Afreximbank Distinguished Lecture Series **2/05**

Strengthening The Rural Sector For Export Promotion In Africa:

A Role For Co-operatives

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...with an introduction by C. C. Edordu

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Afreximbank Distinguished Lecture Series publishes important papers that address current issues in Africa's economic and trade development. The papers are normally commissioned by Afreximbank and are usually delivered at Annual Meetings of the Bank's Advisory Group on Trade Finance and Export Development in Africa.

Preface

The decade of the 1980s was a traumatic period for Africa. During that period, the continent underwent serious economic difficulties caused by a combination of sharp increases in oil prices and declining agricultural and metals prices which resulted in severe negative imbalances in the current and fiscal accounts of a large number of African economies. Many became unable to meet their external debt obligations, including repayment of trade debts. As a result, international banks cut credit lines to Africa and insisted that Letters of Credit (L/Cs) originating from Africa be cash- collateralized before they could add their confirmations to such L/Cs. Exports languished further on account of declining international prices and inability to finance export-generating imports.

During this period, trade economists assumed prominence in the Bretton Woods institutions (the World Bank Group and the International Monetary Fund). Thus, as many African countries approached the Bretton Woods institutions for assistance in resolving their economic difficulties, they received policy prescriptions hinged on export-led economic recovery – a strategy thought to be behind the remarkable economic growth then enjoyed by the so-called "Asian Tigers" (Hong Kong, Taiwan and South Korea). At the economy-wide level, the export-led development strategy was focused on eliciting export supply response by shifting the incentive regime from non-traded to traded goods through a depreciation of the Real Exchange Rate. At the sectoral level, it involved, among others, dismantling the Commodity Boards that were the institutional vehicles for commodity export marketing in many African countries. The initial export supply response that was triggered by the reforms, in the reforming countries, quickly stalled raising questions about the appropriateness of the reform prescriptions. The concerns were further underpinned by the fact that whereas commodity exports expanded in countries, such as Ghana and Cote d'Ivoire, which did not dismantle the commodity boards, they declined in countries, such as Nigeria and Cameroon, that did. In fact, whereas international banks expanded commodity pre-export financing to Ghana and Cote d'Ivoire, such financings were generally not available then to Nigeria and Cameroon.

It became obvious from an analysis of the problem that dismantling the commodity boards created a critical institutional vacuum that restrained export supply response to the macroeconomic incentives embedded in the reforms. This is because the boards provided the logistics and pricing arrangements that reduced performance risk in commodity exporting. Dismantling them significantly weakened the sector. It is now generally agreed that a new private sector-driven institutional vehicle needs to be found to perform the functions the boards used to perform. Cooperatives have been identified as one such vehicle. This is why we invited Professor C.A.Osuntogun, a leading African scholar with tremendous research experience in the Economics of Cooperation to prepare and deliver a Distinguished Lecture for us on :"Strengthening the Rural sector for Export Promotion in Africa: A Role For Co-operatives" The Lecture was delivered to the Bank's Advisory Group on Trade Finance and Export Development in Africa at their 8th meeting held in Dar es Salaam, Tanzania on May 18, 2002.

The Lecture is published here as Afreximbank Distingished Lecture Series 2/05. Our Distinguished Lecture Series carry lectures delivered by eminent individuals on issues important to Africa's economic and trade development. Professor Osuntogun is currently heading-up the Foundation for Environment Development and Education in Nigeria, an organization supported by the Rockefeller Foundation and other donor agencies. He is a Professor of Agricultural Economics and was a former Vice Chairman at Obafemi Awalowo University, Ile-Ife, Nigeria. In his lecture, professor Osuntogun reviewed the role cooperatives could play in filling the institutional gap in agricultural export marketing in Africa and made some pertinent recommendations. We believe that his paper makes a valuable contribution to knowledge and practice and hope that governments, trade financiers, scholars and development agencies will find it useful.

In the Introduction to this publication, Mr. C.C. Edordu, the pioneer President of Afreximbank, discusses in some detail, the debate that informed the topic addressed in Professor Osuntogun's paper. As Pioneer President of the Bank, Mr. Edordu was instrumental in instituting a Distinguished Lecture Programme in the Bank. I will like to take this opportunity to thank him for his sterling pioneering role in this regard and for the body of literature that has been accumulated through the Programme.

Thank you

J-L EKRA
President, Afreximbank
Cairo, Egypt
October, 2005.

Introduction*

by
C. C. Edordu

Mr. Chairman, Honourable Ministers,
Distinguished Ladies and Gentlemen,

On behalf of the Board and Management of Afreximbank, I am pleased to welcome you all to the 8th Meeting of Afreximbank's Advisory Group on Trade Finance and Export Development in Africa (the "Group") holding in this beautiful city of Dar es Salaam. As most of you are aware, the Group is an important informal organ of the Bank that contributes ideas that shape the strategic thinking of the Bank. Ever since the Group was inaugurated in November 1994, it has held seven meetings each of which discussed issues of importance to the Bank and Africa. Conclusions of those meetings entered the Bank's two Strategic Plans and in some cases informed the refinement of the strategic priorities of the Bank.

Mr. Chairman, Distinguished Ladies and Gentlemen, we have relied on the Group's wise counsel because participants at its meetings include individuals of diverse knowledge, and broad experience. Accordingly, we have ensured

* Being a slightly modified Keynote Address of Mr. C.C. Edordu, Pioner President of Afreximbank on the occasion of the Distinguished Lecture delivered by Professor C.A. Osuntogun at the 8th Meeting of Afreximbank's Advisory Group on Trade Finance and Export Development in Africa, Dar Es Salaam - May 18, 2002

that meetings of the Group are usually focused on a topical problem that has Africa-wide dimension. Discussions are also led by presentations made by knowledgeable and experienced individuals who normally bring valued insights and raise provocative issues on matters under consideration.
Today's meeting, Ladies and Gentlemen, is organized on the basis of the established culture regarding meetings of the Group. The chosen theme is **"Agricultural Marketing and Export Development".**

Permit me, Ladies and Gentlemen, to elaborate on our choice of this theme. As most of us here are aware, a consequence of the debt crisis and economic difficulties that began to afflict the Continent in the early 1980's was the introduction of macroeconomic reforms implemented on a template recommended by the Bretton Woods Institutions.

The macro-economic adjustments which were targeted at ensuring the maintenance of external and internal balances have been accompanied by a variety of problems with the above goals no where near attainment. Outside of the macro-economic problems themselves, there have also been other problems triggered by the reforms. Among these were the dislocation of formal arrangements as well as of structural institutions that served as part of the foundation of the productive processes in the economy. To clarify, I will like to remind participants that the formal agricultural export marketing arrangement that existed during the pre-reform period was a super-structure based on a tripod, namely commodity boards; a pricing system; and support systems, such as financing, warehousing, transportation and quality control. This superstructure rested on a SUB-STRUCTURE comprising of small farmers and the cooperatives that provided the system with products. The reform called for a dismantling of the formal super-structure which led to an unintended effect of orphaning the sub structure, a key institutional component of which is the cooperative movement. Specifically, with regard to the external sector, the formal institutions, such as commodity boards, which were wound up under the reforms created gaps in the economies in the sense that structural institutions that participated in the productive process in the rural sector and which fed the formal structures became vulnerable and in stages broke down.

The collapse of the sub-structure was perhaps much more damaging than the dismantling of the formal arrangements. Yet, most of the discussions in recent times of the problem of the commodity sector has been restricted to how to remedy the consequences of the demise of the formal arrangements, with little or no attention paid to the institutions that supported those arrangements. In the meantime, as the discussions went on, structural institutions that emerged as orphans of the reforms began to wither away. The consequence has been that in the last several years, Africa's export performance has been most unsatisfactory. In 1999, for example, over half of the countries of the Continent suffered declines in export receipts. In 2000, 34% suffered export declines while in 2001, 47% suffered the same fate. These declines occurred in spite of the intentions of the reforms, buttressing the argument that the collapse of the institutions that generated production for the formal system is at the heart of the export problem. In this regard, we believe that while the reform process in their first round effect weakened the marketing, pricing and financing structures; in the second round, the production and local pre-international marketing activities also weakened as they were assailed by a variety of negative factors. The consequences of the above have been very serious because they have meant a depletion of development potentials and even set- backs in previously achieved levels of rural development.

Thus, the weakening of the productive capacity of a large rural majority and significant income losses that have accompanied the second round of adverse consequences of reforms deserve evaluation. This is because even if the formal institutions are restored, there is no guarantee that export performance will improve automatically because it will be akin to attempting to replace a roof that was blown off after the walls have themselves collapsed.

The question before this Group therefore is what we need to do to correct the situation. How can the damaged institutional sub-structure be rebuilt? To answer this question, we need to review fundamental facts in agricultural development. In this regard, it is well known that the strength of any agricultural system lies in a strong rural productive system. In a system that relies on the small farmer, cooperatives have an important role to play in supporting production and effective marketing. Even in large farming systems, experience has shown that the small operator plays an important role. This is because where large organizations exist, certain activities become uneconomical to them and they are out-sourced to small organizations. In Agriculture, where plantations constitute the predominant farming system, small farms also co-exist, with some of them playing out-grower roles.

Across our Continent, both in small-holder and plantation-type farming systems, the small farmer and cooperatives that link them up have important roles to play in improving export performance and do play those roles. Accordingly, discussions on re-activation of agricultural exports can no longer be restricted to a discussion of what needs to be done to formal institutions because it is clear from the foregoing that actions need to be taken at the structural institutional level not only to stimulate exports but also to sustain development at the rural sector where the bulk of Africa's population lives. Part of the problem that has occurred as a consequence of the reforms is that the exposure of the small farmer to the vagaries of the external environment only accelerated his demise as he is not equipped to deal with that. The arrival of multinationals as trading entities attempting to fill the void created by the demise of the formal arrangement has also not helped these rural institutions. In deed, it also accelerated their exit.

From the foregoing, specific issues that require solutions are:

(i) how can the institutions that constitute the sub-structure of the export sector be revived in a way that ensures that a virile export production drive can be re- established?

(ii) how can the recently arrived multinationals work together with a renewed cooperative sector in a manner that promotes rural and overall national economic growth?

(iii) in the event that cooperatives find it difficult to emerge, what alternative institutions could take their place to harness rural productive forces?

(iv) are there actions that rural productive forces can take to replace eliminated government-led national marketing institutions?

(v) are there lessons that can be learnt from privately - driven initiatives, such as the experiment in Cote d'lvoire, that can serve as a model for reviving a national export system and its external cooperating institutions?

(vi) are there roles that financial institutions can play to revive the orphaned rural sector and its super-structure of formal institutions?

To lead our discussion as we attempt to answer some of the above questions is our Distinguished Lecturer, Professor C.A. Osuntogun.

Professor Osuntogun is a professor of Agricultural Economics and former Vice Chancellor at Obafemi Awolowo University lle-lfe, Nigeria. He has had a long research experience and numerous scholarly publications on the subject of cooperatives and rural finance to his credit. He is currently the Chief Executive Officer of the Foundation for Environmental Development and Education in Nigeria (FEDEN). We expect that his Distinguished Lecture titled **"Strengthening the Rural Sector for Export Promotion: A Role for Cooperatives"** will assist us in identifying a possible model for using cooperatives in filling the institutional gap created by a dismantling of the formal structures of agricultural export marketing.

We hope that Professor Osuntogun's Paper will generate a series of ideas that will help to strengthen the institutional foundation of the African rural sector, such as:

(a) ideas to enhance the quality of rural productive system that support export and trade;

(b) ideas that will help to strengthen the quality of skills in the rural sector;

(c) ideas that will help to create the essential partnerships among rural institutions and linkages to the external sector;

(d) ideas that will help to raise the capacity, possibly through rural institutional reform, that will help producing entities to trade what they produce with knowledge on pricing processes, bargaining, etc.;

(e) ideas that will help determine the participation of local and international financial institutions in the whole process of strengthening the rural economy and creating its linkage to the external sector in a manner that ensures structured growth; and

(f) ideas that will enable Governments to play a supportive role without abdication while maintaining a safe distance in the context of an enhanced private sector role.

Mr. Chairman,
Distinguished Ladies and Gentlemen,

With regard to the role of financial institutions and governments, we in Afreximbank have conducted some preliminary reflections which I would like to place before you as we search for a new financial architecture for the sub-structure of our commodity economies. Structured finance has been very useful in ensuring the flow of financing into our export sectors in Africa. However, the technique tends to work well where trading systems are liberalized through the removal of monopoly practices but with the retention of other institutions of the arrangement. This is because strong marketing entities serve readily as anchors to which credit risk could be transferred. This is the case of Cocoa Board in Ghana, Coffee Board in Uganda, and tobacco as well as grains marketing entities in parts of southern Africa. Structured finance will be of limited value where strong institutions are dissolved such as has happened in Nigeria and to some extent Cameroon and several other parts of the Continent. One suggestion is that a new technique known as principal finance should be deployed. What is principal finance? It is a technique that has been used to attract financing to orphaned projects in a manner that is mutually beneficial to a former principal (often a government) and a new principal (usually a bank or other funding party). Our preliminary thinking is that some principal finance techniques could be refined to assist orphaned programmes (rather than projects) created by reforms of the commodity financing system. Some synergy would be required between governments and banks in a typical structured principal financing transaction. We would like to invite comments on this technique on which we require wider consultation prior to its possible pilot deployment.

Mr. Chairman,
Distinguished Ladies and Gentlemen,

There is no doubt that, as in the past, today's meeting holds the prospect of beginning to address an important, but often ignored, subject of how to deal with the sub-structure of agricultural export production and marketing that is at the core of the declining export performance Africa faces.

Permit me now to thank the Government and people of Tanzania for excellent arrangements that made today's event possible. In particular, I will like to thank the Chairman, our distinguished Speaker and the Panelists for finding the time to join us and share their experience and knowledge. We will like to assure them and all of us here that the ideas presented will be turned into something useful for our Bank and the Continent.

Let me now close by wishing all of us a fruitful deliberation.

Thank you.

STRENGTHENING THE RURAL SECTOR FOR EXPORT PROMOTION IN AFRICA: A ROLE FOR CO-OPERATIVES*

by
Professor Adeniyi Osuntogun
Foundation for Environmental Development and Education in Nigeria (FEDEN).

The rural area constitutes an important sector of the African economy. It is a home for most Africans. About 70 per cent of sub-Saharan African population lives in the rural areas. Rural livelihood in sub-Saharan African nations is largely agricultural based. Agriculture constitutes the main source of employment for most Africans, the main source of food for both urban and rural dwellers and raw materials for industrial development as well as foreign exchange earner from exports of agricultural products.

In spite of the critical role of rural sector in the African economy, it is characterized by inadequate infrastructure and essential facilities, such as roads, electricity, health, and limited alternative non-farm employment opportunities. In most African countries, the rural sector is relatively neglected. This has contributed to the increase in the rate of rural/urban migration and the low productivity in the rural economy, especially agriculture.

* Being a Distinguished Lecture deliverd on the occasion of the 8th Meeting of Afreximbank's Advisory Group on Trade Finance and Export Development in Africa, Dar es Salaam - May 18, 2002

If Africa is to develop in the new Millennium, there is need for revitalizing the rural economy, and one of the main strategies for achieving this goal is to strengthen the rural sector by providing basic facilities, infrastructure and export promotion.

It is of utmost importance for African countries to embark on strategies for export promotion. This is essential in order to reverse the decline in exports. Statistics show that while sub-Saharan Africa accounted for 3.1 per cent of global exports in 1955, by the early 1990s this share had fallen to 1.2 per cent -a decline that implies annual trade losses of approximately $65billion. (Ng&Yeats,2000)

The main focus of this paper is to examine the strategies for using co-operatives to promote exports as a means of revitalizing the rural sector of the African economy.

The rest of this paper is divided into seven sections. Forms, features and types of co-operatives are contained in Section two; in Section three, the historical background of co-operatives in African countries is presented, while Section four discusses the activities of co-operatives under commodity/agricultural marketing arrangement prior to commodity sector reforms. In Section five, some of the problems and weaknesses of the African Co-operative Marketing System are examined with an example of co-operatives as Anchor for Export Promotion presented in Section six. Section seven discusses the model for African Co-operative Export Marketing Scheme. Section eight contains the conclusion of the paper.

2. Forms, Features and Types of Co-operatives

2. 1 What are Co-operatives?

A Co-operative is an association of persons who have voluntarily joined together to achieve a common objective through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking (ILO 1966; Youngjohns 1966).

2. 2 Evolution of Co-operatives

Robert Owen is sometimes credited with being the originator of co-operation because of the reforms that are traceable to his activities and influence during the first half of the nineteenth century in England, and particularly to the communal colonies which he advocated and actively promoted.

Others trace the beginnings of modern co-operation to the co-operative store established in 1844 by the Rochdale Pioneers in England. The famous principles' formulated by the Rochdale Pioneers at that time are still regarded by many as the Bible of co-operation. They provided a pattern for a growth that became so widespread and permanent that the Rochdale undertaking is generally regarded as the turning point in the history of co-operative development, at least as applied to the field of consumer purchasing.

2. 3 Broad Objectives

By joining forces and organizing, co-operatives generally aim at two broad objectives: economies of scale in commercial production or market transactions and improved bargaining power vis-à-vis external agents. In addition, co-operative arrangements may allow for gains through risk sharing. Increased bargaining power and economies of scale provide members with services that they lack or receive at less advantageous terms. Assumed access to savings and loan facilities and more effective input supply and marketing are examples of the most frequent benefits for rural producers. Since co-operatives are member-owned, all profits go to their member-customers rather than external shareholders.

2. 4 Features of Co-operatives

According to Osuntogun (1983), the principles which underlie the co-operative character of a business rather than those applicable to any type of business organization include the following:

i) Membership should be voluntary and open. This implies that membership should be made available without artificial or religious discrimination to all persons who can make use of its services and are willing to accept the responsibilities of membership. The concept of co-operation is based on voluntariness. Coercion or compulsion is the antithesis of co-operation.

ii) Control of the organization is vested in its member-patrons rather than in those who merely supply the capital. This is often referred to as democratic control where by each member is generally limited to one vote on each issue that is voted upon, regardless of how much share he owns or how much business he transacts with the co-operative.

iii) Co-operatives provide services to their members at cost. A non-profit institution is the sine-qua-non of co-operative endeavour. Although the member-patron definitely hopes to gain by his co-operative action, the co-operative society per se is not set up to make profit from dealing with its own members. Whether the gain by members is in lower costs (in a purchasing or service organization), in higher prices (in a marketing association), better service, fairer treatment, reliable merchandise (as in a co-operative store) or having a voice in the management, it is nevertheless something tangible or intangible over and above what he obtains from patronizing a non-co-operative place of business. This gain is sought on the business conducted with the association and not on the capital invested in it. Gain in proportion to use is, therefore, one corollary of this objective. Since co-operatives charge patrons only the actual cost of performing services, if there are overcharges, these are returned to the patrons in proportion to the business they have transacted with the co-operative.

iv) The fourth major principle is limited returns on capital. This principle is intended to keep co-operatives operating for the benefit of the patrons and not specifically for the stockholders. Such restriction on dividends discourages control of a co-operative by persons who are more interested in stock dividends than on savings or refund to patrons.

It should be emphasized however, that nowadays co-operatives have not followed these principles in their entirety as enunciated by the early co-operators the Rochdale Society of Equitable Pioneers. The main causes are the diversity of co-operative associations and the variability in their organizational structure and functioning.

2. 5 Types of Co-operatives

There are many different types of co-operative business in Africa. The most prominent are agricultural marketing, agricultural input supply, savings and credit co-operatives. Consumer co-operatives and farming co-operatives also exist in a number of countries.

Agricultural service co-operatives are created to provide various services required by farmers. Most commonly, these services include the marketing of agricultural produce and the distribution of agricultural inputs. The primary functions of a marketing co-operative are the collection and marketing of member produce. This may include grading and quality control and, at times, the provision of transport. In Africa, marketing co-operatives are most commonly used for the export of various cash crops, but in the other parts of the world, they frequently engage in a greater variety of activities, such as the processing and packaging of fruits and vegetables. This provides additional value to the members' production and brings a higher level of return to the co-operative.

In some cases, a co-operative is established solely to meet the needs of its members for agricultural inputs when other sources do not exist or where they are not available on a timely or cost-effective basis. The co-operatives seek to provide their members with economies of scale in procuring the inputs, making them available in the quantities required by farmers, and sometimes assisting with transport. Some supply co-operatives also provide equipment rental, tillage and spraying services for their members. Outside the farming sector, the most frequent examples of supply co-operatives are those established by fishermen to obtain equipment and supplies.

Co-operatives providing both farm input supply and marketing services are often called multi-purpose co-operatives, and may also be engaged in other economic activities aimed at providing a full range of services to their members. The marketing of a member's produce also gives the co-operative a direct opportunity to recover any outstanding credit balances on the provision of farm inputs. In the more remote areas of Africa, some multi-purpose co-operatives often provide limited amounts of consumer goods and pharmacy services to their members.

Savings and credit co-operatives, perhaps most commonly known as credit unions, are member-owned co-operative businesses designed to mobilize member savings and provide loans to members. A continent-wide advisory and coordinating organization for savings and credit co-operatives, the African Confederation of Co-operative Savings and Credit Associations (ACCOSCA) is headquartered in Nairobi and is affiliated with the World Council of Credit Unions, based in Madison, Wisconsin, United States.

The special nature of a co-operative business is generally recognized by governments worldwide through specific legislation directed at regulating their formation and operation. In this sense, within a particular country, co-operatives are organizations established and registered in conformity with that country's co-operative law. The use of the term "co-operative" is generally restricted to these organizations.

The day-to-day operations of a co-operative are governed by a set of regulations or by-laws adopted by the membership. These internal regulations, which must be consistent with the country's co-operative law, establish the organization's objectives, membership criteria, reporting procedures, the system for handling profits, management controls, and a schedule for general meetings. In general, the by-laws establish several internal bodies: the General Assembly (all-member meeting), which is the highest authority in the co-operative; the Governing Committees (board of directors); and Special Committees responsible for such tasks as auditing and member education. The bye-laws are adopted by the General Assembly of each co-operative society.

3. Historical Background of Co-operatives in African Countries

The foundations of agricultural co-operative organization in Africa are generally thought to have been laid in the period between the first and second World Wars, and more especially, in the early to mid-1930s, with the passing, by the colonial administration, of the Co-operative Societies Ordinance. In Ghana, the Gold Coast Co-operative Societies Ordinance was the first of the West African Ordinance that was passed in 1931. This was also followed by the Co-operative Societies Ordinance of 1935 in Nigeria, and in Uganda in 1937.

However, prior to this, there had been successful attempts, not only by the colonial government, but also by indigenous groups, to form what might be regarded in some cases as 'pre-co-operative societies'. (Osuntogun, 1983)
In African countries, the Colonial Government Department of Agriculture in an effort to improve the quality of agricultural export crops became interested in the establishment of pre-co-operative organizations. The motives in encouraging such societies were two-fold. First, the societies served as useful links in the marketing chain between the European buyer and the peasant farmer. Secondly, they could be utilized to promote the dissemination of knowledge on agricultural improvements. The first motive was considered particularly important in that it was hoped that the societies would remove the peasant farmer from his reliance on intermediaries whose profit-making activities were viewed with special dis-taste by the colonial administration.

4. Activities of Co-operatives under Commodity/ Agricultural Marketing Arrangement Prior to Commodity Sector Reforms

All over Africa, co-operatives played significant roles in agricultural marketing during the Marketing Board era. The produce marketed or produced by co-operatives varied from country to country. For instance, cocoa was the major crop marketed in Ghana, Cameroon, Côte d'lvoire, and Nigeria, while cotton was the main crop marketed by co-operatives in Uganda and Tanzania. In Senegal, groundnut was the main crop marketed by co-operatives, while in Kenya, coffee constituted the main co-operative marketing activity.

The structure of operation of co-operative export crop marketing activity varied from country to country. Generally, there was a three-tier pyramidal system. The primary societies were at the village level and the secondary societies were at the provincial level while the apex marketing organizations were at the national levels.

The system was such that the primary societies collected produce from members, weighed such produce and determined the price for such produce. The produce world then be bagged and when sufficient quantity was collected, it would be transported to the union store. From the union store, it was then transported to the port for export or to the apex organization's storage facilities which in some cases, were located near the ports from where the produce would eventually be exported.

Under this arrangement the co-operatives acted as buying agents of State Marketing Boards or National Export Agency. It should be noted, that during this period, the motive for the establishment of co-operatives by government, was the control of the marketing of major crops. The co-operatives had to operate under strict pricing and marketing regulations set by Marketing Boards or the national export agency. Producer prices were set by the marketing boards on behalf of the government, usually at levels well below those of the World Market and only very small margins were allowed to co-operatives for their handling of the produce.

The soceties provided other auxiliary- services to their members. Such services included provision of credit and saving facilities, processing and marketing information.

Available information indicates that to a large extent, the co-operatives were relatively effective as agents for export crop marketing. For instance, the percentage of crop handled by co-operative increased, in most cases, from less than 1 per cent to as much as 45 per cent. In Uganda, for instance, evidence shows that the percentage of cotton handled through co-operatives rose to over 60 per cent before the commodity sector reform. In Ghana, the share of co-operatives rose to about 30 per cent while in Nigeria it was over 25 per cent of the total cocoa exported through the marketing board system.

Another indicator of the relative success of the co-operatives export marketing is the quality of produce handled. In Ghana and Nigeria for instance more than 90 per cent of cocoa marketed through co-operatives were of grade one quality.

One of the most important effects of the marketing co-operatives were that they contributed to the improvement of the general prosperity of the rural areas that were within their areas of operations. The co-operatives achieved this through the marketing channels and facilities that they made available for farmers' produce. Also the co-operatives contributed in no small way, towards improvement of the degree of commercialization of the rural sector. An indicator of this, is the magnitude of the marketing turnover of the unions which ran into millions of dollars for the whole of Africa.
The co-operatives also made available savings facilities to their members. This was a major contribution, particularly in rural areas where there were no formal/modern savings facilities.

Another essential service performed by the co-operatives was the supply of rural credit mostly to the small holder farmer members. A major effect of co-operative marketing of export produce in Africa was that it brought about competition. Investigations have shown that prior to the establishment of the co-operatives, the private produce buyers used to cheat the producers through such techniques as false-weighing, manipulation of scales and prices, and arbitrary deductions for impurities and imaginary services. The emergence of virile farmers' co--operatives curtailed these sharp practices.

In most parts of Africa, rural co-operatives also encouraged the improvement of general farm care and the adoption of innovation through the provision of pesticides, insecticides, fertilizer and spraying equipment.

5. Some Problems and Weaknesses of the Co-operative Marketing System

Even though the co-operatives made some remarkable achievements in export crop marketing in Africa, nonetheless a number of problems and weaknesses characterized their operation. There was:

5. 1 Management Problems

According to Osuntogun, (1983), the single most important reason for co-operative failures in Africa was the lack of trained managers, committee members and members who understand the co-operative approach and were equipped to cope with modern methods and tools of production and marketing. In the African situation, a peculiar feature which gave cause for alarm was the poor administrative and financial management which considerably eroded public confidence and severely hampered membership growth (Osuntogun, 1983).

5. 2 Structural Problems

The size of societies was also a constraint to effectiveness. While accepting that the optimum membership of primary societies should depend on local factors, such as size and the ease of proximity of villages, there was no doubt that the size of primary societies in Africa were generally small to be economically viable. Investigations have shown that the average membership of agricultural co-operatives in most Africa countries varied from about 29 to 63.

5. 3 Financial Problems

Slow capital accumulation, inadequate financing, both from within and from without, and unstable funding were major impediments to co-operative growth, effectiveness and efficiency.

5. 4 High Degree of Government Intervention

Another major problem was too much dependence on government control. In almost all African countries, the legislation for co-operatives remains overly complicated and places a high degree of control in the hands of government supervisory agencies. The standard argument for this close control is the need to protect the individual members of the co-operatives from unscrupulous management.

Instead of becoming member-led, self-administered, collective business organizations, most marketing and rural co-operatives in Africa are government funded semi-public institutions. As a consequence, most co-operatives ended up as mere collecting agents of agricultural produce for public marketing boards, as distribution channels for agricultural inputs, or as lending agencies for government or donor-provided resources. Their activities and organizational structures were heavily regulated by laws too detailed to be understood by the average member.

The rural population came to consider co-operatives to be government affairs. They saw them as a government instrument of exploitation or, conversely, as an easy way to get government benefits. Since neither of these two conceptions has anything to do with collective self-help, it is hardly surprising that rural co-operatives have not succeeded. A "deofficialization" and a redefinition of the relationship between co-operatives and government are thus vital.
The degree of government intervention and control has been a severe obstacle to the development of a democratically controlled farmers' co-operative movement; a movement which could more readily accommodate peasant farmers' needs and aspirations. Such control has destroyed self-reliance, the very keystone of the "co-operative idea".

5. 5 The Pricing

The pricing policy imposed on the co-operatives under the commodity/agricultural marketing arrangement prior to commodity sector reforms, had negative impact on the operation of the co-operatives. It contributed to the failure of the co-operatives to develop into financially viable business organizations. It also had some negative effects on their competitiveness.

For instance, the relatively low producer prices has deleterious effects on the loyalty of members who, rationally, prefered to sell produce to the other marketing agents that were able to offer relatively higher prices.

5. 6 Example of Co-operative as an Anchor for Export Promotion

In spite of the weaknesses identified above, there were instances, where co-operatives served as anchors for agricultural export promotion.

Such instances abound in Africa. One notable initiative was that of the Association of the Nigerian Co-operative Exporters (ANCE) Ltd.

6. History of ANCE

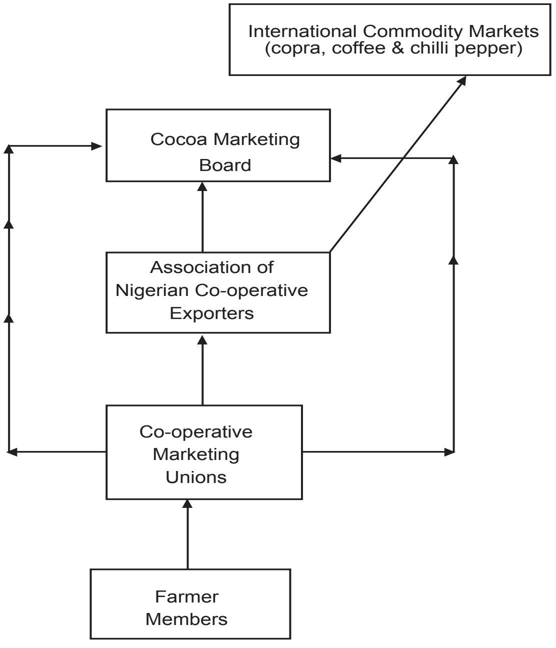
The Association of the Nigerian Co-operative Exporters (ANCE) was established in 1945 with the main objective of operating as the central agency for the marketing of co-operative produce. Its duties are:

- To negotiate with the government, marketing board, shipping and insurance companies and other financial bodies as may be necessary on behalf of its members.
- To provide short-term credit requirements of members for the preparation of produce handled by the Association.
- To borrow such money as may be necessary to promote the objects of the Association from sources approved by the Registrar.
- To establish and maintain a pension or superannuation fund for the benefit of its employees.

The membership of the Association consists of Co-operative Marketing Unions. The ultimate authority in all matters relating to the policy of the Association is the general body which is made up of two delegates from each affiliated union. The management of the Association is vested in the executive committee consisting of the president, vice president and one representative from each affiliated unions.

Figure 1 shows the pattern of Co-operative Marketing with ANCE as an agent to the Marketing Board, as well as a direct exporter to the international commodity markets. While ANCE served as an agent to the defunct Nigerian Cocoa Marketing Board, it takes full responsibility for finding overseas markets for members' produce which is not controlled by the Marketing Board. This includes copra, coffee and chilli pepper.

Figure 1
ANCE: Pattern of Organization of Co-operative Marketing



Immediately after the abolition of Commodity Marketing Boards, ANCE was one of the first co-operatives in sub-Saharan Africa to embark on direct export of cocoa to the international market. Table 2 contains some information on ANCE's cocoa exports

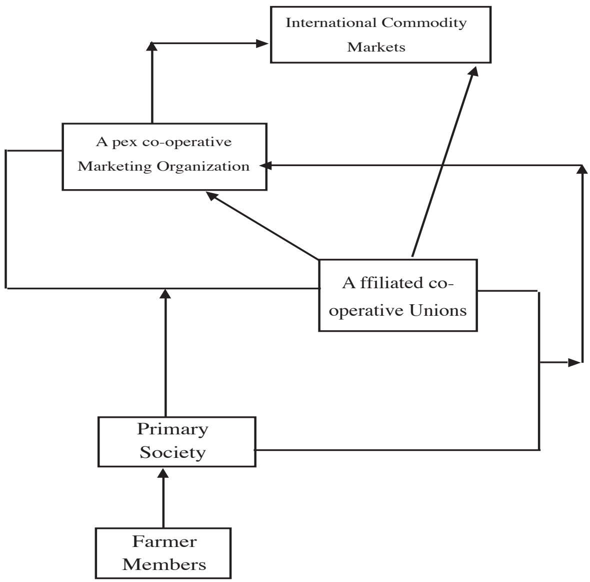
One other unique feature of the operation of ANCE is the nurturing of affiliated marketing unions to the status of licenced buying agents. It also provides other services for affiliated member unions and societies. These include — transportation, insurance cover, and credit facilities.

ANCE is one of the first co-operative organizations in west Africa to diversify into relatively large scale agro-processing venture. It established a Feed Mill Industry to promote livestock enterprises.

7. Model for African Co-operative Export Marketing Scheme

Our analysis indicates that there are possibilities for meeting the challenges of use of co-operatives for agricultural export promotion in Africa under the new global liberalized marketing arrangements. The suggested model envisages the system whereby the co-operative has direct link with the international market as shown in the schematic presentation in figure 2. The structure is such that there will be a national apex co-operative marketing organization with affiliated marketing unions and societies.

Figure 2: Schematic Presentation of the New Model for Co-operative Export Marketing Scheme for Africa



At the rural level, the societies and/or unions will be the first point of contact for farmers and they will serve as the channels through which agricultural export produce will pass from the producer to the apex marketing organization.

The apex marketing organization will be responsible for all aspects of transactions and negotiation for the sale of export commodity at the international market. The apex organization will need to develop an efficient price intelligence and forecasting unit to be able to monitor developments at the global markets.

The commodities to be handled for export marketing by the co-operatives will depend on the main agricultural products that are produced in different parts of the continent. Thus, in Ghana, Cote d'Ivoire, Cameroon, South Western Nigeria, cocoa will constitute the bulk of the crops, while in Senegal, Northern

Nigeria, Niger, groundnut will be the main product. In Kenya on the other hand, coffee will be the main product, while in Uganda and Tanzania, cotton will be the main product.

All attempts should be made to ensure that the co-operative is run in a business-like manner and that the volume of transactions of whatever export commodities is handled by the co-operatives is of such magnitude that will promote the viability and the sustainability of the organization.
Pricing is one of the most sensitive and main determinants of the success of the co-operative export marketing scheme. Members' loyalty and patronage of the co-operative export marketing scheme will be greatly determined by the prices that are paid for their produce. The co-operative export marketing scheme should correct the distortions in the pricing of agricultural export products by paying members fair prices for their produce. This will serve as an encouragement to the members.

Financing is a very important factor in co-operative business. Apart from borrowing from financial institutions for co-operative export marketing, adequate share capital contributions by members are important, not only as a means of financing the co-operative business from internal sources, but also as a reflection of members' interest in their societies, and above all, as an inducement to take part in the decisions affecting the co-operatives.

Efficient management is critical for successful co-operative export marketing scheme in Africa. The co-operative should be able to attract and train management staff who have the necessary technical and administrative skills to meet the challenges of international commodity exchange and marketing.

In the co-operative business, members should effectively participate in the management of the co-operatives. The essential features of members' control are:

- Regular election of leaders through democratic procedures;
- Participation of members in defining by-laws and rules governing their co-operatives

- Empowerment of members through education and training so that members can exercise their rights; and
- Conducting of regular meetings of members to enforce performance control and accountability by staff and elected leaders of the co-operative.

In order to effectively participate in the management of the co-operative, members need skills which will facilitate their participation. They need to be aware of the rights and obligations of membership and they need to have a basic understanding of the business activities of the co-operatives in order to be able to make management accountable to them. Thus membership education is critical for the co-operative export marketing scheme.

There is need for an enabling environment to be created for successful co-operative export marketing in Africa. Government has a great role to play in terms of providing favourable political and legal environment to support sustainable co-operative export marketing scheme.

There is a need for revision of co-operative development policy to bring them into line with a requirement of liberalized economy, and the concept of the co-operative as private business organization. Past experience strongly demonstrates a negative correlation between the degree of government administrative control of co-operatives and the financial success and the sustainability of co-operative societies.

It is recommended for the adoption of all African countries the suggestion of the World Bank as contained in the Report on Review of Co-operatives and Other Rural Organizations in Ghana that there should be transfer of the promotional and development functions of government co-operative department to the co-operative movement.

The report recommended the establishment of a Co-operative Development and Education Centre which has as its main activities, management systems and business development and training and education for co-operatives. Such a center should be an autonomous body within the co-operative movement. A center known as IWACU in Ruwanda is similar to the type being proposed.

8. Conclusion

The development of the rural sector of Africa can be accelerated through, among others, dynamic policy that facilitates export promotion. The co-operatives have potentials for contributing towards the realization of this goal.

The challenges are for members of the co-operative movement, governments, as well as international agencies, and intercontinental organizations and institutions to join hands in making the development of an effective and efficient co-operative export marketing scheme for Africa a reality.

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Table 1
International Co-operative Alliance: Statistics on Membership, 1996

World Total	
Individual	765,258,821
National Organisations	223
International Organisations	7
Countries	95
Africa	
Organisations	26
Countries	16
Individuals	13,924,267
3 Benin	56,000
1 Botswana	77,736
1 Burkina Faso	20,000
1 Cape Verde	20,000
1 Cote D'Ivoire	176,422
6 Egypt	4,000,000
1 The Gambia	100,000
2 Kenya	2,700,430
1 Mali	4,400
1 Morocco	675,609
1 Niger	880,000
2 Senegal	2,300,000
1 Swaziland	17,430
1 Tanzania	1,351,018
1 Uganda	638,222
2 Zambia	907,000

Source: International Co-operative Alliance.

Table 2
Association of Nigerian Co-operative Exporters: Cocoa Exports, 1986/87— 1997/98

Season	Purchases (Mertic Tonnes)
1986/87	6,245
1987/88	7,577
1988/89	4,543
1989/90	8,000
1990/91	6,177
1991/92	3,635
1992/93	8,292
1993/94	4,416
1994/95	3,603
1995/96	1,243
1996/ 97	-
1997/98	152

Source: Records of Association of Nigerian Co-operative Exporters (ANCE).