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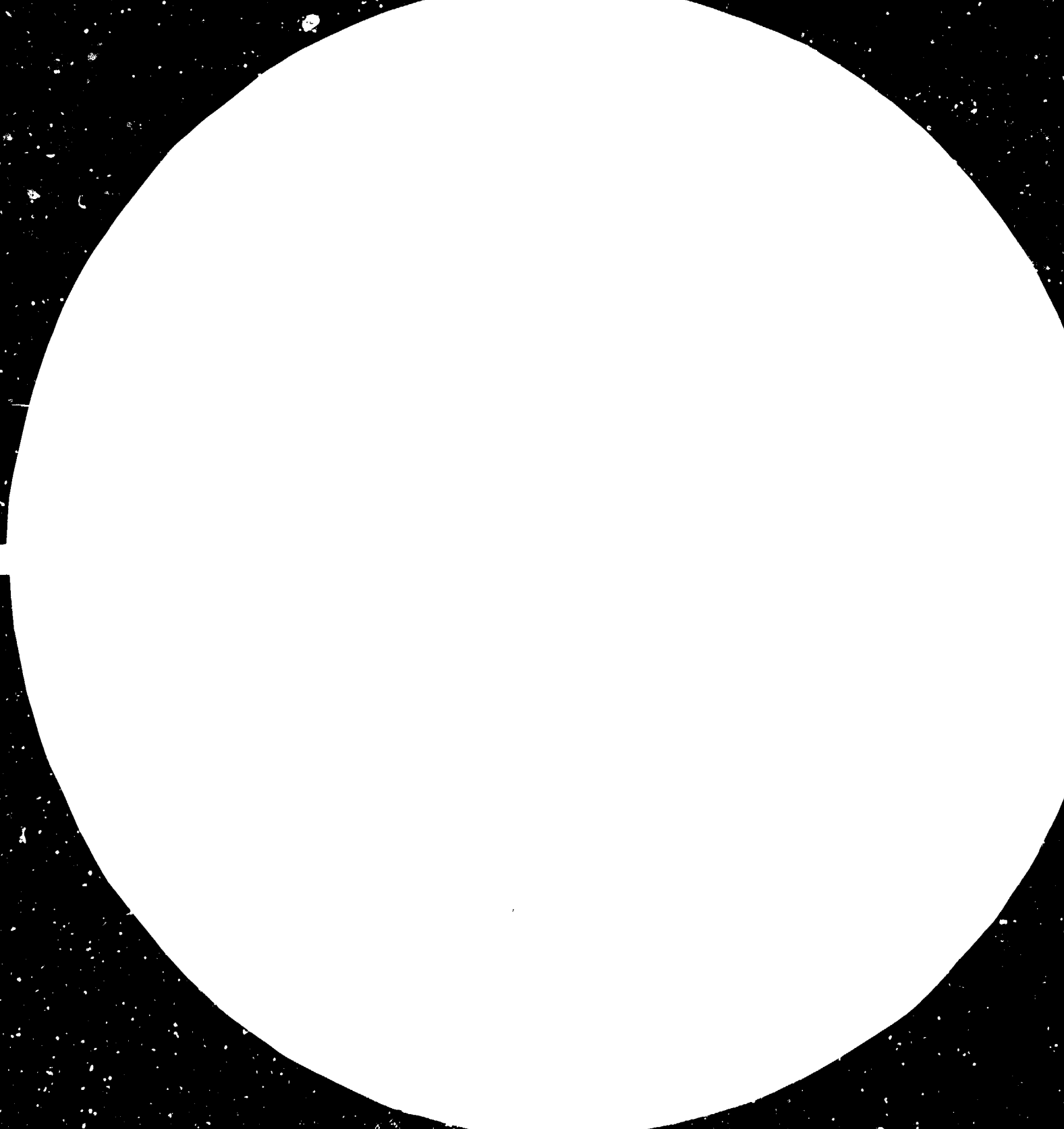
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Issue No.2

ROLE OF CO-OPERATIVES AND SMALL- AND
MEDIUM-SCALE ENTERPRISES IN INTEGRATED DEVELOPMENT
OF THE FOOD-PROCESSING INDUSTRY *

prepared by

the UNIDO secretariat

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SUMMARY

This issue paper discusses the involvement of additional partners in international co-operation required for integrated development of the food-processing industry in developing countries. Some of those potential partners are agro-food co-operatives and small- and medium-scale enterprises from developed countries. Their experience and achievements in integrated development of the food-processing industries in industrialized countries might widely be used in different forms of collaboration with various counterparts from developing countries. Their extended involvement in collaboration with developing countries calls for the creation of more favourable conditions both in developed and developing countries.

I. WHY CO-OPERATIVES?

1. So far, the major international counterparts for the food-processing industry of developing countries are transnational corporations. The TNCs deliver the advanced technology and the financial arrangements to facilitate its adoption; they may also take care of marketing the products. Often they are stimulated to extend their activities to developing countries, as they are the only well-known counterparts for international co-operation. However, they do not take enough account of the development objectives of the host country, as their highly profit-oriented activities do not always move parallel with the long-term requirements of the developing countries.

2. The strong position of TNCs in the developing countries' food-processing sector induces a number of questions to policy makers: Is there a real alternative to TNCs? Which partners could be regarded as additional in providing broad co-operation and technical assistance to developing countries?

3. Some of those potential partners are co-operatives, mainly food-processing co-operatives but also consumer co-operative organizations. Co-operatives occupy an important place in the existing industrial structure of market economy countries and centrally planned economy countries and have enough capacity to become increasingly effective partners in international co-operation. This stems from:

- Their experience in integrated development of agro-food industries in industrialized countries, from the production of raw materials through processing, up to marketing;
- their experience in providing various forms of technical assistance to developing countries;
- modern technology, know-how, highly qualified managerial cadres and manpower, well-developed organizational structures and services to satisfy the needs of developing countries in their food-processing development;
- the philosophy inherent to the co-operative movement placing emphasis on satisfying the needs and expectations of its members and on the equitable distribution of surplus; this can be attractive for a large group of the rural population in developing countries, provided that the autonomy of the co-operation movement is respected.

II. SOME CONSTRAINTS TO EXPAND COLLABORATION

4. For the time being the involvement of developed countries' co-operatives in collaboration with developing countries is limited, due to various factors which can be found in both developing and developed countries.
5. Some obstacles in developing countries are associated with financial problems (lack or insufficiency of financial resources, difficulties in obtaining credits, currency restrictions, etc.), as well as communication and administrative problems (lack of information with regard to potential co-operative counterparts, language barriers, different working week, limited media outlets, bureaucratic delays, etc.).
6. One specific factor which often restricts the involvement in projects in developing countries is the requirement of taking an equity share in the project, as a guarantee of the co-operative's commitment. Such minority shareholding is very often not acceptable by co-operatives because of the risk of such investment. Lack of a risk capital fund, which could be used as additional protection against such involvement very often prevents such collaboration.
7. The major constraints in developed countries are associated with the prevailing internally-oriented activities of agro-food co-operatives, aiming primarily at satisfying needs and requirements of their members. Other constraints relate to insufficient information on project proposals in developing countries, insufficient legal and financial security against commercial risk, insufficient financial resources, etc.

III. REQUIREMENTS FOR EXPANDED PARTNERSHIP

8. Greater involvement of co-operatives from industrialized countries in collaboration with developing countries calls for creation of more favourable conditions for such extended co-operation both in developed and developing countries.

9. First of all, the objectives of the co-operatives from developed countries, primarily oriented towards their members, could also embrace co-operation with developing countries. This can only be achieved if the members of co-operatives who can decide themselves about the direction of their co-operatives' activities, will be convinced that such co-operation would be beneficial. This basic rule does not exclude other relationships.

10. To expand their co-operation with developing countries, co-operatives need financial assistance. They should have the same ease of access as other actors to mechanisms of credit, guarantees, flexible tax rates, export insurance and financial help for their activities. Some new programmes such as loan guarantees could be useful as well.

11. There exist a number of sources for obtaining financing (the World Bank, Regional Development Banks, governments and bilateral agencies in industrialized countries, UNDP, IFAD, etc.) and there are also several important co-operative financial institutions in industrialized countries. Several developing countries have well established co-operative banks, whose purpose is the overall industrial development of the country with particular attention being given to small industries, including co-operative processing units. Institutions exist in countries such Egypt, Ivory Coast, Niger, Panama, Mexico, Sri Lanka. Generally, a number of sources of funding do exist, but what is needed is a better means of identifying existing sources of funds, and their proper utilization for operational activities carried out by co-operatives in developing countries.

12. A pre-requisite for expanding the role of co-operatives is a better flow of information on suitable projects and project potentials in developing countries, accompanied by information on the specific market conditions, raw material potential, etc. Since they are not willing to take the risk involved in moving into areas on which they have inadequate information, every effort should be made to make available adequate information for potential co-operative partners in developed countries, using the bilateral and multi-lateral channels. UNIDO, has gathered a substantial amount of relevant data which could be made available for the purpose of the developed countries' co-operatives.

13. Other international organizations such as the Committee for the Promotion of Aid to Co-operatives (COPAC), the International Co-operative Alliance (ICA) and others, could also play an important role in the dissemination of information on similar projects. It is felt that better use should be made of the existing agencies and programmes rather than the creation of new mechanisms or programmes in this area.

14. At the same time different partners in the food-processing sector in developing countries should have for their easy reference a list of potential co-operatives from industrialized countries which are able to supply technical assistance and diffuse information on technology and productive processes. Such a roster of co-operatives is under preparation by the UNIDO secretariat.

15. Co-operative representatives need to have more frequent and regular contacts with potential counterparts from developing countries, regardless of whether the counterpart in the developing country is a co-operative or a public or private enterprise. Such opportunities for business contacts could be created by the participation of co-operative representatives in promotional meetings, development trade fairs and study tours organized by individual countries and international organizations, including UNIDO.

16. Extended involvement of co-operatives in collaboration with developing countries also requires support from national governments. National governments are expected to provide leadership in creating an appropriate legislative and financial framework. In some of the developed countries, e.g. Canada, Federal Republic of Germany, Sweden, USA, such support was demonstrated in setting up special agencies for assisting the co-operatives and small and medium-scale companies in undertaking collaboration with developing countries. Another evidence of the support rendered to co-operatives was the International Conference on "The potential for co-operatives food-processing in developing countries" (Ottawa, Canada, 22-26 August 1983), at which the Canadian Government confirmed its readiness to promote the co-operatives' activities in developing countries. While the co-operatives need such support, respective Governments should refrain from excessive intervention or direction in areas not favoured by the co-operatives themselves.

IV. AREAS OF COLLABORATION

17. Up-to-date examples of collaboration of industrialized countries' co-operatives with different partners from developing countries, give an idea of its scope and nature. Generally, this collaboration is concentrated in fields such as feasibility studies, project formulation, consulting services, turn-key contracts, joint ventures, management contracts, technology, research and development, financial arrangements, training and institutional development.

18. Involvement of industrialized countries' co-operatives in preparation of feasibility and pre-investment studies for the establishment of integrated food-processing industries is one of the most important areas of collaboration. They have offered their intellectual and technical capabilities to carry out detailed and objective feasibility analyses of proposed agro-industrial enterprises and are very important in order to avoid financial set-backs and reduce the risk of selecting inappropriate technology. Their ability to identify the opportunities for marketing the products in their own countries should be seen as a considerable advantage. The preparation of feasibility or pre-investment studies is very often accompanied by project formulation, whose implementation also falls under the competence of co-operatives. The following may be cited as examples:

(i) SwedFarm (Federation of Swedish Farmers), has been strongly involved in the preparation of feasibility or pre-investment studies in many developing countries. They include, among others, a feasibility study for integrated livestock and dairy production; a processing and marketing project in Egypt; collection, processing, distribution of milk and dairy products in Tunisia; transport and storage by co-operatives in Zambia; a pre-investment study of flour and feed milling project and related grain storage in Saudi Arabia^{1/}.

(ii) The An Bord Bainne Co-operative (Irish Dairy Board), which has implemented feasibility studies projects in Egypt, Zimbabwe, Saudi Arabia and China on viability of establishing recombination dairy plants^{2/}.

^{1/} Derived from the booklet and the reference list submitted by SWEDFARM.

^{2/} Information submitted by An Bord Bainne Co-operative to UNIDO.

(iii) INTERCOOP (Italy) carried out a sectoral study on Integrated agro-industry in Mozambique; a feasibility study on vegetable oil from sesame seeds in Somalia;^{3/}

19. Consulting services are one of the most widespread forms of collaboration which are usually carried out in the form of studies regarding organization, economic, technical, management and marketing themes, technical advisory services, engineering services for all aspects of a project including design, cost estimates, tendering, supervision of construction, etc. The food-processing co-operatives and their subsidiaries from developed countries offer the know-how through consulting services for a wide range of agro-industrial projects. For example:

(i) CEBECO-HANDELSRAAD (The National Agricultural Co-operative Wholesale Society of the Netherlands) has been involved in consultant services in many developing countries. They include consultancy services for a seed-cleaning plant for seed-rice in Indonesia, advisory services for a farmers' supply and marketing co-operative in Jamaica, for stock management of food-stuffs in Cape Verde, for a food strategy programme with regard to compound feedstuffs production and distribution in Zambia, etc.^{4/}

(ii) Land O'Lakes (USA) provides short-term technical assistance to co-operatives in Costa Rica, Honduras, Colombia, Panama and South Korea.^{5/}

20. Sometimes services offered by industrialized countries' co-operatives are multi-dimensional in nature and can provide both engineering and general contracting for the exportation and the launching of industrial turn-key and product in hand projects, taking full responsibility for the preliminary studies, the industrial planning and programming, the actual construction of the plant, the starting up operations, the production scheduling, and the training of personnel.

(i) INTERCOOP (Italy) collaborates with Algeria in the construction of a Couscous pasta factory (product in hand) and the construction of a flour mill (turn-key) plant.

^{3/} Derived from the booklet on INTERCOOP.

^{4/} Derived from the booklet on CEBECO-HANDELSRAAD.

^{5/} Information submitted by Land O'Lakes to UNIDO.

(ii) Multi-oriented services were also offered by UCALYN (French dairy co-operative) for Tunisia in the establishment of Tunisie Lait.^{6/}

(iii) SILOM (a group of French dairy co-operatives) implemented a comprehensive project on the establishment of a dairy plant in Niger.^{7/}

21. Joint ventures appear to be a particularly attractive variant of collaboration which can cover both joint production processing and marketing activities. Joint ventures require greater commitments, mutual confidence and commercial advantage by the co-operative partner. Usually the industrialized co-operatives take part in joint ventures as shareholders and technical partners. They can offer their trade marks upon certain defined conditions.

(i) The Denmark Dairy Development Corporation (DDDC) has participated in joint ventures in Bahrain, Egypt, Jordan, Kuwait.^{8/}

(ii) Land O'Lakes (USA) has pursued potential joint ventures or licensing agreements in Jamaica, Turkey, Costa Rica, Colombia and Panama.

22. Separate attention should be given to another area of collaboration under management contracts. All aspects of management requirements which pave the way to greater profitability, product quality, and efficiency of day-to-day operations, can be covered.

(i) SwedFarm has carried out management contracts for the Zambia Seed Company, for a silo project in Jordan, and management and staff training for National AI Centre.

(ii) Similar management contracts have been implemented by the Denmark Dairy Development Corporation (DDDC).

23. Another field of possible collaboration is technology research and development. Most developing countries lack adequate research facilities to carry out research work necessary for the proper utilization of some of their agro-food raw materials.

^{6/} A. Lablanchy, Société d'Investissements Laitiers Outre-Mer (SILOM), Paris, France, information submitted to UNIDO.

^{7/} See footnote (6).

^{8/} Derived from the booklet on the Denmark Dairy Development Corporation.

(i) Pilot Plant Corporation (PPC) in Saskatoon (Canada) promotes the development of new methods of separating cereals, oilseeds and legumes into proteins, oils and starches and for further processing of these components into ingredients for food, animal feed and industrial applications.^{9/}

(ii) The Irish Dairy Board co-operated with Egypt and Saudi Arabia in the field of technology notably in development of a local type of cheese using ultra-filtration and recombination processes.

24. Financial arrangements can be regarded as another form of collaboration which industrialized countries' co-operatives could undertake or sponsor.^{10/}

25. At the International Conference on "The potential for co-operative food-processing in developing countries" (Ottawa, Canada, 22-26 August 1983) concern was expressed as to how to extend the flow of financial means for projects implemented by co-operatives. As a concluding suggestion, a package with the following components was presented, which may be helpful for finding new forms of collaboration in financing projects:

- UNIDO certification of the technical viability of the project;
- Elaboration of the project by food-processing co-operatives of industrialized countries;
- Loans by co-operative banks;
- Provision of training by food-processing co-operatives of industrialized countries;
- Supply of hardware by the (co-operative) food-processing industry;

^{9/} Information included in the Report from the International Conference on "The potential for co-operative food-processing in developing countries" (Ottawa, Canada, 22-26 August 1983).

^{10/} An interesting example of the financial assistance was undertaken by the Co-operative League of the USA jointly with the Co-operative Union of Canada on behalf of the Oilseed Co-operatives of India. A grant of soybean oil (delivered by the USA) and rapeseed oil (delivered by Canada) and financed by the United States Agency for International Development and the Canadian Development Agency accordingly was sold commercially on the Indian market by their Indian counterpart and generated funds were designated for financing a series of projects, including institution and infrastructure development, manpower development, operations research, monitoring cost, revolving operating capital for the new co-operatives, new product development and market research.

- Provision of export credit guarantees by governments of industrialized countries; and
- Provision of loan repayment guarantees by governments of developing countries.

26. Training programmes occupy an important place in collaboration offers provided by industrialized countries' co-operatives. These offers embrace not only the members of food-processing co-operatives in developing countries but all actors handling the food-processing sector, both technical specialists and managerial staff. While most training programmes are usually carried out within national confines, exchange programmes of training at the international level in both directions are helpful. International training is, however, expensive and it is important that only those who can benefit from such programmes are selected for training abroad. Very often the training programmes are conducted as one of the components of wider collaboration projects.

(i) For instance, training programmes have been run by SwedFarm in Iraq and Zambia for staff of seed companies.

(ii) The Irish Dairy Board conducted training courses in Ireland for dairy technology and engineering students from Zambia and Zimbabwe.

(iii) INDOC, a subsidiary of a co-operative organization of the West German dairy industry, is conducting a series of seminars on processing milk for participants from many developing countries.^{11/}

27. There is also a wide frame for collaboration in providing assistance in institutional development. Generally, co-operatives do not have a large share in production and marketing in developing countries, although in some sectors they are developing successfully. For example, in the dairy,^{12/} sugar and

^{11/} Information submitted by INDOC to UNIDO.

^{12/} In the field of dairying, the Kaira District Co-operative Milk Producers' Union Ltd. in India, popularly known by the name of its brand products, AMUL, is now world famous. A two-tiered organization in which over 800 milk producers societies are affiliated, the activities of the Kaira Union have brought a number of changes and helped to modernize the dairy industry. Its annual milk collection is of the order of 160 million kgs. and it employs 2500 persons with many highly qualified professionals and is headed by voluntary leadership of a high level and a chief executive who has initiated scientific dairying and diversified the activities in many allied fields. The approach adopted in this project is now providing the model for other programmes known as Operation Flood I and II.

oilseed co-operative sectors achievements in India are the best evidence of this process. Governments in developing countries should consider carefully the wider promotion of a co-operative way of organization of food-processing enterprises, as the co-operatives involve a large number of farmers and their working methods ensure equitable distribution of surplus. To this end, they should provide favourable legislative and financial terms. Experience of co-operatives in industrialized countries in organizational and production aspects could be particularly helpful to those newly established in developing countries.

28. Among the potential partners for collaboration in different areas, the co-operatives from more advanced developing countries should be taken into account. Examples of such South-South collaboration are known. Brazil has collaborated, through its co-operatives, with several developing countries in introducing tropical soya bean and related technology as well as advising on extension work with co-operative members (Ivory Coast), poultry farming (Nigeria), irrigated sugar-cane (Morocco), tropical fruits and vegetables (Bolivia), corn, sunflower and beans (Mozambique) and fruits (Paraguay).^{13/}

V. SMALL- AND MEDIUM-SCALE ENTERPRISES

29. Today, their involvement in co-operation with developing countries is marginal while at the same time their contribution to food output in developed countries is quite significant.

30. Although there is no universally accepted definition of this category of enterprises, it is generally agreed upon that these enterprises have certain characteristics in common: control and ownership of the enterprise is in the hands of a few people; day-to-day management decisions and long-term planning are undertaken by one or a few owners or managers; and their individual share of the market is rather small. Public (state) enterprises of small- and medium scale prevailing in centrally-planned economies also fall under this category.

31. Requirements for expanded co-operation and the modalities thereof seem to be very similar to those enumerated for co-operatives, although some

^{13/} See footnote (9).

differences in the objectives, nature and methods between these two groups of actors are evident. Moreover, their experience in co-operation with developing countries is even smaller than that of co-operatives, primarily due to their need for support by their government and financial institutions and the creation of mechanisms which would allow to extend the scope of such collaboration.

32. At least, two preconditions need to be underlined. Firstly, the provision of special financial facilities for the agents willing to co-operate with different counterparts in developing countries. Since their size and scale of operation do not allow them to accumulate additional resources and designate them for financing projects in developing countries, they need special financial support. Thus, their extended involvement will hinge upon the creation of favourable conditions by the respective governments and financial institutions in terms of additional credit facilities, risk guarantees, extra loan guarantees, etc.

33. Secondly, because of their nature of activities and the highly decentralized system of operation, there is a need to create an effective channel of information flow. Perhaps, setting up or activating central agencies, which could function as focal points for dispersed small industries in collecting and disseminating requisite information concerning project proposals, would enable them to be currently informed about future actions. In consequence, it could lead to the increase of their share in projects implementation. UNIDO and other international organizations, which are already involved in generating information on specific projects in developing countries, could contribute to such activities by supplying relevant information to such focal points, representing small- and medium-scale business.

34. What could they offer? It will be determined again by their overall technical and economic capabilities and course of specialization. Due to their experience and possibilities they could be helpful in providing technical assistance to developing countries in some specific areas:

- Updating of simple technologies used by small- and medium-scale enterprises and village industry in developing countries. This sector still dominates the food-processing scene and urgently needs technological modernization to increase its efficiency.

- Promoting the specialized food products manufactured in developing countries and opening the marketing outlets, as well as adapting to the market conditions prevailing in industrialized countries for such products, as some kind of canned food, fancy food, spices, etc.
- Procurement of machinery and equipment including second hand equipment required by small- and medium-scale enterprises in developing countries;
- Training of manpower employed by the sector of small and artisanal enterprises;
- Undertaking joint ventures with the local firms from developing countries.

VI. POINTS FOR DISCUSSION

35. The Consultation is invited to consider the following:

- (i) What are the factors in favour and against the extended partnership of co-operatives and small- and medium-scale enterprises in promoting integrated development of the food-processing sector?
- (ii) What types of collaboration (traditional and new) can be offered by co-operatives and small- and medium-scale enterprises? What is the attitude of these actors to their extended involvement? What policy measures (legal and financial) could be taken by Governments and financial institutions of industrialized countries to support such extended involvement? What organizational forms of collaboration could be promoted (for example a tripartite scheme with the participation of a developed country's co-operative, a developing country and UNIDO)?
- (iii) What are the most expected areas and types of collaboration required by developing countries? How could Governments of developing countries encourage greater involvement of these actors in collaboration with different counterparts from their countries?
- (iv) How could UNIDO be instrumental in promoting such partnership between these actors from industrialized countries and different partners from developing countries?

Annex I
Background information

The First Consultation on the Food-Processing Industry recognized the need to extend the range of partners from developed countries as well as from the more industrialized of the developing countries which could co-operate in all activities related to food processing. Additional partners include co-operatives and small- and medium-scale enterprises. The Consultation recommended that "UNIDO should take appropriate action, including consideration of the convening of a follow-up meeting and formulate ways and means of identifying and assisting those partners, taking into account financial and other constraints and the transfer of entrepreneurial skills."^{14/}

As a follow-up action, an international conference on "The potential for co-operative food-processing in developing countries: Towards global inter-dependence" was held in Ottawa, from 22 to 26 August 1983, organized by the Canadian Government in collaboration with UNIDO. The Conference agreed that co-operative food-processing is important as this sector constituted the largest part of the manufacturing industry in developing countries.

The present role of co-operatives in this field is limited, but a considerable potential existed. The world-wide co-operative movement has interest in and is capable of widening the range of partnerships with other partners, including co-operatives. Such partnerships could take the form of (i) aid, (ii) commercial contacts and (iii) a combination of the two. All three forms need to be pursued. However, expanded partnership will require greater investment in human capital (training of members and personnel), financial facilities in which national and international government agencies play a key role (guarantess, block fundings), and a better flow of information in which international organizations could assist (UNIDO, FAO, ICA, COPAC and others).

^{14/} "Report of the First Consultation on the Food-Processing Industry", ID/278, p.6.

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