

Cooperative Assessment Tool Land O'Lakes-Assisted Coops

Land O'Lakes, Inc. modified the OCDC Cooperative Development Framework, changed some of the measures to fit dairy cooperatives, and carried out six cooperative assessments in Kenya, Tanzania, Uganda and Guatemala including lessons learned. Land O'Lakes also proposes to add a financial assessment tool that examines the lending and business environment in developing countries. Barrie Lasure, formerly with AgriBank of St. Paul, Minnesota, led the analysis along with local staff. He is currently a financial advisor to Land O'Lakes overseas cooperative programs.

I. Cooperative Framework Checklist	
I. Governance	
<i>A. Mission/Goal</i>	
1. The cooperative has a clearly articulated mission. Obtain If possible.	Y N
2. The cooperative has set business goals to benefit its members.	Y N
3. Are there legal and regulatory barriers to the establishment and functioning of cooperatives which would cause them to have a hard time being successful?	Y N
4. The cooperative is properly registered and operates in accordance with local laws and regulations (that should provide an enabling environment).	Y N
5. Does the coop mission reflect the member's interests and needs?	Y N
<i>B. Cooperative By-Laws</i>	
1. Do By-laws exist? Obtain copy.	Y N
2. By-laws clearly define the duties of cooperative members, the Board and General Manager.	Y N
3. By-laws articulate the procedure and responsibilities of general meetings.	Y N
4. By-laws define requirements for eligibility for members.	Y N
<i>C. Membership Meetings/ Member Responsibilities</i>	
1. General meeting holds democratic election of officers and opportunity is provided for multiple candidates for open positions. Obtain Minutes of last meeting	Y N
3. Annual meetings are attended by significant portion of membership.	Y N
<i>D. Board of Directors</i>	
2. The Board limits itself to:	
<ul style="list-style-type: none"> • Establishing strategic and financial planning objectives 	Y N

<ul style="list-style-type: none"> Representing the interests of the cooperative to members, authorities and the general public 	Y N
<ul style="list-style-type: none"> Reflecting the interests and concerns of members in the decision-making process 	Y N
<ul style="list-style-type: none"> Oversee acquisition and preservation of cooperative assets 	Y N
<ul style="list-style-type: none"> Preserve the cooperative character of the organization 	Y N
<ul style="list-style-type: none"> Assess the cooperative's performance 	
3. The Board ensures the timely publication of agendas, minutes, financial returns, audit reports and any other materials required by laws and/or by-laws to promote cooperative accountability and transparency.	Y N
4. Board members do not engage in business or activities placing them in direct competition with any business unit or service offered by the cooperative.	Y N
E. Board Officers	
1. Chairman	
<ul style="list-style-type: none"> Ensures that decisions are taken and recorded in meeting minutes 	Y N
2. Treasurer	
<ul style="list-style-type: none"> Ensures that cooperative accountants keep accurate, up-to-date records of all financial activities and provides written financial reports each month to the Board and annually to cooperative members. 	Y N
<ul style="list-style-type: none"> Oversees the compliance of financial records to audit procedures and guidelines. 	Y N
3. Secretary	
<ul style="list-style-type: none"> Keeps thorough minutes of cooperative meetings (records of members present, date, place, who presided, conclusions, reports) 	Y N
F. Management	
1. Manager formulates both short- and long-range operational plans in compliance with cooperative goals and objectives.	Y N
2. Manager is clearly accountable to the Board with respect to organizational policies, planning, etc. Manager attends Board meetings and presents detailed operational and financial reports.	Y N
3. Can the Manager get the Job Done?	Y N
4. Ask the coop manager their opinion as to what is the cooperatives current biggest challenge regarding governance and regarding finance, regarding business activities, and regarding planning.	
II. Finance	
A. Planning	
1. Annual Budgeting	
<ul style="list-style-type: none"> A regular budget process is developed and integrated into annual operating plans. 	Y N
2. Long-Term Financial Planning	
<ul style="list-style-type: none"> The cooperative's long-term financial planning addresses sources and allocation of capital that is consistent with competitive strategy (i.e., planning favors increases in cooperative's net worth and the volume of cooperative business). 	Y N
<ul style="list-style-type: none"> A business plan whose sophistication is correlated with the significance of the investment of individual members has been prepared. 	Y N
<ul style="list-style-type: none"> Is there evidence of continuance planning and Strategic planning? Obtain whatever is available 	Y N

<i>B. General Accounting</i>	
1. The cooperative has a bank account in its own name.	Y N
2. Full accounting records are maintained in accordance with recognized international accounting standards and financial reports are regularly created and presented to the Board of Directors and Annually to the membership? Obtain most recent reports.	Y N
3. A full financial audit of the cooperative is undertaken annually, under the supervision of qualified accountants appointed by the Board. Obtain or view last available document.	Y N
4. Cooperative audits generate information relative to future decision-making.	Y N
<i>C. Resource Mobilization and Management</i>	
1. Member Equity	
<ul style="list-style-type: none"> • The cooperative has mechanisms in place to ensure that member equity is proportional to patronage. 	Y N
<ul style="list-style-type: none"> • Members continue to own the cooperative. 	Y N
<ul style="list-style-type: none"> • Do members have a shared vision – What and why do members join and remain members of the Cooperative 	Y N
<i>III. Business Activities</i>	
<i>A. Cooperative start up or new business activities</i>	
Cooperative has:	
1. Sound feasibility plan for its economic activities.	Y N
2. Marketing/member recruitment plan for its business.	Y N
3. Comparative advantage over its competitors.	Y N
4. Sufficient membership base to operate profitably.	Y N
5. Sufficient business transactions by potential members to operate profitably.	Y N
6. Competitive location.	Y N
7. Capacity to attract investments.	Y N
<i>B. Operating cooperative</i>	
1. Rate of annual growth in cooperative members.	
2. Percentage of members doing business with the cooperative:	
3. Percentage of growth in:	
<ul style="list-style-type: none"> • Assets 	
<ul style="list-style-type: none"> • Business volume 	
<i>C. The cooperative is significant to the economic sector in which it operates (e.g., 8-15% of turnover in the sector).</i>	Y N
<i>D. The cooperative is improving the local community where it operates.</i>	Y N

E. The cooperative is increasing the economic welfare of its individual members (e.g. increased profit based on business volume).	Y N
G. Cooperative gains solid financial record in a limited number of types of business activities prior to diversification	Y N
H. Primary cooperatives are linked through secondary or other structures (are there alliances or others strategic arrangements) to increase business volumes and efficiencies	Y N
IV. General Measurements	
1. Are Members Satisfied? <ul style="list-style-type: none"> • Value of Cooperative • Willingness to Commit (patronage, equity, products, serve) • Leadership • Direction 	Y N
2. Trust <ul style="list-style-type: none"> • Between Board & Management • Among Members • Between Members & Management Team 	Y N
3. Transparency in Governance: <ul style="list-style-type: none"> • Decision Process and Rules are Clear • All Players Understand Process and Their Respective Roles 	Y N
4. Collaboration Across Cooperatives <ul style="list-style-type: none"> • Coop Associations • Ability to Learn from Each Other 	Y N
5. Organization “Culture” or Philosophy <ul style="list-style-type: none"> • Open • Supports Learning at All Levels • Need for Ongoing Education: Managers, Directors, Members, Staff 	Y N
6. Operates within best practices in its sector	Y N

II. Basic Cooperative Principles

International Cooperative Alliance’s (ICA) cooperative principles are guidelines by which cooperatives put their values into practice. First established in Rochdale, England in the 1840's, these cooperative principles are periodically reviewed and updated by the International Cooperative Alliance.

Updated in 1995.

i. Voluntary and Open Membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

ii. Democratic Member Control

Cooperatives are democratic organizations controlled by their members who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. Members have equal voting rights (one member, one vote).

iii. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

iv. Autonomy and Independence

Cooperatives are autonomous, self- help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

v. Education, Training and Information

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

vi. Cooperation among Cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

vii. Concern for Community

Cooperatives work for the sustainable development of their communities through policies approved by their members.

III. Individual Cooperative Assessments

Kenya

1. *Kiriita Farmer Cooperative Society*

Cooperative Organization and Governance

Mission: Kiriita FCS was registered in 1961 and has officially 5,490 registered members. The cooperative handles the transport, distribution and sale of milk to major processors in Kenya including Greenlands Dairy. The cooperative also fosters activities such as animal husbandry and the genetic improvement of dairy cattle herds. The financial manager stated that the mission of the Kiriita FCS is to give prompt payment to the farmers for their milk and to strive for higher profitability.

Leadership and Decision-making: The cooperative, as dictated by the Kenyan Cooperative Act, has a Board of Directors of nine elected members, with the nine electing a four member Executive Committee. The Board of Directors is elected during a democratic and open election during the annual general meeting (AGM). Minutes are kept of the AGM and any subsequent meetings of the Executive Committees. Management does have the capability to initiate planning on an annual basis although this is also a requirement of the Kenya Cooperative Act.

The cooperative's essential by-laws are also dictated by the Kenya Cooperative Act including the duties of cooperative members, the Board of Directors and the Executive Committee, the procedures and responsibilities of general meetings and eligibility for membership. The financial manager of the cooperative did not believe there are any legal and/or regulatory barriers to the establishment and functioning of the cooperative. Instead, he believes that the major problems of the cooperative are related to market factors as organized milk marketing almost collapsed after the demise of the government owned dairy KCC. After non-payment for milk by KCC, members opted to sell their milk as individuals to middlemen resulting in a lack of bargaining power and low prices for the cooperative.

Membership and member participation: Members clearly understand the basic operation of a cooperative as this is explained to them when they join. This training is given to all new members. Only 800 of Kiriita's members are active members, defined as those members who sell milk to the cooperative on a consistent basis. Although only approximately 300 members attend the annual general meeting, the financial manager explained that to operate profitably the cooperative is dependent on the volume and the consistency of milk delivered to the cooperative and not the number of members. It is difficult to ascertain as to what extent members can evaluate the competency of the management of the cooperative and influence the decision making process.

Business Operations

Management: The Board of Directors does not engage in business or activities placing them in direct competition with the cooperative. The Kenya Cooperative Act specifies that this is illegal and it is stated as such in the by-laws of the cooperative. The Board of Directors establishes planning objectives (again as dictated by the Kenyan Cooperative Act) and reflects the interests and concerns of member in decision-making through a zone system whereby each member of the Board of Directors represents a geographical zone. This zone system is prevalent throughout Kenya in terms of cooperative representation of member interests. LOL has helped the cooperative establish a six-month review cycle in terms of short-term operational planning such as negotiating with processors the price of milk purchased through the cooperative. However, there is not much evidence of strategic planning.

Business Activities: The Executive Committee develops an annual budget that forecasts what the management believes are the major assumptions underlying the cooperative's business of collecting and selling milk to processors. Every three months the financial

results are compiled and audited (although only annual audited financial statements are required by the Kenya Cooperative Act) and presented to the membership. The financial manager believes that the Executive Committee has the management tools to get the job done and that the management team is accountable to the entire Board of Directors in terms of organizational policies, planning, as well as financial results.

The business plan is becoming more complicated in regard to the purchase of equipment for which the management team does a feasibility analysis. However, there is not much evidence of contingency planning with the exception of an account for equipment repairs and expenses.

Financial Analysis: As mentioned, financial statements are audited quarterly by a qualified accountant, appointed by the Board of Directors and in accordance with international accounting standards (required by the Kenya Cooperative Act), and presented by the auditor to the general membership at the AGM. The financial statements include a balance sheet, income statement as well as a monthly cash flow with variance analysis. Business volume was up by 12% in 2002 but management is very cautious in terms of planning for any expansion, especially fixed assets given the still tenuous business environment and high interest rates. The cooperative maintains savings and current accounts with several Kenyan banks.

Salience: Kiriita is considered a medium-size dairy cooperative for the area in which it operates. Given the zone system of operation its geographical size is limited as well as membership growth. The financial manager believes that the membership is satisfied with the leadership and direction of the cooperative and there is transparency in the governance of the cooperative. The cooperative supports learning at all levels and as required by law has established an educational account for its members. LOL is very active in working with the cooperative in developing training opportunities for the cooperative membership including field days that bring in trainers for all facets of dairy farming. In addition, Kiriita is active in community development contributing to the maintenance of local roads as well as contributing to school funding.

2. *Nyala Cooperative Society*

Cooperative Organization and Governance

Mission: Nyala Cooperative Society was registered in 2002 and has officially approximately 3,500 members registered with only 1,300 of these members contributing milk on a consistent basis. Nyala is a cooperative whose formation was initiated by Land O'Lakes basically to bring together nine primary cooperatives to address their milk marketing problems collectively. The accountant stated that the mission of Nyala is to market the farmers' milk earning a profit and to eventually become a processor.

Leadership and Decision-making: The cooperative, as dictated by the Kenyan Cooperative Act, has a Board of Directors of nine elected members, with the nine electing a four member Executive Committee. The Board of Directors is elected during a democratic and open election during the annual general meeting (AGM). Minutes are

kept of the AGM and any subsequent meetings of the Executive Committees. The most recent AGM, however, was abruptly cancelled and the organization has some serious internal political disputes that are affecting business operations in some respects (late replacement of equipment).

The cooperative's essential by-laws are also dictated by the Kenyan Cooperative Act including the duties of cooperative members, the Board of Directors and the Executive Committee, the procedures and responsibilities of general meetings and eligibility for membership. The accountant, however, indicated that the legal and regulatory framework of the cooperative is not being followed with several members, including Board members, belonging to other cooperatives and delivering milk to those cooperatives. The accountant indicated that the Kenya Ministry of Cooperative Development needs to more actively enforce cooperative laws and regulations.

Membership and member participation: Members clearly understand the basic operation of a cooperative as this is explained to them when they join. This training is given to all new members. The membership of Nyala is not very actively involved in the cooperative activities with only twenty percent attending the last AGM and this year's AGM being postponed until a future date due to problems related to the defined agenda of the meeting.

Business Operations

Management: As mentioned, the Board of Directors does engage in business or activities placing them in direct competition with the cooperative. The Kenyan Cooperative Act specifies that this is illegal and it is stated as such in the by-laws of the cooperative. The Board of Directors, according to the accountant, also interferes with the management of the cooperative, which has negatively affected business results such as the delay in the purchase of needed equipment. Nyala's Board of Directors does establish annual planning objectives (again as dictated by the Kenyan Cooperative Act) reflecting the interests and concerns of members in decision-making through a zone system whereby each member of the Board of Directors represents a geographical zone. LOL has helped the cooperative establish a six-month review cycle in terms of short-term operational planning such as negotiating with processors the price of milk purchased through the cooperative.

Business Activities: Through the sale of shares and with technical support, Nyala members have raised funds and put up a cooling plant that started operations in February 2002. The cooperative collects and sells milk on a contract basis to Brookside Dairy, the largest dairy processor in Kenya. The plant has created employment for 14 full-time staff and steady business for 22 private rural transporters.

Nyala has major plans to continue expanding their dairy business. They are providing agro-vet services for members and have plans for a cooperative bank to provide the capacity of providing farm inputs such as dairy feeds and AI services with sustainable credit. Nyala is one of the two largest dairy cooperatives in the region in regard to volume of milk collected. The Executive Committee develops an annual budget that

forecasts what the management believes are the major assumptions underlying the cooperative's business of selling milk to processors. The accountant indicated that Nyala still faces the challenges of an inefficient milk marketing and production system.

The accountant believes that the Executive Committee has the management tools to get the job done and that the management team is accountable to the entire Board of Directors in terms of organizational policies, planning as well as the presentation of financial results. The business plan is becoming more complicated in regard to the purchase of equipment for which the management team does do feasibility analysis. A contingency account for unexpected expenses has been established.

Financial Analysis: Every three months the financials results are compiled (although only annual audited financial statements are specified by the Kenya Cooperative Act) and they are presented to the membership. Financial statements are audited by a qualified accountant appointed by the Board of Directors and in accordance with international accounting standards (required by the Kenya Cooperative Act). The financial statements include a balance sheet, income statement as well as a monthly cash flow with variance from the established budget noted. The cooperative maintains a savings and current account with several Kenyan banks.

Saliency: The accountant believes that the membership is satisfied with the leadership and direction of the cooperative despite the politicization and lack of transparency in the governance of the cooperative. The cooperative does not actively support training at this time as the donor community has subsidized existing training for members. In addition, Nyala is active in community development contributing to the maintenance of local roads.

Tanzania

3. *Kijimo Women Dairy Cooperative Society*

Cooperative organization and governance

Mission: Kijima Women Dairy Cooperative Society began as a small group of twelve women working together to produce cheese in 1996. The group was registered as a cooperative in 1998 and now has 53 active members. Through technical assistance from Land O'Lakes the group has diversified the cheese products now offered. The Chairperson was very specific about the cooperative's mission: to alleviate poverty among the women community members with poverty, defined as less than \$1 per day in earnings. The Chairperson does not believe there are any legal or regulatory impediments to the cooperative's development. The legal structure of the cooperative is defined by the Tanzania Cooperative Societies Act of 1991 and the by-laws of the cooperative are written such as to comply with the Cooperative Societies Act.

Leadership and decision making: Democratic elections of officers is held at the AGM with the Executive Committee of nine members (the Act requires at least four members but not more than fifteen members including the chairman and vice-chairman) that hold

office for a period of three years but are eligible for re-election. The leadership is not well educated enough to interpret financial statements (which they do not currently have anyway) and what planning is done excludes strategic planning and is limited to operational planning over the next year.

Management responsibilities are not clearly understood as the Chairperson is currently handling all the financial transactions of the cooperative including approval and disbursement of payments. The Chairperson did indicate, however, that the cooperative is planning to hire an accountant in the beginning of 2004. The Executive Committee does, however, define short and long term operational goals such as producing 200 liters of cheese per month. A long-term goal is to produce animal feed because of the large increase in membership ownership of poultry. Outside assistance is being sought for a feasibility analysis of the animal feed production idea.

Membership and member participation: Although the membership of Kijimo is quite active with over 70% attending the AGM, the Chairperson indicated that not all of the members clearly understand the basic business operations of a cooperative. The cooperative is trying to address this with training from the local governmental cooperative office. Monthly meetings are held with minutes describing decisions made by the management team.

Business Operations

Business Activities: In early 2003, Kijimo received one out of five coolers awarded to Land O'Lakes by USAID. Once the cooler was installed the members of the group started marketing milk collectively. Farmers sell the group an average of 300 liters per day and because the cooperative is close to its markets (local hotels that purchase cheese for foreign tourists in the Kilimanjaro region) with a known reputation for quality, the financial management deficiencies have not unduly hampered the business performance. The Chairperson, however, clearly recognizes that the cooperative needs to adhere to legal cooperative society regulations and improve financial management and stated that in 2004 financial statements will be produced.

Financial Analysis: Although the financial operations of the cooperative are solely fulfilled by the Chairperson, the membership is very involved in the annual planning for the budget. Contingency planning for expenses is done as well with a line item budget established for this purpose. Although the cooperative has a budget, financial statements have yet to be produced and there has been no audit of the financial operations of the cooperative. The cooperative does maintain a savings account with a local financial institution.

Saliency: Members of Kijimo Dairy Cooperative are satisfied with the management of the cooperative and believe that there is transparency in the governance. However, given the low level of education and knowledge regarding the operations of a cooperative, it is questionable whether the members can really evaluate the management of the cooperative. The cooperative is working to improve the local community in which it

operates currently working with orphans and providing milk to HIV/AIDS afflicted individuals.

4. *Nronga Women's Dairy Cooperative*

Cooperative Organization and Governance

Mission: Nronga Women's Dairy Cooperative currently has 312 dues paying members. The cooperative collects and sells approximately 1700 liters of milk per day and also produces mala and is planning for butter and yogurt production. The stated mission of the cooperative, according to the professionally hired manager, is to develop a dependable market for the dairy farmer members of the cooperative.

Leadership and Decision Making: The cooperative is structured per the requirements of the Cooperative Societies Act of 1991 and currently has a Board of Directors of twelve members with an Executive Committee of five members that meets once per month. An AGM is held every year with the disclosure of the financial results for the fiscal year with the Board of Directors receiving a quarterly financial review of operations. The manager stated that she does not perceive any regulatory or legal impediments to the functioning of the cooperative but thinks that the auditing fees charged by the Tanzanian Auditing Company are too high—a view expressed by other cooperatives.

Membership and member participation: The membership is quite active with over three-quarters attending the AGM and 220 out of 312 dues paying members contributing milk. The Board of Directors and the management team do establish short and long-term objectives with the manager indicating that not all of them are articulated in writing. Short-term goals include increasing milk volume and improving the transport for members and long-term acquiring the requisite equipment for yogurt and butter processing and developing better training for members.

Business Operations

Management: A full-time manager and accountant are largely responsible for implementing the strategic and financial planning objectives of the Board of Directors. The manager indicated that for the size of the cooperative she believes that she does not have the resources to adequately get the job done. Some of the areas that are neglected include member training and animal hygiene and husbandry skills. She is particularly interested in developing a train the trainers programs to expand the training available to members.

Business Activities: This year has proved to be exceptionally difficult in terms of financial results because several processors have not paid the cooperative causing a serious liquidity problem. As a result, the cooperative is beginning to lose patronage and the manager is working to develop new markets for the cooperative's milk. The cooperative is located ideally in terms of milk supply but is relatively far away in terms of its market. The manager is hoping that the Tanzania Dairy Development Board will officially pass a law under consideration that would make school feeding a requirement. In addition, the price for milk has remained the same for many years but the costs of

necessary inputs such as animal feed have gone up resulting in lower margins. The manager estimates that the cooperative provides approximately 12% of the milk in the Kilimanjaro region. As a result of these financial problems, the cooperative has not been able to increase dividends for its members and in some years the payments have gone down.

Financial Analysis: An annual budget that is approved by the membership is prepared every year and the variances are noted every three months. A business plan is also developed annually and the results are presented to the membership at the AGM. Full financial statements including a balance sheet, income statement, and cash flow are produced and certified annually by an auditor.

Saliency: Despite the recent financial problems of the Nronga Women's Dairy Cooperative, the membership is pleased with the management and believes that the governance is transparent. The cooperative is active in community development working on road construction, financially helping to support a nursery school and contributing milk for HIV/AIDS individuals.

Uganda

5. *Nabuka Dairy Cooperative*

Cooperative Organization and Governance

Mission: Nabuka Dairy Cooperative was formally registered in 1998 and now has 222 dues paying members. The cooperative collects and sells milk and yogurt directly to consumers since they are very close to their market and they can obtain a higher price for their milk by selling directly to consumers. The stated mission of the cooperative is to help build the capacity of the farmers for efficient dairy herd management and marketing of the milk and dairy products on behalf of the farmers. The professionally hired manager of the cooperative stated that the cooperative does not have legal or regulatory impediments to its operations but that the large informal market is a problem.

Prior to the reorganization of cooperatives in the early 1990s, the cooperative movement was much politicized and there was too much interference by the government in the operations of cooperatives. For instance, a cooperative would have to formally apply for a loan first through the Commission of Cooperatives. Now there is a Board of the Uganda Cooperative Alliance, the apex co-operative, established by the government in 1992. The revision of Uganda's cooperative law is transforming a system of largely government supervised and controlled cooperatives into one of owner controlled and owner beneficiary cooperative businesses. The new cooperative law requires that the government consult with the Board of the Uganda Cooperative Alliance when drawing up regulations to enforce the cooperative Statute.

Leadership and Decision-making: The Board of Directors consists of seven members who are replaced by direct elections every two years. The directors establish specific

operating policies, employ the manager, and supervise the management of the cooperative. Three sub-committees headed by Board members have been established: finance, savings and loans, and education.

The Board of Directors does not engage in business that would place them in direct competition with the cooperative. Evidently this happened once with the prompt removal of the member and, subsequently, has not happened again.

Membership and member participation: Eligibility for membership is clearly defined in the by-laws and the membership clearly understands the basic business operations of a cooperative. The membership is active with only approximately 40 members out of 222 not actively participating in annual meetings and in daily bulking of milk. Membership continues to grow with 38 members added in 2003.

Business Operations

Management: The cooperative has hired a manager with LOL partially paying for the salary for a period of nine months. The cooperative will be retaining the manager on staff after the nine-month period. Currently there is no sales assistant so the manager must also handle this duty in addition to other managerial tasks. There is no marketing plan and strategy.

Business Activities: A three-year business plan is currently in the final stages of completion but the cooperative establishes goals on an annual basis with one major goal in 2003 to improve the animal husbandry skills of the farmers such as to collect a higher volume of milk on a daily basis. In addition, the cooperative has placed emphasis on encouraging members to contribute to the savings scheme of the cooperative; currently 50% of the membership participates in the savings scheme. Unfortunately, the Board of Directors diverted members' savings from the savings scheme into other activities, which resulted in the cooperative not having the loan-able funds it had promised members. The major objectives of the cooperative's medium term plan aside from improving animal husbandry skills is to expand the markets for cooperative members' milk, and establishing a mini-dairy to add higher margin products, and to build and own the cooperative's own real estate.

Financial Analysis: Budgeting is done on an annual basis with the Board of Directors receiving and reviewing financial results every quarter. Monthly variances from the budget are noted monthly. Financial statements are produced every three months and are audited on an annual basis. Contingency planning is also done and the cooperative maintains a current and savings account with two financial institutions.

Salience: Due to the cooperative's competitive location near Kampala, it is the largest dairy cooperative in the area supplying about 35% of the milk in the region. Nabuka has become a household name in the Mukono district and the surrounding areas. The cooperative is currently not active in the community. The accountant indicated that his perception was that the membership was satisfied with the governance of the cooperative.

Lessons Learned from Assessments in East Africa

Cooperative Organization and Governance

- The legal and regulatory cooperative framework in Kenya, Uganda, and Tanzania has been reformed promoting a more conducive operating environment for member –owned businesses (note the Uganda case), although regulatory compliance is quite weak as in the case of Nyala Cooperative Society in Kenya.
- There is uniformly poor governance and accountability within the evaluated cooperatives. Although it was indicated in every case that the membership was satisfied with cooperative management, it is questionable to what extent the members understand the business operations and financial results presented to them. Several instances of mismanagement of membership resources were noted such as the diverting of member savings into other activities at Nabuka, and the lack of any financial personnel at Kijima other than a cashier. Transparency of decision-making is weak despite the uniform adherence in regard to accurate minutes of meetings. Many decisions are obviously made without the members' knowledge or consent (Nabuka savings diversion, Kijimo lack of separation of responsibilities regarding payments).
- Hierarchical, top-down management and lack of understanding regarding the responsibilities of Board members versus management is still evident (Kijimo and Nyala).
- Membership participation is variable (for instance, strong at Kijimo and Nabuka, weak at Nyala, and Kiirita) although lack of membership participation does not translate necessarily into a weak cooperative, as is the case with Kiirita. Member services such as artificial insemination, and savings schemes remain inadequate, inconsistent or mismanaged (Nabuka's mismanaged savings scheme, Ngonga's problem with consistent payments to farmers).

Business Operations

- Technical capacity related to financial management is uniformly weak in all the evaluated dairy cooperatives including:
 - Functional literacy and numeracy in some cases;
 - Accounting and financial statement knowledge;
 - Ability to manage information;
 - Ability to analyze constraints, determine member needs and establish priorities.
- Strategic capability is also uniformly lacking including:
 - The ability of the cooperatives for self-critical analysis allowing for the identification of strengths, weaknesses, opportunities, and threats;
 - Having access to information such as market intelligence leading to the incapacity to make well-informed decisions.
- Weak management of most of the cooperatives is the norm although those cooperatives with professional management (Nronga and Nabuka) are stronger.
- Not all of the cooperatives have an understanding of gross profit and operating profit especially in regard to individual product lines. Equity growth has been

nominal with little internal financing of new operations or the upgrading of the business.

- Some of the cooperatives do not have a marketing manager (Nabuka, and Nronga) and there is not enough emphasis on developing market linkages.

Sustainability

- Organizational sustainability is mixed with some cooperatives exhibiting more forward-looking attributes such as organizational autonomy, learning capacity, and leadership (Kiirita, Nronga).

Guatemala

6. *XELAC Cooperative Quezaltenango*

Cooperative organization and governance:

Mission (Purpose): Began in 1975, the principal occupation of the inhabitants from the rural area in western Guatemala is raising of bovine, dairy cattle and basic grain. The cooperative is:

- a. Developing activities related to the production of milk, raising cattle, and improving dairy cattle.
- b. Promoting social and economic improvement of the members to complete plans, programs, and projects that demand a common effort and unified action.
- c. Developing all activities related to organizing milking, such as the industrialization, transport, distribution and sale of their products.
- e. Stimulating and maintaining in members the aptitude and confidence necessary to have a productive Cooperative organization.

Leadership and Decision Making: Through the organization, the community can resolve its social and economic problems. Processing and industrializing the products derived from milk is key to economic improvement. Creating and amplifying work opportunities for impoverished families in this rural area of Guatemala is key for social improvement. Board composed of six members including the general manager, are generally active, lack strong enough intellect to competently interpret financial statements nor provide direction to a planning process. Management continuity is not apparent: the general manager has in place for just over one year, but has been a member and Director for many years. While more aware and competent, his ability to run even a small business is limited and planning is not a strong skill. The remainder of employees are production workers with limited education.

Membership and member participation: XELAC has 54 active members and with members' family members totals 378. Member records indicate that attendance at annual meeting is good but with limited educational competencies, the members probably do not make independent judgments of the operations of their business.

Business Operations

Management: The Cooperative is organized through the Directors, Advisory Group, and the management, which coordinates all the Cooperative's activities, including naming commissions to do certain activities. Cooperative operations are managed by a narrow management structure with a general manager and working managers in areas of production expertise. An ineffective marketing manager has developed few or innovative market initiatives and no marketing plans are evident. Most of employees have some formal education but are generally weak. Management is not a strong component of the Cooperative

Business Activities: The XELAC Cooperative was born out of the need to process milk produced by community members who principally raised cattle and produced milk. This organization was created as an alternative for the rural area families that were faced with unemployment and lack of basic necessities, such as nutrition, clothing, shelter, and education. The organization also provided a regional market for dairy products of high quality and good prices. The further processing of products is in its infancy and there is a lack of innovative marketing or a real desire to develop a marketing plan, which could reach a larger audience of consumers. Exports have not been considered and quality standards may preclude such sales. There was no evidence of a long term business or strategic plans, however, Board members and management indicate that they develop a yearly operational plan for the cooperative.

Financial Analysis: An accounting system is in place and financial reports are prepared on a regular basis, however, there is no evidence that there is management analysis or financial planning in place to help the Board or member-owners understand the financial status of the business. It is not clear if the accounting system meets international standards and while an independent assessment is undertaken, a governmental unit accomplishes this review. cursory review of the monthly and year to date operations results indicate that the cooperative is operating with a cumulative loss from operations for year 2003.

Salience: The organization is achieving its objectives and ideals by constantly collaborating on social and economic development of all families. They are producing milk in the traditional manner, recollection, with the physical effort of the producer. This method of collection runs through the veins of the producer and their family. Health problems persist for the families of the producers. Children have spinal and abdominal problems, and the producers work in uncomfortable and poorly prepared areas for producing milk. The conditions of recollection for all active members of the Cooperative are unsatisfactory because they do not have the resources to improve the process, such as buying a milking machine or acquiring construction material. These resources would have a recognizable impact on milk recollection, principally on the physical strains of milking. The lack of resources is due to the economic problems of the population, particularly areas with unemployment. The opportunity for employment through the organization has helped. The Cooperative wants to improve the ability of people to meet their basic needs and to offer products made using technology so the products are easy to obtain, low cost and competitive with other similar goods. The community is not seriously affected by this cooperative and it is little importance to the business sector. In

the very direct geographic surrounding area, the products has some significance however, the organization does not have an economic impact on the greater consumer or food service industries.

Lessons Learned from Assessment in Guatemala

- This cooperative was created over 25 years ago with the help of the Swiss who provide resources to build a facility, Technical assistance to develop the processing plant, and taught the skills necessary to make European style cheeses in Guatemala. Once the donor assistance was gone, the cooperative has not progressed very much since that time. The cooperative appears to be sustainable with some years of successes and many years of barely break even or loss years.
- The cooperative member numbers have not changed much over the years of operations and therefore, equity capital is minimal and does not permit internal financing of serious operations updates of facilities or to market in new or innovative ways.
- There is no evidence of any long term planning, strategic planning, facilities planning, contingencies planning or financial planning.
- There is no evidence of the development of any new market planning or market development outlook, which encompasses the large consumer market found only in Guatemala City.
- On the other hand, the cooperative is surviving, and providing economic value to its members. Whether it could be expansive and provide more and better returns can not be determined without more research and determination by the owners as to what is needed and important to them.

IV. Financial Assessment Tool

The purpose of this survey is to identify the major factors to consider in writing a financial management section of a new business proposal. The following are the major components of such a section: the lending/business environment and client financial management needs, delineated into the questions Land O'Lakes business development staff should ask to obtain the necessary information for the analysis. The purpose of the survey is not to cover all of the factors one considers in evaluating the lending/business environment or client financial management needs but to ascertain the major factors and needs that can be identified in a proposal. If more detail in questions is desired, refer to the "*Uganda Dairy Client Financial Services Needs and Management Survey*", and the "*Uganda Financial Institution Survey*". It should be possible to collect information, evaluate and write a financial management component in a week.

Sources of information are also included in this survey review as well as possible technical assistance interventions to meet the defined needs.

LENDING/BUSINESS ENVIRONMENT

Macroeconomic information:

1. GDP growth (specific sectors)
2. Interest rates (real), liquidity of banks
3. Inflation—crowding out of private investment by government spending?
4. Current account deficit, stability of currency
5. Role of donor/multinational financial institutions in the economy

Structure banking sector:

1. Narrow with little competition (Do banks offer few products aside from cash and demand deposits?)
2. Role of non-bank financial institutions (leasing, micro-finance) in SME lending
3. Outreach? Service to rural areas? Do banks mainly lend to large corporations?
4. Sectors of concentration in lending? SME lending portfolio as % of total portfolio
5. SME lending experience? Loan repayment experience from dairy/other Land O'Lakes client groups?
6. Legal framework for the pledging of collateral
7. Availability of information about borrowers (credit histories); existence of credit bureaus/rating agencies
8. Government sponsored SME development funding
9. Donor projects in the financial sector related to SME development (for instance, Development Credit Authority of USAID)

Bank Specific

Once the major financial institutions are identified that could service clients with SME needs one or two can be interviewed and asked the following questions:

1. Location (rural access)
2. SME lending portfolio as a % of total portfolio; expansion plans related to SME lending?
3. Credit experience with agricultural/dairy clients (type of financial services, good/poor repayment history?):
4. Flexibility compared to competitors in developing new products/servicing needs of specific industry/dairy clients?
- 5. Collateral requirements for loans**
6. Tenure of loans (short term vs. long term)
7. Will the financial institution provide customer training regarding products offered/assistance with loan applications/loan repayment?

Sources of Information

A source of information such as documentation related to the Development Credit Authority of USAID can provide most of the information discussed in this survey. It may be possible to obtain this documentation but it is first necessary to determine whether a DCA facility exists in a particular country. Contact Kim McKeon to see if she can obtain the documentation from USAID. In addition, check with USAID to find out what projects may be on going in a country to develop business development/financial services and then interview key individuals working in such projects. Often these individuals will provide a great deal of information and also suggest the banks and other key individuals that should be interviewed (Uganda was such a country). If possible setup these meetings before leaving on the development trip. Other sources of information include the USAID library that has an on-line catalogue of documentation covering many subjects. The World Bank also has on-line library that can provide information and periodicals such as the *Economist* also catalogue information. There are several publications that specialize in analyzing the banking sector of countries (BancWatch) but these are only obtainable through a subscription.

Client Financial Management Needs

If possible, interview one or two clients from the major client groups that Land O'Lakes is proposing to work with such as a processor, a dairy cooperative and supplier of dairy inputs if a dairy project proposal is being developed. The following are some of the questions that could be posed to clients.

1. Are financial statements and a business plan produced (income, balance sheet, cash flow) and how frequently?
2. Determine whether the client utilizes the financial statements to make business decisions.
3. Does the client have a relationship with a financial institution and what products are used (savings, loans etc.)?
4. Ask the client what they think their financial management needs are (trade finance/loans from banks, training and more management depth in financial management, more knowledge of business development suppliers etc.)
5. Ascertain level of corporate governance (audited financial statements, review of financial statements by the Board of Directors, internal controls).

Financial Management

The following are some general technical assistance interventions meeting the financial management needs of clients that can be identified in a proposal. Refer to the *Land O'Lakes Financial Management Capacity Statement* for more detail.

Capacity Building

1. Financial Management Gap Analysis
2. Identify business development service providers for financial services
3. Development of training materials, specific “toolkits” to meet specific needs such as components of a financing application

Financial Access

1. Identify financial institutions that can meet the financing needs of Land O'Lakes clients
2. Facilitate business between banks and clients by identifying creditworthy clients for financial institutions.
3. Assist in developing business plans and financing applications for clients.