EU-UNDP Enhancement of Living standards and UNDP Area Based Development

Brief description of farmers’ cooperatives

January 2010

Background

Between 2005 and 2009, the ELS project helped farmers in three regions of Fergana Valley in the east of the country Kashkadarya and in Karakalpakistan in the North West area adjacent the Aral Sea to set up 15 cooperatives and 4 rural development centers, train them in business and administration and prepare business plans. It also granted them equipment ranging from biological pest control, livestock, milk production, food processing, green houses establishment and demonstrations plots, and farming machinery to improve productivity. An additional benefit identified was that the machinery could be used by the cooperatives as collateral to access rural credit lines. With the credit the cooperatives can purchase mechanized equipment and or machinery rings to serve the local farmers’ community.

Process

After assessing the local potential for western type of cooperatives in each region of the country where the ABD-ELS projects work, the projects establish farmers’ voluntary focus groups and select those groups who have demonstrated interest in the project and proposed viable business ideas to be implemented in the project target districts. More information on the process is available with UNDP ELS-ABD Coordination Unit in Tashkent.

The selection is made by the ABD-ELS projects after an evaluation by the projects and a local committee comprising of local authorities, business, banking and farmer community and representative of the ELS-ABD projects of the business proposals presented by the groups and an evaluation of the degree of participation and interest shown by the focus groups during the process. At this point, the ELS-ABD projects train the selected focus groups in business planning, accounting, management and administration. In parallel the projects help them to register as cooperatives. More specialized training is conducted by the projects and hired experts upon presentation of business plans on how to use the equipment co financed by the ABD-ELS and cooperative members. A memorandum of understanding is signed between UNDP Country Office and the cooperative to ensure monitoring and follow up.

Six months before the end of the memorandum, UNDP undertakes a review to assess the overall performance of the cooperative. After this assessment, if it becomes apparent that the cooperative has achieved the targets outlined in the Business Plan, UNDP transfer the equipment to the property of the cooperative. UNDP and the cooperative may consider signing a new MOU to ensure monitoring and participation of the cooperative in UNDP activities and/or support, if applicable.

Contrarily, if after this assessment, it becomes apparent that the cooperative has not achieved the targets outlined in the Business Plan, UNDP usually grant up to a maximum of six months (180 calendar days) to the cooperative to address the recommendations of the assessment and achieve the targets outlined in

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1 A small farmer cooperative (also called enterprise or organization) is a legally formed small farmer organisation which is able to contribute to the social and economic development of its members and its communities and is democratically controlled by its direct members. The majority of members of the organisation are small farmers.

2 More information on rural development centers are provided separately of this paper.

3 Assessments and focus group discussions show that the main problems of farmers are irrigation, mechanization, food processing & fruit and vegetable sale, processing, storage, access to seed and credits. The farmers’ and AND-ELS project work together to address these problems and the challenges related to shortage of mechanization services in rural areas.

4 When the group registers as enterprises, the members contribute an agreed sum to the capital of the cooperative.
the Business Plan. If the cooperative fails to achieve these, UNDP may consider withdrawing the equipment, and materials provided within the frame of the memorandum.

The review is divided in 2 parts i.e. (1) institutional and (2) operational sustainability of the equipment granted. In conducting the institutional assessment, UNDP uses as baseline the Business Plan and Criteria for Farmer Enterprise Activity Assessment, which is part of the memorandum. For the operational sustainability, UNDP refers to the following indicators: (a) whether status of the equipment, livestock and materials is in good useable conditions; (b) whether the equipment, livestock and materials are being used for the intended purpose in accordance with the Business Plan; (c) whether the Enterprise established mechanisms to ensure that recurrent costs for maintenances, care and use of the equipment, livestock and materials are in place and working and other, as deemed necessary.

Usually, a cooperative comprises between 3 and 15 members. When the group registers as an enterprise, the members contribute an agreed sum to the capital of the cooperative, open a bank account, prepare a book of rules and choose the equipment to be co financed by the ABD-ELS project. At this stage, the ABD-ELS project purchases equipment with some co financing from the enterprises. The equipment can be leased by the cooperatives to the local farmer community, if this is applicable. The equipment can also be used as collateral to access local credits. In the country, these are usually issued under the following conditions:

- Maturity: 5 years
- Interest rate: 20% per year
- Borrowed capital: US$50,000 (ceiling)
- Repayment: in Uzbek Soums (at flat exchange rate based on the exchange rate at the time of issuing the loan).

**Sustainability considerations**

The originality of the ABD-ELS credit scheme lies in the multiplier and leverage effects of the project's grants (mechanized and other equipment that can be used as collateral). By granting the equipment, the ABD-ELS project helps increase the level of assets of the farmers' enterprises, thus making them more bankable under the current bank's leasing conditions and thus more sustainable. The provision of grants comes as a complement to the profitability and economic viability of the farmers’ enterprises and is an important factor that the bank takes into account when deciding whether to issue a loan.

Following a participatory needs appraisal and need prioritization, the farmers’ cooperatives identify how they want to use the credit to purchase additional mechanized equipment (for example, to establish a machinery ring that will serve to address the needs of the cooperatives members to access tillage services, fertilisers and pesticides applications). The proceeds of the credit are equally shared among the members of the cooperative. The ABD-ELS also facilitate exchange and study tours to show farmers the experience of other farmers’ cooperatives in the country and abroad.

**Lessons learned and recommendations:**

1. Support to the establishment of farmers’ enterprises through purchase of equipment is a process that requires time. It is therefore important to have a good and realistic procurement plan at the outset and implement it accordingly.

2. The project scope and time frame cannot sustain microcredits and support to large farmer cooperatives. Yet microcredits and cooperative development are keys to enhancement of living
standards in the regions and should be supported by a realistic and focussed planning. A project such as the ELS projects operates at its best when it works in parallel with local microcredits programmes and support increased access to micro credit by low income population though business training and business advisory services.

3. Sustainability of the farmers’ enterprises is best promoted by supporting small, well connected enterprises set up on well prepared business plans with a good potential for local employment and expansion.

4. Local authorities and communities at large are generally not supportive of large farmers’ cooperatives in the context of the ABD-ELS, but welcome support to small agriculturalists and low income households.

5. Support should focus on supporting low income households and small agriculturalists (fruit, vegetables, livestock, mainly), because these groups are seen as more deserving donors support than farmers who tend to be landowners and thus are well off members of society.

6. Cooperatives lend themselves perfectly to support community development if they are part of schemes such as the Fair Trade where bonuses from the sale of fair traded certified product must be invested for the benefit of communities (for example rehabilitation of social infrastructures).

7. A well run cooperative may be example of improved system of governance in agriculture and local governance. In the process of setting up and working with cooperatives, the ELS-ABD projects have been successful in supporting improvements of rural infrastructure (water, irrigation), organizing capacity building and technical know-how (theoretical sessions and demonstrations plots and distribution of extension material), supporting empowerment and development of cooperatives (institutional, managerial and technical group capacity building), contributing to women empowerment (support to women-oriented agricultural businesses and introduction to business management practices).

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5 www.fairtrade.org.uk

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