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## Cooperatives

Photo: J. Boethling

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### Dear Reader,

The United Nations has declared 2012 as the International Year of Cooperatives. This is a good opportunity to take a closer look at a form of enterprise that has a unique potential to arouse exaggerated expectations on the one side and negative associations on the other, extending even to radical rejection.

The numbers sound convincing: around one billion people worldwide are organised in cooperatives; in 2011 the 300 largest cooperatives had an annual turnover of 1.6 trillion US dollars, equal to the world's ninth largest economy. In many industrialised nations, but also in numerous emerging economies and developing countries, cooperatives are a pillar of the economy – in finance, commerce and agriculture.

“Cooperatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility” said UN Secretary-General Ban Ki-moon at the event launching the International Year. Cooperatives are based on the principles of self-help, self-administration and self-responsibility. They are rooted in the duality of an economic enterprise coupled with social and public-benefit functions. In other words: They are enterprises, but ones concentrating on membership value maximisation, not shareholder value maximisation. They were established – at least as far as the “modern” cooperative idea that emerged in 19<sup>th</sup> century Europe is concerned – with the explicit goal of helping a needy population lift itself out of misery. This took the form of rural thrift and loan cooperative societies that allowed access to credit, merchandise cooperatives that regulated sales of agricultural produce and consumer cooperatives that created opportunities for joint purchasing.

All of these factors make the cooperative model attractive for the rural areas of developing countries. Nonetheless, the model has been sidelined for many years now in development cooperation. One explanation is that expectations have been simply too high: in many cases, cooperatives were hoped to provide a panacea for all problems – the lack of entrepreneurial capabilities of smallholders, for example, their poor market integration and even general democratic shortcomings. Another explanation is that

in socialist countries, in particular, cooperatives were long misused for state purposes; this involved compulsory membership, state control, corruption and misappropriation of resources. On the other hand, strong democratic grassroots efforts bear a high political risk: in many countries, they are regarded as a threat to the state. A final aspect that has prevented cooperatives from developing their full potential is that an idea (in this case a European one) can not be copied over as a blueprint for other countries and societies without suitable modification.

In this latest issue of Rural 21, we wish to give you an idea of the range of manifestations that the cooperative idea has taken worldwide: the early forms of cooperative alliances in Asia, Africa and Latin America, the birth of the cooperative movement in 19<sup>th</sup> century Europe and its development within the diverse social and political orders of the 20<sup>th</sup> century. All this leads to the question of what role cooperatives can play in overcoming rural poverty. The articles on Vietnam, China, Nicaragua and Uganda reveal that, as disparate as the settings and priorities of cooperative associations may be, the factors determining their success or failure tend to be very similar.

Many cooperative values and principles are highly effective in other forms of rural cooperation; our authors have therefore also cast their nets wider, beyond the confines of cooperatives as such.

We are always delighted to hear of your comments and suggestions – gladly via the guestbook on our website. The website also provides further articles on the subject.

We wish you stimulating reading!

*Silvia Richter*



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Photo: © WFP/J. Smith

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Photo: R. Kariisa



Photo: Karl Kübel / Stiftung

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Photo: J. Monteiro

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### Sahel: Deadly combination of drought and displacement

The United Nations Food Programme (WFP) and the United Nations High Commissioner for Refugees (UNHCR) warn of a rapidly worsening refugee and hunger crisis in the Sahel. Hundreds of thousands of people fleeing from the political conflict in Mali across the borders to neighbouring countries are aggravating the already extremely precarious food situation there. Unlike during the drought in 2005 and 2010, which mainly affected Niger and parts of Chad, this year's famine crisis has spread throughout the entire Sahel, according to WFP statements. Many households have not yet recovered from the last famine crisis. In all, the UN estimates that more than 17 million people are affected. They are suffering from the effects of the lack of rainfall and poor harvests. In many

*The UN estimates that more than 300,000 people have already left their home regions in Mali.*

countries, grain production is way below the average of the last five years. The Welthungerhilfe has reported crop losses of sometimes up to 90 per cent. "The granaries are already empty, and it is still six months till the next harvest," says Welthungerhilfe staff member Willi Kohlbus. The problem is being worsened by the continually high food prices – and



Photo: © WFP/J. Smith

since the military coup in Mali, by the refugees. The UN estimates that more than 300,000 people have already left their home regions. (sri)

### Countries adopt global guidelines on land tenure

In mid May 2012, the United Nations Committee on World Food Security (CFS) officially endorsed the "Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security". Governments are to observe the Guidelines in ensuring access to land for certain groups as well as the right of these groups to food. The wide range of topics include organising land transfer, traditional rights of usufruct and strengthening the rights of women and indigenous communities. The aim is to counter the global trend towards land grabbing with responsible investing in land. "Giving poor and vulnerable people secure and equitable rights to access land and other natural resources is a key condition in the fight against hunger and poverty. It is a historic breakthrough that countries have agreed on these first-ever global land tenure guidelines," said FAO Director-General José Graziano da Silva.

The adoption of the Guidelines has been welcomed by representatives from civil society, the private sector and politics, although they have also demanded that they be swiftly and effectively implemented. "Secure access rights to land and other productive resources are important for people's survival in rural areas," said Michael Windfuhr of the German Institute for Human Rights. "Now it is up to German development policy to turn these Guidelines into a benchmark for their activities in advising and supporting partner countries. Private investors should also use the Guidelines as minimum standards in order to fulfil their human rights responsibilities." Ángel Strapazzón, of Vía Campesina Argentina, said: "We welcome the Guidelines, but with awareness that they fall short in some areas that are key to the livelihoods of small-scale food producers. Despite this, we call on governments and intergovernmental agen-

cies to implement them and urgently improve governance of tenure for food security." Luc Maene, Chairman of the International Agri-Food Network, representing the private sector, said: "In many places, land tenure systems are effectively non-existent. To us in the private sector and to our farmer partners, it is important that there should be effective local administration of land registries without corruption. Fair, transparent rules benefit everyone."

The adoption of the Guidelines is the result of a process lasting three years and involving civil society, scientists and the private sector. The UN Food and Agriculture Organization (FAO) says that the next step will be to develop a series of technical handbooks designed to help countries adapt the guidelines to their local contexts and put them into play. It has also announced that it will be providing targeted technical assistance for governments towards that end. (sri)

## European Report on Development 2011/2012: Managing scarce resources for sustainable growth

Close to one billion people in the world are undernourished, while 0.9 billion lack access to safe water and 1.5 billion have no source of electricity. At the same time, many life-supporting natural resources are becoming increasingly scarce. The European Report on Development 2011/2012 addresses the constraints on water, energy and land and considers how these resources can be managed to promote growth that is both socially inclusive and sustainable. The Report has been presented in Brussels in mid May 2012.

A rising world population and global economic growth place new pressures on natural resources, the Report claims. The demand for energy and water is expected to grow by 40 per cent and for food by 50 per cent by 2030 compared to present levels. These pressures are exacerbated when solutions to resource constraints in one area place additional constraints on another. Expanding the provision of biofuels, for example, can contribute to pressures on both land and water. Countries pursuing food security at home have acquired land overseas, sometimes at the expense of access to land and water

by existing communities. The Report urges the international community to radically transform approaches to managing water, energy and land in order to support inclusive and sustainable growth in the poorest developing countries. It involves institutional change and joint implementation by the public and private sectors.

The authors of the Report above all call for action in five areas:

1. Radically reduce the environmental footprint of consumption (especially, but not only, in developed countries such as the EU) to promote inclusive growth without increasing resource use.
2. Promote innovation to increase agricultural productivity to feed more than nine billion people sustainably by 2050 and scale up renewable energy technologies that help to deliver sustainable energy for all by 2030.
3. Establish or reform institutions for an integrated approach towards managing resources.
4. Push for an inclusive land policy to ensure access to land and water for the poorest and most vulnerable.
5. Price natural resources and services comprehensively and appropriately (e.g. using instruments such as payments for ecosystem services, PES), whilst safeguarding the welfare of the poorest.

This agenda should be reflected in the values and institutions of public and private sectors, the authors demand. The international community needs to establish the right governance structures and make available sufficient finance (using aid, innovative development financing and responsible foreign direct investment) to support the transformation towards inclusive and sustainable growth and human security, particularly in poor countries. (sri)

The European Report on Development "Confronting scarcity: Managing water, energy and land for inclusive and sustainable growth" was commissioned to the Overseas Development Institute (ODI), in partnership with the European Centre for Development Policy Management (ECDPM) and the German Development Institute (GDI/DIE). It is available for downloading in several languages at: [www.erd-report.eu](http://www.erd-report.eu)

## MDGs: Drop in maternal death

Maternal death has fallen by almost half since 1990, according to the report "Trends in Maternal mortality: 1990 to 2010". The report was presented by the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA) and the World Bank in mid May 2012. It states that from 1990 to 2010, the annual number of women dying due to pregnancy or childbirth-related complications dropped from more than 543,000 to 287,000. Nev-

ertheless, every two minutes, a woman dies of pregnancy-related complications. Ninety-nine percent of maternal deaths occur in developing countries, and one third of all maternal deaths occur in just two countries – in 2010, almost 20 percent of deaths (56,000) were in India and 14 percent (40,000) were in Nigeria. Of the 40 countries with the world's highest rates of maternal death, 36 are in Sub-Saharan Africa. In Sub-Saharan Africa, a woman faces a 1 in 39 lifetime risk of dying due to pregnancy or childbirth-

related complications. By comparison, in South-eastern Asia the risk is 1 in 290, and in developed countries, it is 1 in 3,800.

Ten countries have already reached the Millennium Development Goal (MDG) target of a 75-percent reduction in maternal death from 1990 to 2015: Belarus, Bhutan, Equatorial Guinea, Estonia, Iran, Lithuania, Maldives, Nepal, Romania and Viet Nam. But many countries, particularly in Sub-Saharan Africa, will fail to reach this goal. (sri)

# Cooperatives – the magic bullet of poverty reduction?

With the values and principles that they are based on, cooperatives appear to be virtually predestined for combating poverty. Even so, in development cooperation, they have been consigned to the shadows for many years. This article gives an account of how the notion of cooperatives evolved and examines the issue of how important – and realistic – the principle of “pure self-help” really is.

Cooperatives have tended to be viewed critically in international development cooperation since the 1980s. For one thing, this may have been due to the notion of cooperatives simply being overloaded with expectations of providing solutions to all sorts of problems, from overcoming the subsistence economy through supporting independent entrepreneurs to democratisation, so that the almost inevitably resulting disappointment led to a counter-reaction. Also, what severely damaged the reputation of cooperatives was their frequently being accused of a “touch of socialism”, which often associated or even equated them with state dirigisme, public mismanagement, corruption and nepotism (also see pages 10–12).

Indeed, the Cold War era that commenced roughly in the 1960s was not restricted to Central and Eastern Europe, but also in Asia, and particularly in Africa, it was a period of forced collectivisation following Lenin’s concepts and inspired by notions of socialism, with all its negative consequences. This was the reason for a certain degree of “cooperative blindness” (Birchall) among international donor organisa-

tions. While advocating what were basically cooperative self-help principles such as free and equitable participation, democratic self-management and solidarity as being helpful and even applying them, they went to great lengths to avoid associating these principles with the concept of cooperatives to prevent any negative reminiscences from surfacing.

It was only in the 1990s that a careful reassessment set in when attempts were made via de-officialisation programmes to release existing cooperatives from the grip of the state and its harnessing them for its purposes. Lately, above all the great success of micro-finance institutions has played a particular role in again focusing more attention on the micro-level in the context of the world-wide halving of extreme poverty aimed for in the Millennium Development Goals, and thus on the possible significance of cooperatives in combating poverty. This has been all the more the case given that the latter have already provided sufficient proof historically of their suitability for this target, at least in western Europe. The International Year of Cooperatives could (and should) be

taken advantage of to reflect on the concept as a whole (see page 33).

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### ■ How the notion of cooperatives emerged in Europe

The development of modern cooperatives is in fact inseparably linked to the advent of the “social question” during the Industrial Revolution in the

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*Microfinance institutions’ great success has brought cooperatives and their potential for reducing poverty back into the limelight.*



first half of the nineteenth century, and hence to the pauperisation of wide sections of the population. The notion of cooperatives emerged as a humanistic response to the individualism that economic liberalism had unleashed, although it simultaneously kept its distance from the collectivism advocated by socialism and communism. But in addition to idealistic social reformers and philanthropists, the pioneers of cooperatives also included pure pragmatists who, without any ideological reservations, simply regarded cooperatives as an effective means of overcoming the desperate situation prevailing among all those who belonged to the losers of structural change triggered by the industrialisation processes.

**Great Britain: the first consumer cooperatives.** Initially, the workers were able to benefit from rising employment opportunities thanks to industrialisation. But together with the rise in population, the permanent influx of rural labour and artisans who had

just become unemployed was soon to result in an excess of supply and corresponding falling wages. Proletarian mass misery due to exploitative working conditions, poor provision of low-quality food and miserable accommodation were among the factors prompting English industrial workers in Brighton in 1826 to sell jointly procured better food at cheap prices, thus resulting in the first consumer cooperatives. While this venture was to founder after a few years, the Rochdale Society of Equitable Pioneers, based on the ideas and methodical principles of Welsh industrialist Robert Owen (1771–1858) and founded by 28 weavers from Rochdale in December 1844, represented a cooperative model replicated throughout Britain and beyond.

**Germany: the origins of the credit cooperatives.** Traditional artisans, whose workshops could no longer compete with industrial mass production, but who, for lack of equity capital, could not make the transition to



*Hermann Schulze-Delitzsch (left) and Friedrich Wilhelm Raiffeisen*

Photo: DRV

new modes of production, either, were negatively affected by the intensification of competition. This also applied to agriculture and here, in particular, the small peasants, whose problem lay in the exodus of labour that they were unable to make up for with higher productivity. The use of improved seed, fertiliser and agricultural machinery to this end would have required capital that they simply did not have. This applied all the more since, often enough, they were unable to provide sufficient security for personal or mortgage loans from regular banks. If they wished to keep their farm, they therefore had to rely at least partly on private money-lenders, whose exorbitant interest rates could subject them to interest slavery, i.e. the returns from the next harvest were already impounded, but were only enough to pay interest, and not to settle the debts. Incidentally, this is a phenomenon that still exists in a comparable mode in many developing countries. Thus the shortage of capital and a lack of access to credits were central problems throughout Europe that both artisans and other trades people and peasants shared. It was for these problems that solutions were developed in the shape of so-called loan societies and credit associations by German cooperative pioneers Hermann Schulze-Delitzsch (1808–1883), from 1850 on, and, starting in 1864, Friedrich Wilhelm Raiffeisen (1818–1888). These institutions were the forerunners of the credit cooperatives, which today are known as “Volks- und Raiffeisenbanken” (cooperative banks).



Photo: J. Boethling



Photo: K. Desmarowitz

*In the Andes countries, forms of cooperation date back to pre-colonial times. Priority was always given to the community's needs and concerns.*

### ■ Two different schools of thought

The basic principle applied here was relatively simple. By committing themselves to joint and several liability, farmers or trades people were able to pool their savings for mutual lending and obtain securities for prefinancing via credits from a regular bank. Although agricultural cooperative purchasing associations and marketing cooperatives were created in addition, the credit cooperatives initiated by Raiffeisen for farmers and by Schulze-Delitzsch for the commercial sector have remained the true characteristic and internationally effective legacy of the German cooperative movement. However, in spite of sharing much common ground, the two pioneers did hold different opinions on some issues. Raiffeisen's image of humanity was shaped by ethical and religious concepts. Against this background, and as mayor, he sought to address the needs of the local population with charitable "welfare associations" based on Christian compassion. Therefore, he was willing to accept support by private donors and the state. But Schulze-Delitzsch, who was liberal member of a Landtag (a German regional government institution), aimed, at least partly, at maintaining independent enterprise

among the trades people, and he correspondingly stressed the principles of self-help and self-responsibility, while strictly rejecting any state intervention. Up to this day, this dispute between different schools of thought has prevailed and also affects the possible role that cooperatives can play in combating poverty. Before this issue is addressed, a look will be taken at cooperatives in developing countries in the following.

### ■ Cooperative traditions in developing countries and emerging economies

Early forms of associations resembling cooperatives go back a very long time in history and were based on tradition, customs and religion, but also on types of rule. These indigenous concepts can be found in all continents and in almost all developing societies. Even so, there are considerable differences between Asia, Africa and Latin America regarding the form they have assumed relating to cultural specifics. In Asian cultures, even today, community life is above all shaped by religious affiliations (Buddhism, Hinduism, Islam) and by ties with certain castes, families or clans and tribal membership assigning the individual his or her place in the collective. But rather like

in medieval Europe, there were also guilds, brotherhoods and other forms of cooperation supported by self-help that were oriented on e.g. common soil management, mutual financial support and assistance in emergencies. By contrast, in pre-colonial African societies, it was not so much religious affiliations but the individual's integration in a patriarchally oriented kinship and tribal order that played a crucial role regarding the predominant forms of cooperation. The obligation to work for the community in areas ranging from farming and fishing to implementing jurisdiction was focused on the goal of meeting subsistence-oriented community needs with collective self-help. In pre-colonial Latin American societies, there is also evidence of similarly hierarchically structured obligations to perform community work that are frequently linked to indigenous oligarchies (e.g. the Mita of the Incas), but indigenous forms of cooperation (e.g. the Minka in the Andean countries) as well, which go back even further in history. Unlike in Africa and Asia, Spanish and Portuguese colonial rule in Latin America did not replace them with modern models of cooperatives. Rather, the colonial masters attempted to transfer existing forms of rule to themselves, for instance by applying the Spanish Encomienda system to indigenous community structures, the Comunidades.

**Focusing on the individual.** But all in all, by the twentieth century at the latest, most of the pre- or early cooperative forms had either been replaced with modern western models of cooperatives, or at least they had been covered over by them. In India, for example, the first law on cooperatives outside Europe was adopted in 1904. The crucial difference was that there, it was no longer the community that stood at



the forefront but the individual with his or her inalienable personal rights. The principle of self-help, which implies self-responsibility and self-administration, already places the individual at the centre of cooperation, while supplementary procedural principles such as voluntary and open membership, equal and democratically exercised rights (“one member, one vote”) and also the maintenance of internal and external autonomy support these individual rights: the individual cooperates to the extent to which he or she wishes and without any external force or interference.

### ■ Facts and myths

However, this somewhat idealising view is restricted by one having to concede that hardly any of the cooperatives were created in this manner and that most of the principles referred to have only been realised to a limited degree. In this context, taking another look at the time of founding cooperatives in nineteenth-century Europe, it becomes apparent that virtually none of the cooperative pioneers was a member of the people actually affected by need and poverty: Robert Owen was an entrepreneur, Raiffeisen a mayor, Schulze-Delitzsch a jurist and politician, and later on, the founder of the successful producer cooperative Mondragon in the Basque Country was Father Arizmendiarieta. It is no different in Asia: the two most successful organisations inspired by the notion of cooperatives were founded by Indian jurist and member of parliament Ela Ramesh Bhatt (1972: Self Employed Women’s Association (SEWA) and by Muhammad Yunus, a university professor in Chittagong (Bangladesh), who started the Grameen Bank in 1983. For honesty’s sake, however, while refer-

ring to third-party support may not be appropriate, one should at least speak of “initiated self-help”. Industrial workers, poor peasants, artisans and trades people and, above all, women who were discriminated against would not have succeeded in setting up a cooperative self-help organisation of their own accord owing to a lack of administrative knowhow and economic potential. Rather, this required both guidance and material support. It may well be the case that many cooperatives have subsequently failed owing to state interference and excessive development promotion measures, but does this already imply the converse conclusion that they would have been successful or emerged without such interventions? If this really were the case, there would be no need to discuss the possible “role” of cooperatives in poverty reduction. One would simply have to wait for the right founding fathers.

### ■ A pragmatic compromise

A solution to the fundamental debate on the “virgin self-help principle” that would, basically, allow for a consensus could be that of distinguishing between two forms of cooperative association one of which is oriented on setting up a commercial enterprise suitable for a market economy. This could also be referred to as the “Schulze-Delitzsch” model, and here, except for

guidance in setting up the cooperative and possible pump-priming support, external interference would indeed be harmful. The potential membership of this model could comprise smallholders, artisans and small traders belonging to the near poor whose abilities to perform productive self-help could be sustainably strengthened by cooperative activities.

By contrast, in the other concept, which would then be the Raiffeisen model, the emphasis is on combating poverty. A cooperative “for the poor” need not necessarily be economically successful if it contributes to poverty alleviation by initially guiding people who would otherwise have no prospects of gainful employment owing to their sex, their ethnic affiliation and their lack of education towards the capability of productive self-help. Thus, while in the first model, the basically existent self-help potential would merely be brought to come into full effect via advice and (limited) support, in the second model, this potential would first of all have to be created. Obviously, this requires a longer period of more intensive support. Nevertheless, cooperative principles can be helpful here through combining and focusing scarce resources and sharing risks. But for poor people, the true value of cooperatives may already lie in their giving them an opportunity to experience their own potential.

*Cooperatives can make poor people aware of their own potential.*

Photo: J. Boethling



# The political dimension

Attempts to harness cooperatives for the purposes of the state are just as old as the notion of independence, which is inherent in the concept of the cooperative. In many countries, this has resulted in a deep distrust of cooperative organisations. In the transition economies in particular, the question arises whether and how cooperatives can survive.

Cooperatives in the industrial age have always performed tasks for the benefit of society. The founders of the present cooperative movement were not only social philosophers, theologians, lawyers, economists or entrepreneurs (see article on pages 6–9) but also had a particular socio-political perspective. For them cooperatives were not just institutions for providing economic benefits for their members; they were also a strategy for liberation from dependency of any sort, whether economic, social or political. The cooperative system of values, together with the key features of the structure and functioning of cooperatives, of the relationship between cooperatives and the state and of the promotion of cooperatives by the state are encapsulated in a number of international standards:

- Statement of the International Cooperative Alliance (ICA) on cooperative identity (1995),
- United Nations guidelines for its member states on the promotion of cooperatives (2001) and
- Recommendation No. 93 of the International Labour Organization – ILO (2002).

All three draw on the cooperative values and principles formulated by the International Cooperative Alliance

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and on the definition of the cooperative adopted by the ICA's member organisations:

## What is a cooperative?

"A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. ... Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of cooperative founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others."

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## Threats to the value system

In principle the ICA's standards have acquired international validity – they not only inspire national legislators but should also be binding on them. Yet there is a risk that this system of values is eroded, especially in the following areas:

- Dilution of the concept of the identity of decision-maker and user, for example if external specialists take on management roles, non-member transactions are effected or external capital is involved.
- Risks to internal democratic structure, for example through special rights for particular members.
- Destabilisation of the member base through small-scale holdings, insufficient cooperative advantage, negligent member management.

- Concessions to the power of capital as a result of permitting investing members and members with special rights, or through capital contributions from third parties and interest on capital.
- State influence through the involvement of cooperatives in promotion and development programmes.

The socio-political importance of the cooperative system also arises from the fact that the goals and structural and procedural principles of cooperative business activity closely coincide with the elements of a democratic, free, social and market-oriented society. However, these elements are not the primary aim of cooperatives but rather positive side effects that result if the business activity of individual cooperatives is successful.

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## Position within the economy

While a cooperative is a business enterprise and an association of individuals, it is at the same time an assistance and service system operating in an intermediate zone between hierarchy and market. This intermediate position also binds it to the surrounding economic systems. Four different options are possible here. The purpose of cooperatives can be to

- make corrections within an existing economic system: new forms of cooperation arise to supplement or correct what the market offers (countervailing market power) – Example: agricultural

marketing and processing cooperatives;

- try out new behaviour patterns within the existing system: introducing new goals and modes of action with the aim of bringing about radical change in the economic system – Example: kibbutzim in Israel;
- facilitate the transition to a different type of system – either from a subsistence to a market economy (developing countries) or, as at present, from a planned to a market economy (Central and Eastern Europe), or
- even provide the new solution of choice whereby an entire national economy is organised on a cooperative basis – Example: Nehru for India.

### ■ European blueprint

In most developing countries, cooperatives in the classical sense have existed only since their introduction by the colonial authorities and/or European emigrants who brought the European concept and practice of the cooperative to the colonies. This imposed on the developing countries a form of economic organisation which is historically thoroughly European in its origins. It fitted with the mother countries' considerations of usefulness and also with the view of modernisation prevalent at the time, according to which the cooperative, being a modern form, was to be preferred over traditional forms. In the colonies the colonial governments therefore established one-sided infrastructure systems and economic and administrative patterns that served the interests of the mother countries, with the aim of launching development in the colonies by mobilising social and economic resources.

*Many cooperatives in transition countries have difficulties in coping with their new economic freedom.*

*Photo: Iatf*

Practical steps to encourage the introduction and spread of cooperatives were not taken until the turn of the 20th century, and on a larger scale after the First World War. Large numbers of cooperatives were founded rapidly with external assistance, with no consideration of a basis for self-help within the group. Of course this did not happen simultaneously and in the same manner everywhere. There are differences between countries in terms of timing and approach. These differences are particularly apparent in the procedures adopted by the English and the French. The English pursued a strategy of "bottom up" cooperative creation, while the more centralist-minded French preferred a "top down" approach. It was not until after the Second World War – and at the latest upon achieving independence – that the developing countries established cooperative systems of their own. These systems, however, continue to be based on the model of the European cooperative.

### ■ Instrument of state development policy

The greater the part played by cooperatives in the development approaches of governments and

administrative authorities, the greater was the tendency to make the cooperatives an official instrument of state development policy. In consequence the cooperatives became the subject of active state development planning and were used by individual countries as a tool in their development strategies. In other words they acted on behalf of the state and were subject to corresponding state monitoring (officialisation). As a result of large-scale state promotion, the spread of the cooperatives was particularly rapid and comprehensive. But the extreme closeness to the state is not only an opportunity; it is also the Achilles' heel of the cooperative system. There were failures with cooperatives as an instrument of development policy. These failures resulted from a faulty assessment of the transferability of the cooperative as an organisational type and not from the failure of the cooperative as an organisational type per se.

The reluctance of international development organisations to support cooperatives, which persists to this day, stems from this era. Instead these organisations promote farmers' unions, producer groups, women's groups, local institutions and more recently also networks, many of which are in effect cooperatives.



Only slowly is the realisation growing that importing foreign models cannot provide a sound basis for cooperative development or short-cut the slow and arduous process of establishing strong member groups “from the bottom up”.

Only if cooperatives have a stable member base can they provide their members with access to new knowledge, markets and sources of capital and help them with issues such as coping with the shift from subsistence farming to agricultural production for the market, overcoming the disadvantages of small business size and developing market power.

Instead of correcting these familiar failings, many development organisations continue to reject the tried-and-tested cooperative model and to experiment with the promotion of less well-tried cooperative-like structures.

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### ■ Cooperatives in the transformation process

Prior to 1989 the cooperatives in Central and Eastern Europe were used by the Communist regime for their own ends. In a situation characterised by incomplete information and planning failure, the cooperatives’ main function was to serve as stopgaps. As an intermediate form between private and state property they were incorporated into the rigid hierarchy of the centrally planned economic system and subject to its dictates. At the same time, whenever administrative state decisions permitted cooperative schemes as an alternative to state property, all private-sector initiatives (including criminal ones) turned to the cooperative form.

Because of the absence of any theory of transformation, the need to convert the planned economy into a market economy was experienced in all Central and Eastern European countries as a crisis. Experience shows that eco-

nomics crises boost the popularity of the cooperative idea. This therefore led people to ask whether and to what extent cooperatives can put market principles into practice in a situation in which they must first acquire these abilities themselves. In theory cooperatives are perfectly positioned to:

- prevent social hardship and secure jobs, as a result of their strong social links,
- ease the way into the market,
- stimulate innovative capacity and the articulation of private interests, and
- initiate deconcentration and decentralisation.

However, cooperatives can only have these effects if the constituent conditions mentioned above are inherent to them. Under adverse general conditions cooperatives, as self-help organisations, can still support their members to a limited extent, but they are no substitute for state regulatory and process policy and certainly no substitute for the introduction of market-economy conditions.

The next question to arise was that of whether existing cooperatives could survive the process of transformation “from plan to market”.

The position in which the cooperatives found themselves after the system switch was not favourable. After decades of officialisation they were discredited and as a result of the imperative plan their “self-management” had become unattractive and inefficient. The reputation of the cooperatives was and is poor. Although – paradoxically – they were regarded in “real” socialism as being partly based on private enterprise, they are dismissed as relics of the socialist economic system and considered to be unsuited to the transition to a market economy. Often the terms “cooperative”, “Communism” and “controlled economy” are not only mentioned in the same breath but also regarded as inevitably going hand in hand.

The anti-cooperative policies of the Communist parties contributed in no small way to this poor reputation. Cooperative property, in contrast to state property, was held to be underdeveloped and its existence was attributed “theoretically” to the underdeveloped productive forces in the cooperative sector. The cooperative continues to be regarded as a synonym for inefficiency – but now by comparison with the private sector. This overlooks the fact that under real socialism the economic activities of the cooperatives were tightly controlled by the Communist authorities and the cooperatives operated for the most part only in areas in which fixed prices gave them very little leeway.

The transition to a market economy has released the existing cooperatives from the central planning system and given them scope to pursue cooperative business principles. At the same time, however, the transformation has exposed the cooperatives to newly emerged competition from domestic and foreign businesses. For many, knowing how to cope with the “economic freedom” that had been achieved was a problem.

But one thing was clear from the outset: to survive in the new socio-political and economic environment, the cooperatives would have to undergo comprehensive reform involving deofficialisation of both ownership and decision-making structures. Although this has been achieved in most Central and Eastern European countries through the passing of new legislation based on international standards, the cooperatives have still largely failed to shake off their negative image and most of them have been privatised or dissolved.

When considering possible cooperative scenarios for the future it should be assumed that the necessary conditions for the development of cooperatives in the transformation countries will not be established until the transformation process itself is completed.



Photo: DGRV

## A path of trial and tribulation

Although cooperatives in Vietnam are recognised as independent legal entities nowadays, a large number of them have been unable to successfully make the change from the planned to the market economy. A new draft law could worsen the situation. Here, the German Cooperative and Raiffeisen Association (DGRV) is attempting to take countermeasures.

A comprehensive government development and promotion strategy for cooperatives is in place in Vietnam. It provides financial support, although it does not cover the entire economic environment of cooperatives. A third of all cooperatives, most of them farmers' cooperatives, are not showing satisfactory economic results; for them, the transformation process from the planned economy to an economy oriented on the market has been less of a success. There are a wide range of reasons, although four general factors can be referred to as the chief problems: poor capital resources, insufficient competitiveness, an insecure agricul-

tural infrastructure and a lack of qualified cooperative management.

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### ■ An important step: the new Law on Cooperatives

With the onset of the far-reaching reforms in 1985 and the radical market economy transformation of the entire institutional environment, known as Doi Moi, which is Vietnamese for "renewal", the cooperatives had to initiate a change from state-dominated compulsory collectives to a flexible form of society with a private sector. Given mistrust among the population stemming from the days of the planned economy, drastic compulsory liquidation, the partial loss of savings deposits and a latent non-recognition as market- and member-oriented enterprises, the image of cooperatives continues to be

distorted, and government attempts to interfere prevail. The adaptation of the Law on Cooperatives in the 1990s with the support of Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and the German Cooperative and Raiffeisen Association (DGRV) represented a major step, giving the cooperatives the status of independent legal entities vested with all rights and responsibilities and smoothing the way for new start-ups of entrepreneurially oriented cooperatives. This has resulted in many successful cooperatives in various sectors, especially where activities are market-oriented.

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### ■ False expectations

However, official institutions largely still regard cooperatives as mere instruments rather than as enterprises per-

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Photo: DCRV

*Rice production is an important factor of national economy in Vietnam.*

where the governments are seeking to achieve an optimum of external effects by very strongly integrating cooperative approaches into direct government measures, thus intervening in the independent self-administration of cooperatives while simultaneously making excessive demands on their competitiveness.

### ■ Planned revised law will weaken cooperatives

Now a revised version of the Law on Cooperatives is pending. On the initiative of the responsible Ministry of Planning and Investment (MPI), a revised version is to be submitted to the National Assembly tabled for approval before the end of 2012. What is behind this is that the Ministry has established that the cooperative sector is not developing satisfactorily, maintaining that the chief cause is the decline in the sector's contribution to the Gross Domestic Product and the insufficient effectiveness of the subsidies paid. Many representatives of the cooperative sector regard this argument and justification for revising the law as well as the highly impractical drafts as a retrograde step. For example, a "cooperative" is no longer equated with an "enterprise", as is still stipulated in the valid law. This would entail many disadvantages and obstacles on the markets

for most of the cooperatives. Access to the financial market is already strongly restricted for farmers' cooperatives since they can hardly fulfil some of the conditions set by the banks for the award of a credit (e.g. audited annual accounts, the provision of securities). If cooperatives are denied their entrepreneurial status, it has to be feared that the conditions for borrowing will worsen further still and that owing to a loss of their positive image, they could encounter difficulties in taking on qualified staff who are of considerable importance to future developments. The sales markets would be affected, too. In addition to partly inefficient quality and marketing systems, many partners on the market only expect to enter business relations with business partners who are on an equal footing.

### ■ The issue of government control

Cooperatives also have a reputation of being "schools of democracy". However, in many countries, strong democratic grassroots efforts bear a high political risk. Cooperatives, which cannot be covered and controlled by the mass organisations of the state apparatus, are often regarded as a threat to the socialist state itself. This mistrust results in political groups fearing a loss of power or control over cooperatives. In their present stage of development, government support is important for the cooperatives, but the governments' inflexible clinging to financial

forming important roles in rural areas and offering many sections of the population (peasants, artisans, etc.) economic advantages for their members' businesses. The prevailing opinion that cooperatives are "collective enterprises" and, connected to this, their being associated with elements of the planned economy, is however leading to the significance that the cooperatives can gain in the market economy – especially regarding market access for members – often hardly being recognised or even negated. Based on a one-sided expectation of the positive social effects that cooperatives promise, their general mission is interpreted as that of having to serve the community and realise a superficial fulfilment of members' needs in the context of a subsistence economy. Owing to the dual nature of the cooperative as a voluntary association of individuals with a common business, problems may arise particularly in the context of implementing the legal framework and the cooperative principles, so that it is especially government authorities that tend to interfere with the independence of cooperatives and further restrictions. This is a problem that can still be observed in many countries

### The cooperative sector in Vietnam

The formal cooperative sector in Vietnam comprises around 19,500 primary cooperatives 9,246 of which are farmers' cooperatives, 1,074 loan cooperatives, 3,512 artisans and small-scale industry cooperatives, 1,889 energy cooperatives and 3,779 other service cooperatives with approx. 13 million members. At the secondary level, there are 54 central cooperatives in agriculture, one cooperative central fund for the financial sector and 63 independent regional cooperative associations. At national level, the Vietnam Cooperative Alliance (VCA) is a recognised NGO and an interest group in which around 70 percent of the primary cooperatives are organised. The informal sector consists of more than 400,000 self-help groups working along cooperative lines.

subsidies results in members of cooperatives relying economically on government support and not taking any entrepreneurial initiative. Thus the Ministry of Planning and Investment's policy of increasingly addressing the inequality between cooperatives and other types of enterprise ought to be welcomed, although a policy of intervention leads to dependence. If a cooperative has the character of an enterprise, it can lay claim to being independent and being able to act without government intervention.

### ■ The reasons for failure are elsewhere

In reality, the poor results of cooperatives occur at an entirely different level. Locally, existing scope is not made proper use of; largely, members lack the knowhow to actively contribute to the decision-making process of the cooperative and perform effective control of its bodies. In many places, the civil society foundations and conditions provided for the communication and co-ordination processes are not mature or may even be non-existent. So far, the more than 50 central cooperatives in Vietnam have not succeeded in raising the cooperatives' share of the value added chain in agricultural produce, since the downstream manufacturing and finished-product sectors continue to be dominated by government-owned enterprises and the subsidiary sharing of activities by primary and central cooperatives has not yet reached maturity.

### ■ The work of the DGRV

The German Cooperative and Raiffeisen Association DGRV has been operating in Vietnam for several years and supports the farmers' cooperatives in various areas:

- Direct consulting for primary cooperatives and workshops on coop-

*The formal cooperative sector in Vietnam comprises more than 9,000 farmers' cooperatives.*

erative principles have resulted in improvements in internal governance structures. Primary cooperatives and cooperative associations are giving more consideration to the needs of their members; the services offered have been diversified on the basis of the market, and to the benefit of the members. Since the cooperatives help shape and develop the local social and relationship structures, the measures indirectly also promote civil society and social structures.

- Providing advice on the development of functioning association structures and for the management of savings and loan cooperatives strengthens the link between the cooperative real and financial sectors. This enables the cooperatives step by step to invest in their businesses.
- Consulting measures relating to the planned revised version of the Law on Cooperatives have promoted the formation of opinion, the representation of interests and thus networking among the cooperative groups. Statements and comments by everyone linked to the cooperative movement have been brought into the legislative process; this has increased the influence of civil society vis-à-vis the government institutions at macro level. A platform has been created enabling communication and the discussion of specialised



Photo: DGRV

issues by all actors in the sector with the government institution at eye level, and hence also the option of having a say in legislation. Largely, it is a question of information to avoid wrong assessments and mistrust. The openness of the decision-makers at the various levels regarding this issue shows that result-oriented dialogue is possible.

The consultancy measures have given the cooperative notion, which is based on the self-help approach, a new edge, with the activities of other specialist organisations certainly facilitating synergy effects, too. Of course these developments will also have their limits as long as the sometimes myopic view of decision-makers in the cooperatives prevents long-term opportunities from being made use of or when authorities wrongly fear a loss of power. Thus well-meant strategies to promote cooperatives can counteract one another. What counts is to give support strategies a comprehensive orientation and work at different levels and in different areas at the same time: in the financial and the real sector, in organising value added chains, but ultimately also in a strict business strategy in every cooperative in order to attain economic and hence also social effects.

# A significant factor, but not a panacea

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

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

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

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

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

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

### ■ The significance of the rural economy

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



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

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

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

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Members of a cassava-producing cooperative in Brazil.

Photo: DGRV

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

in particular share responsibility.

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### ■ What the government has to perform

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

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

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

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

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

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

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

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

Cooperating among agricultural businesses at different stages of the

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

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

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

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

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

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

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

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

### ■ Weaknesses

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



Photo: DGRV

"Conference room" of a village bank in Laos.

*Without networking  
no success!*

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

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

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



Photo: DGRV

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

### ■ Success factors

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

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

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

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

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

# Nicaragua: Cooperatives at the crossroads

High hopes are vested in agricultural cooperatives when it comes to establishing export-oriented value chains, particularly for guaranteeing the socio-economic participation of farmers on a lasting basis. Looking at the example of cocoa production in Nicaragua, this article describes the role that cooperatives can play in this process, but also the limitations that they encounter.

With an area of 130,000 square kilometres and around 5.9 million inhabitants, Nicaragua is the largest country in Central America. Fifty percent of the population in rural regions live in poverty. Given the country's predominantly agrarian structure, agriculture is the most important sector of the economy. Nicaragua depends on just a few export products – coffee, meat, sugar, gold and groundnuts – which makes it vulnerable to fluctuating global market prices. Where soil fertility has been depleted by inappropriate farming practices and over-exploitation, poor yields and low revenues are a problem. In practice, there are virtually no alternative options for farmers as individuals to generate higher agricultural income from their farms.

## ■ Improving access to resources

Since 2002 German development Cooperation has worked in collaboration with the German confectionery company Ritter Sport to support cocoa

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production in the buffer zones of Nicaragua's biosphere reserves. The aim is to increase family income for the rural population. In Nicaragua, however, relevant interventions combined with the introduction of innovations often fail due to a lack of farmers' organisations, without which farmers are cut off from advisory services, education and training, markets and loans. The proposition is therefore to promote cocoa production in tandem with a cooperative form of self-help organisation (SHO). Cooperative SHOs make it possible for farmers to access institutions and markets in the rural economic system (factor, product and financial markets; legal rights to the ownership, disposition and use of land; education, training and advice, etc.). What the chocolate manufacturer hopes to secure from the Cooperation is a long-term supply of high-quality cocoa.

Back in the 1980s Nicaraguan cooperatives were officialised to implement the state's agricultural reform policy and assigned a role in state land distribution. In contrast, their main function since 1990 has essentially become that of a para-economic enterprise supporting small family farms. This has changed the emphasis of cooperative self-help, which is rooted in the duality of an economic enterprise coupled with social and

public-benefit functions. The economic aspect has taken primacy from the social aspect. Amid changing macro-economic conditions, this had become a necessary transformation. Cooperative enterprises can only survive in the market if they can assert themselves in competition with private-sector companies. Therefore modern cooperatives, in Nicaragua as elsewhere, define themselves by the criteria of the International Cooperative Alliance (ICA):

*"A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."*

*An innovation: Farmers bring their cocoa in the pulp (juice) to the cooperative where it is weighed and then fermented.*



Photo: J. Bock, GIZ

### ■ Theory and practice ...

This current ICA definition of a cooperative is supplemented with seven cooperative principles. However, certain of these are in contradiction with the reality of cooperative SHOs in Nicaragua:

1. **Voluntary and open membership of the cooperative** is at odds with the assistentialism practised by some supporter organisations and the officialisation of SHOs by the state.
2. **Democratic decision-making** is at odds with the intransparency and clientelism found in many cooperatives.
3. **Member economic involvement in the collective enterprise** is at odds with the economic self-interests of full-time functionaries who run the cooperative as an end in itself.
4. **The autonomy and independence** of the SHO is often at odds with new dependencies upon the state and support organisations.
5. **Training, upgrading and information for the development and participation of members** is at odds with the high level of illiteracy among SHO co-owners.
6. **Cooperation and fusion with other cooperatives** is impeded in many cases by the top functionaries' fears of losing their own positions.
7. **Economic provision for the future of the community of cooperative members** is at odds with the low profitability and poor business management of the collective enterprise.

While these contradictions do not apply uniformly to all cooperatives, the author has observed their existence in a variety of manifestations in the agricultural sector over the past twenty years.



Photo: J. Bock, GIZ

*Fermentation in the cooperatives guarantees higher processing quality. Companies such as Ritter Sport are very interested in this type of cooperation.*

### ■ Cooperatives within the cocoa value chain

Although the use of the cacao plant for family subsistence in Nicaragua goes back more than a thousand years, the production of quality cocoa for export as part of a value chain is an innovation for the farmers. Because they lacked expertise in cocoa production, processing and marketing, in the past most of them only produced small quantities of low-quality cocoa which achieved correspondingly low prices on the market. Nicaraguan cocoa has extremely good quality potential, however, thanks to its high proportion of Criollo genes. The opportunity to export it at decent prices was created by the involvement of the German chocolate manufacturer in the framework of a public-private partnership (PPP). At the moment, cocoa production is in the hands of around 6,500 family farms, many of which are affected by poverty. The majority of cocoa farmers have organised themselves in around thirty self-help organisations.

### ■ Stumbling blocks ...

Success in promoting the members of small-farmer cooperatives as stakeholders in cocoa production is constrained by obstacles in various areas. These include:

#### **Skill-level of members to run cooperatives and develop organisational structures:**

High rates of illiteracy among cooperative members mean that most are excluded from actively helping to run their SHO. As a result, it can be difficult to fill key governance roles, on the supervisory board for instance. Many cooperatives suffer from management that is less than efficient and transparent, and this in turn prevents members from exercising adequate control. Furthermore, the inexperience of cooperative members often militates against attempts to operate an owner-run SHO as a businesslike enterprise. It also creates the conditions for corruption within the enterprise.

#### **Venture capital accumulation and access to borrowed capital.**

The overwhelming majority of cooperative companies have an inadequate capital base. In part, this happens because members have not, or not fully, paid up their shares in the company, and the board fails to call in the outstanding share capital out of misguided sympathy. Capital is thus largely acquired via donations and subsidies from international Cooperation and civil society, which contradicts the cooperative principle of autonomy.

Another possibility for capital accumulation would be the redistribution of profits to members. However, this possibility is ruled out by the minimal profits of many cooperatives. Moreover, in past instances, profits have been spent or diverted by functionaries under the guise of intransparent business policies. Cooperative enterprises without adequate capital are forced into heavy borrowing, which cannot usually be serviced by the private banking sector due to a lack of collateral. As a con-



*After fermentation, cocoa beans are dried ready for processing.*

tional going rate. The real advantage for the farmers is the sale of the cocoa via the value chain: as a high-quality niche product, the cocoa is mixed with conventional cocoa varieties that sell for much lower prices, creating a win-win situation for the organised cocoa producers and the chocolate manufacturer.

### ■ Is all the effort worthwhile?

In view of the numerous problems, it is justifiable to question how worthwhile it is to promote cooperatives in the value chain. On that point, it must be noted that the production of high-grade cocoa by non-organised farmers is more or less unfeasible. Quality cocoa requires a technically flawless fermentation procedure, something that is impossible on the individual farms. In Nicaragua there are no private service providers who can take charge of this aspect. Nor are there enough private entrepreneurs who will constantly buy up the raw product. International cocoa buyers require trading structures organised on a long-term basis, which cooperatives can offer, whereas non-organised farmers cannot. All this gives cooperatives a quasi-monopolistic justification of their existence to support the introduction of the cocoa value chain. However, their existence is precarious due to the duality of their enterprise, the lack of any culture of cooperatives in the country, and the extreme educational disparities of their members; and all the more so when the time comes for GIZ to withdraw as the supporting structure. Having been created to solve an immediate problem, cooperatives in Nicaragua must now demonstrate to members, employees and trade partners within the value chain that they can also be efficient, and hence indispensable, in the long term.

sequence, cooperatives have to seek finance in the informal sector, which is only possible at high rates of interest. The other real option for external financing consists of supplier and buyer loans provided by business partners within the value chain.

**Access to markets for different cocoa-quality segments.** The cooperatively-organised cocoa farmers have very little experience of collective marketing or any comparable entrepreneurial processes. This hinders the development of the necessary quality consciousness among producers and the establishment of long-term business links between cooperatives and market partners.

These problems raise costs or eat into the revenues of cocoa producers and lead to instabilities in their cooperatives. A further problem of many cooperatives in the cocoa sector is that their establishment goes back to an externally directed process, which has a negative impact on the members' sense of "ownership". In the long term this inhibits the members' identification with their company, which in turn

is detrimental to participation. Added to this are economic conflicts of interest between members and employees of the cooperative.

### ■ ... and responses

In order to build competence in the cocoa sector, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Deutscher Genossenschafts- und Raiffeisenverband (DGRV, the German Cooperative and Raiffeisen Confederation) and other training and upgrading institutions are supporting the cooperatively-organised farmers. However, these programmes are constrained by the lack or ineffectiveness of state institutions, the members' inadequate basic training and their sometimes limited motivation.

Market access for high-quality cocoa from Nicaragua is now possible through the partnership with the German chocolate manufacturer – with the support of international Cooperation. The buyer pays a price for the (organically produced) cocoa that is about 15 percent higher than the interna-

Photo: J. Beck, GIZ

# Between organic development and state control

Five years after the first national farmer cooperative law of the People's Republic of China was enacted, numbers show an overwhelming success. Over half a million cooperatives have been registered already. But is there enough institutional stability in a tightly controlled rural economy amid a rapidly changing society?

Joining productive assets and working together in cooperatives is a way to increase the power of farmers and of otherwise disadvantaged economic actors by co-ordinated action. In Chinese history, the development of collective organisations among the farming population was always intertwined with the interest of the central power to exercise control over a vast amount of densely populated rural areas. Under the various imperial dynasties, individual farming families were registered under the *baojia* system to facilitate the collection of tax revenues. A certain number of farm families were arbitrarily assigned to a *jia*. The imperial administration named one of the male household heads as leader of the *jia*, while one of the *jia* leaders became leader of the *bao*. Imperial administrators were thus able to collect taxes in an effective way as all members of the *baojia* would be held responsible for tax evasion of individuals.

In the beginning of the 20<sup>th</sup> century, some Chinese intellectuals started

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to study and introduce the theoretical concept of modern cooperatives, based on contacts established with Western countries and Japan. In 1934, the first national law on cooperatives was issued. By 1945, the number of cooperatives had grown to about 180,000. However, their impact on improving the increasingly impoverished rural population was marginal. Credit provided by these cooperatives went mostly to the local elites. After the founding of the People's Republic of China in 1949, the new government established a comprehensive land reform, expropriated the landlords and redistributed the available land among the farming population. After establishing mutual self-help groups, the people's communes were founded in 1958 as a means to collectivise all land and farm assets. This policy, combined with the forced industrialisation under the so-called "Great Leap Forward" campaign, led to disastrous outcomes: in only four years, at least 30 million inhabitants of rural areas died because of hunger and malnutrition. After 1962, the most damaging policies were reversed, but the smaller units of the people's communes, the so-called production brigades, remained the pillar of the rural economy for another two decades.

## ■ From dissolution to boom

With the launch of the economic reform and "opening-up" policy under Deng Xiaoping in the late 1970s, the people's communes and related types of organisation were dissolved. Under the so-called household contract system, farming was again primarily characterised by family farm units. Under the individual responsibility of the farming population, production of food and other agricultural commodities rose significantly. Growth in agricultural productivity was spectacular and contributed significantly to poverty reduction in rural areas. However, collective forms of agricultural production did not disappear completely. By the end of 2005, the total number of farmers' professional associations or other collective groups in China had reached about 150,000. The number of farmer members had reached 2.363 million, accounting for 9.8 percent of the total number of rural households.

The first cooperative law at national level came into force in 2007, giving the various forms of collective organisations a legal basis. It was preceded by a similar law in Zhejiang province on the east coast, where the local economy had developed well. The national law explicitly states the independence of cooperatives, emphasising that members must



The director of the Lianfa Sanyou Fuji Apple Cooperative in Baoding municipality.

Photo: G. Fleischer

## Farmer cooperatives in China from 2007 to 2011

|      | Number of farmer cooperatives<br>(unit: 1,000) | Registered capital (unit:<br>100,000,000 RMB) | Number of registered members<br>(unit: 1,000) | Actual number of members<br>(unit: 1,000) |
|------|--|---|---|---|
| 2007 | 26.4   | 311.7   | 350.0   | 2,100                                     |
| 2008 | 110.9  | 880.2   | 1417.1  | 12,000                                    |
| 2009 | 246.4  | 2461.4  | 3917.4  | 21,000                                    |
| 2010 | 379.1  | 4545.8  | 7155.7  | 29,000                                    |
| 2011 | 521.7  | 7245.4  | 11964.3                                       | 41,000                                    |

Source: According to data from Ministry of Industry and Commerce, and the General Station of Administration on Rural Cooperative Economy, Ministry of Agriculture

be voluntarily organised. Cooperatives have to register with the local Bureau of Industry and Commerce, while the local government instructs the agricultural administration along with other sectoral departments to provide guidance, support and services to farmer cooperatives.

The first five years following the promulgation of the law have seen a high increase in the number of cooperatives (see Table above). The total of registered cooperatives has grown to over 520,000, while official membership has risen to nearly twelve million. According to government statistics, there are an additional 30 million non-registered members of these cooperatives.

### ■ Limitations

The law deals only with primary cooperatives. However, given the small average farm size in most of China's agricultural areas, the economic power of individual cooperatives in food markets is comparatively limited. The law does not allow the individual cooperatives to federate ("cooperative of cooperatives"). This omission has proven a significant constraint for the cooperatives to growing and gaining strength vis-à-vis the various agri-food market players. In China, the rapid pace of urbanisation has led to a market environment which is increasingly dominated by large conglomerates of processors, trading houses, wholesalers and retailers. Entering this buyer-dominated market environment requires high capi-

tal investment. Small farm units as well as cooperatives with a limited number of small farmers as members can no longer benefit from their higher land and labour use efficiency, compared to large-scale commercial farm units.

The law allows for enterprises, government-affiliated agencies and social organisations to become members of farmer cooperatives. This clause provides opportunities to create integrated supply chains that are capable of competing with commercial enterprises. Whereas there are stipulations that limit the share of these organisations in the membership, the heterogeneity of members poses risks for the sustainable institutional development of the cooperatives themselves. Agro-processors may have interests that differ from farmers when it comes to prices, profit distribution and investment strategies. Similarly, government-affiliated agencies may pursue their own interests pertaining to bureaucratic rent-seeking.

### ■ Government's support versus non-interference

Each year, the ruling party and the government release a series of policy papers as guidance for the annual work plans of ministries and other agencies. Promotion of farmer cooperative development appeared consistently in the No 1 Document from 2006 to 2012, except for the year 2011. The government regards cooperative development as one of the major instruments to foster agricultural modernisation and

increase rural incomes and livelihoods. In recent years, China has increased its overall government support to agriculture and rural development because of the growing concerns about income disparities between the urban and the rural population.

Cooperatives benefit from the increased scope and size of these government support programmes, notably in the areas of access to rural credit and subsidies for farm and processing equipment and storage facilities. Some Chinese policy analysts regard the promotion of farmer cooperatives as an effective tool to advance the agricultural sector's interests in international trade negotiations and protect farmers' interests in a more convincing manner than the government would be able to achieve. However, there is the challenge of following the principle of "support but don't interfere" when developing a favourable, supportive environment for the development of cooperatives. Quantitative targets for supporting cooperatives in certain areas are often linked to individual performance indicators for local government and party administrators. Cooperatives may be founded for the very reason of gaining access to government programmes, but without a stable internal organisational structure.

### ■ Experiences of a Sino-German collaboration project

The Ministry of Agriculture of the People's Republic of China and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), jointly tested innovative approaches for external support to the institutional development of cooperatives. The project provided block grants to 30 individual cooperatives in the province of Hebei, which lies in the northern fertile plains. Each cooperative had access to grants for a range of pre-defined activities which were in line with the overall



### Characteristics of 30 supported cooperatives in Hebei province

| Sub-group of cooperatives   | % of total | Average number of members | Average number of share-holders | Average registered capital (RMB million) | Average turnover in 2011 (RMB million) | Average growth in turnover in % (2011 over 2010) |
|---|------------|---------------------------|---------------------------------|--|--|--|
| Initiated by government officials, with a business enterprise as central element of the structure | 13         | 1,342                     | 137                             | 3.6                                      | 14.5                                   | + 53   |
| Initiated by government officials, with a focus on production and service delivery                | 37         | 731                       | 232                             | 2.9                                      | 18.8                                   | + 35   |
| Founded by farmers and farmer-led   | 26         | 743                       | 79                              | 5.2                                      | 6.8                                    | + 17   |
| Organised by a business enterprise  | 23         | 1,194                     | 101                             | 18                                       | 47.7                                   | + 18   |

Source: GIZ project data, based on evaluation report

project objective to foster the adoption of environmentally benign agricultural strategies. The cooperatives elaborated their own development plans, while external contributions from the project had to be matched with own contributions of an equal amount. Activities included the certification of the production base according to “green food” or organic standards, training sessions on standardised production technologies, and other support to gain improved market access. Also, the grants enabled the cooperatives to gain improved access to external technical support from universities and other professional institutions.

Most of the cooperatives supported evolved from earlier organisations that had existed before the farmer cooperatives law came into force. About one third emerged from farmer associations, while 30 percent of the cooperatives were based on structures linked to contract farming. Only 37 percent of the cooperatives were established after 2007. Results of the support pro-

gramme showed that the cooperatives were able to achieve significant economic gains within a short period (see Table above). However, one common constraint to further expansion is access to capital for large-scale investment.

Half of the cooperatives were initiated by acting or retired local government officials. In almost all cases, these cooperatives have developed very well. One significant success factor is access to funding from government programmes such as rural poverty alleviation and agricultural development projects and to bank loans which has been facilitated by the government officials thanks to their *guanxi* (Chinese expression for informal network).

Another group of cooperatives has been initiated, and is being led, by farmers. Support from members in this group of cooperatives is not necessarily higher than in the above-mentioned types of cooperative. Mostly, their focus is on supporting services to members in the areas of input supply and facilitation of market links. However, these cooperatives enjoy less support from government programmes.

Some of the cooperatives (23 %) are formally chaired by farmers but still strongly influenced by a business enterprise operating a processing, storage or trading unit. Investment is coming mostly from these enterprises. Thus, ordinary farmer members play a passive role in this type of cooperative.

### Conclusions

In a rapidly developing economy accompanied by a fast pace of urbanisation, joining cooperatives offers significant benefits for the large number of small-scale landholders in China. The new cooperative law has provided an enabling institutional environment for cooperatives to achieve strong growth of turnover and member’s income within a short period of time. However, project results from Hebei province suggest that access to government-controlled resources is one of the major drivers for economic success in most of the cooperatives, especially at their initial stage of development. However, in a tightly-regulated market for rural credit, preferential access to financial resources which is needed for the expansion of the cooperatives’ business ventures into processing and marketing plays a major role for long-term institutional development. Cooperatives without preferential access to these resources may be able to achieve economies of scale in delivering services such as the supply of inputs to their members, but will most likely not be able to develop themselves in an economically sustainable way.



Photo: G. Fleischer  
Female members of the Fengyu Seed Cooperative in Baoding municipality.

# Community banks: A chance for agri-based African rural communities

The huge gap between commercial banks and smallholder farmers' needs and the neglect of African indigenous knowledge of forms of savings and borrowing have remained a great hindrance to poverty reduction in Sub-Saharan Africa. The article describes the characteristics of community banks and their evolution from tackling emergencies and social avenues as forms of savings to what are now commercial investments.

Community banking can be defined as a process where ten or more people come together to form savings and borrowing self-help groups (SHG) geared towards increasing access to credit for joint venture enterprises formation. Community banks thrive on a group spirit, giving each member responsibility. Unlike the commercial banks, lending and borrowing decisions here are made based on the SHG members' understanding of their local needs, their families, businesses and socio-economic contexts.

Currently, there is a huge gap between communities and commercial banks. The latter are usually hesitant to lend money to small farmers due to the unpredictability of the agricultural sector. Where loans are secured, the interest rates are too high for smallholders to hit their targets. However, the

authors are not making a faraway call to boycott commercial banking services: in fact, the reverse is true. The aim is to suggest a financial model based on the cultural context of rural communities, which could motivate commercial banks leveraging the economic capacities of rural communities.

## ■ An African tradition ...

Community banking under SHGs has been part and parcel of African social structures and belief systems, although its potential to generate considerable economic development has so far been disregarded by development planners and policy-makers. Most development models have

not taken into account challenges that afflict African rural communities, including the misdistribution of income and property. There still exist stereotypes like that Africans lack a saving culture. Before the Structural Adjustment Programme (SAP) was started in 1987/88, agricultural growth and development had been predominated by farmers' cooperative unions. Their collapse in the 1980s and new, institutional economic policy thinking in the context of SAP, which entailed a liberalisation of the financial sector, have not significantly transformed thinking within commercial banks. Their promotion strategies have persistently remained weak, and very little

*A farmer evaluating a training session.*

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Photo: R. Kaliisa

has been done in enabling a supportive environment for smallholder farmers. Ironically, emphasis has always been placed on collateral security, while institutional factors like the social capital of the SHGs have been neglected.

## ■ ... with its own rules

In contrast with the old believe and stereotypes, Africans will maintain a saving culture if they are organised in self-help groups. However, this saving culture has taken on traditional ways and forms differing from those of the western commercial model. In South Western Uganda, where the Open Distance Learning Network (ODLN) team has concentrated its activities, cases of an evolutionary saving culture for some women farmers and their groups are indeed interesting, progressing for example from chickens to goats and then cows (the "livestock ladder"). There is also a clear evolutionary pattern of SHGs growing from tackling emergencies (e.g. burial and sickness costs) on to meeting social needs (e.g. introductions and weddings) and to what is now savings and borrowing for commercial investments.

## ■ How can SHGs evolve into community banks?

The process of a SHG to evolve into a community bank is chiefly determined by three stages. In the first stage, group formation is mainly emergency-driven, i.e. burials, droughts, and epidemic outbreaks, among other social problems. In case of social events, members contribute and offer support for each other on occasions like new harvests, weddings or the birth of twins, among other social obligations.

In the second stage, members realise the need to develop their households jointly. This can take different forms but mainly, emphasis is on non-performing assets like savings for material support in form of furniture,

### A typical example of a community bank in Uganda

Sarome Kantaki is a 75-year-old founder of Mumpalo Ngozi SHG in South Western Uganda. She started the group as a burial group in 1996, together with other two colleagues. Fifteen years down the road, the group is now a saving group benefiting up to 30 women and 30 men with a net working capital valued at 10 million Ugandan shillings, equivalent to 4,000 USD. The SHG has currently applied for a loan worth 3,200 USD to invest in a boat engine in order to readily access markets in towns like Kabale, as well as for tourists visiting Lake Bunyonyi.



Sarome Kantaki, founder of Mumpalo Ngozi SHG.

contributions to buy iron sheets, house utensils and other domestic needs. At this stage, members can opt to start lending small loans to members specifically for joint or individual enterprises at a small interest fee.

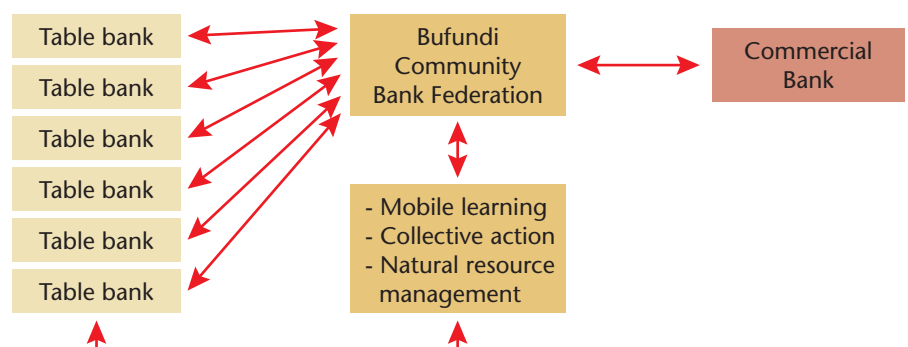
The third stage is the most important one. Here, the members realise the need to vigorously save and borrow in order to expand their businesses. However, their capacity is always hindered by financial capital. Here, members realise the need to outsource for additional funding, especially from a commercial bank. At this stage, they may have a prior experience with a commercial bank, either positive or negative, but a high level of empowerment and engagement is realised. Members can also set bylaws for attendance, penalties, governance, interest rates, loan repayment either weekly or monthly and shareholding, among other issues. At this stage, a high level of engagement is necessary. This can be in form of organisational development, negotiat-

ing skills, conflict resolution, the signing of a Memorandum of Understanding (MoU) with stakeholders like traders or input dealers, regular access to information and better book-keeping skills.

Today, major innovations/achievements in the community banking model involve the integration of Information and Communication Technologies (ICTs) like mobile money for savings and borrowing and issuing of financial statements to members. One of the community banks in Uganda has hired a financial consultant to advise the members on commercial investment opportunities for their accumulated profits.

In India, the Indian Overseas Bank, one of the major public sector banks, has offered loans to 320 women community banks to the tune of 112,000,000 Rupees (approximately 270,000 US dollars). This example shows how community banks could bridge the gap and make the com-

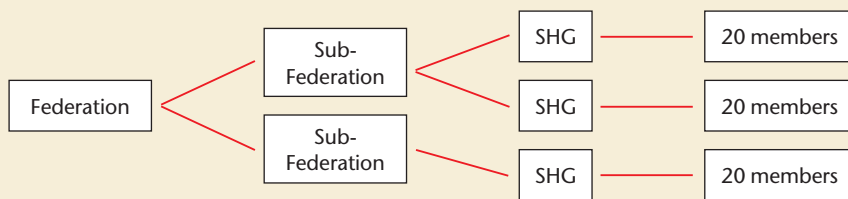
### A community bank conceptual model used by Open Distance Learning Network (ODLN)



### Community banking models adopted in other countries

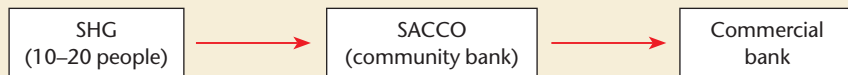
#### The Vidiyal model in India

In India, women in groups of 10 to 30 come together and get organised in saving and credit schemes where they meet once a week to collect their savings. If extra money is needed, the matter is referred to lower-level federations called sub-federations, which may comprise other SHGs. The sub-federation may be affiliated to a higher federation or an umbrella of other federations, which can lend money too. When the women require a loan which their SHG cannot cater for, they may request the sum from the sub-federation, where 10 percent of their savings should be guaranteed. The sub-federation may also apply to the higher federation in case the loan required is not totalling up, and the higher federation can liaise with a commercial bank



#### The Ugunja Community Bank in Kenya

In the Kenyan Ugunja Community Bank, SHGs consist of 20 members who form a table bank in which they save. If there are excess savings, these are transferred to a community bank called a saving and credit cooperative (SACCO). If there is a need for a larger loan by members, then the community bank will liaise with a commercial bank on behalf of the members.



munity move closer to the commercial banks.

Currently, the Open Distance Learning Network (ODLN) has mobilised and strengthened 40 SHGs comprising up to 1,000 farmers through local savings and credit as a form of building social, human, financial and physical capital. The model mainly supports potato and honey value chains where farmer enterprise groups are assisted in collectively managing their natural resources, purchasing clean potato seeds, value addition, savings and borrowing as well as collective trading in marketable crops like beans and sorghum. The community bank model that is used by ODLN is presented on page 27.

SHGs have also been empowered in business proposal formation, organisational development, negotiating skills,

with MoUs signed, constitutions and formulating bylaws as well as the exploration of Information and Communication Technologies (ICTs) like mobile learning through their mobile phones. A series of field visits and capacity building training workshops have also been conducted.

Collective action in the form of soil and water conservation (SWC), collective access to inputs, information on markets as well as collective marketing are some of the achievements to date.

#### ■ Key lessons from community banks

The model of community banks is not new. A number of approaches have been adopted from different countries, such as India (Vidiyal model) and Kenya (Ugunja model in the country's West;

see Box). Some common aspects and recommendations can be derived from experience gathered:

1. If rural credit is blended with appropriate capacity building, the performance of rural credit will be much better vis-à-vis productivity, returns and non-performing asset (NPA) levels.
2. Capacity building of community banks can enlarge the market for commercial bank credit among small and marginal rural poor.
3. The modern information and communication technologies through structures such as rural Internet kiosks, rural telecentres, mobile phones and community radios can facilitate the capacity building processes in a spatial and temporal context which is financially viable, economically feasible and socially acceptable.
4. SHGs are formed on the basis of kinship and neighbourhood. Thus a strong sense of belonging, joint liability and participatory decision-making processes characterise the groups.

However, creating an appropriate model for a particular country does not necessarily mean adopting the existing model working in one country or community as there will be individual environmental needs and constraints.

Community banks are envisaged to bridge the huge gap between communities and commercial banks. However, this is only possible through tapping into the indigenous saving schemes which have existed with farmers for a long time, rather than imposing new ones on them.

More information:  
[www.l3fuganda.mak.ac.ug](http://www.l3fuganda.mak.ac.ug)

# Beyond economic empowerment

The acronym SHG has become very popular in rural India, especially among the womenfolk: Self-help groups have turned out to be a reliable and fair source of credit for them. This article demonstrates the important role of SHGs in the empowerment of women, in overcoming cultural and religious barriers, and in fighting corruption.

In India, even the central and state governments have recognised how helpful and effective self-help groups (SHGs) can be for improving the livelihood of the poor. Various government schemes for livelihood enhancement are accordingly routed through these organisations. The latest initiative is National Rural Livelihood Mission, inaugurated by Sonia Gandhi, Chairperson of the UPA (United Progressive Alliance), in June 2011. According to Sonia Gandhi, about 5,000,000 self-help groups are making efforts to improve the condition of women in particular in various states of India.

The SHG movement started in 1985, with the objective of providing credit to women on a sustainable and fair basis in order to free them from dependence on private moneylenders – and the resulting consequences such as bonded labour and child labour. The movement gained momentum in 1992, when the National Bank for Agricultural and Rural Development (NABARD) launched the SHG-Bank linkage programme. Under the SHG-Bank linkage, the SHGs can get loans from the bank amounting to more than twice their total savings.

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## ■ Influence is increasing

The fundamental objectives of the SHG movement were the economic empowerment of women (and men) through micro-credit and developing personal initiative and leadership abilities among poor people. During the last two decades, the role of the SHGs in India has changed substantially; gradually they have extended their activities and interventions in economy and society to the following domains:

**1. Local affairs:** SHGs campaign on a community basis, for e.g. the implementation of government programmes for community development and particularly in support of indigenous groups, share information about domestic violence, the right to education, etc. Through active lob-

bying of administrations and elected community representatives, the SHGs try to mobilise capital of local development funds for their villages.

**2. Women's rights:** Matters and problems are actively brought up in local political committees (Village plenary meetings / Gram Sabha). The SHGs address a wide range of practical needs of women such as drinking water, health care, education, construction of roads and houses for the poor, old age pensions or the ban on liquor. Effective political influence is particularly visible in mobilising the village women: The fact that group members can articulate issues and take a stand on behalf of village women in the meetings has considerably contributed to the improvement of the women's situation and their empowerment.

**3. Representation of interests:** The SHGs act as "pressure groups", especially for the rights of unprivileged groups, for example through the implementation of food ration cards for poor families.

## ■ Research on SHGs and women's empowerment

In spring 2011, the "Centre for Development and Harmony" in the

*Self-help groups have played an important role in the empowerment of India's rural women for many years.*



Photo: Karl Kübel Stiftung

### SHG – a definition

According to the original concept, a self-help group (SHG) is a registered or unregistered group of persons having a more or less homogenous social and economic background. The members voluntarily come together to save small amounts of money on a regular basis. They mutually agree to contribute to a common fund to meet their emergency needs on the basis of mutual help.

city of Bhopal, Central India, conducted a survey on the role of SHGs in the empowerment of women. Members of 13 SHGs were interviewed. They belong to the 1,090 SHGs formed by the organisation Good Shepherd Health Education Centre (GSHEC), in Karamadai near Coimbatore in South India. The total savings of the SHGs in this area amount up to 24,398,427 Rupees, the equivalent of about 407,000 Euros. The women of the groups surveyed shared their success stories about income-generating measures. They invested the revenues they had gained in the education of their children, expanding their own businesses and buying assets. They were proud to report on their empowerment process, and beyond that, they had taken action at different levels to solve problems of the village community.

### ■ Strengthening political awareness and solidarity

“The initial motive for starting the SHG was to get loans and to create income to improve the family’s living conditions. Gradually, a kindred bond emerged among the members,” says the author of the study, Father Jacob Peenikaparambil from the Centre for Development and Harmony. “In this process, it can occur that close relations emerge between SHGs, whose members belong to different cultures and religions and speak different languages. Thus SHGs are enhancing the

national integration and identity on a local level.”

The study also revealed that the SHGs stand for more value orientation and integrity. To give an example: Prior to the assembly election held for the Tamil Nadu assembly in May 2011, agents of a political party came to the village of Vadvalli to distribute money. The villagers, under the leadership of SHG members, rejected the offer of money with the argument that their votes were not for sale. These acts of altruism and probity by the SHGs are excellent examples of the spiritual growth of the SHG members.

### ■ Fighting corruption at a grassroots level

In the wake of major political scandals in India during 2011, corruption has come into the focus of the political debate. Issues that have been raised include deficits that still persist in different regions of India in the public distribution system, in programmes for children and in schools. Other problems being addressed are the ineffective functioning of the village-level institutions and the large-scale diversion of items under the Public Distribution System (PDS), including the role of the village Sarpanch (the President of the Gram Panchayat, the lowest level of the Local Self-Government). There are claims that the dealers of the PDS distribution centres (shops) and government officials in charge of the Food and Civil Supplies Department are also involved in corruption. According to an estimate of the Central Government, about 40 percent of the wheat and rice allotted through PDS is diverted to the open market and does not reach the target population. Very often, the allocation of licenses for PDS shops is performed with political patronage, and later the politicians can expect rewards. This is the main reason for corruption in the PDS. The government officials also demand a share from the PDS dealers for allotting items on a regular basis.

In the interviews conducted for the survey, SHG members frankly addressed these deficits. Father Peenikaparambil believes that strengthening the self-help groups and their lobby could be an important step in consistently controlling local administration and already taking action against corruption at a grassroots level.

### ■ Self-help groups promote altruism

“Altruism is an important aspect of spirituality in most of the religions,” says Father Peenikaparambil. “The religious background of the members of SHGs and of those promoting the SHGs may be motivating them to be altruistic”. From the interaction with the members of 22 SHGs, he could learn that the process of internal transformation taking place in the SHG members as a result of working together was motivating them to become altruistic and transcend their self-interest towards becoming concerned about others.

*The article is based on a study conducted by Father Jacob Peenikaparambil from the Centre for Development and Harmony, Bhopal/India.*

### Project support

Karl Kübel Stiftung für Kind und Familie ([www.kkstiftung.de](http://www.kkstiftung.de)), based in Bensheim, Germany, has been supporting the “Good Shepherd Health Education Centre” (GSHEC) in Karamadai in its activities to achieve women empowerment for the last two decades. The formation of women’s self-help groups and the focus on promoting a holistic, family-based development approach are essential components of the interventions. The projects are substantially co-funded by Germany’s Federal Ministry for Economic Cooperation and Development (BMZ).

### The Raiffeisen idea – a model for sustainable development?

The International Year of Cooperatives is being accompanied by numerous events. One of them was the conference “The Raiffeisen idea – a model fit for the future”, held in Bonn, Germany, in May 2012. Here, the focus was on whether cooperatives can contribute to sustainable development.

With more than 900,000 cooperatives world-wide applying Friedrich Wilhelm Raiffeisen’s principles (see pp. 6–9), the concept represented a “model with a future and for the future”, said Franky Depickere, President of the International Raiffeisen Union (IRU), which had organised the event. Charles Gould, Secretary General of the International Cooperative Alliance (ICA – see p. 33), noted that it was now important to use 2012, the United Nations International Year of Cooperatives, “to build a platform, strengthen understanding of the cooperative model, and make people aware of their capacity to do more”. Piet Moerland, President of the European Association of Cooperative Banks (EACB), noted that cooperatives had demonstrated their viability in the South, with cooperatives supplying electricity to 30 million people in Bangladesh. And Hans-Jürgen Beerfeltz, Secretary of State at Germany’s Development Ministry (BMZ), called cooperatives “an essential element” of development cooperation, which was “no longer aid provided by generous donors but investing in better opportunities”.

#### ■ An ethical alternative to commercial banks

West Africa’s Confédération des Institutions financières (CIF) is based on an initiative launched in 2000 to promote credit and savings cooperative networks.



Alpha Ouédraogo,  
General Manager of CIF

CIF represents six major networks using the Raiffeisen credit model and operating in Benin, Burkina Faso, Mali, Senegal and Togo. It now has around three million members, 34 percent of them women. It took 17 years, and the combined efforts of rural and urban cooperative banks, for the cooperatives to make a profit in an environment with virtually nothing to accumulate. Alpha Ouédraogo, General Manager of CIF, calls the now full-fledged financial service agencies “an ethical alternative to commercial banks”.

IRU Secretary General Paul Armbruster told the meeting that in Ecuador, training programmes were being run for loan officers and bank managers, and a government-supervised saving system was being developed with IRU and BMZ support. Other areas of activity included “early warning systems” against financial hazards, special software for credit institutions, and the artisanal and agricultural cooperative sectors. At macro-level, cooperative associations as well as legal frameworks were being established, also with German involvement.

Germany’s Bank im Bistum Essen e.G. has been operating in the micro-financing sector for around five years. Its head of sustainability management Michael Sommer said that via clients wishing to invest money in the sector, loans could be provided for microcredits for women stallholders in



Jaya Arunachalam,  
President of ICNW

Honduras who had formed a cooperative to support the creation of small businesses of their own. Today, the 20,000 women members of the cooperative can be found working as stallholders and bakers, and in other professions. Microcredits are in the range of 550 USD, with twelve months’ repayment. “Only an integrated approach with cooperative structures bringing individuals and institutions together can achieve such results,” Sommer said.

#### ■ Encouraging entrepreneurship

The Indian Cooperative Network for Women (ICNW), an IRU member, is the credit wing of the Working Women’s Forum (WWF), created in 1978 to support women in extreme poverty on the basis of cooperative ideals. ICNW provides low-interest loans to encourage entrepreneurship. Now reaching more than half a million poor entrepreneur women, it can boast a 98.74 per cent recovery rate in urban slums and rural areas. Training in new skills is also provided, with those fully developed as entrepreneurs then passing on their skills to others. ICNW President Jaya Arunachalam said the world was “experiencing a new kind of leadership, with collective wisdom for collective survival”.

Cooperatives in rural areas of the South were still confronted with big problems, Peter Püspök, Chairman of the Board, Oikokredit Austria, reported from a conference working group. Far more money was going into land grabbing than into microcredit schemes. Support from the North was important. “However, the North has to study the needs of the South very carefully,” Püspök emphasised. “The rules in the subsistence economy are different from those of the world economy.”

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The presentations given at the IRU Conference can be downloaded at: [www.iru.de](http://www.iru.de)

## Farmers' self-help organisations – approaches towards managing in solidarity

The debate on sustainability also has to reassess the issue of ethics and the economy: acting in solidarity versus the accumulation of capital in one hand. As a basic principle of acting in solidarity in economics, the notion of cooperatives is becoming ever more relevant in days of unfettered financial markets. Organised farmers' self-help based on the principle of solidarity contributes to overcoming the feeling of being powerless among the underprivileged rural population, both in the South and the industrialised North.

In analogy to politics, managing in solidarity appears as a fundamental democratic concept for economic activities, with equal rights and equal responsibilities for everyone involved, equal participation in the profits gained in solidarity, democratically shared powers with a members' assembly as the respective organisation's sovereign and legislative, and elected executive boards and elected supervisory boards as regulatory bodies. Another crucial fundamental principle is that voluntary participation observing the independence of each participant is ensured, that membership can be resigned at any time, as opposed to forced collectivisation, as was the rule in the former socialist-state capitalist systems, to the detriment of the notion of cooperatives.

The legal framework for managing in solidarity is provided by the basic model of the statutory cooperative. However, in countries in which the influence of the state or big business is too dominant, democratic managing in solidarity may also take place in the legal form of economic associations or partnerships, or in joint stock companies, provided that the basic principle is established in the respective constitution.

A further basic principle is that each member's personal property always has to be safeguarded and protected from asset losses, and members must always be entitled to their share of what managing in solidarity yields.

### ■ Tried-and-tested leadership models

Frequently, well-meant models of managing in solidarity fail when they are implemented. In the author's experience, absolute transparency within the organisation is essential if the "powers that be" are to practice the notion of solidarity rather than enriching themselves. Furthermore, the organisation has to be ready to enter into obligations. Many farmers' associations suffer from only the profit from passing on members' products to consumers being distributed among the producers. But this is the wrong

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*The author (r.) with Indian smallholders in the Lake Periyar Reserve.*



Photo: Private collection

approach, and it will not lead to the necessary level of market efficiency. The actors of managing in solidarity always have to be aware

that they are expected to be more efficient on the market than the rest of the economy. Here, entering into an obligation means that the organisation guarantees its members that their produce is sold at the correct price and payment is performed at the date fixed. In return, the members have to observe their responsibilities regarding quality and a neutral control of production. Only in this manner can managing in solidarity make sense. To participate with fair prices in the value added chain, the individual member has to be able to gain value added vis-à-vis the private sector.

### ■ Transforming value added chains with farmers' self-help

The basic tendency of free capital markets results in rural societies becoming underprivileged. This phenomenon occurs not only in emerging economies but also, and in particular, in the highly industrialised centres of the Western world. Farmers are the economic losers, earning only a rudimentary share of the product's price when it reaches the consumers. The lion's share remains in trading, and the value added chains are dominated by corporate market power. The largest food corporations world-wide, such as Nestlé or Unilever, operate with a shareholder value of well over 15 per cent of their billions worth of turnover, with the original producers working at subsistence level. Farmers' self-help and managing in solidarity has to result in a reversal of value added.



Managing in solidarity in the exchange of economic goods also ought to be given the status of a fundamental principle in an international context. Fair prices and producer groups from different continents dealing with one another on a partnership basis, at eye level, result in an elimination of economic inequality, whereas technical cooperation often merely treats the symptoms.

Farmers' self-help organisations become the key force in regional development as well as in political participation, both in the countries of the South and here in Central Europe. Only too often, though, development is defined via industrial growth; what is needed is a recollection of "Integrated Rural Regional Development" models, which guided technical cooperation in the 1970s and 1980s.

## “Cooperative enterprises build a better world”

The United Nations has declared 2012 the International Year of Cooperatives. Charles Gould, Director-General of the International Cooperative Alliance (ICA), describes the opportunities that this has created.

2012, the United Nations International Year of Cooperatives, is a made-to-order opportunity to tell the cooperative story. The message for 2012 begins with the UN slogan for the International Year: Cooperative **enterprises** build a better world. ICA worked extensively with the UN to ensure that the word enterprises was incorporated into the slogan, to reinforce what we believe is a critical component of the branding – that the cooperative is a serious enterprise model: values-based, member-controlled, but an enterprise.

We are living at a time when increasing numbers of people, especially youth, feel disenfranchised, disconnected from the economic and social models that dominate their lives. We feel that our message about the impact and reach of the cooperative model, as a member-controlled model, is a powerful one. The cooperative model is scalable at a time when the world is looking for solutions to global problems. ICA's most recent Global 300 Report, reviewing the performance of the world's 300 largest cooperatives, found that they have an aggregated annual turnover of 1.6 trillion US dollars (USD), the equivalent of the world's ninth largest economy, and remember, this is just the 300 largest cooperatives.

A recent report by Cooperatives UK on Global Business Ownership 2012 found that there are three times as many member owners of cooperatives as individual shareholders worldwide (1 billion cooperators versus 328 million shareholders). The reach and scale is substantial.

ICA's intent is to use the International Year to make more people around the world aware of the successful, values-based cooperative enterprise model. We also recognise that we can use this Year for a legacy opportunity: to create a Global



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Development Fund of USD 50 million to be used for cooperative development. We are looking to the Global 300 cooperatives to provide the first tranche of capital, which would then be leveraged to attract additional funding, and would then be loaned out to intermediary groups with demonstrated capacity in cooperative development.

It is also essential that we have a focused public policy agenda during the International Year, one that we can build on in subsequent years. In her speech to the United Nations opening the International Year, Dame Pauline laid out that agenda, calling for: 1) greater diversification of the global economy; 2) full recognition in public policy and regulation of the specific and unique legal and financial framework of cooperatives; and 3) equal promotion of the cooperative model with the shareholder model.

So the International Year of Cooperatives is an opportunity on many levels. It is first an immediate opportunity to tell the cooperative story to a public – a young public especially – who are hungry for that message, to youth who live and breathe cooperative models in their daily lives, especially through the Internet and social media, but who might not have been introduced to the cooperative as an enterprise model.

It is an opportunity to demonstrate that cooperatives can work together to communicate key messages, and then to use that cost-effective distributive communications platform to disseminate key messages on an ongoing or periodic basis in subsequent years. And it is an opportunity to relaunch the global cooperative brand as a serious enterprise model. In fact, ICA is beginning to work with the concept that the cooperative could be the fastest-growing enterprise model by the end of this decade. Not only do we hope for this future, we see both economic and social changes that lead us to believe that such an opportunity is indeed before us.

A selection of events accompanying the International Year of Cooperatives can be found at: [www.rural21.com](http://www.rural21.com)

# The rice paddy revolution

Laos has achieved a minor miracle. For some years now, this Southeast Asian country has been able to feed its people with rice that is exclusively grown locally. However, the success story is under threat.

Bounthanh Nhanphatna is sitting in the shade, under a gnarled tamarind tree. Her hands are callused. In spite of this, she is so deft at weaving a basket with bamboo fibres that the eye of the observer can hardly keep track of the movements. "Which sort I like to grow best? No question: Hom Sang Thong!" Behind her, in a hollow, you can see the rice paddies of Ban Hai Tai, a small village in Laos, to the north of the capital Vientiane. Bounthanh Nhanphatna also cultivates her two hectares in the hollow, partly growing black rice, but above all Hom Sang Thong. "It provides the best yields." The 50-year-old knows all about rice: she has been growing it all her life.

## ■ Food security, not only for farmers

Rice has been grown in Laos for around 4,000 years. Rice is the chief staple food of the Laotians. The inhabitants of this Southeast Asian country eat it mainly as sticky rice. The varieties containing starch are cooked in a bamboo basket with steam – for breakfast, lunch and supper. Each of the just below 6.2 million inhabitants consumes an average of one kilogramme a day. Most of the rice is self-produced. Four fifths of the people in Laos grow rice. In a country only slightly smaller than Great Britain rice is grown in an area of around 700,000 hectares. In this manner, many Laotians provide

food for their families alongside their true professions. Wages are low in the country. For example, an agricultural engineer earns the equivalent of a mere 125 US dollars a month.

## ■ Yields have doubled

For a long time, Laos was unable to feed itself. Although there were no major famines, malnutrition and food insecurity were on the daily agenda for decades. But since 1995, the country has been able to double its yields – by improving cultivation methods and through the introduction of new seed or the optimisation of existing varieties. In the 1960s, the average yield per hectare was below one tonne. Today, the rice farmers harvest an average of nearly three tonnes per hectare, and in especially good regions, there might even be seven tonnes. Compared to industrial rice cultivation, this may sound modest, but for mountainous Laos, with its extremely compartmentalised agriculture, this is a significant improvement.

*Bounthanh Nhanphatna has been producing her own seed for the last twelve years.*



Photo: J. Boethling

This agricultural revolution has been driven by the Laotian government, the International Rice Research Institute (IRRI), various aid organisations and the people in the villages – such as farmer Bounthanh Nhanphatna. She can achieve up to four-and-a-half tonnes a hectare with her local variety. "It used to be less than half this amount." Success was not immediate: Bounthanh Nhanphatna had to try several local varieties. For twelve years, she has now been producing her own seed. She makes her own fertiliser, and in addition, together with the other farmers, she has improved marketing. Recently, she started grow-

*Rice varieties at Naphork Center are developed in close cooperation with the farmers. Consequently, the varieties are very well accepted.*



Photo: J. Boethling

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## Laos in figures

- 75 percent of Laotians are employed in the agricultural sector, a major share of them in subsistence farming.
- 30 percent of the gross national product is produced in the agricultural sector.
- Since the economic opening up of the socialist country in the mid-1980s, mining, energy (hydro-power), light industries and tourism have become important driving forces of economic growth attaining rates between 6 and 8 percent.
- The government hopes to enable Laos to join the group of developed countries by 2020.

ing rice for fair trade that is distributed via Claro in Switzerland and via Gepa in Germany. And the farmers of Ban Hai Tai have given their local varieties new names: "We used to call this variety 'Little Man with a Black Bottom'," Bounthanh Nhanphatna laughs. "But we thought that was too negative, and have renamed it Hom Sang Thong." Translated, Hom Sang Thong means 'Fragrance of Sang Thong', which is the name of the province the village is situated in.

## ■ Optimised local varieties

The Naphork Rice Research Center, IRRI's Laotian co-operation partner, is on the outskirts of Vientiane, and is surrounded by 180 hectares of fields for trial cultivation. The Center operates the country's only seed bank. Wrapped up in little plastic bags, around 2,000 different local rice varieties and more than 13,000 samples are stored in wooden shelves in a simple wooden shack. The users of the local varieties have also given them their names. The institute is continuing to use them. The bags are marked in red Edding with: 'Little Chicken', 'Fat Duck' or 'Forgotten Husband'. "Because this variety tastes so good that the wife forgets her

husband," says Phoumé Inthapanya, his gaunt face breaking into a laugh. This 56-year-old agricultural engineer did part of his studies in Vietnam, and has been working on rice for more than 35 years. He has been director of the Naphork Center since 1991.

Local varieties are adapted to the micro-climate, the soil texture or cultivating methods in the region. "We have developed twelve varieties and some sub-varieties of TDK from them," the rice researcher explains. TDK stands for Tadokam, the translation of which is 'Port of the Yellow Flowers'. "Our method has mainly consisted of mass selection and conventional cross-breeding, but recently, we have also applied genetic engineering in individual cases." In addition, the scientists used the same methods to enhance 14 existing local varieties. Sometimes, seed from Thailand or the Philippines is also crossbred to optimise or develop local varieties. In return, IRRI uses varieties from Laos to improve rice varieties for cultivation in Bangladesh or India.

## ■ Free-of-charge seed for farmers

"The length of the stem, the size of the grain, storm resistance, water requirement, length of ripening period, taste, nutritional value, consistency – the demands on all these parameters may vary considerably locally. We develop the varieties in close co-ordination with the farmers – they are the ones who are supposed to grow it," the director explains. "This is why our varieties enjoy a very high level of acceptance." The research centre operates branches

*Phoumé Inthapanya heads the Naphork Rice Research Center.*



Photo: J. Boethling

## Rice in Laos

- Rice is grown in an area of 700,000 hectares.
  - 67 percent of this area is only irrigated by rain in the fertile low-lying regions.
  - 12 is artificially irrigated.
  - 21 percent is grown in the highlands, usually by using slash-and-burn clearing methods.
- The artificially irrigated area is growing: in 2006, it was 87,000 hectares, in 2011 already 100,000 hectares, and the potential area is 150,000 hectares.
- The average size of a farm in the low-lying areas is between 1.5 and 2 hectares, and between 0.5 and 1 hectare in the highlands.
- Over the last 15 years, Laos has managed to increase its rice production from 1.5 million to about 2.5 million tonnes.

throughout the country in which new and improved varieties are distributed and instructions on growing them are handed out. The farmers receive the varieties free-of-charge. Seed firms have to buy them. They can multiply and then sell the rice varieties without having to obtain a licence.

Next year, the research centre intends to introduce a TDK variety that can survive prolonged flooding of the fields. In the course of climate change, unusually severe and long-lasting flooding has been occurring more and more frequently.

## ■ The first exports

Now Laos is even producing a modest surplus, part of which is exported. "Our rice is of best quality and has often been grown without chemical fertiliser or pesticides," says Khamphenphet Chengsavang, who runs one of the country's largest rice mills. This entrepreneur has just invested a million US dollars in a sorting machine. So far, he has above all been supplying the police



Photo: J. Boethling

*Some 2,000 different local rice varieties and more than 13,000 samples are stored in the seed bank.*

not be tilled with tractors or water buffalos. There is a lack of suitable land, labour and resources for terraces and artificial irrigation systems.

and military in Laos. But for two years, he has also been exporting to Thailand, China and Vietnam.

However, all that glitters is not gold. Laos may have managed to feed its people with the country's rice. Neither have the world-wide price hikes had an impact on the country's staple foods. But is Laos going to be able to feed its population in the future, too?

## ■ Ecosystem threatened by slash-and-burn clearing

Laotian farmers cultivate their fields mainly by hand. They do employ hand tractors in some regions, but only where the fields are not situated along steep slopes. However, rice-growing is performed in a fifth of the overall cultivated area. There, the fields are hardly larger than a handball pitch. Each year, the farmers move on with their fields. They clear trees and bushes with their axes and machetes and then burn them. The ashes provide fertiliser. In the rainy season, they cross the fields with sticks and poke small holes into the ground. Each of these holes is filled with a rice grain. The farmers leave a field they have harvested fallow for a few years and let it get overgrown. Then it is burnt down again and cultivated. In former times, slash-and-burn clearing and nomadic farming fitted into the region. The steep slopes can-

tems. But such cultivating only yields poor harvests. A hectare will provide barely one tonne. Moreover, slash-and-burn cultivating is eating its way ever deeper into the forest-clad hills. Thus they are becoming more and more barren – with disastrous consequences for the microclimate and water reserves. "This method of cultivation may have worked for centuries, but now it can no longer feed the growing population," says Holger Grages of Welthungerhilfe (WHH).

## ■ Investors are just around the corner

The problem is being aggravated by a growing number of plantations, usually with gum or teak trees. Investors from the neighbouring countries of China and Vietnam sign contracts with farmers for them or directly take a lease on land from local government that they then have cultivated. Many farmers are unable to assess the risks of contract farming. "Neither do they possess any titles of ownership for the fields that they have cultivated using the slash-and-burn method," Grages adds. The aid organisation is attempting to counter adverse developments by extending irrigated rice cultivation and crop diversification. In the dry season, the farmers only grow gherkins, basil, maize, Job's tear grass or sorghum.

Even in the fertile lowlands, investors are knocking at the doors of the small-holders more and more often. "Companies from South Korea, Vietnam, China and Kuwait have already called on me, and they all wanted to grow food for exports," says Kham Phey. This 46-year-old is cultivating two hectares of HDK rice varieties for the local market. Thanks to artificial irrigation, he can bring in two rice harvests a year. Even three would be possible. But most Laotian farmers are not in favour of this. They fear price slumps on the local market as well as exhausted soil.

## ■ The country lacks young farmers

For its own consumption, the family prefers a variety called 'Aromatic Swallow'. "It is not quite as high-yielding, but it tastes a lot better," Kham Phey laughs. His family are doing well. A satellite antenna has been fixed to the stone house, and a brand new motor scooter stands in front of the building. To the back of the yard, mango trees are growing in half a hectare of land, and their fruit sells well. Even so, he can imagine leasing his land. "Why shouldn't I, if the terms are alright?" But long-term leaseholding is forbidden in this district – officially, at least. That Kham Phey would lease his land is also because his two children are studying in the capital. Neither of them is keen to take over the farm.

Bounthanh Nhanphatna faces a similar dilemma. Thanks to her increased income, this farmer from the province of Sang Thong can enable some of her children to study in Vientiane. Those who have stayed in the village have gone into business with a small tailor's shop and a beauty parlour. They are helping with the farm, but in the long run, the successful rice farmer wants to have the land cultivated by hired labour. Once the up-and-coming generation have migrated to the city, it will not be possible to maintain the success of Laotian rice-growing.

# Linking secure community land rights to local economic development

In Mozambique, land is state property. However, land use rights are eagerly sought for not only by the vast majority of the population relying on agriculture for a living, but increasingly also by investors. The Community Land initiative (iTC) was established with a view to sustainable community development to enhance secure conditions for land users. Its activities range from securing land-user rights to supporting inclusive community-investor partnerships.

Land is probably the most valuable asset that rural communities possess in the developing world, especially in Africa. Mozambique is no exception, since at least 80 percent of the population in rural Mozambique rely on agriculture to make a living. Debates about land in Mozambique revolve around questions of tenure rather than ownership, since land is deemed by law to be state property. The state recognises and grants land use rights which cannot be subject to any type of transaction between third parties. Many consider that such unlawful land transactions do in fact occur, and there is some debate about circumstances in which they should be allowed. Nevertheless one of the government's main concerns is to protect community interests in land, and there is widespread agreement that improving land users' security of tenure

is important in ensuring sustainable development.

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## ■ Seeking the balance between community needs and development requirements

Mozambique has registered significant rates of economic growth for more than a decade. The growth of cities and economic infrastructure, reducing poverty and increasing purchasing power, and Mozambique's growing integration into the world economy have also stimulated a high demand for land and other natural resources to supply expanding global, regional and local markets. A number

of ongoing trends additionally create immediate concerns for rural communities. These include widespread deforestation due to logging, and increasing but unregulated demand for charcoal from growing urban centres – although these activities also contribute to rural incomes. At the same time, large private-sector agricultural investments which are also adding to economic growth and employment further increase pressure on land and resources already used by local communities. Achieving a fair and sustainable balance between small-scale farm production, large-scale commercial land development and conservation and use of essential natural resources is a huge challenge.

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Photo: J. Monteiro



*Land is an important asset – a wheat farm in Manica.*

Mozambique's land law recognises and protects customary land user rights, and enables their formal registration. These rights are not necessarily exclusive, and the law also provides for consultation with rural communities before the state grants temporary use rights to private investors within areas where communities have established legitimate customary use rights. The land law has now been under implementation for more than a decade, and over the years, pressure on land and other natural resources has grown because of increasing demand from investors. On the one hand, these investments are seen as a threat to community user rights over existing land and other natural resources; on the other hand they provide opportunities to support local economic activities in ways that ensure long-term and sustainable benefits. The Community Land initiative (iTC – see Box) was established in precisely this context. It seeks to link secure community land tenure rights to local economic development opportunities.

## ■ Supporting the government

Despite the legal recognition of customary rights, the limited capacity of the government institutions charged with management of land and natural resources does not allow rural communities and producer groups to get their rights properly recognised and protected. In particular, the land information management system, or cadastre,

## The Community Land initiative (iTC)

iTC is the Portuguese acronym for Land Community initiative. Built on a DFID pilot project on land delimitation in Zambézia province (central coastal region), iTC was established in 2006, with support from a group of donors (Denmark, Ireland, Netherlands, Sweden, Switzerland and the United Kingdom) for three provinces (Cabo Delgado, Gaza and Manica). Later, in 2009, additional support from the Millennium Challenge Corporation (MCC) expanded activities to Nampula, Niassa and Zambézia provinces. During its pilot phase the initiative benefited 188 communities in 25 districts of Manica, Cabo Delgado and Gaza provinces. With iTC support, community groups including both men and women, local leaders and government authorities are engaged in processes of social preparation for development projects, community planning, and education about the value and potential uses of natural resources within community land areas.

The Community Land initiative is managed by KPMG International Development Services (IDAS) Mozambique and gets technical support from the Natural Resources Institute (NRI) of the University of Greenwich in the United Kingdom. Recently, Centro Terra Viva, a Mozambican national NGO, joined the consortium partnership. iTC service delivery included 32 official community land certificates and 66 official land titles covering an estimated area of 280,000 hectares of land; establishment and legal registration and capacity building of 92 farmers associations and 36 community based natural resources management committees; training for 768 people (21 % of whom are women) on land and sustainable natural resources management.

is unable to provide the required information to ascertain land availability for different uses. As a result, accurate mapping of existing land-user rights becomes critical. Land registration processes are cumbersome, and in most cases out of reach for rural communities without external assistance, leaving them exposed to the risks of land grabbing.

The Community Land initiative supports communities to secure their user rights through processes of land delimitation and/or demarcation. Demarcation provides exclusive rights over relatively small parcels of land for community producer associations for a limited period, in a similar way as it does for private land users; delimitations secure the boundaries of larger areas within which rural communities have non-exclusive use rights and must

be consulted before the state can grant land rights to other users. The aim is to ensure legal recognition of land rights and, wherever possible, facilitation of negotiated partnerships with external investors and land users and state development programmes.

## ■ Strengthening community-investor partnerships

In addition to the challenge of securing community rights at greater scale, one of the biggest challenges of iTC has been promoting models of co-operation between communities and the private sector and to overcome the risks of conflict that arise when investments are not properly planned. These partnerships can take a variety of forms depending on the nature and value of resources available to rural communities and the interests of private investors. Classic examples include contract farming or payment of a revenue tax by enterprises holding a concession for forest exploitation to the adjacent communities. Although it is not easy to find business models which are compatible



Photo: J. Monteiro

*Honey production is one of the community business partnerships supported by iTC.*

with investors' business models and community needs, they do represent a great opportunity, and iTC is now engaging with land investment proposals for large-scale production of food, cash crops, wood products and biofuels. Here, we provide a few examples.

**Community based ecotourism: Ndzou camp.** The *Ndzou camp* is an eco-tourism investment partnership between the Mpunga community in the district of Sussundenga, Manica province (Western Mozambique), and EcoMicaia, a private organisation that works towards sustainable development of local communities. iTC has supported the community through a grant that financed the legal establishment of an association, representing the Mpunga community; the delimitation process to establish secure community rights to a conservation area; and the design of a business plan which helped to secure World Bank funds for a community Joint Venture with Eco-Micaia to establish the Ndzou Camp Eco-tourism lodge, which was inaugurated in December 2010. The community, which has around 2,000 inhabitants, is entitled to 60 per cent of revenues generated. The aim is to create 30 full or part-time jobs most of which are filled by local people. EcoMicaia has trained people as guards, guides and domestic workers. Local farmers see to food supplies.

**Inclusive business: Mozambique Honey Company.** iTC supported the establishment of twelve honey producers' associations in Manica province, linked to a honey trading company established by a private trader who recognised the huge potential of community business partnerships. In addition, iTC secured the rights to community business premises and key natural resources for honey production, and funded training and capacity building for apiculture activities and business management by association members. The associations then became members of a honey producers union, which is a shareholder of the Mozam-

*60 per cent of the income from the Ndzou camp is earmarked for the community.*

bique Honey Company. This joint venture is an example of how trained community associations can tap into new development opportunities and enable their members to escape poverty.

**Environmental protection: Securing a community stake in carbon sequestration.** In Cabo Delgado province in Northern Mozambique, efforts to promote sustainable management of forest resources led to iTC financial support for a carbon sequestration project. The iTC support consisted of delimitation of community land areas, establishment and training of a Natural Resources Management Committee (CGRN), and a participatory forest inventory. As result of the project, the communities engaged will be paid for planting and preserving the forest, to enable greater carbon storage, and securing alternative sources of income for the future. The project was implemented by Envirotrade, a private sector company implementing carbon sequestration in Mozambique to provide carbon offset opportunities for investors (see [www.envirotrade.co.uk](http://www.envirotrade.co.uk)).

## ■ Remaining challenges

Lessons learnt from iTC's implementation have shown that securing community land rights is an important step towards enabling sustainable investments in rural areas. This must be linked to dialogue and capacity building among different stakeholders, so as to tap on synergies for the development of local opportunities. The partnerships illustrated have opened up new prospects in marketing natural resource products, ecotourism and car-



Photo: J. Monteiro

bon storage. Many other opportunities to expand community production and marketing of foodstuffs and other natural products are now emerging.

At present, the success of iTC's approach to securing land and natural resources rights depends on the presence and capacity of good local service providers to work with rural communities. One challenge is to put in place greater capacity in government, private sector and civil society to respond effectively to increasing community demands for support in dealing with land and natural resources planning and management. Another challenge in addressing land tenure issues is to achieve better co-ordination and synergy amongst different government institutions, programmes that deal with land and natural resources development.

Formal recognition of community land rights enables communities to benefit from natural resources development. For the huge growth in rural investment in Mozambique to contribute to sustainable economic and social development, inclusive community-investor partnerships are needed which pay proper attention to secure community land and natural resource rights and building local institutional capacity. The iTC programme offers a way forward to do this.

# Emergency measures or development? –

## Avian Influenza eradication projects in Indonesia

Funds were rapidly made available internationally to check the spread of Avian Influenza following the outbreak of the disease. But how effective and efficient have programmes initiated been in the longer term? The authors look at an Indonesian-Dutch programme and consider the potential of factors such as capacity building and the widening of the programme’s remit.

As the first human cases were being detected in Southeast Asia early in 2000, concern over Avian Influenza or HPAI (cf. Box on the right) started growing all over the world (see Table). There was fear of a possible viral mutation into a highly pathogenic strain that could be transmitted between humans, causing a pandemic of unpredictable dimensions and with devastating consequences. Donors quickly made funds available for HPAI control projects all over the world. The real cost-effectiveness and the medium to long-term efficiency of such projects are often belied by the need for a rapid response in emergencies.

One of these projects, the IDP (Indonesia-Dutch Partnership on HPAI) 2005–2011 programme was implemented by a Consortium of Dutch institutes and their partners in Indonesia. This article assesses whether a degree of flexibility and a wider perspective leads to more sustainable project results in the medium-long term. It shows that capacity building and

technical assistance can have a positive impact when delivered at decentralised (implementation) level and when addressing animal disease control as such, rather than focusing on the national level and HPAI control only.

The Dutch institutions participating in the consortium included Wageningen University and Research Centre, the University of Utrecht, and the GD-Animal Health Services. The Indonesian partners comprised private and governmental institutions at national and at provincial/district level. The Centre

Cumulative number of confirmed human cases for avian influenza A (H5N1) (WHO, 2003-2012)

| Country   | Total Cases 2003–2011 | Total Deaths 2003–2011 |
|-----------|-----------------------|------------------------|
| Cambodia  | 20                    | 18                     |
| China     | 42                    | 28                     |
| Egypt     | 165                   | 58                     |
| Indonesia | 188                   | 156                    |
| Thailand  | 25                    | 17                     |
| Vietnam   | 123                   | 61                     |

Improvements in biosecurity in small broiler farms.

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Wageningen, Netherlands



Photo: IDP-HPAI



for Development Innovation of Wageningen University and Research (WUR-CDI) has been the lead agency for the whole programme. Contacts between Indonesia and the Netherlands on the issue date back to 2005.

### ■ The poultry sector in Indonesia

Poultry meat and eggs represent an important source of protein in Indonesia, and poultry is a main source of income for many farmers there. With 1.2 billion animals in 2004, the country had the third largest poultry population in the world, after China and the United States.

The 2004 classification of the Food and Agriculture Organization (FAO) lists four sectors in the Indonesian poultry industry (cf. Box below). The value chain of poultry-related products in Indonesia varies considerably depending on the sector and the type of product.

The entry of HPAI in Indonesia in 2003 caused many deaths in poultry and severe production losses in rural and industrial poultry production and raised concern over its spreading among humans. At least 10.5 million heads of poultry were reported lost due to outbreaks and culling. The disease now affects every sector of Indonesia's poultry business. With large numbers of casualties in the Jakarta region (156 by the end of 2011), the local government increased monitoring and adopted new control measures on poultry movement and distribution. However, a lack of means as well as skilled staff rendered effective enforcement of measures virtually impossible.

### ■ The Indonesia-Dutch Partnership Programme on HPAI

The consortium designed a flexible programme that could be adapted and

#### Key facts on Highly Pathogenic Avian Influenza (HPAI)

- Avian influenza (AI), commonly called bird flu, is an infectious viral disease of birds.
- Most avian influenza viruses do not infect humans; however some, such as H5N1, have caused serious infections in people.
- Outbreaks of AI in poultry may raise global public health concerns due to their effect on poultry populations, their potential to cause serious disease in people, and their pandemic potential.
- Reports of highly pathogenic AI epidemics in poultry can seriously impact local and global economies and international trade.
- The majority of human cases of H5N1 infection have been associated with direct or indirect contact with infected live or dead poultry. There is no evidence that the disease can be spread to people through properly cooked food or from person to person.
- Controlling the disease in animals is the first step in decreasing risks to humans.

changed as new insights were gained. To cover the many aspects related to HPAI control, the programme targeted multiple stakeholders in the poultry business (government, research institutions, and private sector) and worked at national, province/district and company/farmer levels. Initially, with their assumed internal capacity for control and expected high level of bio-security, sectors 1 and 2 (cf. Box below) were not major targets for disease control. Sectors 3 and 4 were regarded as the main reservoir for the virus.

IDP aimed to help contain the HPAI threat to humans and animals in Indonesia through: i) enhancing the capacity of the animal health system at national and provincial/district level; ii) improving diagnostic capacity and quality of HPAI vaccines; and iii) increasing biosecurity at production and market level. The programme focused on six main intervention areas, with a different module with specific activities for each intervention area (cf. Box on page 42).

After its start in 2005, IDP was provided in 2007 with additional funding, also to upscale the programme and extend it to 2011. The focus was shifted from national level to veterinary services at provincial and district level, as well as from capacity building for HPAI control to general poultry or animal health management.

### ■ What has been achieved?

Joint R&D has been an essential approach during the programme. More research was needed to better understand HPAI in Indonesia before recommending the right activities to control it (cf. Box on page 43). Nevertheless, it was not always possible to implement the recommendations, major constraints being:

1. Weak formal organisation of the poultry industry.
2. Decentralised government and responsibility for animal disease control.
3. Complex structure and diversity of the poultry sector.
4. General distrust towards government.
5. No co-operation between human and animal health services.

#### FAO classification for the poultry industry

- **Sector 1:** Vertically integrated large-scale commercial producers
- **Sector 2:** Large, independent broiler and layer producers
- **Sector 3:** Small-scale poultry farmers
- **Sector 4:** Free-range backyard poultry for domestic uses



Training on blood sampling.

Photo: IDP-HPAI

Two activities described below exemplify this discrepancy between the project outcomes and the effective adoption of its recommendations.

**1. Surveillance in poultry collector facilities.** Three surveillance programmes were carried out in 40 poultry collector facilities (PCF) in Jakarta. These included the use of sentinel birds, environmental sampling, and sampling of incoming poultry consignments. Around 80 percent of the PCFs appeared to be contaminated with HPAI. Contaminated collector houses are hotspots for the H5N1 virus and not only represent a threat to workers, traders, butchers and consumers, but could also be a major hub in spreading the virus back to the field through infected material on people's clothing (drivers and their assistants), poultry crates and vehicles. Also, because of the generally extremely poor sanitary conditions under which the animals are kept and slaughtered, PCFs should be considered a high public health risk for densely populated cities like Jakarta. But while the project proved that PCFs are hotspots for dissemination of HPAI, this did not result in government action on disinfection, cleaning, closing or reorganisation of the collector houses.

**2. Farm certification – Compartmentalisation and Zoning.** Knowledge about the real epidemiological status of sectors 1 and 2 proved scanty, as did evidence of data being efficient in controlling the disease. Data were missing and little or no evidence existed about their real efficiency in controlling the disease. The private sector did not trust government policies on HPAI monitoring and control. Neither were veterinary services properly empowered to impose these controls. To bring back these sectors in the programme and increase the knowledge

about their real status, IDP provided support to develop a system for Compartmentalisation and Zoning (C&Z) in the poultry industry. In the C&Z concept chosen, sector 1 poultry farms have to be certified free of HPAI and meet a prescribed level of biosecurity standards. IDP organised workshops with private sector actors and national and district officials to discuss implementation, auditors were trained in biosecurity and auditing, and a Quality Manual with supporting Standard Operating Procedures (SOP) was developed.

Now the Ministry of Agriculture intends to issue a decree on the implementation of C&Z and the establishment of the Certification Body. But since there has been little consulting between government and the private sector on the mode of implementation and the expected benefits are minimal, it could well turn out to be another ineffective paper regulation not supported by the industry.

## ■ Conclusion

In the case of IDP, international fear of a world-wide pandemic promoted

### The six modules of the Indonesia-Dutch Partnership (IDP) programme

- Module 1:** National institutional and organisational development  
*Objective:* Strengthen the national avian influenza control co-ordination activities;
- Module 2:** Regional institutional and organisational development  
*Objective:* Capacity building of veterinary services in Western Java to control HPAI;
- Module 3:** Pilot integrated interventions  
*Objective:* Field testing of integrated intervention strategies;
- Module 4:** Studies and research to support policy development  
*Objective:* Conduct studies and research to underpin policy decisions;
- Module 5:** Enhanced quality of vaccine production  
*Objective:* Improve the quality of vaccines and reagents produced in Indonesia;
- Module 6:** Development of diagnostic capacity  
*Goal:* Capacity development to improve quality of diagnostics and reagents;
- R&D:** Fellowships for training.

## Some of IDP's achievements for R&D and capacity building

- Efficacy of vaccination tested.
- Capacity for vaccine production and quality control available.
- Diagnostic capacity available/improved.
- Increased the capacity and created a reservoir of staff that could be used in HPAI, poultry (and other) disease control.
- Poultry collector facilities appeared to be hotspots for dissemination of the virus.
- Basic requirements for Compartmentalisation & Zoning fulfilled.
- The real epidemiological status of sector 1 and 2 constitutes a grey area as data were missing.
- 6 MSc and 1 PhD students have been sponsored.
- 5 articles have been published and 15 presentations and posters made for international conferences.

the provision of international donor funds to control HPAI in the hotspots in South-east Asia rather than an internally felt need in the country itself to protect the poultry industry from an infectious disease. Indonesia was flooded with donor funds, with projects then trying to convince the central government that increasing budgets and government interventions should have top priority. Also, most of the aid projects focused on the central government level, while in Indonesia animal disease control is primarily the responsibility of the decentralised provincial and district government structures. While IDP, which was initially strongly externally driven, focused on HPAI control, Indonesian priorities and interests were much broader, regarding livestock production, animal disease control in general, as well as human disease control as priority areas. However, the programme successfully applied various strategies to cope with this situation:

1. The design of the programme included six interrelated modules that could each reach results as independent components in case the others failed to achieve the expected goal.
2. IDP tried to include most of the stakeholders involved in the poultry business in its implementation.
3. It took advantage of its capacity to use its own experiences to change its focus and emphasis during implementation.

4. By strengthening the capacity of various actors at province/district level and broadening the training curriculum through including other animal diseases, it managed to prepare trained people to address infectious disease emergencies in a wider perspective than just concentrating on HPAI.

With their high level of autonomy, districts in Indonesia can decide their own ways of implementing animal disease control and (livestock production) extension. Working at central government level only does not necessarily result in any improvement in disease control at field level. Capacity building should include the level where information on animal diseases is collected, decisions are made and implementation capacity for taking action is required. The project has developed a suitable concept for strengthening the veterinary services at provincial and district level. Now that the attention and concern about a possible HPAI pandemic has strongly decreased, IDP has managed to create the conditions for a better response to any animal disease outbreak, at province and district level.

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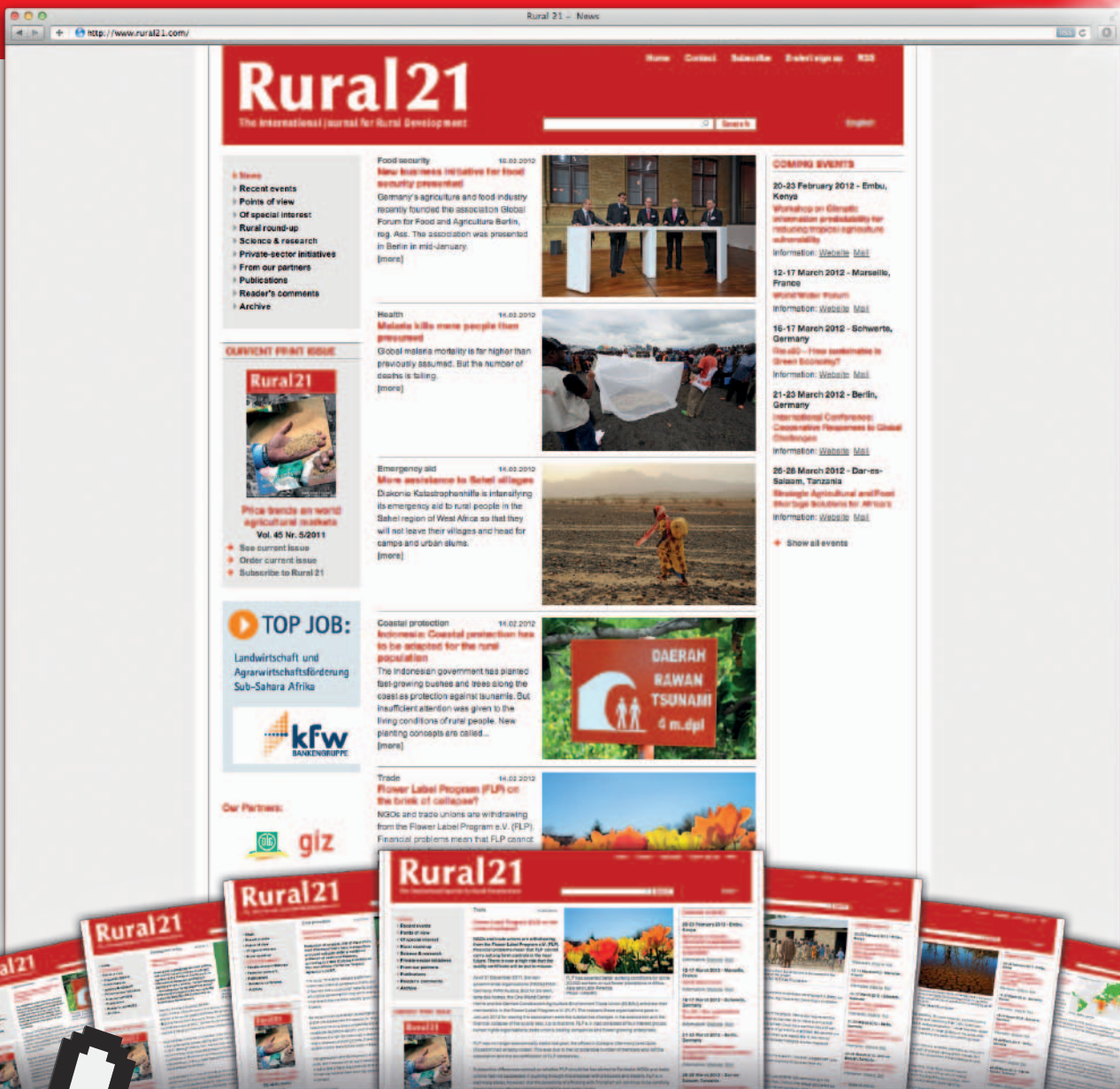
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