMA	Contracted I (external)	Medium	Medium
FORESCOM	Contracted (external) + NGO	Medium	High
Chichan Há	Volunteer (board of directors)	Medium	High
Consorcio Chiclero	Contracted (external)	High	Low
Noh-Bec	Volunteer (general assembly)	Medium	High
X-Yaat	Volunteer manager (internal)	Low	Low
Menominee	Contracted (external)	High	High
Tsyunhehkwa	Project provided	Medium	High
Tumani Tenda	Volunteer (board of directors)	Medium	High
Kuapa Kokoo	Board of directors	Medium	Low
Rahama	Volunteer manager (internal)	Low	Low
Kasinthula Cane	Contracted (external)	Medium	High
Smallholder Tea	Contracted (external)	Medium	Low
Buzaama ACE	Government provided	Low	Low
Nama ACE	Government provided	Low	Low
Kesla Poultry	NGO provided	Medium	Medium
LAMPS	Contracted (external)	Medium	Low
VGKK-Honey	NGO provided	Medium	Low
Cooperatives CCGS	Government provided	Medium	Low
SMART	Government provided	Low	Low
Thanh Son	Project provided	Low	Low



based RCEs, membership requirements are generally low for those RCEs focused on NTFP processing and commercialization. However, for timber-based RCEs, such as Noh-Bec, Menominee Tribal Enterprises, membership expansion is strictly limited. In the case of Menominee, members must be at least 25% Menominee blood. Noh-Bec membership is limited to 216, with new members incorporated only upon death or emigration of an existing member.

In most cases, RCE operation is highly informal, with no established rules or regulations beyond distribution of income, for example: X-Yaat and Buzaama ACE. More than 50% of the sampled RCEs buy from first-tier RCEs and/or sell to buyers and processors without written contracts. In other cases, RCEs have formalized rules and regulations for critical areas of RCE administration, namely financial reporting and credit. However, rules regarding communication, decision taking, roles and responsibility have yet to be defined or enforced. Examples of RCEs with relatively advanced governance structures include: Menominee Tribal Enterprises and Tsyunhehkwa in the United States, BANELINO in Dominican Republic, and Kesla Poultry in India (see Table 4.9).

### Adding value to primary production

The ability of RCEs to add increased value to their primary production by engaging in higher levels of downstream production and marketing functions (e.g. processing, manufacturing, transporting, marketing, and/or retailing), varies throughout the sample, depending mainly on such factors as asset endowments; access to technical, business, and financial services; and cost structures related to processing (economies of scale). Below we highlight features of the sample as related to production and marketing functions (see Table 4.10 for classification):

- Kasinthula Cane stands out in its specialization in raw material production. This is mostly due to the especially large barriers to achieving minimum efficient scale in sugar production, rather than lack of asset endowments or access to services. A long-term agreement exists with a multinational scale sugar processor in Malawi for processing and marketing of sugar (fair trade certified).
- Nearly 70% of the sample has the capacity to add value to primary production through first-stage processing and direct marketing. These include La Voz, SMART, Smallholder Tea Company,

and Consorcio Chiclero for the export market and VGKK–Honey, Tsyunhehkwa, and Menominee Tribal Enterprises, for the national market. In all cases, these RCEs have relatively high human capital endowments and have been supported extensively by government agencies and NGOs for the purchase of processing machinery and equipment, capacity building, and technical assistance.

- Forest-based RCEs are among the most advanced in terms of processing capacity. Investments in milling by communities, government agencies, and NGOs are often considered important for generating on-site employment and overcoming unfair power relations between highly remote communities and local processors and traders. In addition to processing, these RCEs must coordinate intensely with government and community leaders for the management of their forest resources.
- Outsourcing of processing activities is rare among the sampled RCEs. CONACADO and Cooperatives CCGS are two exceptions: the former outsourcing the production of cocoa powder and chocolate liquor and the latter outsourcing the processing of green coffee for export. Such alliances can allow RCEs to focus on their core activities, thus reducing risk and management burden, while still offering value added products.
- Five RCEs have fully integrated their operations, carrying out all operations related to production, processing, and marketing. RCEs dedicated to ecotourism (X-Yaat and Tumani Tenda) have constructed infrastructure and developed market contacts to identify potential clients. El Ceibo and Kesla Poultry have developed complex production and marketing systems focused on national markets, with extensive, long-term technical and marketing services by NGOs. The NGO-management of Kesla Poultry organizes production inputs for members, provides technical assistance and veterinary services for production, facilitates transport, and operates retail outlets for the sale of fresh poultry products directly to consumers. El Ceibo organizes cocoa production of organic cocoa among approximately 2,000 smallholder producers (700 of which are registered members), processes the cocoa into finished products (chocolate), which is distributed throughout Bolivia.



**Table 4.9** Features of selected RCEs with advanced governance structures

RCE	Salient features of governance structure
El Ceibo (Bolivia)	<ul style="list-style-type: none"> <li>- General assembly meets at least once a year</li> <li>- Board of directors (BoD) elected from every two years (one re-election possible)</li> <li>- General manager oversees sales and production managers</li> <li>- Mainly RCE members who run the cooperative on a rotational basis; trend toward more professionalization and long-term assignment of key functions</li> </ul>
BANELINO (Dominican Republic)	<ul style="list-style-type: none"> <li>- Professional full-time administrator plus four professional admin. staff</li> <li>- BoD plays key role in decision making, with supervision of Oversight Committee</li> <li>- Formal rules or regulations exist covering key areas of business operations, including financial reporting, investments, and credit</li> <li>- Communication with members carried out at annual general assembly meetings and informally through visits by technicians, no monitoring or info systems in place, strategic vision shared by admin, BoD, and members</li> </ul>
Kesla Poultry (India)	<ul style="list-style-type: none"> <li>- Governing Board of elected members with president, vice president and executive officers, five-year terms, CEO manages day-to-day affairs, six member professional administrative staff, 11 full-time coordinators</li> <li>- Democratic governance is specified in statutes which also prescribe policies on financial management and reporting (however, professional managers make most decisions); information on performance via monthly “cluster” meetings</li> </ul>
Kuapa Kokoo (Ghana)	<ul style="list-style-type: none"> <li>- No professional manager, paid operational staff of nearly 200, including field-level managers, depot keepers, drivers, security, accountants, and messengers</li> <li>- BoD composed of RCE members and representatives of foreign partners; manages RCE and oversees activities of various administrative committees</li> <li>- Internal regulations govern financial management, communication, investments, and credit, among others</li> <li>- Communication with first-tier organization via internal mail (2x/week), no monitoring system in place, arbitration committee handles internal conflicts</li> </ul>
Menominee (United States)	<ul style="list-style-type: none"> <li>- Formal rules for key aspects of business operations, including federal government approved constitution (strictly enforced)</li> <li>- General Manager plus seven-member management staff; professional management required by constitution, only general manager reports to BoD</li> <li>- Democratically elected BoD (tribal members only, usually retired or active RCE members), one-to-three-year terms, for formulating policy and overseeing operations (not directly involved in operations) plus three committees to advise BoD</li> <li>- Annual general assembly meetings for reporting business performance (no decision making or policy function)</li> </ul>

## Relations with buyers

The majority of sampled RCEs—regardless of age or level of asset endowment—maintain direct relations with local processors and/or international buyers, in some cases with extensive support from NGOs (e.g., FORESCOM, Kesla Poultry). Exceptions include Kasinthula Cane, which processes and sells sugar cane through a multinational sugar processor; BANELINO, which sells fresh bananas through local exporters to the EU; and Rahama and Buzaama ACE, which sell fresh produce to local intermediaries. Where RCEs sell directly to international buyers, the number of buyers is usually limited to a handful,

reflecting high transaction costs of establishing market contacts, lack of information about alternative buyers/markets, and small volumes of raw material. In several cases, RCEs have cultivated long lasting buyer relationships, for example: El Ceibo (15-plus years with buyer in Germany), La Voz (10-plus years with buyer in United States), and Noh Bec (10-plus years with exporter in Guatemala).

Relations between RCEs and their downstream partners can be an important source of support for their long-term growth and development (Table 4.11). In the case of La Voz (Guatemala) for example,

**Table 4.10** Production and marketing activities by sampled RCEs

Production and marketing activities	RCEs
<i>Raw input suppliers</i> RCEs organize production and sales of raw materials to downstream chain actors (wholesalers, processors, retailers), processing limited to post-harvest treatments and packaging.	Kasinthula Cane
<i>Marketers of semi-finished products</i> RCEs have specialized in marketing of semifinished products. Upstream activities, such as primary production, post-harvest management and processing are carried out by members (either smallholders or first-tier RCEs).	Buzaama ACE, Cooperatives CCGS, FEDEPMA, FORESCOM, LAMPS, Nama ACE, Rahama, Thanh Son
<i>Processors and marketers of semi-finished products</i> RCEs carry out first-stage processing (drying, extracting, packaging, cleaning, grading, etc.) and marketing of semifinished products, primary production is carried out by members.	BANELINO, CAIC, El Ceibo (international market), CONACADO, Consorcio Chiclero, La Voz, Kuapa Kokoo, SMART, Smallholder Tea Company, VGKK-Honey
<i>Producers, processors and marketers of semifinished products</i> RCEs organize the production and possessing, and marketing of semifinished products. RCE has direct access to natural resource base.	Chichan Há, Menominee Tribal Enterprises, Noh-Bec
<i>Fully integrated operations</i> RCEs carry out full range of activities required to bring product/service to final consumer, including raw material production, processing, and direct marketing to consumer	El Ceibo (national market), Tsyunhehkwa, Tumani Tenda, X-Yaat, Kesla Poultry

buyer-provided services were critical for obtaining organic certification and exporting to the United States (Box 4.7). However, in cases where RCEs supply more conventional products (e.g., coconut oil or fresh fruits), buyer-provided services remain important but are generally less intensive in nature, usually not extending beyond information sharing (e.g., SMART, Cooperatives CCGS, Thanh Son). Among RCEs focused on national markets, most maintain relations with a variety of buyers. These relations usually involve little cooperation or coordination beyond that required for commercialization (e.g., Buzaama ACE, Rahama, and LAMPS). This type of relationship offers limited opportunities for increased value adding by RCEs or access to buyer-provided services. On the other hand, it requires less investment in coordination (reduction or elimination of language and cultural barriers).

RCEs and their buyers face bottlenecks of varying degrees of severity for deepening their relations, for example:

- *BANELINO*: Insufficient communication regarding fluctuations in price and rejection of fruit for quality control problems; EurepGap certification provides insufficient remuneration given investments required
- *CONACADO*: Limited opportunities for increased value adding, for example export of semiprocessed and processed cocoa products
- *Consorcio Chiclero*: Difficult price negotiation process, whereby buyers base price negotiations on cost of artificial gum base, buyers resistant to increased transformation (elaboration of gum base) for fear of losing quality
- *Nama ACE*: Inconsistent and untimely communication from buyers regarding market trends and value adding opportunities
- *Cooperatives CCGS*: Lack of incentives for quality enhancement; difficulties in supplying consistently high quality coffee, insufficient volume, limited communication skills
- *SMART*: Inability to meet minimum quality requirements for export (FFA level >.2%), low production volumes, ineffective communication (remoteness)
- *X-Yaat*: RCE unable to meet demands of local tour operators: regular communication, low cost, large capacity, hygienic food service.

**Table 4.11** Relations between RCE and downstream buyers and processors

RCE	Features of relations between RCE and downstream buyers and processors
BANELINO (Dominican Republic)	-Exporter provides guarantee for credit and purchasing quotas and prices are negotiated directly with exporter and may vary according to market conditions -Buyer-required EurepGap implementation, costly to implement, has not yielded expected benefits in terms of price premiums
Buzaama ACE (Uganda)	-Sells to various buyers in local market, no strategic alliances formed -Friction reported by buyers regarding lack of product -No contracts—price determined at market with product on hand
CONACADO (Dominican Republic)	-Formal, high-trust commercial relationships maintained with four buyers over 10 years -Buyers provide guarantee for bank loans and occasionally technical assistance in production and processing; no other embedded services reported -Relations suffer from weak coordination regarding quality control and sanctions
Chichan Há (Mexico)	-Four-year relation with national buyer of tropical wood -Buyers provide advance payment credit (50%) for timber (critical for operations) -Friction reported by RCE regarding high prices and limited quality control -No price premium obtained for certification in national marketplace
Consortio Chiclero (Mexico)	-Relations for between four and six years with nine Asian buyers, mainly in Japan, and with major buyers in U.S.(Wild Things & Glee Gum) and Europe (Gepa & Gum Base) -Friction reported by buyers related to lack of volume and inconsistent quality
FEDEPMA (Guatemala)	-Links with three coffee exporters, relations maintained from one to four years -Buyer-provided services include: replanting after hurricane, implementation of C.A.F.E. practices certification, credit -Buyers demand considerably more product than RCE is able to supply
Kasinthula Cane (Malawi)	-Exclusive long-term (6+ years) relation with sugar processor (Illovo) who provides services related to processing, marketing, loan facilitation, production inputs, and technical assistance (Illovo charges 40% of sugar price for services) -Access to critical production and marketing services (transport, input, engineering)
Kuapa Kokoo (Ghana)	-97% of cocoa sold through government marketing board at pre-established prices -One-third share in the Day Chocolate Company (U.K.-based fair-trade chocolate marketer)—first dividend payment in 2006 -Fair trade certification considered valuable in RCE promotion but has not translated into significant income increases for members (3% cocoa sold as fair trade)
Noh-Bec (Mexico)	-Alliances with timber buyers in U.S. and Europe, including substantial price premiums for certified mahogany -10+ year relation with Guatemala-based timber exporter -Weak communication and over dependence by RCE on buyer-provided credit
Menominee (United States)	-Strong communication and coordination between RCE and buyers for timber sale (based on wood availability) and post-sale follow up (response within 48 hours) -Buyer services are not required or offered
Rahama (Ghana)	-Over past four years RCE has maintained relations with four Ghana-based exporters; relations are low-investment for exporters, with no embedded services reported other than sharing of market information

### Internal limitations for expansion

Among most RCEs, a major limitation is low productivity at the farm (member) level, due largely to lack of improved genetic material, low use of fertilizers and irrigation, inappropriate pest and disease management technologies, and overall limited knowledge of good agricultural practices (Table 4.12). Several RCEs reported inability of producers to expand acreage or intensify production systems despite

highly secure market outlets with relatively favorable prices (e.g., BANELINO and Consortio Chiclero). An overarching challenge for RCEs is quality control from the farm to the RCE. None of the sampled RCEs provides incentives for increased investment in quality control to its members. Likewise, there is typically little grading at RCE level, even in the cases where semifinished or finished products are sold. Among the forest-based RCEs, technical skills

### Box 4.7 Challenges for long-term RCE–buyer relations: Case of La Voz

A variety of different individuals and development agencies influence and support La Voz's participation in international organic and fair trade coffee markets. Perhaps the most important actor is the U.S.-based coffee importer and roaster Elan Organic Coffee. Since 1991, Elan has provided a number of “embedded” services that were critical to the development of La Voz, including:

- guaranteed organic/fair trade coffee floor price
- technical and financial support for transition from conventional to organic agriculture
- increased brand recognition through buyer co-financed trips to three trade fairs
- co-signage of loans allowing RCE to obtain better terms than those offered locally
- facilitation of partnerships between RCE and roasters to improve farm processing
- co-invested in seed capital for micro-loan bank for women RCE members
- paid off debt of \$285,000

In 1991, with technical and financial support from Elan Organic Coffee, La Voz became the first certified organic coffee cooperative in Guatemala. This allowed La Voz to quit selling to local intermediaries in favor of direct export to the United States at significantly high prices. In the mid-1990s, La Voz entered into a 10-year contractual agreement with Elan. During the late 1990s and early 2000s when prices for conventional coffee were at historic lows, La Voz members received certified organic and fair trade coffee prices that averaged more than 100% higher than those for conventional coffee. During this period, there existed a strong sense of satisfaction over agreement with their buyer, and overall satisfaction with RCE operations was high. However, in early 2005, conventional coffee prices began to rise, putting increased pressure on La Voz to offer higher prices to its members. As a consequence, side selling became a problem as La Voz members sought out more attractive selling options outside the RCE with local buyers of conventional coffee. In addition, by selling to local intermediaries, members could avoid (postpone) repayment of RCE-extended credit, which would normally have been deducted upon delivery of coffee cherries to the RCE.

for timber or nontimber forest management are relatively well-developed, but occasional quality issues arise related to processing (milling and drying) and classification.

In several cases, RCEs have limited abilities to satisfy fully their members' demand for services. This is especially true in the agricultural sectors, where local intermediaries and processors may compete head on with RCEs for their members' products. Though local intermediaries tend to pay prices somewhat below those of the RCE, members selling outside the RCE to local intermediaries is a prominent phenomenon in several of the sampled RCEs (e.g., Rahama, FEDEPMA, La Voz, Noh-Bec, FORESCOM, Nama ACE). This negatively impacts RCEs by increasing costs (reduced economies of scale), increasing risk with buyers (non-compliance with volume requirements), and reducing income for growth and development. Side selling may result from limited marketing capacities of RCEs and inability to obtain higher prices (reliance on limited

buyer portfolio, limited bargaining power), offer of payment by competitors upon delivery of raw material, or competitors' offer of affordable credit to cover planning and harvest costs. Limited financial planning and monitoring, and difficulty in accessing credit on favorable terms limits RCEs' capacity to provide financial services to their members, such as advance payments, which are critical in both the agricultural and forest sector. In addition, payment modalities are such that an RCE member may receive full payment several weeks, if not months, following delivery of the raw material to the RCE.

#### External service offer

More than 50% of the sample has received financial services at least once over the past three years from either local private or state banks or international not-for-profit providers (Table 4.13). In many cases, long-term loans have been provided without collateral, based on loan guarantees provided by RCEs buyers. These loans have been critical for upgrading

infrastructure in such cases as La Voz (construction of wet coffee processing mill), El Ceibo (construction of multistory office building, part of which is rented out), and Kasinthula Cane (installation of irrigation equipment). In addition, short-term loans have been critical for financing harvest and input purchases—reflecting the limitations they face to capitalize internally and to offer self-financed credit to their members. In a few cases, international buyers have been willing to

provide these loans. In the case of BANELINO, banana exporters provide credit for planting and purchase of production inputs, while importers have facilitated loans for infrastructure development. Agriculture-based RCEs that reported limited access to financial services exhibited low levels of business consolidation and operated in unfavorable political and market environments (e.g., Buzaama ACE, Rahama, LAMPS, Cooperatives CCGS).

**Table 4.12** Limitations to RCE growth and development

RCE	Other limitations/comments
El Ceibo	Premium for organic and fair trade certified cacao (about 10%) not always perceived as high enough (though price premium is as high as 30% when dividends are accounted for); better information flow claimed by members, particularly regarding sales and price formation; El Ceibo also buys organic cacao from nonmembers who became organized under the umbrella of CIAAB; nonmembers not eligible for payment of dividends
CAIC	Side selling is a pronounced problem; price premium and payment modalities perceived as insufficient and inappropriate, respectively; certainly lots suffer from high levels of aflatoxin; sometimes problems with timely delivery or meeting volume requirements
BANELINO	Low willingness to invest in productivity-enhancing measures; lack of leadership/business vision, and weak communication
CONACADO	Low prices (high administration costs); lack of information flows on prices and market trends; lack of clarity on decisions regarding credit and project activities
FEDEPMA	Delivery of less than 50% of estimated harvest; weak business vision and communication; members unsatisfied with price for coffee (RCE unable to offer organic price premium)
FORESCOM	No formal agreements for sale of raw material by community concessions to FORESCOM; members reluctant to hand over processing activities to FORESCOM for most valuable species due to importance for community employment generation
Chichan Há	Difficulties in coordinating sawmill operation among five working groups in <i>ejido</i> restricts ability of RCE to respond on time to buyer's demand, lack of investment in <i>ejido</i> -owned sawmill; late delivery; limited quality control (poorly calibrated boards)
Consortio Chiclero	Despite significant increases in member income, members unwilling to increase production; limited communication on relations with buyers and market trends
Noh-Bec	Subgroups of <i>ejido</i> members sell timber to intermediaries, in some cases up to two years in advance, slow/complicated decision process (sales agreements negotiated by the general assembly); internal disputes of decision making and control; lack of operating capital by RCE (must provide credit); occasional lack of volume
X-Yaat	Low participation among RCE members; limited coordination with local tour providers; limited capacity for managing large groups; food service does not meet hygiene standards
Menominee	Push to reduce RCE investments and increase payments to members and to tribal government; variation in wood supply due to climate (e.g., tornados) and sustainable management operations (limited availability); occasional minor conflicts over lumber grading
Tsyunhehkwa	Limited ability to expand corn production (main product line) due to lack of land area and shortage of volunteer labor for harvest, drying, and shelling operations; RCE focused on community outreach; however, tribal government may require more commercial focus
Kuapa Kokoo	Limitation in quality control due to poor agronomic practices; members concerned over delayed payments (payments not effected until importers pay)
Kasinthula Cane	Reduced benefits due to debt burden; use of funds by RCE committees to please influential RCE members; limited communication in business administration
Smallholder Tea Company	Lack of supply from growers, sporadic access to packaging material, limited quality control, some smallholder farmers, especially large scale, educated, and powerful ones, started forming their own associations (overall low sense of governorship among some smallholders who consider that they were forced into membership with the RCE)

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Table 4.12—Continued

RCE	Other limitations/comments
Buzaama ACE	Default on their membership contribution by members; RCE provides insufficient services, e.g., credit, poor quality control; irregular information flows; low prices
Nama ACE	Inconsistent product quality among members, inability to meet demand volumes, insufficient infrastructure for processing; RCE with limitations to meet members' price expectations; high cost of credit through RCE
LAMPS	Member dissatisfaction with delayed payments and low prices, poor services to members, decisions taken without reference to members; lack of information; tribal-led management committee unable to exercise role
VGKK–Honey	Members have limited participation in RCE administration, limited processing for products other than honey, weak communication regarding business performance; limited distribution of bonuses to members; reluctance of NGO to hand over RCE operations to community
Cooperatives CCGS	Average quality of coffee is downgraded because some members deliver low quality; RCE not able to offer payment upon delivery of raw product (delay of three to four months); lack of clear and thorough understanding of pricing formula, including step by step calculation from FOB to parchment equivalent accounting for all costs; lack of decision-making power
SMART	Inconsistent quality control (sprouted nuts) and low production volumes (excess processing capacity); no dividends are offered; overall low price paid for raw material
Thanh Son	Inconsistent quality control, low productivity; limited information sharing and member participation, limited high-value market outlets, e.g., supermarkets (low prices)

In the case of most forest-based RCEs, government agencies rather than private banks or NGOs have been the key source of long-term loans. RCEs such as Noh-Bec, Consorcio Chiclero, FORESCOM, and Chichan Há all received relatively large grants or government-backed loans (US\$ 200,000–US\$ 400,000) for the purchase of forest extraction and milling equipment over the past three years. Menominee receives annual payments from the U.S. government (US\$ 1.5 million) to help cover the costs of forest management and implement fire prevention measures. Overall, RCEs in Mexico and Guatemala reported a high degree of reluctance on the part of private banks to provide services. This may stem from a perception that RCEs lack business consolidation (volunteer administration with complex decision-making processes) and have limited operating capital. National and international timber buyers provide critical short-term financial services for timber extraction. Menominee Tribal Enterprises was the only timber-based RCE not to report strong demand for financial services, largely due to its overall current high level of capitalization.

All sampled RCEs reported at least some access to technical services, although the coverage and level of specialization of these services varied widely. In several cases, government agencies were the sole providers of technical services (e.g., LAMPS, Rahama, Buzaama). In these cases, services were focused on production and post-harvest management

of traditional products, with relatively little attention on increased value adding through processing. Government-provided extension services were most common in Africa and India, although in the case of Africa, several RCEs reported reduced and increasingly sporadic coverage of extension services. Access to buyer-provided technical services was generally limited to a few RCEs participating in niche markets (organic coffee, organic *chicle*, certified timber, fair trade cocoa). In the case of CONACADO, CAIC, and Consorcio Chiclero, buyers have been especially important for upgrading their quality control processes. In cases where specialized technical services are required (e.g., organic banana and cocoa production), RCEs provided these services directly to their members (e.g., El Ceibo, BANELINO, FORESCOM), usually with support from NGOs.

While technical and financial services for RCE development are more or less readily available, business development services (BDS) were in especially short supply. Where RCEs participated in local and national markets, BDS are simply unavailable. In cases such as Buzaama ACE (Uganda), Rahama (Ghana), LAMPS and VKGG–Honey (India), access to BDS had not been reported over the past three years. When asked what BDS they perceive as important to RCE development and would demand if available, most of these RCEs had no response—indicating an extreme lack of familiarity with BDS. In other cases, buyers have

(Continued on page 70)



**Table 4.13** External services received by selected RCEs (2003-2006)

RCE	Financial	Technical	Business
El Ceibo	<ul style="list-style-type: none"> <li>-US\$ 1 million loan for office building</li> <li>-Seed funds and donations through development projects (e.g., CATIE)</li> </ul>	<ul style="list-style-type: none"> <li>-Technical assistance in modernization of organic cacao production through Alternative Development Program</li> </ul>	<ul style="list-style-type: none"> <li>-Transport contracted from local providers</li> <li>-Upgrading of management skills through local NGO</li> </ul>
La Voz	<ul style="list-style-type: none"> <li>-Bank loan for restructuring debt and renovation of coffee plantations</li> <li>-Loan (US\$ 17,000) for purchase of first-stage (wet) processing plant (EcoLogic)</li> <li>-Buyer-provided loan guarantees</li> <li>-Debt relief by buyer for three-party loan</li> </ul>	<ul style="list-style-type: none"> <li>-Technical assistance from Guatemalan Coffee Association (ANACAFE) related to production (funded through export surcharge)</li> <li>-Long-term technical assistance by buyer for quality control and organic certification</li> </ul>	<ul style="list-style-type: none"> <li>-Training in client relations and support by buyer for participation in trade fairs</li> <li>-Promotion by RCE by buyer + information on market and certification trends</li> <li>-Technical assistance in administration and accounting by local NGO (no cost)</li> </ul>
FORESCOM	<ul style="list-style-type: none"> <li>-Buyer-provided credit for harvest</li> <li>-Donation by national government for cold storage facility (xate)</li> </ul>	<ul style="list-style-type: none"> <li>-NGO provided services for product development and purchase of processing equipment (no cost)</li> </ul>	<ul style="list-style-type: none"> <li>-Exporter provides information on certified timber markets (limited basis)</li> <li>-NGO-provided services facilitates links with buyers and community concessions</li> </ul>
Consortio Chiclero	<ul style="list-style-type: none"> <li>-US\$ 500,000 government-backed loan for purchase of chicle processing equipment</li> <li>-Accounting/auditing services (cost basis)</li> <li>-Production and administrative infrastructure inherited from gov. projects and agencies</li> </ul>	<ul style="list-style-type: none"> <li>-Natural gum base market analysis (private consultant, cost basis)</li> <li>-Technical assistance in quality control (buyer provided)</li> </ul>	<ul style="list-style-type: none"> <li>-Importers provide critical information on natural gum markets (including organic)</li> <li>-Buyer support for export and logistics</li> <li>-Market analysis for development of new product line (US\$ 10,000, own funds)</li> </ul>
Noh-Bec	<ul style="list-style-type: none"> <li>-Credit from buyers for timber extraction</li> <li>-Grant (US\$ 100,000) for operating capital, credit (\$200,000) for the purchase of raw material (government backed)</li> <li>-Government grant for purchase of sawmill, drying kiln, carpentry equipment and supplies</li> </ul>	<ul style="list-style-type: none"> <li>-Multiple training events on classification of boards for export markets (buyer provided, and US\$ 10,000 subsidy by UNDP)</li> <li>-Training on improved sawmilling techniques from private consultant (own funds)</li> </ul>	<ul style="list-style-type: none"> <li>-Training in cooperative business management (UNDP and Rigoberta Menchú Foundation) (no cost)</li> </ul>
X-Yaat	<ul style="list-style-type: none"> <li>-Project-provided loan for purchase of equipment and infrastructure (no interest)</li> <li>-US\$ 48,000 grant provided by Expedia.com for developing service offer, upgrading technical skills and supporting English language skills</li> </ul>	<ul style="list-style-type: none"> <li>-Training on promotion of buffer zones in Biosfera reserves (project COMPACT, no cost)</li> <li>-Technical assistance from U.S. travel agency for client relations, food preparation, design of tourism services, marketing (no cost)</li> </ul>	<ul style="list-style-type: none"> <li>-Market strategy and facilitation of marketing contacts (US\$ 30,000 grant)</li> <li>-Project-provided training on business administration, first aid, tourist relations (no cost)</li> </ul>
Menominee	<ul style="list-style-type: none"> <li>-Annual gov. subsidies US\$ 1.5 million for fire production, forest restoration, and forest health</li> <li>-US\$ 400,000 no-interest loan from power company for implementing energy reducing measures in sawmill</li> <li>-2 gov. grants (US\$ 800,000 each) for construction of lumber processing center</li> </ul>	<ul style="list-style-type: none"> <li>-Local NGO (Forest Industry Safety and Training Alliance) provides training services on forest management and logging safety (cost basis)</li> </ul>	<ul style="list-style-type: none"> <li>-Buyers willing to buy in excess of expressed demand (up to 2x) when RCE supplies are abundant due to excess fallen timber (tornado impacts) or variations in timber availability</li> <li>-Buyers of softwoods for pulp and paper industry willing to purchase oversized logs at full price (max 10 logs/load)</li> </ul>

RCE	Financial	Technical	Business
Kuapa Kokoo	-Access to long-term government finance for securing cocoa from members -Credit sourced from commercial banks and NGOs (cost basis) -Credit received from private money lending	-Gov. extension services to improve yield and reduce costs (no cost)  -Limited training and technical assistance from Ministry of Food and Agriculture -Technical services provided by private consultant (cost basis, since 2000)	-Government training on business management (no cost) -Government training for women empowerment (no cost) -Support for elaboration of business plan from Board for Small Industries (no cost) -Management services provided by private consultant (cost basis, since 2000) -Strategic plan in development by private consultant (no cost, facilitated by Twin Trading)
Rahama	-Insurance for irrigation pumps, vehicles and office equipment (cost basis) -Loan from Bank of Malawi (US\$ 357,000) -Sugar processor provides loan guarantee, currently paying 2/3 interest charges on interest obligations from previous loan -None identified	-None identified	-Training and assistance for business management and group dynamics from Ministry of Trade and Industry (no cost)
Buzaama ACE	-Finance from project Farmers' Empowerment Through Agricultural Services (FETAS)	-Buyer-provided technical services for production	-Training and assistance for business management and group dynamics from Uganda Cooperative Alliance (no cost) -Buyer-provided information on quality requirements and market opportunities
Kesla Poultry	-Seed money from government -Working capital from State Bank of India -Gov.-provided grants for individual member infrastructure (poultry sheds) -Gov. donation for infrastructure -Various small loans from Coop. Dept. -Funding of second-tier federation from Tribal Welfare Department (US\$ 195,000)	-Veterinary services and other technical training from PRADAN (no cost) -Day-old chicks, poultry feed and medicines. -Technical services from Venky's (no cost) -Forest management and other technical assistance and training by NGO (no cost)	-Marketing information shared by buyers -Discussions in progress to create a brand name (Bromarkk) for Venky's—India's (large-scale poultry company) retail outlets -Marketing and information channels through second-tier federation and directly with buyers (however, usually with intent to reduce prices paid to RCE)
LAMPS			

*(Continued from page 67)*

provided BDS related to information on market conditions and logistical assistance with exportation (e.g., BANELINO, Consorcio Chiclero, FORESCOM). Across the sample, BDS were often limited to one-off training events on business planning, administration, and cooperativism. There was limited use of specialized BDS related to marketing and information services, business monitoring and performance evaluation, financial management, or business leadership.

In several cases, long-term accompaniment by government agencies and NGOs has been critical to the development of technical and business capacities of sampled RCEs, among them El Ceibo (DED, Caritas), CAIC (SNV), El Ceibo (SED), Kesla Poultry (Pradan), FORESCOM (USAID/Rainforest Alliance), and Thanh Son (GTZ). Such support has been critical for linking with buyers, improving quality, obtaining certification, and developing effective administration and export procedures. The typical situation among the sampled RCEs is one where there is one service provider that provides a service free of charge as long as funding is available. Most sample RCEs have been unable or unwilling to invest their own resources in obtaining specialized technical or business development services. This implies that service delivery is often according to service needs identified outside rather than inside the RCEs. Even in cases where RCEs are called upon to identify their service needs, they tend to request services with which they are familiar and/or from which they expect short-term impact. As a result, more long-term needs related to RCE development tend to be neglected, in particular planning, product development, and strategic marketing.

### **Political–legal environment**

While the overall political–legal environment for RCE development varies greatly according to country and sector, evidence here suggests that much work remains to establish political–legal frameworks that are conducive to RCE development. In the case of access to forest for NTFP collection in India, there is a clear bias toward conservation over RCE development. This is exemplified in the recent decision to ban all NTFP collection for commercial purposes (see Table 4.14). In 2006, the Wildlife Protection Amendment Act (2002) banned local tribes from gathering NTFPs for commercial purposes from parks and sanctuaries. Prior to the ban, tribes had usufruct rights to collect NTFP and sell them to LAMPS, which in turn would auction them to the

highest bidder. Recognizing the importance of NTFPs for local livelihoods, in 2007 the Forest Department petitioned the State Wildlife Board to allow limited commercial collection of NTFPs by tribal members. The issue was referred recently to the central government for a decision (Acharya 2007). Conflicts between conservation and RCE development are not limited to India. In Guatemala, communities can extract timber from their concessions only if their management practices are certified by the Forest Stewardship Council (FSC), despite having invested years in building human capital for sustainable forest management. In Gambia, communities must invest at least 40% of any forest-related income back into forest management (Box 4.5). In Bolivia, ambiguity exists regarding who has access to harvest NTFPs: according to the Agrarian Reform Law, forest communities have usufruct rights to the land and all materials that fall onto it (e.g., Brazil nuts); however, under the Forest Law, rights are given only to individuals and businesses with a government-issued concession, which have an approved resource management plan and pay taxes in the given area that they manage.

The sample also highlights several laws and regulations related to the production and marketing of agricultural and forest products and RCE development, which have constrained the growth and development of RCEs. In the case of Menominee Tribal Enterprises in the United States, early success in sustainable forest management and RCE development prompted the U.S. government to suspend the tribe's status as a legally autonomous region, thus subjecting it to taxes and laws and regulations of the states of Wisconsin and sending the RCE and the tribe into an economic tailspin for a period of more than 10 years (Box 4.1). In several cases, RCEs have little influence on the offer of services from state agencies. In the case of Mexico for example, RCEs reported bias in the state forest agency toward technical approaches (and related lack of services for business development and marketing). In the case of Ghana, the state remains the sole buyer of cocoa, and while Kuapa Kokoo has experienced rapid growth in membership, it has been on the base of nonprice incentives, such as access to credit and its reputation for honesty in weighing cocoa (see Box 4.8). While the impacts of partial liberalization of the Ghanaian cocoa sector have yet to be thoroughly understood, a case can be made that Kuapa Kokoo stands to gain little by not being able to market its member's cocoa to international buyers directly. Among the more positive elements of the political–legal framework

**Table 4.14** Features of political–legal framework for RCE development, as reported by selected sampled RCEs

RCE	Positive	Negative
BANELINO (fresh banana— Dominican Republic)	<ul style="list-style-type: none"> <li>- Preferential access to European markets for fresh banana, including related programs for export promotion (access to finance)</li> <li>- Various projects for development of irrigation technologies and improved genetic material</li> </ul>	<ul style="list-style-type: none"> <li>- Risk of payment of taxes on income (despite constitution as association)</li> <li>- Strong labor laws and rigid application, especially compared with other banana producing countries</li> <li>- Legal system not accessible, lack of high-quality imported production equipment</li> </ul>
Buzaama ACE (coffee, rice— Uganda)	<ul style="list-style-type: none"> <li>- Process of land titling (with access to loans) from Ministry of Lands, Water and Mineral Development</li> <li>- Exception from taxes</li> </ul>	<ul style="list-style-type: none"> <li>- Government interference in organization</li> <li>- High risk: RCE required to pay members upon delivery of their produce before RCE has secured a buyer or negotiated its price</li> </ul>
Chichan Há and Noh-Bec (tropical timber— Mexico)	<ul style="list-style-type: none"> <li>- With creation of CONAFOR, for first time, there are funds available for the community forest sector</li> <li>- State support for infrastructure development (INSOL)</li> <li>- Facilitated access to commercial financial services (FIRA); however, RCE still does not meet conditions</li> </ul>	<ul style="list-style-type: none"> <li>- Externally driven service offer from state forest agency, with limited attention given to issues of RCE development</li> <li>- Technical support for forest management only for forest owners with 5,000 ha (excludes Chichan Há)</li> <li>- High costs of credit, lack of long-term loans for RCEs</li> <li>- High costs for bureaucratic processes (e.g., US\$ 2,200 for approval of environmental impact assessment and travel to Mexico City for obtaining a CITES permit, ~1,300 km from RCEs)</li> </ul>
Consortio Chiclero (chicle gum— Mexico)	<ul style="list-style-type: none"> <li>- State support for forest management, including forest inventory, road construction, reforestation, and training</li> <li>- Exempt from export taxes and sales tax on purchase of machinery</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of flexibility in government support programs—decisions taken in Mexico City with limited consultation within the <i>chicle</i> sector</li> <li>- Overall regulation of <i>chicle</i> sector, require professional assessment</li> </ul>
LAMPS (NTFPs —India)	<ul style="list-style-type: none"> <li>- Loans and working capital provided by the state</li> <li>- Right to harvest forest resource in wildlife sanctuary</li> </ul>	<ul style="list-style-type: none"> <li>- Since 2004, Ministry of Environment and Forests and State Forest Department have banned NTFP collection in wildlife sanctuaries, directly impacting LAMPS</li> </ul>
Rahama (chile peppers, garden eggs— Ghana)	<ul style="list-style-type: none"> <li>- None identified</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of infrastructure for transport and communications</li> <li>- Lack of local banking/financial services</li> <li>- Withdrawal of subsidies for purchase of inputs (fertilizers) in the late 1980s</li> </ul>

for RCE development are 1) exoneration from taxes on income and input purchases and 2) financial assistance in the development of infrastructure.

### Impacts on poverty reduction and community development

RCEs generate impact on their members through increased income (e.g., higher price relative to local intermediaries and payment of dividends), and on the community level in which they operate (e.g., increased employment and provision of public goods such as infrastructure and social services), although

overall impact varies widely (see Annex for detailed information on impacts of RCE on members and their communities). In terms of direct benefits to members, several samples RCEs have made a significant impact on household incomes. In the case of RCEs that participate in markets for certified organic and fair trade products, premiums can be significant:

- BANELINO members who produce organic and conventional banana averaged 10% and 5% respectively, above prices paid for conventional banana by local exporters.

### Box 4.8 Impacts of partial liberalization of cocoa markets in Ghana

Until 1992, Ghana's cocoa sector was characterized by a marketing system fully controlled by the state-owned Cocobod. This system has since been internally deregulated, with a number of local and foreign-owned trading companies, known as LBCs, emerging in all growing areas of southern Ghana (Kuapa Kokoo is one of the five major LBCs in Ghana). A key feature of the Ghanaian cocoa marketing system is that the Cocobod continues to fix the floor price for all domestic purchases of the crop: although all LBCs are legally entitled to buy the crop at a price above the one announced by the board, the premium prices are rarely paid and of little value. Competition among buying companies comes from the volume of total purchases and is generated mainly through nonprice strategies (for example, prompt cash payment and greater, but ad hoc, provision of input subsidies and credit). The Produce Buying Company (PBC)—the former state-owned purchasing arm of Cocobod—remains by far the largest buyer across all regions.

Fourteen years into partial liberalization of cocoa markets, the debate over which actors in Ghana's cocoa sector have benefited from this system is still ongoing. Vigneri and Santos (2007) analyze the extent to which the market environment in Ghana is beneficial to the actors involved. Key lessons from their research include:

- Prompt payment drives selling choices: Cocoa smallholders have little access to credit or cash resources. Allowing farmers to have more places to buy from in each village (regardless of what their final choice may be) raises the possibility for smallholders to shop around for the best deal (for example, by selling to those LBCs who pay promptly, or by avoiding those they consider less trustworthy—it was common for smallholders to report that scales are often adjusted to underweigh their cocoa bags).
- LBCs tend to cluster in areas of higher concentration of large farmers: LBCs target district areas where they can lower operational costs by buying from fewer, but larger, producers to cut down on the number of transactions needed to break even. This might have important repercussions on the geographical distribution of the benefits from the present partially liberalized marketing arrangement.
- Remoteness of villages affects farmers' choices: the greater distance between the farm gate and the main daily market area (proxy for measuring the extent of geographical isolation of producers) increased the chance of cocoa sales to PBC (which is still obligated to have buying centers in all cocoa-growing areas).

Vigneri and Santos conclude that overall, liberalization has been good for producers on at least three levels: providing producers with more choice of buyers; delivering cash payments promptly; and maintaining stability in prices throughout the season. The question for policymakers is whether partial liberalization is the way forward, and whether producers are getting the right incentives from this arrangement to invest in better production practices.

- El Ceibo, CONACADO and Kuapa Kokoo members receive roughly 10% to 20% price premium for certified cocoa beans above local prices for conventional cocoa.
- Members of La Voz averaged 15% to 20% price premium above prices for conventional coffee paid by local traders and processors, translating into roughly US\$ 500 of additional annual income per member household.
- Consorcio Chiclero: 100% increase in *chicle*-derived income, translating into additional annual income of US\$ 1,500/ member.

With the exception of Consorcio Chiclero, organic and fair trade price premiums are diminished in the light of

potentially higher production costs (reduced productivity), costs related to RCE administration, and RCE payment modalities that are usually not as agile as those of local intermediaries. However, this is compensated for by the services provided by RCEs, including technical assistance and training (provided by the RCE or its partner organizations), advance payments and credit, certification, and insurance, among others.

In 2006, the timber-based RCEs Noh-Bec and Chichan Há paid out annual dividends to all registered community members of approximately US\$ 2,000 and US\$ 400 respectively. Higher dividends paid by Noh-Bec are possible due to relatively high concentration of mahogany. In situations where local marketing



conditions are relatively poor, RCEs oriented toward the international market have managed to pay significant price premiums (up to 50%) by linking directly with international buyers. Examples include:

- Nama ACE: members are paid 100% over local intermediary prices for hot peppers, inclusive of RCE overhead costs.
- Cooperatives CCGS: 75% increase in price received by members above local roadside intermediaries, translating into average income benefit of roughly US\$ 280/year.

In other cases, RCEs provide new opportunities (especially for women) for the commercialization of products and services that otherwise would not have been offered, for example:

- Members of Kesla Poultry earn an additional US\$ 175-250/year through their rearing of poultry in their backyards.
- X-Yaat members earn an additional US\$ 850/year through their participation in cultural and eco-tourism activities.

For several sampled RCEs, however, prices offered to members are not significantly different from those offered by local traders or processors. This was the case for FEDEPMA, Buzaama ACE, and Rahama. These RCEs maintain low administration costs and compete with local intermediaries in local and national markets. In these cases, incentives for RCE affiliation are more related to affordable credit and other services (training, transport) than higher prices. As a general picture, incomes generated through affiliation to an RCE, though being important to its members, are only part of the household portfolio. In none of the cases sampled did RCE members live exclusively on RCE-derived income. This reflects the fact that RCEs tend to be specialized on a single product (or product group), whereas livelihood strategies of its members are fairly diversified. RCEs face a major challenge in the need to become proficient in what they are doing and, at the same time, diversify their operations to meet better the diverse needs of their members.

With few exceptions, participation of women in RCE management and decision making has been very limited. In some agricultural and NTFP-based RCEs, women play a critical role in harvest and processing (on farm or in factory) but are largely excluded from

RCE decision-making boards. In the case of timber-based RCEs, women also tend to be excluded from production related processes. In many cases, cultural factors and women's domestic tasks, which in turn are culturally shaped, largely prevent them from playing a more prominent role in RCE-related decision making. Other barriers are likely to be women's role in productive and reproductive activities that conflict with RCE participation. It is striking, however, that even women beyond the age of child-rearing responsibilities do not readily find their way into RCE decision-making boards. Some barriers may be structural: women are just excluded, suggesting that strong cultural barriers to entry exist. Exceptions regarding prominent roles of women in RCEs include the executive directors of CONACADO and BANELINO. There is an urgent need to identify women who are interested in RCE administration and to strengthen their entrepreneurial and leadership skills.

The employment generated by RCEs ranges from anything between a handful of employees to several hundred staff. In most cases, RCEs employ between 10 and 20 staff. In cases where processing is a major RCE activity significant, employment is generated—for example: El Ceibo (80 full-time employees), CAIC (20 full-time employees, Menominee Tribal Enterprises (180 full-time employees), and Noh-Bec (116 full-time employees). Seasonal employment is also significant in some cases: Kasinthula Cane hires up to 500 seasonal workers annually, while CAIC hires about 150. In cases where RCE administration is volunteer-based and some processing takes place, employment generation has been limited, for example: LAMPS, La Voz, Cooperatives CCGS, Nama ACE, Rahama, Thanh Son, Tumani Tenda, and Buzaama ACE. Moreover, in the cases of Cooperatives CCGS, LAMPS and VKGG–Honey, employment is limited to a handful of government and NGO staff, rather than RCE or community members.

RCEs usually generate impact on community development beyond their own members, though the level of overall impact varies widely. By their very nature, forest-based RCEs tend to provide benefits to a larger proportion of community members, thereby increasing overall impact on the community. For example, Menominee Tribal Enterprises and Noh-Bec make major contributions of community



infrastructure (e.g., 80% of *ejido* funding from Noh-Bec). Agricultural-based RCEs, on the other hand, typically represent only a subgroup of a given community, though certain forms of certification (fair trade) and enterprise philosophy make them invest part of their proceeds in community development (e.g., schools, road construction, wells for drinking water). One of the areas where RCEs clearly stand out is their capacity for sound natural resource management. This is not only true because of the high degree of certified enterprises but also because the generally low-input agriculture or forestry they practice. In addition, outside support provided to them has strongly focused on improving the environmental performance of RCEs.

## Typology of RCEs

Here we distinguish between the sampled RCEs according to their overall level of development based on four criteria: level of asset building, consolidation of management structure, positioning in markets, and impacts on member and community. Based on these criteria, three types of RCEs can thus be distinguished (Table 4.15):

- *Type I—Pre-emergent*: insufficient asset endowment for viable RCE development, organized and administered with heavy influence from external agents, dependence on a small number of service providers (if any), considerable fluctuation in membership, participation in local, generally low value markets and limited impacts on income and employment
- *Type II—Emergent*: relatively high levels of physical and natural capitals but limited human, social, and financial capitals; community-based administrators with developing administration skills or externally sourced business administration, strong membership growth, participation in local or high value markets, notable increase in prices received by members but still limited capitalization
- *Type III—Mature*: high level of asset endowment including relevant capitalization, high sense of ownership among members, relatively stable membership numbers, well-developed administration skills sourced from within the community or externally with effective member oversight; participation in high-value markets, extensive service offer to members.

### Type I—Pre-emergent

Eleven sampled RCEs maintain commercial relations with local traders for conventional products

such as rice, coffee or various NTFPs such as honey and medicinal plants. Trade is based principally on high-volume, low-value products rather than quality or other differentiating product attributes. These enterprises vary in age from a few years to more than 50, with on average about 20 years of existence. Their longevity can be attributed to their low overheads (simplicity of business operations) and ability to address specific market failures, such as product bulking requirements and high transport costs. Nevertheless, these organizations are pre-emergent in the sense that they have not acquired sufficient capital and other assets to become established businesses.

Most of these RCEs are outcomes of various government and NGO interventions aimed at community mobilization and rural development. In some cases, the enterprises have yet to—or are just beginning to—emerge out of state-driven rural development programs and lack the ability or capacity for self-governance or the pursuit of multiple objectives. These RCEs include:

- Buzaama ACE (Uganda)
- Cooperatives CCGS (Papua New Guinea)
- FEDEPMA (Guatemala)
- LAMPS (India)
- Nama ACE (Uganda)
- Rahama Farmers Group (Ghana)
- SMART (Papua New Guinea)
- Smallholder Tea (Malawi)
- Thanh Son (Vietnam)
- X-Yaat (Mexico)
- VGKK–Honey (India)

### Type II—Emergent

Seven RCEs are relatively young, with on average less than 10 years of existence and a strong orientation toward high-value markets. They have acquired the capacity to deliver a range of services, including credit, basic processing, group certification, and market linkages. Overall membership levels are large: for example, Kesla Poultry with 442 members and Kasinthula Cane with approximately 275 members. In some cases, their membership levels are expanding rapidly: for example, since 2002, membership has increased 100% for Kesla Poultry. Their development has been supported extensively by external services from buyers, government agencies and NGOs. However, these RCEs usually lack the

**Table 4.15** Typology of RCEs

	Type I: Pre—emergent	Type II—Emergent	Type III—Mature
Asset building	<ul style="list-style-type: none"> <li>Human capital limited to primary production and basic processing</li> <li>Natural capital low at member and RCE levels</li> <li>Infrastructure limited to processing equipment</li> <li>No financial stocks, restricted access to credit</li> <li>Side selling common among members</li> </ul>	<ul style="list-style-type: none"> <li>Human capital limited to primary production and basic processing</li> <li>Externally sourced business administration and technical services</li> <li>Natural capital low at member level</li> <li>Basic physical capital for processing and transport</li> <li>Access to credit and grants through NGOs/projects</li> </ul>	<ul style="list-style-type: none"> <li>Secure access to natural resource base</li> <li>Managers sourced from membership base or externally sourced</li> <li>Extensive physical capital for advanced processing, transport</li> <li>Access to commercial credit</li> <li>High sense of ownership among membership base</li> </ul>
Governance and management structures	<ul style="list-style-type: none"> <li>RCEs administered by members or NGOs</li> <li>Informal governance structures, with rudimentary decision control and monitoring structures</li> </ul>	<ul style="list-style-type: none"> <li>External professional managers dominate strategic and operational functions or strong member participation in decision making</li> <li>BoD comprised of RCE members but with limited decision control</li> </ul>	<ul style="list-style-type: none"> <li>Professional managers employed</li> <li>Formalization of relations within RCE and between RCEs and other chain actors</li> <li>BoD comprised of RCE members—provides oversight function</li> </ul>
Market orientation and value chain position	<ul style="list-style-type: none"> <li>Conventional products, sold to various local traders or one international trader</li> <li>Raw material supplier with limited value-adding potential</li> </ul>	<ul style="list-style-type: none"> <li>High-value, certified and/or quality products, mainly in international or national markets</li> <li>Small buyer portfolio (&lt;2)</li> <li>Supplier of semifinished products</li> </ul>	<ul style="list-style-type: none"> <li>High-value, certified and/or quality products</li> <li>Diversified buyer portfolio (5–10+)</li> <li>Supplier of semifinished and finished products</li> <li>Strong brand reputation</li> </ul>
Impacts at member and community level	<ul style="list-style-type: none"> <li>Price premiums: &lt;10% in national markets, 20%–40% in international markets</li> </ul>	<ul style="list-style-type: none"> <li>Price premiums between 20% and 40% over local intermediaries</li> <li>10–20 administrative and technical staff employed</li> <li>Access to credit and certification services</li> <li>Social services provided</li> </ul>	<ul style="list-style-type: none"> <li>Annual dividends between US\$200 and \$2,000</li> <li>Price premiums 20–40% over local intermediaries</li> <li>10–20 administrative and technical staff employed</li> <li>50–250 staff employed in processing activities</li> <li>Social services provided</li> </ul>

human, social, and/or financial assets to consolidate business operations sufficiently and continue to be highly dependent on a limited number of service providers for critical RCE operations. These RCEs include:

- Chichan Há (Mexico)
- Consorcio Chiclero (Mexico)
- FORESCOM (Guatemala)
- Kasinthula Cane (Malawi)
- Kesla Poultry (India)
- Tumani Tenda (Gambia)
- La Voz (Guatemala)

### Type III—Mature

The remaining RCEs have developed over the course of one up to several decades. They have secure access to the natural resource base and have developed the capacity to provide effective services to their members and to adjust to changes in market and political–legal environments. Most are orientated toward higher-value markets where competition is based on quality and other attributes. In several cases, product lines include both semi-elaborated and elaborated products. These RCEs stand out for their large endowments of human and

social capitals. With the support of external service providers, these enterprises have acquired the capacity for self-governance. However, they continue to suffer from chronic shortages of financial capital, in part, due to their legal organizational form. These RCEs include:

- BANELINO (Dominican Republic)
- CAIC (Bolivia)
- CONACADO (Dominican Republic)
- El Ceibo (Bolivia)
- Kuapa Kokoo (Ghana)
- Menominee Tribal Enterprises (United States)
- Noh-Bec (Mexico)

# 5 *Lessons learned and recommendations*

## **The long and winding road to creating viable businesses**

Among the key findings of this global RCE review is the length of time it takes for these enterprises to become viable—if they don't break up before reaching maturity. It is the rule rather than the exception that RCEs reach maturity only after three to five decades—despite, or at times because of, intensive, albeit often disarticulated, interventions from government agencies, NGOs, development projects, and the like. The long duration of this process will increasingly become an obstacle for smallholders, RCEs, and development agencies, given rapidly globalizing markets for agricultural and forest products where these enterprises meet with both new opportunities and increased competition. It is imperative to identify viable shortcuts to RCE development based on enabling political and legal frameworks, harmonized and aligned development interventions, and, most importantly, the delivery of effective and well-articulated technical, business development, and financial services. In the first section of this chapter, we summarize the main findings and lessons learned from this global review according to the knowledge gaps identified in Table 2.2. In the following section we give recommendations to the Ford Foundation and the general donor community for future investments that allow for shortcuts to the development of economically viable and self-sustaining RCEs.

*What are the major endogenous challenges faced by RCEs for achieving increased impacts and long-term viability?*

- *Limited production volumes and quality control:* Among the vast majority of agriculture-based RCEs, productivity at the farm level was reported to be low—in some cases critically low—resulting from lack of improved genetic material, low use of (organic) fertilizers, inappropriate pest and disease management, and limited knowledge of good agricultural practices. None of the sampled RCEs provides economic incentives for quality production to its members and in only a few cases were sanctions reported for noncompliance. Overall

product grading is limited at RCE level, even in the cases where semifinished or finished products are sold.

- *Limited processing capacity:* Most sampled RCEs have yet to move beyond post-harvest treatments or simple first-stage processing required for export. Among other things, this reflects lack of technical capacities and skills, low access to capital for investment in processing equipment and machinery, restricted access to services for processing, or reduced opportunities in local markets for higher-value processed products. It may also be a characteristic of a restricted business vision that is unable to respond to technological advances and emerging business opportunities. For agriculture-based RCEs oriented to regional and international markets, processing of food products, cosmetics, and other forms of value addition involve relatively high risks due to high and rigid sanitary and quality standards (traceability, cold chain, etc.) that are subject to rapid change. For forest-based RCEs, high costs for processing technology related to primary and secondary wood transformation are often prohibitive since access to credit is limited by the fact that most of the forests that serve as a common pool resource cannot be used as collateral.
- *Barriers to consolidating organizational and administrative processes:* The majority of sampled RCEs have yet to consolidate their governance, management and overall organizational structures. Relations between second-tier and first-tier RCEs and between the latter and their members tend to be informal, often characterized by weak communication and coordination procedures for production and marketing, with few, if any, systems in place for monitoring and evaluation of RCE performance. A clear division of responsibilities is often lacking between the boards of directors, externally sourced or community-based managers or administrators, and the general assemblies (members), leading to cumbersome decision making and reduced accountability. Boards of directors and management or administrative staff often acquire

their skills through lengthy learning-by-doing processes, at times in a fully autodidactic fashion, at times supported through more or less isolated training and technical assistance interventions. In many cases, mandatory rotation of BoD members, and at times, managers, creates erratic or zigzagged learning curves with a strong likelihood of extending the duration of RCE development processes toward maturity. In extreme cases, organizations may pass through a phase of collapse and regeneration before settling on a steadier path to growth and emergence.

- *Undercapitalization:* With few exceptions, the RCEs sampled here have extremely low levels of financial capital stock. This limits, among other things, their capacity to provide advance payments or credit to their members—a constraint that often is critical for planting and harvesting/collection. In some cases, over-reliance on external, often high-cost credit has led to near collapse of the RCE. In addition, delays in payment by buyers, combined with lack of own financial capital, mean that RCEs tend to pay their members fully only several weeks, if not months, following the delivery of raw material. Though many local intermediaries pay prices somewhat below those of the RCE, members selling to local intermediaries outside the RCEs (side selling) because of the untimely payment modalities are a phenomenon reported by several RCEs.
- *Inherent tensions between social and economic objectives:* only a few of the RCEs sampled can be considered fully fledged businesses with clear economic objectives. For a variety of reasons, including legal forms, historical legacy, development considerations, and the nature of external support services, most RCEs pursue a blend of social and economic objectives. While in theory these are not mutually exclusive, in practice they tend to turn out to be conflicting. For example, cooperatives and associations often can choose between reinvesting their profits into the business to capitalize their enterprises and paying dividends to their members to spur household and community development. The pursuit of environmental objectives adds a further layer of management complexity, except where natural resource management objectives are fundamental to the business model, such as in ecotourism enterprises.

*What commonalities and differences exist among RCE in terms of asset endowments?*

- *Natural capital:* Large endowments of natural capital among several RCEs have played a major role in their development. Their membership base provides most RCEs with relatively good access to the resource base, even in the absence of legal land titles. In addition, RCEs may benefit from site-specific biophysical or agroecological characteristics that confer a basis for competitive advantage. For example, the absence of major diseases in the Dominican Republic allows for high levels of productivity in organic banana and cocoa as compared to neighboring countries. In other cases, for example specialty coffee production in Guatemala, the ability to attract large investments by international buyers relates to the high degree of “cup complexity”—a result of production being scattered in various microclimates along a volcanic ridge. The success of RCE development based on the production of certified wood products in Mexico, in turn, reflects the RCEs’ exclusive access to large expanses of mahogany-rich forest. Alternatively, insecure or highly conditional resource access has limited RCE development in the Gambia (ecotourism) and Guatemala (sawnwood). Interestingly, there are cases where limited natural capital does not impede RCE development, for example in India where the raw material for poultry production is purchased from external providers. In general, most RCEs are relatively well-endowed with natural capital, but even in the few cases where they are not, this restriction alone is not necessarily a limiting factor for RCE development.
- *Physical capital:* In many cases, lack of basic infrastructure, storage and processing facilities, equipment, machinery and tools is a major constraint for RCE development. In several cases, RCEs possessed little more than an office, basic storage facilities, and some post-harvest and/or processing machinery and equipment, if any. However, some RCEs have been able to make significant investments in physical capital worth between a few US\$ 100,000 (e.g., Bolivian Amazon, Ghana, and Mexico), or up to several million in U.S. dollars (e.g., Bolivian highlands, Dominican Republic, and USA). In most cases, RCEs are not adequately equipped with state-of-the-art technology or facilities. Typically, equipment and machinery were purchased secondhand, lowering

initial investments but causing higher maintenance and operating costs. In general terms, we found that significant investments in processing facilities based on sound funding and marketing strategies make the difference between RCEs that are viable but relatively stagnant and not fully self-sufficient, and those that have reached a stage of maturity and strategic positioning in the value chain.

- *Financial assets:* Most sampled RCEs are highly undercapitalized irrespective of their size and scale of operations. While this partially reflects the inherent constraints of the legal form of the RCEs that may impede capital accumulation (e.g., cooperatives, associations), it also reflects inefficient management and limited ability/willingness of members to invest in their businesses. Funding constraints force RCEs to access formal or informal credit, often under unfavorable conditions, which in turn reduces the net benefits received by members. Where large investments have been made by RCEs, donations have played a major role (e.g., Mexico and Bolivian highlands). Despite a concentration of donor funding in Africa, the African RCEs in the sample report less donations for RCE infrastructure development as compared to Latin America. This reflects, among other things, certain advances in RCE development in Latin America and, possibly, donor strategies in Africa focused on basic needs and disaster relief rather than business development.
- *Social capital:* Several sampled RCEs show especially high levels of social cohesion and formation of social capital (e.g., Bolivian highlands, Mexico, United States), as reflected in corporate identity, political advocacy, demand for membership, and strong commitment to the development of their enterprises. These RCEs share such features as: individual members with the knowledge and skills to exercise their rights and participate in decision-making processes; formal structure and rules that define members' rights and responsibilities, as well as mechanisms for enforcement and sanctions; and motivation and trust in control and decision-making processes. Where one or more of these features was not present, social capital within RCEs is rather limited (e.g., Ghana, Uganda, Guatemala, Papua New Guinea). In these cases, an RCE may be perceived by its members as merely another intermediary competing for the purchase of raw material.
- *Human capital:* Human capital in RCEs has two major manifestations: entrepreneurial skills for

innovation and management skills for business administration. We rarely found evidence for the combination of both types of skills in a single person at management or director's level. In several cases, human capital has been built for carrying out relatively complex production activities (organic, fresh fruits, sustainable forest management), processing, and marketing in higher-value national and international markets. Even when spread out over various persons, however, overall innovation and management capacity was low in most of the RCEs sampled. One of the unsolved questions is whether the human capital needed for innovation and management can, and should be, formed among RCE members gradually over time. Such investments in prevailing management and governance structures are at odds with the quick turnover at the leadership level which results in zigzagged learning curves and enterprise development processes of several decades. Alternatively, human capital deficiencies could be addressed by hiring externally sourced managers, though this may imply reduced sense of ownership, less democratic governance and a challenge of sustainability. Mixed models, whereby externally sourced managers train local staff from within the communities on the job for a given period of time, are yet to be explored. Support by donors along these lines would allow for a decent level of managerial skills early in the start-up phase of RCEs, while continuously forming local human capital and, hence, increased sense of ownership.

- In the cases where RCE have opted for externally sourced management, experiences have been positive if 1) RCE members have the ability and structures to monitor performance and influence policies, or 2) externally sourced managers effectively involve RCE members in decision making.

*To what extent have bottom-up (community-led) versus top-down (NGO, government agency, or buyer-led) approaches impacted the overall RCE development process?*

- Evidence here suggests that the upside of bottom-up RCE development is increased sense of ownership and empowerment of local leaders, while the downside of bottom-up processes is intervention periods measured in decades rather than years. The development of Menominee has largely been the effort of tribal members working with the U.S.



government, which over several decades has led to the required level of asset endowments. The cacao-based RCE in Bolivia is a good example of how local producers can assume management positions and develop managerial skills over time that allow them successfully to run a second-tier enterprise engaged in processing of semifinished and finished cacao products. At the same time, the success has to be seen in light of the long-term commitment and extensive investments by a multitude of development agencies and NGOs.

- The sample included several examples of top-down approaches to RCE development based on the notion that RCE members did not have the basic skills nor the confidence required to participate in decision-making processes. In these cases, the principal dilemma exists in that top-down development can increase RCE performance and therefore provide increased benefits for members in shorter periods of time, while, in several cases, government and NGO appointed managers neither created sense of ownership among RCE members nor were up to the complex tasks and responsibilities related to RCE administration and marketing.
- In general, long-term accompaniment by government agencies and NGOs has been critical to the emergence of all of the more developed RCEs. Without such assistance, these RCEs probably would not have been organized nor sufficient human and physical capital formed for participating in higher-value markets. In this respect, external services were critical for linking with buyers, improving quality, obtaining certification, and developing effective administration and export procedures. While nearly all the internationally oriented RCEs report having received buyer services over the past few years, in most cases these services were limited to credit guarantees and the exchange of strategic information. Only in the case of organic coffee production in Guatemala were buyers willing to invest in long-term RCE development through capacity building in production techniques, certification, and marketing. Those RCEs with strictly limited access to external services were among the least developed of the sample.

*To what extent do economic, social, or environmental objectives dominate RCE development?*

- The RCEs sampled here highlight the diverse range of objectives potentially pursued by RCEs.

In two cases, the objective of RCE development was predominantly focused on natural resource conservation, and to a lesser extent community development. In both these cases, however, RCE objectives were highly influenced by external organizations, through RCE administration by the state forest department or by the legal requirement to reinvest a significant share of RCE income in forest management. In other cases, community development was a primary goal, though the offer of employment and income to a broad group of community members tends to compromise cost effectiveness of RCEs. In other cases, income generation has been stressed above all other goals. In exceptional cases RCEs appear to have reached a certain balance between the three objectives, although trade-offs still exist.

- As RCEs mature, there is ample evidence that they can provide a range of services to their members in addition to product bulking and market linkages. Examples include: credit provision, education programs, and technical assistance for primary production. However, evidence here suggests that during the early stages of RCE development, the overextension of internal RCE service provision is a factor contributing to the long development horizon for RCEs. In some cases, outsourcing of RCE services would enable RCEs to concentrate on their core activities (e.g., quality control, marketing) and improve their overall sustainability. In this context, the challenge for development agencies is to facilitate the effective linking of RCE members with service providers.

*What legal forms are available for RCE organization and to what extent do they promote or hamper their long-term development?*

- While various options of legal forms exist for RCE constitution, most adopt the form of cooperatives and associations. However, neither model adequately addresses the realities and needs of RCEs. The selection of a legal form often forces RCEs into trade-offs related to taxes versus nonprofit status, asset building versus capital disbursement, internal versus external decision making and control, and member versus nonmember participation, among other factors. However, in many cases, not even the “second-best option” is frequently chosen, due to the lack of business vision, legal inexperience, and inappropriate advice by NGO and development

agencies (e.g., priority for conservation rather than business development). The sample shows that tax breaks are often the major motive behind the selection of the legal form of a cooperative or association; however, these structures, as currently defined in most countries, do not permit the capitalization required for strategic positioning in expanding agricultural and forest product markets. As a result, the legal form selected by RCEs may impede long-term development because of inappropriate governance structures and lack of investment options.

*To what extent have RCEs adopted clearly defined rights and responsibilities among members, directors and managers?*

- Several RCEs lack clear constitutions and proper management structures. In some cases, decisions are taken by the BoD or the general assembly. On the upside, a participative structure legitimizes RCE decisions. On the downside, development of clear strategic perspectives is often hampered. In some cases, long-term external support is provided for business administration, usually in the form of externally funded managers or co-administration by NGO staff. While this form of administration may ensure minimum capacity and skills in the early stages of RCE development, it is prone to be unsustainable unless a clear strategy exists for local skills development and phasing out of external support. In other cases, NGO support is cut prematurely due to the termination of projects or other funding, often leaving RCE managers without sufficiently developed administration skills. In cases where NGO support is long-term, it may turn out to be paternalistic, thus impeding local skill development.
- Most RCEs maintain informal relations with their members: few have written well-defined mechanisms for communication downward to the members and upward to the managers, other than the general assembly. Even in cases where rules and regulations for critical areas of RCE operations exist, effective implementation and enforcement mechanisms may not be in place. Notable exceptions include the RCEs sampled in the United States, the Dominican Republic, and India. Regarding vertical commercial arrangements, more than 50% of the sampled RCEs buy from first-tier RCEs and/or sell to buyers and processors without written contracts. The formalization of institutional arrangements between

RCEs and members and between RCEs and buyers will contribute to reducing transaction costs along the value chain and improving the overall business performance of RCEs.

*How do women participate in RCE membership, management and governance?*

- Participation of women in RCE management and governance is very limited in this sample, despite the fact that in several RCEs women play a critical role in harvesting and processing. In the case of timber-based RCEs, women tend to be excluded from all production-related processes. Cultural factors largely prevent them from playing a more prominent role in management decision making. Nonetheless, some exceptions were identified; for example, in both RCEs from the Dominican Republic women play prominent roles as executive directors. In general, however, unless there is change in attitudes toward women and the division of labor within the household, little real change can be expected, even if RCEs can point out examples of a few female board members. In this context, there is an urgent need for RCEs and supporting organizations to identify women who are interested in RCE administration and to strengthen their entrepreneurial, managerial and leadership skills.

*Which elements of the political–legal framework stand out in terms of their positive or negative impact on RCE development?*

- Existing policies, laws, rules, and regulations are rarely conducive to RCE development. There tends to be a set of incomplete, conflicting, and/or overly complicated regulations for business operations (e.g., complex export procedures, lack of financial incentive schemes, ill-suited legal forms for RCEs). In some cases, direct political interference constrains RCE performance, especially in Africa. Formal mechanisms are needed for establishing regular dialogue between government agencies and RCEs to address limitations in the political–legal and regulatory frameworks and identify viable solutions. An enabling institutional environment would also include effective and well-articulated technical, business development and financial services provided by government agencies, NGOs and projects that have aligned and harmonized their intervention strategies, including clear entry and exit strategies.

- There were also some positive features of the political–legal framework that we could identify, including: increased access to forest resources, special treatment of RCEs in tax codes, and some cases of subsidies for infrastructure development. Governments and international organizations can contribute to improving the political–legal framework for RCE development by emphasizing business objectives at least as much as conservation objectives in the granting of resource access rights, adopting specialized legal forms for RCEs that provide incentives for capitalization and social and environment performance, adopting simple business registration and export procedures, promoting financial incentive schemes; investing in improved information and communication flows (e.g., low-cost access to Internet and cell phone service in rural areas); fostering market-based approaches to service delivery through innovative payment mechanisms (e.g., vouchers or co-funded measures) and upgrading the capacities of service providers to identify and respond to the needs of RCEs.

*To what extent does insecure access to natural resources constrain RCE development?*

- Access to the resource base remains a major issue for RCE development in the forest sector. Among the related RCEs, collective access to the resource base prevails, ranging from community-owned lands (e.g., *ejidos* in Mexico) to usufruct rights (community concessions in Guatemala) or customary rights (NTFP collection in the Bolivia Amazon). However, ambiguous and overlapping regulations, strong biases toward conservation rather than income generation, and the shifting of management burdens to communities without sufficient financial and technical support have thwarted the emergence of several RCEs. On the other hand, where tenure has been secure and natural resources are relatively abundant, such as in Mexico, viable RCE development has proven possible.
- With regard to agriculture-based RCEs, in most cases, only a small percentage of RCE members have land titles, usually between 10% and 30%. Though land title is a prerequisite for using land as collateral for credit and functioning land markets, its absence does not imply an imminent threat to the flow of natural resources from producers (collectors) to RCEs. Evidence here suggests that

investments by RCE members in, for example, perennial coffee, cocoa, and banana, take place even in the absence of legal access to the resource base. This implies that RCE members perceive related risks as being relatively low due to the prevalence of customary rights, lack of land use pressure, or indifference by the state. While land tenure is not a *sine qua non* for RCE development in the initial stages, over the long term it may prove to be significant, since secure tenure improves access to capital and the introduction of labor-intensive production modes.

*To what extent does lack of infrastructure limit the development of RCEs?*

- Less than 20% of sampled RCEs have year-round road access, 24/7 electricity, and secure telephone and Internet connection. For the majority of RCEs, one or several of these factors constrain RCE operations. Impassable roads during parts of the year cause delay in delivery of raw materials and finished products. A number of factors increase transaction costs and undermine coordination and internal and external communication: regular and irregular power cuts increase production costs, while the limited number of telephone lines and low speed and intermittent Internet connection causes higher transaction costs.

*What impact have RCEs had in employment and income generation, natural resource management, and community development?*

- Employment generated by RCEs ranges from a handful of employees to several hundred staff. In most cases, RCEs employ between 10 and 20 full-time staff. Only in enterprises where processing plays a major role are employment rates significantly higher. Where processing is not a major activity, employment of community members can be as low as two to five full-time positions, and in some cases, there is no full-time employment for community members at all.
- Evidence suggests that income generated by smallholders and community members through RCE affiliation figures prominently among overall income sources. Some forest-based RCEs pay significant annual dividends of US\$ 500–2000 per member. This, however, usually implies high barriers to entry, in order to protect current RCE members from benefit reductions. Relatively few

RCEs oriented toward local markets pay prices significantly exceeding those paid by local intermediaries. Even among the RCEs with niche market orientation, prices paid to members for differentiated products tend to be only 10–15% above prices of conventional products. In situations where local marketing conditions are relatively poor, RCEs oriented toward the international market have managed to pay notable price premiums (up to 50%) by linking directly with international buyers. In general, incomes generated through RCE affiliation are only part of the household portfolio. In none of the cases sampled, did RCE members live exclusively on RCE-derived income. This reflects the fact that RCEs tend to be specialized on a single product (or product group), whereas livelihood strategies of members are diversified. RCEs face a major challenge to become proficient in what they are doing and, at the same time, diversify their operations and services to meet the diverse needs of their members better.

- One of the areas where RCEs clearly stand out is their capacity for sound natural resource management. This is not only true because of the high degree of certified enterprises but also the generally low-input agriculture or forestry they practice. In addition, outside support provided to the RCEs has strongly focused on improving their environmental performance. RCEs have generated impact on community development to varying degrees. Given shared ownership of the resources, forest-based RCEs tend to provide benefits to a large proportion of community members, thereby increasing overall impact on the community. For example, RCEs in the United States and Mexico have made major contributions to community infrastructure. Agricultural-based RCEs, on the other hand, typically represent only a sub-group of a given community, though certain forms of certification (fair trade) and enterprise philosophy make them invest part of their proceeds in community development (e.g., schools, road construction, wells for drinking water).
- The perception of RCEs among governments and civil society as a promoter of broad-based, equitable development among smallholders, combined with the perception of local traders and processors as offering inequitable relations with

smallholders, has made them a common prescription for rural development. As noted throughout this review, mature RCEs can play a critical role in addressing rural poverty, community development and natural resource conservation. However, where local leadership, management, experience and technical know-how are weak, and the overall business environment is less than hospitable, RCEs may *not* be the best option for promoting rural development.

*To what extent is the environment for the provision of services conducive to long-term RCE growth and development?*

- RCEs with greater access to credit are those with long-term business relationships with buyers, relatively stable production volumes, and niche market orientation (usually certified). More than 50% of the sample has received formal financial services from either local banks or international not-for-profit providers (e.g., Shared Interest). Access to credit has been critical for investments in facilities and processing technologies. However, in a couple of cases excess credit has led to near insolvency. On the other hand, a few RCEs have achieved significant levels of working capital. The recent trend for specialized lending to fair trade certified RCEs (e.g., Ecologic Finance, Shared Interest, Verde Ventures), benefits RCEs by providing more favorable conditions in terms of collateral, interest rates, and repayment terms. For the other half of the sample, the lack of affordable credit has prohibited growth and expansion and the possibility of offering credit services to members (who must rely on informal lending options that typically imply unfavorable interest rates).
- Most RCEs reported a minimum level of access to technical services, usually through government agencies, government-supported industry associations, or NGOs. However, with few exceptions, these services have focused only on production and processing for conventional products for local markets or international markets. In some cases where specialized services have been required (e.g., organic banana and cocoa production), RCEs have had to invest in the direct provision of technical services for their members, requiring extensive technical and financial support from donors and NGOs. Overall, access to

specialized business services for RCE development is insufficient. In practice, business services are provided by generalist service providers who tend not to meet the demand for such services.

*What strategies have been adopted to balance the need to build capacity with the need to promote RCE independence?*

- Results suggest that business services tend to be incomplete, insufficiently focused on RCE needs, rarely coordinated among different services providers, and delivered without a clear entry and exit strategy. In addition, many of the sampled RCEs face difficulties in clearly articulating their demand for such services—they tend to demand what they know as they lack knowledge of the benefits of alternative services and have yet to receive specialized business development services. The typical situation RCEs face is that where a sole service provider—typically an NGO or development project—offers an often incomplete service package for the duration of external funding (usually three to four years). If there is more than one service provider in a given region, these may compete or worse, pursue conflicting objectives and approaches. At the same time, RCEs do not receive all the services needed, as their providers may be specialized in certain services without being capable of providing the mix of technical, business development and financial services RCEs typically need during both the start-up and consolidation phases.
- To overcome the technical, institutional, managerial and financial challenges identified here, many RCEs fall back on external support from development projects, NGOs, and government agencies, for which the main criterion is “free-of-charge,” rather than “as-per-demand.” Service delivery focuses on short-term impact, neglecting strategic planning, product development, and marketing. Similarly, internal capacities focus on labor-intensive, low-cost, and low-risk solutions, which may yield the desired impact on the short term, but compromise the strategic orientation of the enterprise.

*What have been the impacts of buyer-provided services on RCE development?*

- Access to buyer-provided services was generally limited to a few RCEs participating in niche markets (organic coffee and *chicle*, certified timber, fair trade cocoa). In the case of the organic coffee

cooperative in Guatemala, such services were critical for 1) acquiring organic production capacities and certification, and 2) development of business vision. In a case from the Dominican Republic, buyers were important for resolving issues related to the export and import of cocoa. In most cases, however, buyer-provided services were limited in nature and scope, usually not extending beyond information sharing.

### **Potential shortcuts: recommendations for donors**

Discussions throughout this review highlight the urgent need to create more economically sustainable RCEs in shorter periods of time. Such ‘short cuts’ will require that RCEs have regular access to a variety of effective and well-articulated technical, business development and financial services throughout the development process. The design and delivery of these services require alignment and harmonization between government and development agencies, NGOs, research and training centers on the one hand, and closer collaboration, communication and coordination among RCEs, buyers and processors on the other. Precise support mechanisms need to be identified, including cost recovery schemes and sequencing of service delivery according to the stage of enterprise development.

In the design of services for RCE development several cross-cutting themes should be considered:

- *Gender equity*: Effectively dealing with gender issues requires systematic approaches to addressing realities and needs related to gender-wise labor division, decision making and income generation at household level. This implies dialogue between RCE leaders, members, and community leaders for awareness raising of gender issues, and designing, implementing, and monitoring institutional mechanisms for gender equity. Specific to RCE development is the need for increased compatibility between business activities and other livelihood activities, in particular “traditional” female household tasks and responsibilities. Solutions could include structural innovations—such as quotas for female participation in RCE leadership positions; and facilities and services—such as day care; and process innovations—such as scheduling meetings at times and in places that are accessible to women.



- *Sustainability in service delivery:* The lengthy passage from emergence to maturity means that the requirement for long-term support cannot be overstated. The untimely withdrawal of support by service providers can have dramatic consequences for RCE development, as most RCEs have few alternative sources of support. Dealing with this issue calls for more flexible and creative approaches to project funding such that providers are not forced to withdraw too early. This requires a clear business vision and strategic orientation in service delivery, ideally from the very beginning of the RCE development process. Tangible goals need to be identified for the short, mid and long term that allow RCEs to reinvest part of the increased utilities derived from effective services in contracting progressively more sophisticated services.
- *Organizational models:* Formulation of novel and appropriate legal forms of collective organization may help to overcome the perennial problems of inadequate governance structures, weak operational management and undercapitalization. Most of the legal forms available for RCE organization allow for a blend of social and economic objectives. On the upside, the not-for-profit nature of these forms exempts RCEs from taxes and permits equitable distribution of benefits among the members. On the downside, legal restrictions for profit making and capital accumulation usually impose a ceiling to RCE growth and performance. Solutions to this dilemma may involve alternative legal forms according to the development stage. Not-for-profit forms such as cooperatives and producer associations may be viable in the initial stages of enterprise development, whereas the evolution from emergent to mature enterprise often requires for-profit forms of RCE organization, professionalization of management, and external investments. For example, investment by the private sector into shared equity may provide finance, ensure professional governance and management, and build in accountability mechanisms. Insights can be gained from the ‘new generation’ cooperative movement to design new-generation RCEs for developing economies. This requires political dialogue for adjustments in the political–legal frameworks, as well as changes in the mindsets of RCE leaders and members, would-be investors, and political decision makers.
- *Trust development:* Interventions must adequately address trust issues within RCEs (members, first-tier, second-tier), and between them and other chain actors and service providers. This requires appropriate communication and coordination mechanisms designed for increased transparency in actions, dialogue, participatory goal setting, and effective monitoring and evaluation. These mechanisms need to take into account that trust building implies long-term, gradual processes that, in order to be viable, should be based on realistic and tangible outcomes whose scope and scale increase over time.
- *Learning and coordination:* With the growing interest in RCE development by NGOs, government agencies, and the private sector, it is essential to improve our understanding of related processes and the ways in which we advance them. Toward this end, systematic learning is imperative, based on thorough impact assessment of RCE development interventions. Learning alliances and other multistakeholder platforms have shown potential to stimulate reflection on factors of success and failure and to advance concepts, methodologies, and tools for RCE development. If well-designed and managed, these also help avoid competition and undue overlap.
- *Triple bottom line:* Donors should not assume that RCE development is inherently compatible with “triple bottom line” performance. With the aim to become economically viable businesses, the focus on enterprise must be paramount. Compatibility of the economic goals of RCE development with environmental and social objectives is most feasible when sustainable production modes are in place or strived for. Examples include sustainable forest management, organic agriculture, and fair trade certified operations. It needs to be borne in mind that all these examples refer to niche markets and, therefore, do not provide broad-based solutions for rural development. Outside of these niches, social and environmental objectives are also feasible but there are second-order objectives in RCE development. In situations where environmental management and broader community development are paramount, and where niche market orientation is not a viable option, approaches other than RCE development may be required.



To improve the overall service environment for RCE development, donors may wish to consider the recommendations in Table 5.1. These are provided for the following three stages of RCE development: pre-emergent, emergent, and mature. In addition, recommendations distinguish between three types of support organization: generalist providers, specialist providers, and research and training centers. By generalist providers we refer to organizations which provide a range of services to rural communities, including health, education, and political advocacy. In contrast, specialist

providers focus on a narrow range of services related to strengthening the technical, business, or financial capacities of RCEs and other types of enterprises. Research and training centers, in turn, are the nodes where innovations emerge that help both generalists and specialists to upgrade their service delivery. A competent generalist is one who recognizes when specialist skills are required and how they can be mobilized. A competent specialist, on the other hand, recognizes the limits of its service delivery and helps mobilizing complementary services by other specialists or generalists.

**Table 5.1** Recommendations for donors in supporting services for RCE development, according to type of service provider and stage of RCE development

Stage of RCE development	Generalist service providers	Specialist service providers	Research and training centers
Pre-emergent	<ul style="list-style-type: none"> <li>– Provide advocacy for enhanced political–legal framework (appropriate legal forms, secure land tenure), and basic infrastructure</li> <li>– Build human and social capital for business organization and development</li> <li>– Identify appropriate RCE governance structures according to local objectives, asset endowments, and the needs of business partners</li> </ul>	<ul style="list-style-type: none"> <li>– Build capacities for increased productivity, raw material quality, and value adding</li> <li>– Promote regular dialogue between local processors, investors, and governments for linking RCEs with national and international markets</li> <li>– Facilitate access to grants and soft loans for RCE operations and investments in basic physical capital</li> </ul>	<ul style="list-style-type: none"> <li>– Identify opportunities for enhancing political–legal frameworks for RCE development and market opportunities</li> <li>– Develop appropriate technologies for increased productivity, raw material quality, storage, and value adding</li> <li>– Build capacities in RCE development of generalists and specialists through concepts and tools for pre-emergent RCEs</li> </ul>
Emergent	<ul style="list-style-type: none"> <li>– Provide advocacy for enhanced political–legal framework: legal forms, incentives, tax policies, infrastructure improvements</li> <li>– Build capacities of women in business leadership and management</li> <li>– Promote basic M&amp;E systems, transparency, and RCE conflict resolution mechanisms</li> <li>– Facilitate trust building within RCEs and between RCEs and other chain actors and service providers</li> </ul>	<ul style="list-style-type: none"> <li>– Promote alternative governance structures, gender equity, and strategic orientation</li> <li>– Build capacities for improved production, processing, and quality control</li> <li>– Facilitate improvements in strategic and business planning, buyer relations, marketing, and financial management</li> <li>– Facilitate access to loans and co-funding schemes for RCE operations and investments in processing technologies</li> </ul>	<ul style="list-style-type: none"> <li>– Identify alternative RCE governance structures and market opportunities</li> <li>– Develop appropriate technologies for production, processing, and quality control</li> <li>– Facilitate learning processes among RCEs and service providers regarding the design of viable financing and risk-benefit sharing mechanisms</li> <li>– Build capacities in RCE development of generalists and specialists through concepts and tools for emergent RCEs</li> </ul>
Mature	<ul style="list-style-type: none"> <li>– Provide advocacy for enhanced political–legal framework: specific incentives and tax regimes for capital-intensive RCEs</li> <li>– Facilitate strategic planning within RCEs (members, first- and second-tier) for capital-intensive RCE development</li> <li>– Promote strategic alliances between RCEs and other chain actors and service providers</li> </ul>	<ul style="list-style-type: none"> <li>– Promote innovations in product design, marketing, and product diversification</li> <li>– Build capacities for total quality management in production, processing, and commercialization</li> <li>– Facilitate access to sophisticated investment and risk reducing schemes</li> </ul>	<ul style="list-style-type: none"> <li>– Identify opportunities for innovative product design, marketing, and product diversification</li> <li>– Develop appropriate technologies for total quality management</li> <li>– Identify opportunities for innovative investment and risk reducing schemes</li> <li>– Facilitate learning processes among RCEs and service providers for design of success and failure in RCE development</li> </ul>



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# *Annex: Impacts of RCE development at household and community levels*

RCE	Member impacts	Community impacts
El Ceibo (Bolivia)	<ul style="list-style-type: none"> <li>- Price premium for certified cacao (about 30% or US\$400/member/year)</li> <li>- Access to organic production technologies</li> <li>- Access to RCE provided credit</li> </ul>	<ul style="list-style-type: none"> <li>- Production zone: 80 full-time employees (mainly local promoters) plus processing plant: 40 full-time and 20 part-time employees</li> <li>- Leverage of project funds for community development</li> </ul>
CAIC (Bolivia)	<ul style="list-style-type: none"> <li>- Market outlet for 450 Brazil nut collectors;</li> <li>- Availability of cheap foodstuffs to employees of processing plant, which are bought by the cooperative from members, to the extent possible</li> </ul>	<ul style="list-style-type: none"> <li>- Part-time employment (4–8 months) for 170 people</li> <li>- Full-time employment for 20 people</li> <li>- Strong role of women in processing plant (110 Brazil nut shelling posts absorbed by women)</li> </ul>
BANELINO (Dominican Republic)	<ul style="list-style-type: none"> <li>- 2006 prices for organic and conventional banana averaged 10% and 5%, respectively, above prices offered by local exporters, translating into an average of US\$ 2,100 increased income for RCE members</li> <li>- Skills development in post-harvest management, certification, and organic production</li> <li>- Relatively low-risk investment/market environment</li> <li>- Access to affordable credit through RCE (12% APR)</li> </ul>	<ul style="list-style-type: none"> <li>- Strong female participation in management, marketing, and technical assistance (&gt;50% labor)</li> <li>- Low barriers to RCE membership, with rapidly expanding membership levels</li> <li>- 25% net income reinvested in community development (educational infrastructure, health services, youth sports) and certification</li> <li>- 70% production certified organic (est. 700 ha)</li> <li>- 50 full-time, year-round positions</li> <li>- One of only 28 fair trade certified banana providers in the world</li> </ul>
CONACADO (Dominican Republic)	<ul style="list-style-type: none"> <li>- Average annual income received by RCE members ~US\$ 2,000, with price premiums averaging 50% above prices offered for conventional cocoa (average US\$ 1,000/year of additional income/member)</li> <li>- Skills development in organic production, fermentation, and certification</li> <li>- Funeral costs covered for members</li> <li>- Low-risk investment/market environment</li> <li>- Secure access to interest-free credit</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership, with moderately expanding membership levels</li> <li>- US\$ 330,000 invested in churches, home repair, bridge construction since 2004</li> <li>- 100% cocoa production certified organic (est. 24,000 ha)</li> <li>- Sound resource management through use of diversified cocoa-based agroforestry systems</li> <li>- 12 full-time, year-round positions</li> </ul>
La Voz (Guatemala)	<ul style="list-style-type: none"> <li>- Average annual income received by RCE members: US\$ 2,300, price received averaging 25% above prices offered for conventional coffee, translating into average increased income of US\$ 525/year/member</li> <li>- Relatively low-risk investment/market environment</li> <li>- Development of skills and capacities for production and certification of organic coffee</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership, with slightly expanding membership levels</li> <li>- Social premiums from fair trade invested in didactic materials for 4 local schools and construction of library (US\$ 1,300)</li> <li>- 3 full-time, year-round positions</li> <li>- 100% of coffee production is certified as organic, produced using traditional techniques and plant varieties (est. 144 ha)</li> </ul>

RCE	Member impacts	Community impacts
FEDEPMA (Guatemala)	<ul style="list-style-type: none"> <li>- Average annual income received by RCE members ~US\$ 230, with price premiums nearly 5% to 10% above conventional coffee</li> <li>- Development of capacities for production and certification of organic coffee and manufacture of handicrafts</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership</li> <li>- Facilitated the donation of US\$ 13,000 for the upgrading of local school infrastructure (security wall, water purifiers, latrines, etc.)</li> <li>- 6 full-time, seasonal positions (6 months)</li> <li>- 100% of coffee production is certified as organic, shade canopy is maintained (est. 68 ha)</li> </ul>
Chichan Há (Mexico)	<ul style="list-style-type: none"> <li>- Annual dividend ~US\$ 150/member (expected to increase once recent loans for processing equipment are repaid)</li> <li>- Dividends have increased nearly 100% since formation of RCE (work group)</li> </ul>	<ul style="list-style-type: none"> <li>- 40 temporary jobs per year in forest management and timber processing</li> <li>- Financial support for members' funeral costs, schools and sporting events</li> <li>- 32,500 ha (50% total land area) declared permanent forest reserve</li> </ul>
Consorcio Chiclero (Mexico)	<ul style="list-style-type: none"> <li>- 100% increase in chicle-derived income, translating into additional annual income of US\$ 1,500/member</li> <li>- Pension benefits for members</li> <li>- Skills development in quality control and international marketing of chicle products</li> <li>- Relatively low-risk investment/market environment</li> </ul>	<ul style="list-style-type: none"> <li>- Chicle extraction provides seasonal employment for up to 1,500 forest dwellers in Yucatan (many of which among most vulnerable members of forest communities)</li> <li>- Provides economic incentives for sustainable management of 18,000 ha forest</li> <li>- RCE critical for preserving 100+ year tradition of chicle extraction in Yucatan</li> </ul>
Noh-Bec (Mexico)	<ul style="list-style-type: none"> <li>- Annual dividend US\$ 2,200/RCE member</li> <li>- Price of timber in 1982 US\$ 800 in 1994, increased to US\$ 19,000 after <i>ejido</i> took control over resource base and RCE was established</li> <li>- Development of skills related to sustainable forest management, timber extraction and processing, marketing, and certification</li> </ul>	<ul style="list-style-type: none"> <li>- 80% of community income comes from RCE, providing support for pensions, funeral costs, health and social services, and co-financing of potable water service and cable TV service</li> <li>- 70 temp. jobs/year and 116 full-time positions</li> <li>- Sustainable management of 18,000 ha dry tropical forest, agricultural frontier checked, fire control</li> </ul>
X-Yaat (Mexico)	<ul style="list-style-type: none"> <li>- 7 RCE members receive on average US\$ 13/visit (average total US\$ 850/year/member)</li> <li>- 39 participating community members receiving average US\$ 7.50/visit (total US\$ 500/year/member)</li> <li>- Development of skills related to food preparation, group tourism management, and business administration</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership, with 3 out of 7 members being women who assume 50%–75% of activities related to provision of services (food, cultural shows)</li> <li>- Loan vehicle to <i>ejido</i> members for emergencies</li> <li>- Loan computer to <i>ejido</i> primary school</li> <li>- Preservation of culture through productive activities, food, and dancing (average 65 visits per year, majority from regional schools)</li> </ul>
Menominee (United States)	<ul style="list-style-type: none"> <li>- Full benefits for all employees, including health insurance and retirement (n=180)</li> <li>- Average annual dividend US\$ 100–350/household (n=~2,000), exact amount varies as determined by Tribal Government Council</li> <li>- Insurance (workman's compensation) for contract loggers (n=150), benefit not provided by most mills</li> <li>- Development of skills related to sustainable forest management, timber extraction and processing, marketing</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable forest operations are critical for maintaining reservation status (requirement in agreement with federal government)</li> <li>- Prior to 1960, all community income was derived from RCE, remains important (&gt;50%), casino operations developed over past 15 years have allowed for more diversified tribal income (~500)</li> <li>- Critical source of income (~ US\$ 1 M/ year) for co-financing tribal infrastructure and operations (health clinic, university, primary and secondary education, public transport, youth programs, etc.)</li> <li>- Largest employer of household heads in tribe</li> <li>- Sustainable forest operations for 150 years on 100,000-plus ha of broad leaf forest (largest continuous stand of forest in state of Wisconsin)</li> </ul>

RCE	Member impacts	Community impacts
Tsyunhehkwa (United States)	<ul style="list-style-type: none"> <li>- Above average pay for farm and retail operations + full benefits, including insurance and retirement</li> </ul>	<ul style="list-style-type: none"> <li>- Average ~100 people/year trained in health and nutrition issues (including food preservation)</li> <li>- Donations of food for funeral for tribal members</li> <li>- Full time employment for 13 persons, 9 of which are tribal members</li> <li>- Preservation of traditional white corn varieties and cultural practices related to corn production, harvesting, and post-harvest treatment</li> <li>- Organic production on 42 ha of land</li> </ul>
Tumani Tenda (Gambia)	<ul style="list-style-type: none"> <li>- No dividends paid out to RCE members, although RCE pays local property taxes for all members</li> <li>- School supplies provided annually for community members' children</li> <li>- Access to credit at rates (5% APR)</li> <li>- Skills developed in business planning and administration, marketing, client relations, and logistics</li> <li>- Skills developed in production of products/services related to ecotourism camp (e.g., transport, honey)</li> </ul>	<ul style="list-style-type: none"> <li>- Market outlet for community-based micro-enterprise initiatives (honey, tie and dye, poultry rearing, transport, grocery shop, bakery)</li> <li>- Community vehicle purchased in 2004</li> <li>- Infrastructure development (construction of school, health care facilities, grocery shop)</li> <li>- Preservation of Jolla culture, through productive activities, food, and dancing (average 300 visits/year)</li> <li>- Poor people's access to resources, incomes, employment, multiplier effects in community, community taxation</li> </ul>
Kuapa Kokoo (Ghana)	<ul style="list-style-type: none"> <li>- Members receive government guaranteed price + extra 1% (due low overhead), end-of-year bonus (depending on the profit) +US\$ 40/bag (fair trade premium)</li> <li>- Including bonus, members receive an estimated 20% higher price than prices received by intermediaries</li> <li>- First dividend from ownership of Day Chocolate Co. to be paid in 2007 (avg. US\$ .50/member)</li> <li>- Strengthened capacities of members in cocoa production and diversification of skills in oil palm processing and snail rearing</li> <li>- Access to credit via RCE-owned credit coop.</li> </ul>	<ul style="list-style-type: none"> <li>- Increasingly women's participation in RCE activities: 50% female participation in production plus 25% in marketing</li> <li>- Provision of day care centers and primary and junior secondary schools and water and sanitation improvement program</li> <li>- 100,000+ people in communities with RCE producer groups have received free medical attention and prescriptions</li> <li>- 90,000 ha of cocoa-based agroforestry systems</li> <li>- Integrated Crop Pest Management Systems has led to doubling of yields</li> <li>- RCE is strongly representative at the national level in Ghana</li> </ul>
Rahama (Ghana)	<ul style="list-style-type: none"> <li>- Diversification into niche product lines has allowed for possibility of year round production and commercialization, generating an estimated 20% higher member income</li> <li>- Improved crop production methods (irrigation) and diversification of project lines</li> </ul>	<ul style="list-style-type: none"> <li>- Women dominate marketing activity, but limited involvement in production</li> <li>- No community impact as yet, but community investments are planned (sanitation projects and construction of local farmers' market)</li> <li>- All volunteer operation, no paid employment</li> <li>- Organic production techniques are low input and environmentally friendly (90 ha), currently in process of seeking organic certification</li> </ul>
Kasinthula Cane (Malawi)	<ul style="list-style-type: none"> <li>- Steady income to members on monthly basis est. at 1,500/year + US\$ 60/MT of fair trade sugar exported is redistributed directly to members (roughly US\$ 615/year/member)</li> <li>- Low risk investment climate with 25-year contract for sugar cane processing</li> <li>- Funeral expenses covered for members</li> </ul>	<ul style="list-style-type: none"> <li>- Drilled wells to provide safe drinking water to two villages and financed the installation of electricity in Chinangwa village</li> <li>- Supply local clinic with medication required for the treatment of bilharzias</li> <li>- Members hire ~500 seasonal employment/year</li> <li>- Low input production for sugar cane</li> </ul>

RCE	Member impacts	Community impacts
Buzaama ACE (Uganda)	<ul style="list-style-type: none"> <li>- Impacts in members' income estimated to be low, RCE only sells in regional market when first-tier organizations unable to sell locally</li> <li>- Increased skills in horticultural production and business administration</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership</li> <li>- 1 full-time, year-round position</li> <li>- Use of traditional, low-impact production techniques</li> </ul>
Nama ACE (Uganda)	<ul style="list-style-type: none"> <li>- Members receive US\$ 1.30 (includes 10% marketing fee charged by RCE) for box of hot pepper for export market, compared to US\$ .58 offered by local intermediaries</li> <li>- Improved skills in production and post-harvest management for hot peppers</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership</li> <li>- 1 full-time, year-round position</li> <li>- Use of traditional, low-impact production techniques</li> </ul>
Kesla Poultry (India)	<ul style="list-style-type: none"> <li>- Annual average income approximately US\$ 175-250/year/member</li> <li>- Members have reinvested and expanded production and bought assets (ornaments and bicycles, built new houses) and leased agricultural land with poultry proceeds</li> <li>- Skills development in poultry production and commercialization and business administration</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to entry, rapidly expanding memberships levels, all members are women</li> <li>- Gender empowerment: members more assertive (increased income and exposure to business world), increased cash for medical expenses and home construction, reduced out-migration</li> <li>- 9 full-time technical and retail staff plus 11 community-based, part-time staff</li> </ul>
LAMPS (India)	<ul style="list-style-type: none"> <li>- Dividends for members (US\$ 6,225 over 5 years, average US\$ 1.50/member/year)</li> <li>- Average income from NTFP harvesting for ~900 members estimated at \$34/member</li> <li>- Skills development in forest management, fire control, NTFP collection and processing</li> <li>- Food products sold at subsidized rates for harvesting of NTFPs</li> </ul>	<ul style="list-style-type: none"> <li>- Financial support for education and spiritual activities</li> <li>- 8 full-time, year-round position</li> <li>- Increased create awareness and capacities for sustainable forest management</li> <li>- Village Forest Committee has been formed with potential to enhance community involvement in NTFP management</li> </ul>
VGKK (India)	<ul style="list-style-type: none"> <li>- 3 dividend payments: 1997 (US\$ 3,440), 2003 (US\$ 3058), and 2005 (4,500) paid to LAMPS honey collectors (n=869)</li> <li>- Skills developed in honey processing and marketing among RCE employees (n=18)</li> </ul>	<ul style="list-style-type: none"> <li>- Financial support for higher education for 15 tribal members (US\$ 356/student/year)</li> <li>- RCE contributes financially to NGO activities related to primary education, health services, training on sustainable forest management</li> <li>- Temporary (11) and full time (7) employment</li> </ul>
Cooperatives CCGS (Papua New Guinea)	<ul style="list-style-type: none"> <li>- ~75% increase in price received by members over prices paid by local intermediaries, translating into average income benefit US\$ 280/year/member</li> <li>- Skills development in best practices for coffee production and processing</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership</li> <li>- Low-input coffee production techniques (232 ha)</li> </ul>
SMART (Papua New Guinea)	<ul style="list-style-type: none"> <li>- Imparted new knowledge and skills in processing of coconut products. A council ward has installed its own mill, operated by community members who previously worked at SMART</li> <li>- Project formed basis for economic development—mutual recognition of need for communities to take over operations</li> </ul>	<ul style="list-style-type: none"> <li>- Since 2003, contributed to building of new church (US\$1,071), loan vehicle for community activities, supporting relevant organization in providing awareness and distribution of HIV/AIDS information</li> <li>- Employment: 11 full-time salaries</li> <li>- Low-input coconut production techniques (unknown area)</li> </ul>

RCE	Member impacts	Community impacts
Thanh Son (Vietnam)	<ul style="list-style-type: none"> <li>- Increased income of \$.13/kg, translating into increased annual earning of US\$ 88/member</li> <li>- Increased capacities related to production and processing (drying) of litchi, as well as business administration and marketing</li> </ul>	<ul style="list-style-type: none"> <li>- Low barriers to RCE membership</li> <li>- Female participation is about 50% in primary production, 25%–50% in processing and marketing</li> <li>- Low-input litchi production techniques (59 ha)</li> </ul>



The Tropical Agricultural Research and Higher Education Center (CATIE) is a regional center dedicated to research and graduate education in agriculture and the management, conservation and sustainable use of natural resources. Its regular members include the Inter-American Institute for Cooperation on Agriculture (IICA), Belize, Bolivia, Colombia, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay and Venezuela. CATIE's core budget is strengthened by generous annual contributions from these members.



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