



## Cooperative Service Provision







Managing your Agriculture Cooperative

## MODULE 2

### Cooperative Service Provision

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This training material has been developed by the organizations listed below.



**Agriterra** is an organization for international cooperation founded by rural people's organizations in the Netherlands. Agriterra offers, among others, farmer-to-farmer advice and direct financial support to rural people's organizations in developing countries so that they become strong and representative organizations. These organizations are indispensable for the promotion of democracy, for a better distribution of income and for the economic development of a country. If farmers organize themselves to jointly coordinate their production and to improve their presence in the market, they stand a better chance to succeed in increasing their incomes and in the creation of employment. Agriterra aims to promote such economic activities and to stimulate, support and finance the international cooperation between rural people's organizations in the Netherlands and those in developing countries.

<http://www.agriterra.org>



**Centre for International Development Issues Nijmegen (CIDIN)** is an interdisciplinary academic institute addressing issues of inequality, poverty, development and empowerment. It carries out undergraduate and postgraduate education in development studies, as well as research in a variety of subjects related to development, economics, sociology and anthropology. CIDIN has broad experience in interdisciplinary research on rural development and value chains, collection action and market integration, impact assessment of value chain codes and standards, and gender theory, policy and mainstreaming.

<http://www.ru.nl/cidin>



**Cooperative College of Kenya (CCK)** is located 17 kilometres from Nairobi city centre in a serene environment. The College was established in 1952 to train government cooperative inspectors to oversee the activities of the cooperatives in Kenya. The College has grown until now it is pursuing a charter to become a university. The broad aim is to equip the staff of the cooperative movement and the associative economy with appropriate managerial and supervisory skills in order to contribute more effectively to the development of cooperatives. The College offers Degree Diploma and Certificate courses in Cooperative Management and Banking. It also offers short courses that target the employees and management of cooperatives. The College is ISO 9001:2008 certified.

<http://www.cooperative.ac.ke>





**Cooperative Facility for Africa (COOP<sup>AFRICA</sup>)** is a regional technical cooperation programme of the International Labour Organization (ILO) in support of cooperative development. It promotes favourable policy and legal environments, strong vertical structures (such as cooperative unions and federations) and improved cooperative governance, efficiency and performance. The programme covers nine countries in East and Southern Africa (Botswana, Ethiopia, Kenya, Lesotho, Rwanda, Swaziland, Tanzania mainland and Isles, Uganda and Zambia) from the ILO Office in Tanzania with technical support from the ILO Cooperative Programme (EMP/COOP) in Geneva. It was launched in October 2007 with core funding from the UK Department for International Development (DFID). COOP<sup>AFRICA</sup> is a partnership initiative involving a range of international and national organizations.

<http://www.ilo.org/coopafrika>



**Empowering Smallholder Farmers in Markets (ESFIM)** is a partnership between national farmers' organizations in eleven countries and AGRINATURA. ESFIM's overall objective is to generate demand-driven action research supportive to the policy activities undertaken by farmers' organizations to strengthen the capacities of smallholder farmers in developing countries to generate remunerative cash income from markets by creating an enabling policy and regulatory environment as well as effective economic organizations and institutions.

<http://www.esfim.org>



**International Labour Organization (ILO)** is the tripartite UN agency that brings together governments, employers and workers of its member states in common action to promote decent work throughout the world. The ILO views cooperatives as important in improving the living and working conditions of women and men globally. Its Cooperative Programme (EMP/COOP) serves ILO constituents and cooperative organizations based on the ILO Recommendation 193 on the Promotion of Cooperatives Recommendation, 2002. EMP/COOP works in close partnership with the International Cooperative Alliance (ICA) and is part of the Committee for the Promotion and Advancement of Cooperatives (COPAC).

<http://www.ilo.org> and <http://www.ilo.org/coop>



**International Training Centre of the ILO** is the training arm of the ILO. Its Distance Learning and Learning Technology Applications (DELTA ) programme has a double mandate of strengthening the Centre's internal capacity in applying state-of-the-art learning and training methodologies and processes as well as providing training services to outside partners and customers. It provides these services in line with ILO Recommendation 195 on Human Resources Development. Its Enterprise, Microfinance and Local Development (EMLD ) programme offers training on cooperatives and the social and solidarity economy as well as, among others: entrepreneurship education and training; enabling business environments for sustainable small enterprise development; value chains and business development services and women's entrepreneurship development.

<http://www.itcilo.org>

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**Food and Agriculture Organization of the United Nations** leads international efforts to defeat hunger. Serving both developed and developing countries, FAO acts as a neutral forum where all nations meet as equals to negotiate agreements and debate policy. FAO is also a source of knowledge and information, helping developing countries and countries in transition modernize and improve agriculture, forestry and fisheries practices and ensure good nutrition for all. Since its founding in 1945, it has focused special attention on developing rural areas, home to 70 per cent of the world's poor and hungry people.

<http://www.fao.org>

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**Kenya National Federation of Agricultural Producers (KENFAP)** is a registered non-political, non-commercial, democratic membership federation that was founded in 1946 as Kenya National Farmers' Union (KNFU). Its mission is an empowered Kenyan farmer with a strong voice making informed choices for improved sustainable livelihoods. As the legitimate 'voice' of the Kenyan farmers, its key role is to articulate issues specifically affecting farmers and the general agricultural sector. KENFAP serves its members by offering representation, lobby and advocacy services. It facilitates cooperation and networking among its members and with national, regional and international associations. It also provides consultancy services and carries out research activities in the interest of the farming community.

<http://www.kenfap.org>

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### **Moshi University College of Cooperative and Business Studies (MUCCoBS)**

is the oldest cooperative training institution in Tanzania, accumulating the experience of 48 years in the fields of cooperative accounting, cooperative management and rural development. MUCCoBS came into being as a result of upgrading the former Cooperative College into a Constituent College of Sokoine University of Agriculture (SUA) in May 2004. It offers cooperative and business education at both undergraduate and postgraduate levels. It provides opportunities for acquisition, development, promotion, dissemination and preservation of knowledge and skills in cooperative, community, business, organizational and entrepreneurship and any other area as may be determined by the University College through training, research and consultancy activities.

<http://www.muccobs.ac.tz>



**The Nigerian Cooperative Development Centre (NCDC)** is located at kilometre 61, Abuja–Lokoja highway. It occupies a 14-hectare plot of land away from the city centre to ensure a conducive research and learning environment. The Centre provides technical backup to the Federal Department of Cooperatives and the entire cooperative movement. It does this through research and adoption of global best practices in cooperative policies, legislation and training. It also generates and analyses cooperative data to support policy and programmes for the development of the cooperative sector, including the training of a cadre of competent cooperative management, supervisory and training personnel.



**Royal Tropical Institute**

**The Royal Tropical Institute (KIT)** in Amsterdam is an independent centre of knowledge and expertise in the areas of international and intercultural cooperation. The Institute aims to contribute to sustainable development, poverty alleviation, and cultural preservation and exchange. Within the Netherlands, it seeks to promote interest in and support for these issues. KIT conducts research, organizes training activities, and provides consultancy and information services. Central to KIT's approach is the elaboration of practical expertise in policy development and implementation. The Institute stewards cultural heritage, organizes exhibitions and other cultural events, and provides a venue for meetings and debate. A key objective underlying the Institute's work is to enhance and exchange knowledge of and understanding for different cultures. "KIT is a not-for-profit organization that works for both the public and the private sector in collaboration with partners in the Netherlands and abroad" (Mission Statement).

<http://www.kit.nl>



**UGANDA COOPERATIVE ALLIANCE LTD**

**Uganda Cooperative Alliance Ltd. (UCA)** is an umbrella organization of cooperative organizations in

the country. It was registered in 1961 with the aim of promoting the economic and social interests of cooperatives in Uganda. It was formed for the purposes of promoting, advocating and building the capacities of all types of co-operatives in the country (primary societies, district and national unions). In its development activities, UCA has concentrated on six key areas: capacity building in primary societies and area cooperative enterprises; development of a strong cooperative financial system based on members' savings; technology transfer; women's empowerment; creation of youth self-employment and environmental protection and improvement.

<http://www.uca.co.ug>



**WAGENINGEN UR**

*For quality of life*



**Wageningen University & Research Centre (WUR)**

explores the potential of nature to improve the quality

of life. A staff of 6,500 and 10,000 students from over 100 countries work everywhere around the world in the domain of healthy food and living environment for governments and the business community-at-large. Its Centre for Development Innovation (CDI) works to create capacities for change. It facilitates innovation, brokers knowledge and develops capacities with a focus on food systems, rural development, agri-business and the management of natural resources. The Centre links Wageningen University Research Centre's knowledge and expertise with processes of society-wide learning and innovation.

<http://www.wur.nl/UK> and <http://www.cdi.wur.nl/UK>

# List of abbreviations

AMCO	Agricultural Marketing Cooperatives
BoD	Board of Directors
MCA	Moshi Coffee Auction
NGO	Non-Governmental Organization
RCS	Rural Cooperative Societies
SOCODER	<i>Sociedad Comercial y de Desarrollo Rural</i> (Commercial and Rural Development Society)
SWOT	Strengths, Weaknesses, Opportunities and Threats
TCCC	Tanzania Coffee Curing Company
WRS	Warehouse Receipt System

<b>Adequate supply</b>	The total number of services or goods available for use is sufficient for the demand.
<b>Chain operator</b>	A cooperative providing services to enhance the efficiency, effectiveness and quality of the activities and products of its members (and possibly non-members), buying their products and adding value to them before selling.
<b>Chain supporter</b>	A cooperative providing services to enhance the efficiency, effectiveness and quality of the activities and products of its members (and possibly non-members) without buying or owning the product.
<b>Competitive price</b>	<p>A price lower than that offered by competitors, or a price made more attractive because of added incentives.</p> <p><b>Source:</b> <a href="http://www.businessdictionary.com/definition/competitive-price.html">http://www.businessdictionary.com/definition/competitive-price.html</a> (accessed 7 October 2011)</p>
<b>Cost–Benefit Analysis</b>	An economic decision-making approach used in the assessment of whether a proposed project, programme or policy is worth executing, by comparing the total expected costs of an investment against the total expected benefits.
<b>Focus group discussions</b>	A research tool bringing together key stakeholders around certain key topics to discuss experiences, opinions and attitudes related to the topics.
<b>Formal survey</b>	A research tool that is usually applied when there is a need for data that can be statistically analysed. A formal survey uses “structured questionnaires” (lists of questions) that contain numerous closed–ended questions that result in quantifiable data.
<b>Internal resources</b>	Resources a cooperative can raise from its members or staff, the retained profits, sale of assets and services.
<b>Market assessment</b>	Evaluation of the market for a product or service, including the analysis of market trends, assessing the competition, and conducting market studies.
<b>Market demand</b>	The quantity and type of goods or services that buyers wish to purchase at any conceivable price.

<b>Market orientation</b>	<p>A business approach or philosophy that focuses on identifying and meeting the stated or hidden needs or wants of customers.</p> <p><b>Source:</b> <a href="http://www.businessdictionary.com/definition/market-orientation.html">http://www.businessdictionary.com/definition/market-orientation.html</a> (accessed 7 October 2011)</p>
<b>Market strategies</b>	<p>A strategy that allows a cooperative to focus limited resources on the best opportunities to achieve a sustainable competitive advantage.</p>
<b>Participant observation</b>	<p>A research tool gathering information by observing the cooperative's members while working with them and during meetings.</p>
<b>Production cycle</b>	<p>The period during which agricultural products remain in the production process, from the beginning of sowing to the output of a finished product.</p>
<b>Semi-structured interviews</b>	<p>A research tool limiting the number of pre-set questions and maximising open-ended questions. Semi-structured interviews put greater emphasis on the discussion and less on the statistical validity of the survey, resulting in qualitative data.</p>
<b>Supply of input</b>	<p>The total amount of input available for use.</p>
<b>Support services</b>	<p>All services that support cooperatives and their members, from the preparation of the fields until their produce is sold. Among these can be included production services, marketing services, business management services, financial services and value added services.</p>
<b>SWOT Analysis</b>	<p>A strategic planning tool that helps to evaluate the internal Strengths and Weaknesses as well as the external Opportunities and Threats of a cooperative, project or business venture.</p>
<b>Warehouse Receipt System</b>	<p>In this system, farmers take their produce to a warehouse and receive a receipt in return. They can use this receipt as collateral if they want to apply for a loan, and so do not have to wait until the crop is sold by the cooperative before they can collect their money.</p> <p><b>Source:</b> The Royal Tropical Institute, Amsterdam and International Institute of Rural Reconstruction, Nairobi: <i>Value chain finance: Beyond microfinance for rural entrepreneurs</i> (Amsterdam, KIT Publishers, 2010).</p>





# Introduction

## Why this training package on the management of agricultural cooperatives?

Agriculture is a crucial sector for global development as “farmers feed the world”. Agriculture is also the second greatest source of employment worldwide.<sup>1</sup> Historically speaking, agriculture has been key in the development paths of many countries. Within the diversity of cooperatives worldwide – one finds for instance cooperatives amongst news agencies, schools and green energy suppliers – agriculture remains a sector where cooperatives are a prominent form of enterprise. This package is motivated by the conviction that *“strong and representative agricultural organizations are indispensable for the promotion of democracy, for a better distribution of income and for the economic development of*

*a country.”*<sup>2</sup> Evidence shows that many countries with an important agricultural sector, such as, for instance, Argentina, Ethiopia, France, India, the Netherlands, New Zealand, as well as the United States of America, also have strong agricultural cooperatives.<sup>3</sup> However, agricultural cooperatives face numerous external and internal challenges. External challenges may be linked to markets, regulations, infrastructure or climate change. Challenges that are internal to the cooperative usually have to do with governance and management issues. Cooperatives are enterprises for which the primary aim is not making profit but responding to members’ needs and aspirations. Cooperative members **own**

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- 1 The service sector is the most important source of employment in the world. See: <http://www.ilo.org/public/english/dialogue/sector/sectors/agri/emp.htm> (accessed 7 Oct. 2011).
  - 2 About Agriterra, <http://www.agriterra.org/en/text/about-agriterra> (accessed 22 Sep. 2011).
  - 3 Source: *Global 300*, <http://www.global300.coop> (accessed 7 Oct. 2011).

their enterprise through cooperative shares, they **control** their enterprise through democratic mechanisms, and, finally, they are the principal **users** of the cooperative services. This makes the cooperative a resilient but also a complex and challenging business model. Cooperatives may find themselves stretched between (at times conflicting) members' interests, business opportunities and social considerations.

## What is My.COOP about?

*My.COOP* stands for “*Managing your agricultural cooperative*”. The My.COOP training package aims to strengthen the management of agricultural cooperatives so that they can offer high quality, efficient and effective services to their members.

The package draws on the ILO training series developed by the Materials and Techniques for Cooperative Management Training Programme between 1978 and the early 1990s. Today, My.COOP is a broad partnership initiative initiated by the ILO Cooperative Facility for Africa and ILO's Cooperative Branch. It is the result of

a collaborative effort involving a wide range of partners such as cooperative development agencies, cooperative colleges, cooperative organizations, organizations of agricultural producers, universities and agencies of the United Nations. More information on the partners can be found in the list that is included at the beginning of this document.

The objective of this training material is to enable (existing and potential) managers of agricultural cooperatives to identify and address major management challenges that are specific to cooperatives in market oriented agricultural development.

As stated above, cooperatives may find themselves stretched between (at times conflicting) members' interests, business opportunities and social considerations. Within such context cooperative managers should ensure sound decision-making on service provision for services that are common to many agricultural cooperatives, including supply of farm inputs and marketing. These issues are reflected in the structure of the My.COOP training package:

- 1 Basics of Agricultural Cooperatives
- ▶ 2 Cooperative Service Provision
- 3 Supply of Farm Inputs
- 4 Cooperative Marketing

## For whom is My.COOP?

My.COOP has been designed for existing and potential managers of agricultural cooperatives as well as for members involved in managerial tasks of the cooperative. The material presumes that these women and men already possess some practical experience as active members in agricultural cooperatives. The material is not developed for people who are starting an agricultural cooperative for the first time.

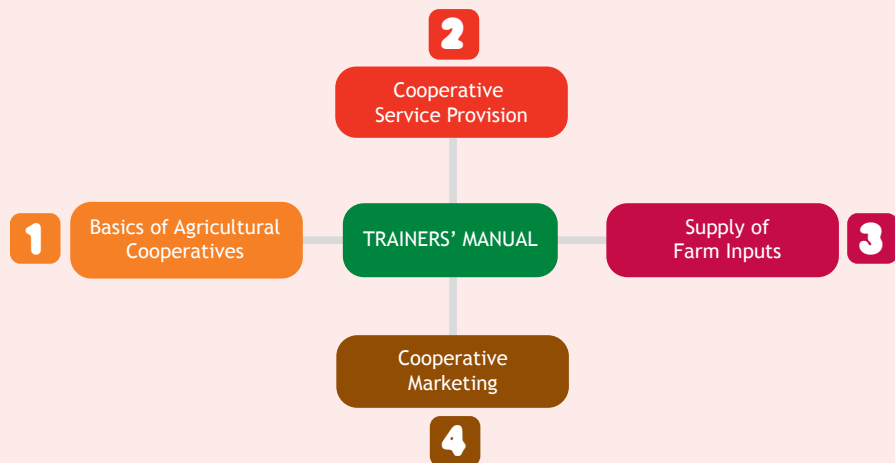
In addition, the My.COOP package can be a helpful tool for organizations

and individuals that train agricultural cooperatives. These can include:

- leaders and managers of cooperative structures, such as unions, federations and confederations;
- cooperative trainers working in cooperative colleges, non-governmental organizations (NGOs) and other (including private) training providers;
- cooperative officers and extension staff of government departments and agencies.

## What's in the package?

The training package consists of one trainer's manual and four modules, as shown in the diagram below.



Each module consists of several learning topics. A learning topic consists of brief content descriptions that are complemented with real life cases from various parts of the world that present solution solving approaches to common challenges in the management of agricultural cooperatives. Besides, each topic offers explanatory boxes on definitions

and concepts as well as self-assignments that help the self-learner to apply the contents to his or her own cooperative or situation. Modules and topics can be used independently from each other, in any given order, in line with the training needs.

## My.COOP online

My.COOP is more than a training package. My.COOP is also a website ([www.agriculture-my.coop](http://www.agriculture-my.coop)) where you can find not only the package but

also related services and tools online, such as a distance learning platform for training of trainers and a mobile learning kit.



# About Module 2:

## Cooperative Service Provision



This module discusses the different services a cooperative can provide to meet the needs of its members and to meet market demand.

To better meet market demands, farmers in general need to improve their agricultural practices. Services can support them in doing this. Examples of services include input, training on production practices and transport, amongst other things.

Providing adequate services to its members is the most important function of a cooperative. A cooperative could provide services to enhance the efficiency, effectiveness and quality of the activities and products of its members and non-members. The cooperative can do so as a chain supporter, without buying or owning the product. For example,

a cooperative mills the maize for the farmer, after which the farmer sells the milled maize to a trader. Often, the farmer pays a fee for this value added service. But a cooperative can also provide a service to its members as a chain operator; in this case it buys products from its members and adds value to them before selling. Also, in this case, we speak of a service to the members. For example, a cooperative buys maize from its members for a fixed price and mills it before selling to wholesalers.

The manager and the Board of Directors (BoD) have to take important and strategic decisions on what services to provide and whether the cooperative should provide a service directly, or whether it could better outsource the service to external service providers. A cooperative could also take the role of referrer or broker and link producers to relevant service providers by providing contacts or negotiating prices for its members.

Cooperatives cannot satisfy all members' needs. Often a cooperative faces budget and capacity constraints to providing all services members require. In addition, it is often more strategic and efficient to specialise and focus on one or a few services rather than trying to address all members' needs. Deciding what services to

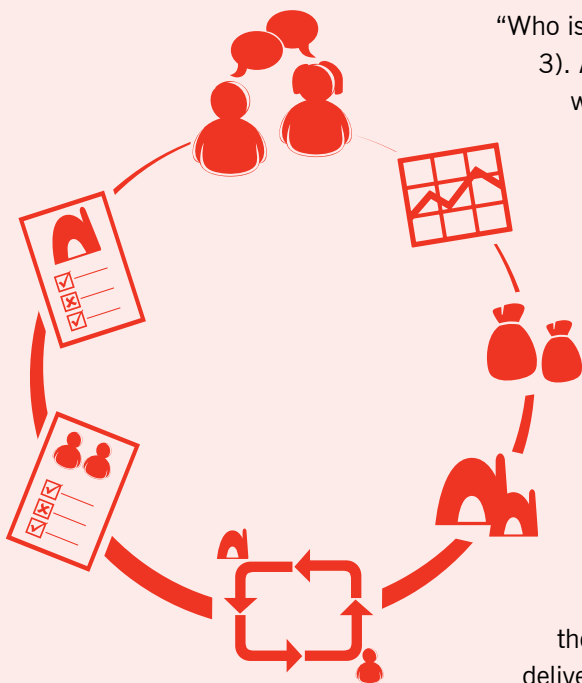
provide requires strategic decision-making, member orientation and market orientation. In order to take sound decisions, cooperatives need information on members' needs and other existing or potential service providers.

A first set of considerations arises with the identification of “members’ needs” (Topic 1). Farmers’ needs are multiple and diverse. Therefore, it is necessary to prioritize these needs, according to the mission and vision of the cooperative. A next step is to balance the needs of the members with the market prospects and make sure that the services selected are in line with the purposes of the cooperative (Topic 2).

The next set of considerations has to do with “Who is going to provide the service” (Topic 3). After selecting the services members want to receive, a service provider has to be chosen. Does the market offer sufficient opportunities for individual producers to choose a service provider, or should the cooperative provide the service itself? Services could also be outsourced to external service providers.

After members have received a service, a cooperative needs to evaluate client satisfaction. Did the service meet the expectations of the members and did it deliver the desired output? Was the service delivered on time, was it in line with the expected quality standards? And do members still need the service? Topic 3 ends with “Member satisfaction and the evaluation of service provision”.

This Module is an introduction to Modules 3 and 4, that deal in detail with two types of services: supply of farm inputs and cooperative marketing.





## Content of this module

This module on “Cooperative service provision” outlines the strategic decisions a cooperative has to make when it assesses the needs of its members, when it decides what services to provide and when it selects a service provider. It ends with a topic on evaluating member satisfaction.

The module is split up into three sub-sections with the following topics:

**Topic 1: what are the needs of members?**

**Topic 2: what services to provide?**

**Topic 3: who will provide the service?**

Different tools to assess the functioning of a cooperative exist. Annex I illustrates how analyses of Strengths, Weaknesses, Opportunities and Threats (SWOT) can help with making decisions on what kind of services a cooperative could best deliver.



## Learning objectives

After studying this module, you will be able to:

- ➔ assess members' needs while making use of the appropriate tools;
- ➔ prioritize the needs to which the cooperative can respond;
- ➔ identify and select potential service providers;
- ➔ make sound decisions on the way the cooperative should arrange for service provision; and
- ➔ evaluate member satisfaction after a particular service has been delivered.







# TOPIC 1

What Are the  
Needs of Members?



# Introduction to the topic

A cooperative is an enterprise providing services to its members. Member satisfaction is very important in order to keep the members committed to their cooperative. What services does a cooperative need to provide in order to satisfy members?

Cooperatives need to make strategic decisions on what services to provide. The cooperative should respond to members' needs but at the same time it should adhere to its strategy and not lose market orientation; a cassava-processing cooperative should, for example, not respond to farmers' need for improved chicken feed. By doing so, it would neglect its own objective: improving the margin of cassava sold for the producer. And in the end, members' products have to be sold at a market. Providing members with training on making cassava chips is not profitable if the market for cassava chips is already saturated.

This topic focuses on members' needs. *How to know what your members need?* Often there is heterogeneity among cooperative members and their needs for services. Managers require information on the different needs. They can collect this information in various ways. In this topic we will discuss the steps and possible ways cooperative managers could do this.

## Needs assessment

The members of a cooperative do not form a homogeneous group. Each member is unique. Farmers' needs for services are determined by their livelihoods and livelihood strategies. Farmers have different resources, i.e. human resources, financial resources, physical resources, natural resources and social resources. Some examples include:

*Human resources:* farmers have different levels of skills, knowledge and experiences. For example, some farmers have been to secondary school or received particular training on crop production or processing. Others never went to school and are illiterate. Nonetheless, these farmers might be very skilled and knowledgeable in specific areas or practices.

*Financial resources:* some farmers have sufficient financial resources, some others do not. This has a significant influence on their lives, including their farming practices. Their financial situation defines whether they are able to invest in their farm and pay for services or not.

*Physical resources:* not all farmers have the same size farm. Some members have large plots of arable land, others own no land at all and are tenants. They also have different tools, machinery, transport, buildings, and water supply.

*Natural resources:* not all farmers have equal access and control over natural resources, such as trees for fodder or fencing, public pastures, water resources, amongst other things. Farmers cultivating nutrient-poor soils need different services to farmers growing crops near a river. Also, farmers whose land is prone to flooding or water scarcity, soil erosion or extreme heat have different needs.

*Social resources:* not all farmers are member of organizations or have links to other people and organizations. This influences their capacity to mobilize labour and to engage in decision-making, for example.

As farmers have different resources, they will also need different services. Moreover, their ability to access services is determined by their resources as well as the social, economic and policy context, which influences their need for services. Farmers differ in terms of their level of risk adversity, willingness and capacity to change, innovativeness and interest in learning new skills on certain topics. In addition, farmers have different strategies to enhance their livelihoods and strengthen their resource base. Another important distinction is between male and female farmers. Often, men and women have different roles and responsibilities in agricultural production and in the value chain. Moreover, their control and power over resources and processes differ, and they often have unequal access to services. In addition, men and women have different capacities to make use of the available services.





## Self-assignment 1.1

How well do you know the farmers in your cooperative? Does your cooperative gather data on the farmers? What data are relevant?

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All these factors determine individual farmers' farming practices, the choices they make, the way they farm, and the services they need. Some farmers are more willing or able to pay for services than others. Given the typical heterogeneity among members, it is pertinent to pose the following questions as part of a needs assessment:

### Who should conduct the needs assessment?

The first step in assessing the needs of members for support services is to decide who will conduct such an analysis. In most cases, the cooperative can do this itself. But depending on the size and purpose of the cooperative, it might not have the staff capacity or time to carry out the assessment. In this case, needs assessment services could be outsourced, which implies a cost. The cooperative could hire a local consultant or other suitable person or organization (private sector company, NGO, university, cooperative union, amongst others) to assist in conducting the needs assessment.

### What are the available instruments a cooperative could use to conduct the needs assessment?

Often, cooperative managers interact frequently with members. Managers therefore have a good sense of their needs. But it might be necessary to identify needs more formally. Discussing needs with one farmer might result in a list that is not representative for other farmers. Not catering to the needs of different farmers is not only ineffective, but may also be damaging or result in conflict.

Needs assessment is a process that is best done jointly with the members of the cooperative: farmers themselves are the best judge of what they need. However, a participatory process for needs assessment is not always easy; it might require special tools and methods. In some cases it can be useful to use

more than one source of information and to combine different methods (both qualitative and quantitative). A combination of different information sources increases the validity, reliability and relevance of the information collected. This can be especially useful in large cooperatives with heterogeneous membership. Table 1.1 provides an overview of such assessment tools as well as their advantages and disadvantages. We discuss four tools:

- formal survey;
- semi-structured interviews;
- focus group discussions;
- participant observation, and observation and discussion during formal and informal meetings.

Each tool has its own pros and cons. One of the decisions to be made – which tool (or which combination) to choose – has to do with weighing up the advantages and disadvantages.



Table 1.1: Needs assessment tools and their advantages and disadvantages

Tool	Description	Advantages	Disadvantages
<b>Formal survey</b>	A formal survey is usually conducted if there is a need for data that can be statistically analysed. A formal survey uses “structured questionnaires” (lists of questions) that contain numerous closed-ended questions that result in quantifiable data. The sample size is chosen according to the objective and the need for robustness. If groups are small, such surveys are difficult to apply. In the statistical analysis, interesting differences existing between farmer categories may disappear in the quest for proper statistic rigour.	<ul style="list-style-type: none"><li>• Genuinely representative of all members</li><li>• Objective</li><li>• Particularly useful when there is a high degree of heterogeneity among the needs of members</li></ul>	<ul style="list-style-type: none"><li>• Time-consuming and expensive</li><li>• Very design-sensitive: biased outputs are likely if wrongly designed</li><li>• Sample may not be adequate</li></ul>
<b>Semi-structured interviews</b>	Semi-structured interviews put more emphasis on the discussion and less on the statistical validity of the survey. A lack of statistical validity might mean bias. Semi-structured interviews result in qualitative data. The researcher interviews individual farmers using a semi-structured questionnaire or preferably a checklist to guide the discussion. By limiting the number of pre-set questions and maximizing open-ended questions, the results of an informal survey can be surprising.	<ul style="list-style-type: none"><li>• Less expensive than a formal survey</li><li>• Better able (than formal surveys) to address qualitative indicators</li><li>• Better able (than formal surveys) to incorporate insights from debates and dialogues</li></ul>	<ul style="list-style-type: none"><li>• Information is not gathered as systematically as in a formal survey</li><li>• Results may easily be biased due to sampling problems or subjective interpretation by the researcher</li></ul>

Tool	Description	Advantages	Disadvantages
<b>Focus group discussions</b>	<p>A focus group is an interactive setting, usually consisting of approximately ten people. A focus group brings together key stakeholders around certain key topics to discuss experiences, opinions and attitudes related to the topics. To function properly, focus groups need to have a moderator and a scribe. The moderator presents open questions, often using a checklist, moderates the discussion and provides a verbal summary of the points raised. Focus groups are particularly useful for gaining an understanding of the current situation and finding a consensus within the group for a way forward. The moderator can decide to use methods and tools to visualize the situation, including mapping, transect walks, calendars, flow diagrams, among others. In some of these discussions it might help to separate women and men. If women come together separately, and the discussion is also facilitated by a woman, they tend to be more vocal than if there are also men present.</p>	<ul style="list-style-type: none"> <li>• Very appropriate for generating qualitative information</li> <li>• Able to incorporate insights resulting from dialogue and debate (heterogeneous interests)</li> </ul>	<ul style="list-style-type: none"> <li>• Particular facilitation skills are required (it is difficult to guide group discussions to get the expected outputs)</li> <li>• The processing of information might be quite difficult (groups generate more information than is needed: filtering is necessary)</li> <li>• The formation of groups might be biased and, due to group dynamics, some members may not be able to speak out</li> <li>• It requires organization (bringing the participants together, among other issues)</li> </ul>
<b>Participant observation</b>	<p>By observing the cooperative's members while working with them and during meetings, information on their needs can be gathered. It gives a good overview and informative insight into the ideas and opinions of farmers and their needs in terms of production support.</p>	<ul style="list-style-type: none"> <li>• Normally not very costly</li> <li>• Appropriate for gathering qualitative information</li> <li>• Able to produce detailed information</li> </ul>	<ul style="list-style-type: none"> <li>• Results can be biased</li> <li>• Generalization is difficult (it is not easy to conclude that there is a generalized interest in particular needs)</li> </ul>





## Self-assignment 1.2

What tools is your cooperative familiar with? Can you explain why you chose these tools? You may use Table 1.1 as a reference.

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The choice of one tool or a combination of tools depends on a number of factors, such as the diversity of needs and opinions, the number of members and the kind of information that is needed. For example, if membership is very heterogeneous, a formal survey will generate more representative results than a focus group discussion. A focus group discussion can be very effective in order to obtain information on the different opinions of members. When the cooperative is large, a formal survey is recommended. If more detailed information is required, participant observation and in-depth interviews are most helpful.

The table below will help you to select the most appropriate tools (XXX refers to most appropriate, X refers to least appropriate).



**Table 1.2: Choosing the right tool for a needs assessment**

Tool	Composition of Membership		Members' Opinions		Membership		Information needed	
	heterogeneous	homogenous	disagreement	agreement	Small	large	general	detailed
<b>Formal survey</b>	xxx	x	xxx	x	x	xxx	xxx	x
<b>Semi-structured interviews</b>	xx	xx	xx	xx	xx	xx	xx	xx
<b>Focus group discussions</b>	x	xxx	xxx	xxx	xxx	xx	xx	xx
<b>Participant observation</b>	x	xxx	x	x	xxx	x	x	xxx

### How many cooperative members need to be involved in a needs assessment?

Analysing members' needs requires the participation of a representative range of key stakeholders to ensure adequate generation of information. This, however, does not automatically mean that all members should participate. For large cooperatives, it may not even be possible to include all members and other stakeholders in the assessment, as it would become too expensive or too time-consuming. In such cases, a sample has to be drawn that is large enough to be representative of the entire cooperative member base and small enough to be cost-effective. Such a sample should range from 5 per cent to 30 per cent of the cooperative's members, depending on the number of members in the cooperative. The sample should reflect the diversity among the cooperative's members and include women, men, younger and older members, and a spread of vigorous as well as vulnerable or otherwise disadvantaged groups and consider such factors as economic and social status, level of education and type of occupation.



## TOPIC 2

What Services  
to Provide?



# Introduction to the topic

After finding out what members need come decisions on what services to provide. This involves prioritizing needs, reflecting on what fits the budget and deciding what is strategic for the cooperative and current market demand. In this topic we will look at different support services, and focus on the strategic decisions managers have to make on what services to provide.

## Support Services

The services a cooperative provides assist producers in enhancing efficiency and quality. But enhancing efficiency and quality of produce only makes sense when the produce is, in the end, sold. For all the services it aims to provide, a cooperative should always take into account the final market for products. Therefore, the cooperative must know what the market demands are. In order to meet market demands in terms of quality, quantity and timing, farmers need support services. We can group the services into five categories: (i) production services, (ii) marketing services, (iii) business management services, (iv) financial services and (v) value added services.

### Support services

Support services encompass all services that support farmers and their organizations, from the preparation of the fields to the sale of their produce.

- i. **Production services** are all services that support farmers to produce more efficiently and enhance the quantity and quality of their produce. Production services include the supply of inputs (fertilizer, pesticides, seeds, fodder, amongst other things), production-oriented research and advisory services, mechanization services, veterinary services as well as advice on production techniques or stock- keeping and working conditions.
- ii. **Marketing services** are services that support producers by improving their access to markets. These include provision of market information, facilitation of contract negotiation, promotion of products, i.e. by branding, organizing of or participation in trade fairs or advice on marketing strategies, certification, amongst other things.
- iii. **Business management services** are services that cooperatives provide to their members to improve their management and entrepreneurial skills, such as support for and training on business plan development or bookkeeping.

- iv. **Financial services** refer to all services such as savings and credit provision, insurance, investment funds, supporting access to subsidies, sales guarantees.
- v. **Value added services:** these are services that add value to the product after harvest but prior to marketing. These services include storage, transport, processing, sorting and grading, packaging and labelling.

The table below lists examples of the five types of services.

**Table 2.1: List of services**

<b>Production Services</b>	Input supply (seeds, feed, fertilizer, pesticides, amongst other things)
	Guidance on use of chemicals and other inputs
	Training on farm management
	Artificial insemination
	Training on Good Agricultural Practices, soil conservation, water management and related environmental issues
	Training on good post-harvesting techniques
	Training on safe working practices
	Veterinary services
	Weather forecast services
	Water management
	Soil testing and analysis
	Mechanization services
	Product-oriented and extension research
	Farmer field schools
<b>Marketing services</b>	Market information
	Negotiation
	Certification
	Trade fairs
	Market contacts
	Branding
	Market space development
	Transport
	Labelling

Business management services	Business plan development
	Bookkeeping and auditing
	Human resource development
	Legal services
Financial services	Saving schemes
	Credit schemes
	Insurance (crop, premises, health, amongst others)
	Leasing
Value added services	Storage and warehousing
	Processing equipment
	Training on good processing practices
	Packaging
	Sorting and grading

The following case presents a specific service: farm planning. Knowing what to grow where and when to sell livestock makes farmers more efficient and effective, and can result in higher margins.



## Case 2.1: The power of planning tools used by SOCODER in Chile

### Assessing members' needs and potential

SOCODER, the *Sociedad Comercial y de Desarrollo Rural* (Commercial and Rural Development Society), has been a pioneer in offering planning support services for smallholder farmers in the Ñuble province of Chile. Sometimes cooperatives are so involved in the day-to-day execution of projects, provisioning of services and dealing with short-term financial problems that they have little time to help their members think ahead. Planning, however, is key to successful farming. Put simply, planning involves assessing farmers' needs and potential so that they have realistic expectations of what they can offer, and what they can obtain in return. Obviously, some things like a dry spell or a pest outbreak are hard to plan for, but many other aspects of production are not likely to change as much: the amount of land available, the number of calves that are typically born of a cow, or the interest that has to be repaid on a loan are figures that can reasonably be planned for.

SOCODER's most recent endeavour uses the power of technology to implement a comprehensive planning support system. The cooperative and a local university (Universidad de Concepción) decided to develop a joint project that would take advantage of the increased internet connectivity in the countryside.

These two institutions launched *Agropyme Digital*, an internet-based system for the support of small and medium agrarian enterprises.

While it offers many of the services that had traditionally been provided to members, such as property mapping, *Agropyme Digital* is a much more sophisticated and user-friendly tool that allows farmers to store and analyse data which are crucial to planning. Adequate information can lead to better decisions, and better decisions can lead to improved livelihoods for farmers.

**Source:** Based on information provided by Christian Gouet, Agriterra consultant, and on written material supplied by Mr Juan Guido Vidal, president of SOCODER, and Agriterra partner.



## Self-assignment 2.1

Case 2.1 presents planning as an instrument to enhance producers' productivity. How does your cooperative support the enhancement of its members' capacities? Is this type of capacity-building sustainable?

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## Combining services

It is important to realize that many services only succeed when combined with other services. Training on good agricultural practices only shows results when farmers subsequently have access to the right input (and vice versa). Moreover, information on prices in urban markets is only relevant when farmers have access to these markets.

The case of Cooagronorte in Colombia (Case 2.2 in Module 1) illustrated that some needs are closely interrelated. It also showed how to manage the provision of services without running the risk of a large variety of services putting too heavy a burden on the cooperative's finances.

### An example of a combined service: the Warehouse Receipt System (WRS)

An WRS provides an interesting combination of storage and financial –and sometimes input supply – services. It is common for cooperatives to manage a warehouse for stocking (non-perishable) agricultural products and input



(more information on stocking input can be found in Module 3). The WRS is a tripartite arrangement between the cooperative (who operates the warehouse), the farmer (the depositor) and a financial institution (which provides a loan).

The farmer deposits his/her produce in a warehouse for storage handling. He/she is the legal holder of an outstanding warehouse receipt. The warehouse receipt is collateral, on the basis of which a financial institution provides a loan to the holder of the receipt (the farmer). The loan can then be used to buy input for the next cropping seasons, without the harvest produce being sold. Financial institutions accepting the warehouse receipt as collateral are confident in the high level of liquidity of deposited commodities. The risks involved for financial institutions are relatively low. Based on the warehouse receipt, financial institutions are entitled to realize their claims before other creditors. High quality management of the warehouse and controls by inspection services reduce the risks even further.

The following case illustrates how an WRS works for coffee in Tanzania.

## WRS

In this system, farmers take their produce to a warehouse and receive a receipt in return. They can use this receipt as collateral if they want to apply for a loan, so do not have to wait until the crop is sold by the cooperative before they can collect their money. This is a useful arrangement for cooperatives that want to store their products until prices rise, or if farmers have to wait for payment from buyers.

Source: The Royal Tropical Institute, Amsterdam and the International Institute of Rural Reconstruction, Nairobi: *Value chain finance: Beyond microfinance for rural entrepreneurs* (Amsterdam, KIT Publishers, 2010).





## Case 2.2: An WRS for coffee in Tanzania

In Tanzania, farmers deliver coffee to primary-level cooperatives – Agricultural Marketing Cooperatives (AMCOs) – or farmer associations. The role of the AMCOs and other primary farmer organizations is crucial in enabling smallholders to bulk their crop and market as a group. This makes it possible for smallholder farmers to meet minimum lot sizes for deposits (3 to 7 tonnes).

The AMCO takes delivery after ensuring that the coffee meets minimum quality standards, and then issues receipts to the farmer, documenting the volume delivered. It then makes a “first payment” to the farmer, which often represents up to 70 per cent of the market price of parchment coffee (for Arabica).

The AMCOs finance the “first payment” from bank loans advanced on the basis of its balance sheet and track record as well as guarantees by its executives. Members of the AMCOs can agree to lower “first payments” to reduce the financing cost and therefore increase their overall margins, a substantial part of which is distributed to them as second payment. When the minimum lot size has been accumulated, the Rural Cooperative Societies (RCS) deposit the lot with a designated warehouse operator.

Most of the designated warehouse operators in the coffee sub-sector are coffee curing factories. Many of them were owned by cooperative unions but have been transformed into financially independent commercial entities which offer processing services for a fee. An example is the Tanzania Coffee Curing Company (TCCC) in Moshi.

Warehouse operators store the parchment coffee and process on a “first-come-first- processed” basis, unless the depositor specifically instructs them to delay processing for strategic marketing reasons. The operators tend to focus on processing fees rather than storage fees (which consequently are usually very low). They also take deposits from traders and cooperative unions marketing on behalf of groups of AMCOs.

The warehouse operator, after taking delivery of the parchment coffee, issues warehouse receipts, documenting the volume and quality of coffee deposited by the AMCOs. The RCS, on the basis of the warehouse receipt, obtains inventory finance, which allows it to make further purchases of coffee from its members (and sometimes from non-members in their catchment area).

Banks involved in financing coffee warehouse receipts include the Kilimanjaro Cooperative Bank, the National Microfinance Bank, and a commercial bank, the CRDB Bank Plc.

## What services to provide?

Members will always demand many different services. Most probably, a needs assessment will result in a long list of services that are needed. A cooperative cannot respond to all these demands, but rather has to prioritize. Prioritizing should not only be based on what is needed most by the majority of the cooperative's members. There are various reasons for this:

- Many cooperatives have heterogeneous membership. To prevent a situation in which certain members feel disadvantaged, the selection process should be fair and transparent. It may be wise to ask an external person to assist in such a process. In any group of people there are certain members whose relationship with the decision-maker, in this case the cooperative manager, may exert an influence.
- In the end, members will have to sell their product in a market. A cooperative should only cater to those needs that really support the producer in reaching that point. Services provided should also respond to what is demanded in the market. Delivering high quality products that are produced efficiently does not make sense when there is no market for this. So, for instance, if consumers demand packaged beans, the cooperative might consider providing packaging services. Moreover, services that are aimed at the first phases in the production cycle (production, post harvest, amongst other things) should take into consideration final market demand. As an example: training producers in enhancing the productivity of cassava production does not make sense when the market for cassava is already over-supplied.
- Moreover, selection of services should also be in line with the purpose of the cooperative. The services selected should support the strategy of the cooperative. If the cooperative is a marketing cooperative, it should not provide services for soil research (or only if this is key to improving marketing). And if the cooperative is for banana producers it should not provide veterinary services.
- Some of these needs will be related to the context surrounding the cooperative. Examples are: accessible energy, improved routes or changes in legislation. Providing services that directly respond to these needs – for example, improving routes for better market access – can contribute to the cooperative's strategy, but this is not always easy. Therefore, a cooperative may decide to lobby the local government or ask the cooperative union or federation for assistance. So, even when the needs are in line with the cooperative's strategy, the cooperative manager might have to decide to involve another service provider.



## Self-assignment 2.2

Does your cooperative also have heterogeneous membership? How do you deal with this? How do you make sure that everyone's voice is heard?

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Box 2.1 lists a number of criteria that can be used to prioritize needs. In some cases, meeting the needs of a group of members that form a minority is still important to the cooperative's functioning. For example, the needs of youngsters and women should not be overruled by the desires of the majority. An option the manager might choose is hearing their needs separately from the rest of the group.



## Box 2.1: Criteria for prioritizing members' needs

### **What percentage of the members shares a particular need?**

A cooperative should satisfy the needs of the majority, before catering to a minority. Having said this, however, care should also be taken to support the various minority groups within the cooperative's membership, in order to avoid discrimination and unintended outcomes.

### **Can the need be met by other providers?**

If a particular need (fertilizers, for instance) can be supplied easily and at a competitive price by other local suppliers, the cooperative should not assign it a high level of priority.

### **How important is meeting this need in terms of increasing productivity?**

In principle, needs related to increasing productivity merit a high priority.

### **How much will meeting this need increase the quality of products?**

Needs related to quality improvement should be prioritized, since meeting these will allow farmers to increase the value of their produce.

### **To what extent does the need reflect local scarcity?**

Needs that can barely be met due to the scarcity of service inputs should be prioritized, since the cooperative could make a big difference to farmers by meeting these needs.

### **Are the needs related to the core business of the cooperative?**

The cooperative should prioritize those needs that are related to its core business over other needs which may be important for agricultural production but outside of its main mission.

### **Does the need reflect a bottleneck?**

Is fulfilling the need in question a necessary step to enable an important production or commercialization process? Needs that are related to critical bottlenecks should be prioritized.

The suggestion on how to prioritize services sounds logical, but it requires the manager to have certain sound skills. A cooperative is dependent on its members and members will only feel committed when they can identify with their cooperative. As soon as members lose this feeling of identity they will lose trust in the leaders of the cooperative. A cooperative manager has to take the importance of member commitment into account but, at the same time, make sure that the cooperative keeps to its strategy and responds to market demand.

It is possible that a conflict between managers and members (or BoD) may arise. The case of artificial insemination in the Ngwataniro Dairy Farmers' Cooperative in Kenya (see Module 1, Case 3.1) showed how they dealt with such a conflict and the importance of a participatory process that leads to consensus.



## Self-assignment 2.3

How well do you know what the farmers in your cooperative need? Prioritize the needs of the members of your cooperative by making use of the questions posed in box 2.1

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## What service responds to the need?

At this point the cooperative manager has a list of priority needs as expressed by the members of the cooperative. However, it will be obvious that there are many ways to address the needs. For example, the need for increased productivity can be tackled by means of better input and equipment, by changing the work flow and by improving working conditions.

Once needs have been prioritized, the cooperative's management should decide on the best strategy for responding to these needs. Which service will lead to the best result? This means having a very clear picture of the need within its context. Why is productivity low? Is it because of the low availability or poor quality of input? Is it because of the way the crops are grown? Are certain member groups (e.g. women, youngsters) more concerned than others? Sometimes responding to needs can be good business. The example of the Twatasha Multipurpose Cooperative Society in Zambia shows that environmental services can also be lucrative.

### Improving health and safety in the workplace

Palm oil for local use is often made by groups of women. Imagine such a group sitting in a circle on the ground, cracking the nuts, beside the fire, close to the gasoline stove. Under such circumstances, an accident may easily occur. Simply re-organizing the workspace can help to reduce risks and eventually increase productivity.



## Case 2.2: Adapting to emerging opportunities

In its early years, the Twatasha Multipurpose Cooperative Society in Zambia focused on activities such as training farmers on crop storage and putting them in touch with buyers in order to achieve fair deals. Recently, the cooperative moved into environmental business services such as sanitation management of refuse, waste collection and general environmental cleanliness. These activities were embarked upon in the wake of outbreaks of deadly diseases, such as cholera and other water-borne diseases that were affecting marketers, especially during the rainy season. The marketers draw water both for drinking and cooking from shallow wells, which are a major source of contamination. First, Twatasha provided refuse collection services as a contribution to the wellbeing of the community but soon this turned out to be a lucrative and viable business, offering employment opportunities. Eventually, the cleaner environment will contribute to improved health, working and living conditions in the community.

**Source:** *Sanitation management of refuse and garbage collection in Zambia*, ILO/COOP<sup>AFRICA</sup>, 2009, <http://www.ilo.org/public/english/employment/ent/coop/africa/download/twatasha.pdf> (accessed 4 October 2011).

## A cost-benefit analysis

Most cooperatives have a limited budget. Providing services that respond to members' needs may not always be the most beneficial course of action when these are supplied by the cooperative itself. A cost-benefit analysis assists the cooperative's management in getting a better idea of whether providing a certain service is worth the time, resources and energy.

A cost-benefit analysis is useful to establish whether investing in a service for responding to members' needs is worthwhile. The analysis involves two steps:

- identification of the costs;
- identification of the benefits.

The first step is to identify and quantify all costs associated with investing in and providing a service. In the case of an input supply service, this would include the time required to negotiate with the input supplier, the cost of buying the input, the cost of storage and the cost of transport. The following actions are suggested:

- make a list of all financial costs that will be incurred upon implementation and throughout the life of the project. These include start-up fees,

### A cost-benefit analysis

Cost-benefit analysis is a technique for deciding whether to make an investment or not. You add up the value of the benefits of a course of action, and subtract the costs associated with it, and the results show whether the investment is worth it.





licences, production materials, payroll expenses, user acceptance processes, training, and travel expenses, among others;

- make a list of all non-financial costs that are likely to be absorbed. These include time, lost production, imperfect processes and other potential risks. Try to assign monetary values to the costs; and
- add all the costs together.

The next step is to identify and quantify all benefits anticipated as a result of providing the service. Examples of benefits are: increased income for producers, decreased production time, decreased post-harvest losses, improved product quality through packaging, better working conditions for the cooperative's members or staff. The following actions are suggested:

- make a list of all financial benefits that will be experienced with the service provided. Such benefits include direct profits from products and/or services, but also decreased production costs due to improved processes, and increased productivity;
- make a list of all non-financial benefits that could be obtained. These include, for instance: decreased production times, larger customer base, and also improved health and safety in the workplace, greater customer satisfaction, preservation of natural resources and an improved reputation. Whenever possible, try to assign financial values to all these benefits; and
- add up the above in order to reach a total benefit value.



As a final step, the cooperative should weigh the costs and benefits to determine whether the proposed investment is worthwhile. If the total costs are much greater than the total benefits, one can conclude that the service is not a worthwhile investment of the cooperative's time and resources. However, if costs and benefits are equal then the cooperative should consider how many members this service supports.

Performing a cost-benefit analysis is a valuable way to weigh up the pros and cons of providing a certain service; it is also an accurate way to determine whether an opportunity is worth the time, resources and energy involved.

## **The cooperative's strategy**

A cooperative therefore has to assess the needs of its members, select the needs that are in line with its strategy, keep track of market demand and of the benefits and costs involved. In other words, the task is to make sure the needs assessment and service selection are in line with the cooperative's strategy and market demand.

The cooperative should, in all its activities, adhere closely to its strategies. This, however, requires certain skills.

One of the skills a cooperative manager should have is being able to move outside of the daily routine. Daily cooperative management in general is a demanding task; it includes activities like managing staff, maintaining relations with external partners and solving problems. It is easy to get overwhelmed by daily issues.

However, a cooperative is set up to serve members in the long term. Module 1 explained that a cooperative is an association of persons formed to meet common economic, social and cultural needs and aspirations through a jointly-owned enterprise. It is an organization that has a purpose. It has a specific function (a cooperative can be, for example, a marketing cooperative or a service cooperative), a mission and a vision. To continue in the long term, the cooperative should be able to adapt to changing circumstances but, at the same time, make sure that it adheres closely to its strategy and purposes. It is because of these purposes that the members originally joined the cooperative.

## **Changing circumstances**

The strategy, mission and vision of a cooperative are not static. A marketing cooperative will not easily change into a finance cooperative, but its strategy might gradually change. A cooperative is there to serve its members. When

members' needs change, the cooperative should adapt its strategy. Members' needs often change when the market changes. When market demand changes, members might need different services to be able to respond to the new market demand. Also, when market supply changes, for example, by the withdrawal of service providers or the introduction of new types of fertilizers amongst other events, members might require other services. A cooperative needs to adapt to changing circumstances and to the changing demands of its members. It is the members that can present and decide on the changes needed.

Daily activities need to be in line with the cooperative's purposes. Daily activities should support the cooperative to reach its mission and vision. Therefore, it is at times necessary for a manager to move away from daily routine and reflect on the following questions, among others:

- What services do we provide to our members?
- What is the purpose of our cooperative?
- How do the services we provide contribute to our strategy?
- Is our strategy in line with market demand?
- Does the purpose of the cooperative remain relevant in the changing context?



### Self-assignment 2.4

Can you answer these questions for your cooperative? Have your purpose, services and/or strategy changed over time?

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## TOPIC 3

Who Will Provide  
the Service?



## Introduction to the topic

After a thorough investigation, the cooperative will know what services it wants to provide to its members. What questions come up when searching for a service provider? This topic is concerned with the selection of service providers. It discusses the considerations to be made with regard to a cooperative's providing a service itself, outsourcing it or encouraging producers to choose independently a service provider in the market. This topic provides criteria that can assist a cooperative in selecting the right provider. If the cooperative decides to deliver some of the services itself, it is also important to discuss how these services can be provided.

## How to analyse the service market?

Different tools exist to analyse the existing service market. An example is the market overview tool.<sup>4</sup> This tool makes it possible to gain a rapid understanding of the market, using secondary sources and interviews with service providers. For the selected services the common opportunities and constraints for the members are analysed. A list of all service providers can be drawn up by listening to members' experiences, networking via members and interviewing officials, enterprises and non-members. Next, a number of providers are

interviewed to gain an understanding of whether they really respond to members' needs.

Examples of questions that are helpful when examining the three components are listed in the table below.



4 A. Miehlebradt and M. McVay: *Developing commercial markets business development services*, Seminar Reader (Turin, ITC/ILO, 2003).

**Table 3.1: Questions for analysing the existing service market**

<b>Demand</b>	Which members are using which service products? Which members are not?
	What benefits do members expect from the service?
<b>Transactions</b>	How big is the market?
	What percentage of members have tried a particular service?
	Why do members use the service? Why not?
	How do members want services to be delivered?
	What service features do members want?
	How satisfied are they with the currently available supply?
	What prices do members pay for the service?
<b>Supply</b>	Are the required services available?
	What types of suppliers exist?
	What are the strengths and weaknesses of current suppliers?

## How to select a service provider?

After your cooperative has identified which services it wants to provide or arrange for its members, it is time to identify and select a service provider. Selecting the right support service and service provider is a prerequisite for ensuring delivery of quality services to the members of the cooperative.

Two possible service providers can be identified:

- The cooperative: it is possible that a cooperative has the capacity to provide a service itself. An example is a farmer who has received training on good agricultural practices and has the capacity to train other farmers. For analysing whether a cooperative is capable of providing a service, a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis tool is helpful (SWOT analysis is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or business venture). The tool is presented in Annex I.

### The cooperative as a service provider

In some cases, the cooperative union/federation can assist the cooperative in providing services, for example by training trainers or hiring agronomists to provide advice to the members of local cooperatives.

Another example of cooperative service provision is members who help other members, through exchange visits, demonstration plots and farmer to farmer advice, and sharing of tools and equipment.

- **External Service Providers:** an external service provider is an organization, a company or a person that specializes in a service. For example, a bank providing credit, a cooperative college providing cooperative management training or a supplier of fertilizer that trains farmers on how to apply its product. There are also examples of informal service providers: for example, a family member doing the bookkeeping. A cooperative could actively outsource services, implying that it will contract an external service provider to provide services to its members. Another option is that members access services from external service providers on an individual basis. The cooperative could provide a referral and facilitate contacts between members and potential service providers, and could negotiate a better price.

## What criteria can be used to decide which type of provider is most suitable?

There are four criteria that can be used to decide which type of provider is most suitable:

- **Availability:** does the service exist, and if so, is it in adequate supply? Not all services required are always available. Identification of potential service providers is preferably a participatory process. A group of members is always more knowledgeable about the existence of service providers in their region. This identification of potential service providers by a participatory group leads to development of a list of service providers who could provide support services to the members of the cooperative. If there are no service providers available (i.e. if the service is not available), the cooperative might need to provide the service itself.
- **Affordability:** can members afford to pay for the service? Is the price reasonable? And what are the payment conditions like? Is the service provider prepared to provide the service on credit and what would the conditions for this be? The cooperative and its members always deal with a limited budget; important criteria in deciding who is going to provide the services are the costs of the service provider in combination with the value gained from the service. A cost-benefit analysis will assist in comparing the costs with the value added by the service. Based on the estimated value added and the available budget, a cooperative can decide between an external provider, providing the service itself or leaving it to the market. In some cases there are many providers of a certain service on the market. It is important to note that the cost of hiring an external service provider is not limited to the provider's fee. The process of hiring also involves costs including, for example, travelling to a service provider's premises,

negotiation time, time spent agreeing on a contract.

- *Accessibility*: is the service available in an accessible place, at an appropriate time (e.g. season, opening hours)? Service providers might be present and be appealing from the cost/quality perspective, but are they accessible? Accessibility does not only mean that they are within a maximum distance, but also has to do with the time and dates the provider can deliver the service. Are these in line with the production cycle of the producer?
- *Appropriateness*: does the service meet the required quality standards and conditions? Does the service meet the specific needs and background of the cooperative's members (e.g. gender, level of education, skills, addressing the right problem and providing the right outcomes)? Is the service provider authorized to provide services? Is transport included as part of the delivery conditions? Will the supplier cover insurance? Another increasingly important question: *is the service environmentally friendly*? A service should not have negative environmental effects, such as air pollution, contamination of water sources, degradation of soil or biodiversity.







### Self-assignment 3.1

Does your cooperative have experience with services that were too expensive for members? By whom were the services provided? What did your cooperative do to solve this problem?

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## Categories of potential services and service providers

After identifying the potential service providers, the next step is to categorize them in a way that will make it easy to understand their services. Categorizing potential service providers means grouping similar service providers together.

The types of categories will be driven by the need being addressed. Groups or categories of service providers are easier to refer to than simply an unorganized list of needs.

The following table presents one method for categorizing potential service providers, making use of the five abovementioned service categories (i.e. production, marketing, business management, financial aspects and value added services) as well as of the selection criteria (i.e. availability, affordability, accessibility and appropriateness).

Filling in Table 3.2 will help the cooperative gain an initial overview of the service providers existing within the market.

### Embedded services

A service provider will be more attractive when he or she provides embedded services. Embedded services mean that the provider offers a service that enhances the results of the purchased product, for example by offering user instructions or maintenance services for the purchased equipment.

Table 3.2: Example of categorizing service providers

Service categories	Criteria							
	Availability		Affordability		Accessibility		Appropriateness	
	Name of providers	Capacity to deliver	Price	Payment conditions	Distance	Timing	Quality standard	Conditions
Production								
Marketing								
Business management								
Financial aspects								
Value added								



## Self-assignment 3.2

Fill in this table for the service providers that you make use of. What was the main reason for selecting these providers? Do you have information on other service providers and can you fill in their details?

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## Criteria for outsourcing services or not

Now you know the services that are needed and you have an idea of potential service providers. Might the cooperative itself provide part of the services, or be interested in doing so in future? How can the cooperative decide whether to outsource services or to provide them itself? The following criteria may be helpful in making this decision:

- *Economies of scale*: in order to provide a particular service, the cooperative has to ensure that the demand among members is large enough to be able to provide competitive prices and to reduce costs due to a large scale. If the costs are relatively high compared to the benefits, the cooperative needs to outsource the service.
- *Market structure*: whether a cooperative can provide a service at a competitive price depends on the other service providers in the market. In monopolistic markets where there is only one service provider, cooperatives with enough supply capacity should normally be able to provide the service at a lower price (and break the monopoly). In competitive markets, however, harsh competition would usually prevent cooperatives entering the market, since farmers have ready access to the services and it is much harder to stand out.
- *Know-how*: a critical question the cooperative has to address before deciding to provide a particular service to its members is whether it already has the in-house expertise required to offer good quality services. If the answer is “no”, the next question would be whether such expertise can be acquired at a reasonable cost and in a reasonable time period. If this is not the case, then the cooperative needs to outsource the service.
- *Potential matching with other services*: if two or more different kinds of

services are closely linked and complementary, there are advantages in providing them as a bundle. This might also create economies of scale.

- *Ability to provide customer service*: service provision is not only about delivering the service, but also about being able to assess and monitor the level of satisfaction of customers (members) and their capacity to maximize the benefits the service can render. This includes solving problems that members might face while using the service.
- *Staff and other costs*: what are the implications of providing a particular service to members in terms of the overall (direct and indirect) costs for the cooperative? Are these costs affordable? What are the prospects for the future (are these costs going to decline or increase)?
- *Alliances*: is it possible to build up a special arrangement (conditions) with other enterprises for the provision of services (through outsourcing)? Partnering might be more convenient than competing. Are there possibilities of building alliances with service providers? A typical cooperative example is to link up with the cooperative union.



### Self-assignment 3.3

Assess the services that your cooperative provides: are there many other service providers offering the same or similar services? How do you make sure that your price is more competitive than that of other providers? Do you offer extra services?

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The decision for a cooperative to outsource certain activities or not, has largely to do with the costs and risks involved. A well known problem is the risk of “free-riding”. This refers to the problem of members who benefit from the cooperative without contributing their share. The following case of the Ngara Farmers’ Cooperative in Tanzania illustrates how they dealt with this risk in an innovative way.



### Case 3.1: Fending off free-riders in coffee chains - Ngara Farmers' Cooperative in Tanzania

It is annoying to see someone get on the bus without paying for a ticket, especially if you had to make an effort to pay for your own ticket. Why should someone ride for free, when the rest of us have to pay? Free-riders show up all over the place and not only on buses. Every time a person benefits from a collective effort without contributing their share, he/she has a negative effect on those who do contribute. In the case of bus tickets, for example, fare-paying passengers end up having to pay for more expensive tickets to subsidize those who ride for free.

Free-riding is a common problem for cooperatives. Sometimes members (or non-members) benefit from the services or actions performed by the cooperative, but are not willing or able to contribute to the group accordingly. The following example of a Coffee cooperative in north-western Tanzania shows how free-riding negatively impacts on the cooperative. The example also shows a creative way of dealing with the problem.

The Ngara Farmers' Cooperative Society has been working hard for more than a decade to improve the livelihoods of almost 2000 farmers by offering a wide range of support services. In today's demanding market, coffee quality is extremely important. Buyers are very sensitive to quality when setting their purchasing price, so improving coffee quality has been a major focus of the cooperative. These efforts, however, were being negatively affected by the actions of free-riders. A few unscrupulous farmers and intermediaries were mixing ripe and unripe coffee beans, and this affected the quality of the final product (unripe beans have an undesirable taste). As a result, the price paid to farmers was not as good as it would have been otherwise.

This unethical behaviour was possible because coffee beans are usually sold dry, and it is very hard to differentiate between ripe and unripe beans simply by looking at them once they are dry. The cooperative came up with a solution that involved two strategies. The first one was to intensify its outreach and educational campaigns to increase farmers' awareness of the negative effects of mixing ripe and unripe beans, as well as Arabica and Robusta types of beans. The second one was to stop processing dry beans. Under the new rules, coffee is processed wet, a procedure that only works with ripe beans, and that makes unripe beans easily identifiable. The combined actions of these two strategies have reduced the adulteration of coffee. It has resulted in better quality – and better prices for the members of the cooperative.

**Source:** Based on a report written by Mr Sam Mshiu of the ILO, and an interview he conducted with John Smith Imana, Vice-President of the cooperative.



### Self-assignment 3.4

Can you think of an example where non-members benefited from the service provided by your cooperative? Does “free-riding” also occur among members?

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## Member satisfaction

Members are the most important assets of a cooperative. At the same time, members are the cooperative’s main clients. To keep members committed, the cooperative has to offer its members sufficient benefits. Keeping clients is only possible when they are satisfied with the services provided; therefore, it is very important to evaluate members’ satisfaction after they use a service.

There are a number of criteria that can be used to evaluate services. The following table gives some examples.

**Table 3.3: Evaluation criteria for services**

Evaluation criteria	Questions
<b>Quality of the service</b>	Did the service provider’s work comply with the requirements and quality standards of cooperative members?
<b>Capacity to deliver</b>	Did the service provider deliver the services on time? Did the service provider deliver the required quantity?
<b>Reliability</b>	Did the service provider comply with his or her commitment?
<b>Cost</b>	Was the benefit of the service worth the investment?
<b>Conditions</b>	Did the service provider meet the agreed conditions for payment and delivery?

## What to do after evaluation?

After assessing members' satisfaction the cooperative management needs to make further decisions. There are three possible scenarios:

- *The service was satisfactory:* if the service is still needed, the cooperative's management decides to continue providing the services unless there are new service providers who provide better and/or cheaper services. In the latter case, members need to be informed about the new providers.
- *The service was partly satisfactory:* if members still need the service, the cooperative's management should either investigate whether there are other service providers or negotiate with the current provider on how to improve the services.
- *The service was not satisfactory:* the cooperative should assess whether the service is still a priority and if it is, the process identifying and selecting a service provider will start again. Decisions on providing services are an on-going process: market demand changes, as do members' needs. Moreover, the service provider market is not static. Again and again, a cooperative has to consider: what is needed? What is in line with our purpose? What does the market demand? Which service providers are suitable? Assessing member satisfaction is crucial in this decision-making process.



## Key Learning Points

In this module we explored the role of the cooperative in providing services. The cooperative can provide a service itself, facilitate services by hiring external specialist service providers or assist individual producers in finding service providers in the market.

Members are in need of many services. A cooperative cannot cater to all needs. It is a challenge for the cooperative management to prioritize the needs of the members. The cooperative has to analyse whether responding to a need is in line with the purpose of the cooperative and whether providing the service results in producing products that are in demand by the market.

After having decided which needs must be serviced, the cooperative faces the task of investigating which service provider is most suitable. Based on the criteria of appropriateness, accessibility, affordability and availability a cooperative can make a selection.

The process of service provision does not stop with selection of the provider. After the service has been delivered, the cooperative should check whether members were satisfied. And then the decision-making process will begin again.



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## ANNEX 1

### SWOT analysis tool<sup>5</sup>

SWOT analysis is a strategic planning method used to evaluate the internal Strengths, Weaknesses and the external Opportunities and Threats of a cooperative, a project or a business venture. It involves specifying the objective of the business venture, for instance, and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. A SWOT analysis can help you gain insights into the past and think of possible solutions to existing or potential problems.

#### Strengths

Strengths are internal positive factors. Strengths include well-equipped and committed board members, warehouse, skilled staff, equipments, access to finance.

#### Weaknesses

Weaknesses are negative internal factors which could hinder effective provision of services to members. Weaknesses include inadequate finance, inadequate skilled staff, poor member participation, weak board of directors and inefficient internal audit.

#### Opportunities

Opportunities are external positive factors which cooperatives can seize to strengthen their project or organization. Opportunities include favorable government policies and support services, existence of research institutions, existence of a cooperative college, existence of secondary cooperatives, fair trade, good infrastructure, collaboration with business partners and other organizations.

#### Threats

Threats are external factors which can have negative effects to the cooperative. Threats include unfavorable national policies, natural disasters, tribal conflicts, out-migration, political instability, and poor infrastructures.

<sup>5</sup> *Project design manual: a step-by-step tool to support the development of cooperatives and other forms of self-help organizations*, ILO/COOP<sup>AFRICA</sup>, Geneva, 2010, <http://www.ilo.org/public/english/employment/ent/coop/africa/download/coopafricaprojectdesignmanual.pdf> (accessed 4 October 2011).

- Strengths and weaknesses are all internal factors and could be used to improve the cooperative's capacity to offer support services to its members;
- Strengths reflect internal resources. The cooperative should make effective use of its strengths in order to improve its capacity to offer services. For example, the cooperative could use its skilled and competent staff to deliver some production support services to its members;
- On the other hand, weaknesses undermine the capacity of a cooperative to offer services. In this regard, the cooperative should work out ways to address its weaknesses in order to improve its capacity to provide services. If the weakness is inadequate staff competency, the cooperative can organize relevant training activities for staff to improve their capacity to offer services;
- Opportunities and threats are all external factors which may impact on the capacity of a cooperative to provide production support services. Opportunities are positive external factors which can be capitalized upon in order to improve the capacity of cooperatives to offer services. For example, the cooperative may capitalize on the existence of a research centre in order to access research results and disseminate these to farmers for application in agricultural production;
- Threats are negative external factors which could cause negative effects for the operation of the cooperative and therefore undermine its capacity. Decisions could be taken to reduce or avoid risks related to these threats.





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