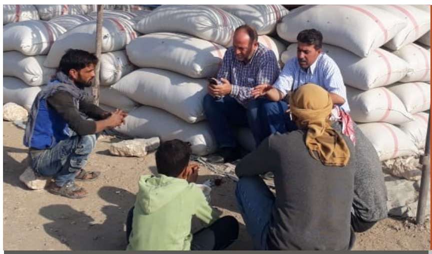
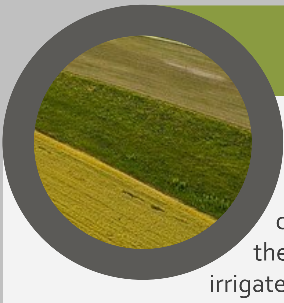


AGRICULTURAL COOPERATIVE
PRINCIPLES AND MANAGEMENT

Cooperative Principles at a Glance:

- Cooperatives in Northeast Syria are formed to focus on poverty alleviation and social support, providing land, water services and subsidies to members.
- Cooperative principles guide operations including: voluntary and open membership, one member one vote and member economic benefit is in proportion to their participation.
- NES cooperatives have an opportunity to add services for input supply, marketing, and/or financial services.
- Cooperatives must build capacity in general and financial management to help members make informed, transparent decisions.
- Financial management and control systems are crucial tools to guide members ability to navigate use of funds to reinvest in cooperatives or distribute profits to members.
- While cooperatives follow sound business practices, capital formation and allocation of surplus income are unique features of the coop model.

Wheat field
(Photo Credit: Pixabay)



AGRICULTURAL COOPERATIVES IN NORTHEAST SYRIA

Agricultural cooperatives in Northeast Syria (NES) provide limited but useful functions in the agricultural communities of Al-Hasakeh and Deir-ez-Zor Governorates. For wheat farmers in Deir-ez-Zor, cooperatives focus on service provision. They are organized around the provision of irrigation and managing production on large blocks of irrigated land. The cooperative maintains irrigation pumps and other facilities and manages water supply. Farmers make payments to the coop to support these services and also receive small subsidies for fuel, seed and fertilizer. There are more than 120 service cooperatives in Deir-ez-Zor Governorate.

In Al-Hasakeh, three cooperatives have been formed with a poverty alleviation and social support emphasis. The Local Administration has donated land to poor farmers who join cooperatives that provide subsidized support. Through the Agricultural Development Company (AgDevCo) they are provided subsidized seed and fertilizer and receive production advisory services. They repay by providing replacement seed back to AgDevCo. Produce is sold to AgDevCo or private traders. AgDevCo continues to provide seed and sells grain to the Local Authority or directly to public mills. However, with only three agricultural cooperatives the impact on improved crop production in Al-Hasakeh governorate is relatively small.

Each model of cooperative performs useful functions for its membership and there are opportunities to expand services for the economic benefit of coop members. There is a strong orientation towards cooperation in the region and models of cooperation have been formed using United Nations cooperative principles. These principles provide guidance and structure needed to form cooperatives that operate effectively for the benefit of their members.

COOPERATIVE MANAGEMENT PRINCIPLES

Cooperatives take many forms and offer diverse services to their members. They are a worldwide organizational form working for members' mutual benefit. The United Nations defines cooperatives as autonomous associations of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise. Cooperatives operate on seven key principles[1]:

- **Voluntary and open membership**: Cooperatives are open to all members to use their services if they accept the responsibilities of membership
- **Democratic Member Control**: Cooperatives are controlled by their members who set the policies and democratically decisions using a one member-one vote principle.
- **Member Economic Participation**: Cooperative members contribute equitably to the organization and control its capital. Surpluses are either invested or distributed to members based on their transactions with the coop.
- **Autonomy and Independence:** Cooperatives are autonomous, self-help organizations controlled by their members.
- **Education, Training and Information**: Coops provide education and training to members, elected representatives and managers to contribute to the development of the coop.
- **Cooperation Among Cooperatives:** Coops build strength by working together.
- **Concern for Community**: Coops work for the sustainability of their communities.

[1] Cooperative Identity, Values and Principles. https://www.ica.coop/en/cooperatives/cooperative-identity

COOPERATIVE MANAGEMENT PRIORITIES

Two of the crucial management elements for the successful development and performance of cooperatives are cooperative management and cooperative financial management. Without sound cooperative management, there is limited capacity for coops to add new services that improve the incomes of members. The ability to make good, data-driven financial decisions and provide transparency and justification of business decisions to members, relies on good financial management of the cooperative. Cooperative managers, reporting to the board of directors have both a mandate to act on behalf of cooperative members and are fully accountable to the members/owners of the coop.

Coop managers in Al-Hasakeh are elected by the members and collaborate with the cooperative union in the Governorate. They prepare annual and implementation plans for the modest activities of the cooperative that support the gradual improvement of coop members' livelihoods. Because coops are limited by human and financial resources, they receive consulting and planning support from the cooperative union. In Deir-ez-Zor, cooperative management is more limited. The primary focus of cooperatives are to maintain and support irrigation pumping stations, canal maintenance and distribution of water. Beyond these services there are limited resources for cooperative development. However, with more than 120 coops in Deir-ez-Zor, they represent an important entry point to deliver improved and expanded services to members. Neither cooperative provides marketing services and farmers sell directly to AgDevCo, government reception centers or private traders. In both Al-Hasakeh and Deir-ez-Zor, there are opportunities to expand cooperative services to members that may include:

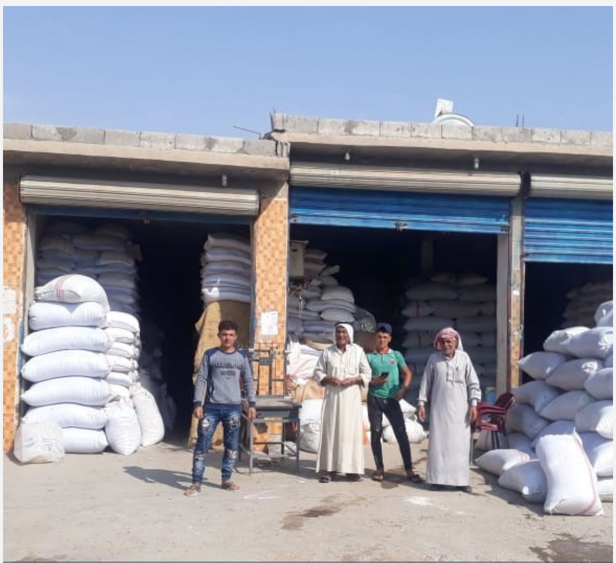
- **Input supply services**: Purchasing, reselling or managing farm inputs (seed, fertilizer, agro-chemicals, feed, energy and water). These services go beyond the organization of subsidies, focusing on bulk input purchases, quality assurance from input suppliers and price negotiation.
- **Marketing services**: Sell farm products from coop members. At present, NES cooperatives do not provide marketing services and members sell to traders on their own. Development of storage and aggregating cooperative member produce gives members better negotiating opportunities with traders and better integration into wheat and livestock value chains.
- **Credit and savings services**: Organized marketing, storage facilities builds opportunities for coop members to source credit to finance production and marketing activities.

The cooperative manager plays a pivotal role in the development of the cooperative. Managers have a dual responsibility to the Board of Directors and to the members of the cooperative. Building strong participatory approaches to cooperative decision-making is crucial to ensuring membership buy-in and investment in cooperative activities. The cooperative members/owners must buy into the strategic vision for the cooperative and the plans to achieve. As the owners of the business, they must also receive services and profit to build commitment to the organization's purpose.

Cooperative managers have three primary roles:

- **Interpersonal role**: The manager is the leader of the cooperative and reports to both the board of directors and members. Cooperative managers must build relationships with the membership, the board of directors and with the business partners of the cooperative. They often lead conflict resolution processes to resolve problems that arise between the coop, its policies ,members., and business partners.
- **Informational role**: Cooperative managers are the primary monitor of cooperative activities to help the organization learn and improve its policies, activities and services to members. They are also the primary spokesperson for the cooperative, representing the organization to the public, partners and government agencies.
- **Decision-making role**: The manager is also the primary decision-maker for the cooperative, leading negotiations with partners, donors and membership. They must have an entrepreneurial capacity to identify and pursue opportunities in the best interests of the membership and which build upon cooperative plans. The manager is responsible for managing the resources of the cooperative efficiently and for the benefit of the membership.

These broad responsibilities require that cooperative managers bring multiple skills to the position. They require good general management skills , financial management, technical capacity and human resources management knowledge. Secondly, coop managers must have a clear understanding of the organization and who they represent. They represent the members and must work within the policies, procedures and decisions of the board of directors. Cooperative leaders are required to engage in participatory leadership practices, convening regularly scheduled meetings, providing transparency on cooperative activities, finances and building support for new plans for cooperative services. One of the most critical roles of the cooperative manager and board of directors is the development of financial management systems that guide cooperative planning, monitoring and decision-making.



Wheat grain storage *(Photo Credit: i-APS)*

COOPERATIVE FINANCIAL MANAGEMENT

Financial keys to Success of a Cooperative: The cooperative leader has a major responsibility for financial management of the organization. As in other enterprises, the manager reports cooperative finances against cooperative plans and activities to the board of directors. In addition, financial management of the cooperative must also be reported and fully explained to the members and financial decisions made with participation and agreement of members. The members of a cooperative are its owners and have the right to know the financial position of their organization. When decisions must be made on cooperative activities, the manager must be able to document the strategy, plan and financial impact to both members and the board.

- **Cooperatives must be competitive businesses**. While cooperatives are unique business structures, they are subject to the principles of business finance, business management and economics. They operate in a competitive market economy.
- **Cooperatives strive to be profitable and distribute profits to members**: Cooperatives strive to provide services at cost, be competitive in the marketplace, maximize profit and distribute that profit to its member/owners based on their participation.
- **Cooperatives manage income distribution and equity redemption payments using balance sheet methods**: They must manage both liquidity and solvency and provide adequate risk capital as an element of coop strategy. While member/owners always should receive distribution of profits, these distributions involve choices between financial position, coop development strategy, and risk management as agreed with cooperative members.

Good financial management drives successful cooperatives. Understanding the financial position of the organization enables managers, boards and members to develop reasonable plans for growth and development of cooperative services and provide members with a transparent accounting of coop expenses and potential dividends. Inaccurate records, poor financial controls and lack of transparency create opportunities for mismanagement, theft and bankruptcy of the cooperative. Erosion of member trust will lead to a lack of member investment and use of the cooperative, limiting its performance and profitability. This section identifies some of the primary elements of cooperative financial management and accounting. For further information, go to this link to FAOs training modules for cooperatives (http://www.fao.org/sustainable-food-value-chains/training-and-learning-center/details-materials/en/c/266505/).[2]

As a unique business model, cooperatives are owned by their members . Since all members cannot effectively manage the business, the members elect a board of directors to manage the business of the cooperative. The members provide a mandate to the board to manage the organization, hire a manager and staff to do the coop's work. However, the manager is accountable to the board of directors and the board is then accountable to the membership. Transparent, accurate financial management and appropriate accounting procedures provide the tools for cooperatives to plan, for the board of directors to document coop results and for members to have the information they need to make participatory decisions about their cooperative.

Primary elements of Cooperative Financial Management. Financial management of cooperatives follows many of the same principles as managing any business. Basic financial management tools for any business, including cooperatives are:

- **Financial Management Tools**: There are a few key financial tools that cooperatives should maintain. This information should be developed by the cooperative board and approved by the members, and must be reported to them on a regular basis.
- **Financial plan and budget:** An annual financial plan and budget must be prepared reflecting the activities, staff, revenues, expenses and investments of the cooperative for the coming year. It is reviewed by members on a monthly basis.
- **Source and application of funds statement**: This tool provides a planning and monitoring tool that tracks where the capital to run the business is coming form and where it went. While a balance sheet gives the financial position at a given time, the SAF provides coops with a planning tool.
- **Cash flow statements** illustrate the actual flow of money over a given period of time and is used to document the available funds for the cooperative's planned activities.

Financial Control Systems: In addition to planning tools that enable cooperative management to plan against realistic income and expense projections, the activities of the cooperative require financial monitoring and applying financial controls on the use of funds by the cooperative management and board of directors. These financial controls are generated by accounting processes, procedures and analytical tools. Every transaction of the cooperative must be documented in the form of income and payment vouchers. Vouchers provide information on the amount of a transaction, who it was paid by or to, why the money was

[2] Food and Agriculture Organization. 1998. Agricultural Cooperative Development: A Manual for Trainers. Modules 5 and 8. Food and Agriculture Organization of the United Nations. Rome, Italy

paid or received and from/to whom. Vouchers form the basic records of the cooperative. There must also be a member of the board designated to maintain controls on payments made by the cooperative on a daily basis. The board member inspects supporting documents for payments and ensures that the payment is valid, accurate, necessary and properly documenting before approving a transaction. Transactions are entered into a record book . At the end of each accounting period, the record book is closed with balances for each account that are entered into the ledger. Data from the ledger allows for the calculation of financial reports. These reports are the tools used to monitor and control the financial performance of the cooperative. The primary monitoring tools are:

- **Income Statement:** Calculated on a monthly basis, the income statement provides a clear vision of the revenues and expenses of the cooperative for the month. From this data, the members know if the cooperative generated a surplus or a loss during the period and can compare the month's results against the budget. The income statement will show positive or negative variances from the annual budget.
- **Balance Sheet:** The balance sheet provides a snapshot of cooperative assets and liabilities . By comparing balance sheets over time, usually with the same period from the preceding year, members can monitor the financial health of the cooperative. By calculating net working capital and the quick ratio (current assets/ current liabilities) the cooperative can understand its liquidity, or ability to pay short-term debts. There are other calculations using this data to calculate long-term capital structure, solvency and indebtedness of the cooperative. The balance sheet calculates equity (share capital + reserves + accumulated surplus) which is the value of the cooperative. By dividing equity by the number of members, the cooperative's net worth per member is calculated, that is the value of each member's investment in the coop.

In addition to basic management and planning tools, NES cooperatives have the opportunity to develop services and support functions for their members. Key to establishing new business directions for cooperatives are financial management activities that are unique to cooperatives. Cooperatives are people centered enterprises as opposed to a capital centered commercial company. In a commercial company, profit is distributed between investments and dividends. In a cooperative, surplus earned is distributed: **a)** to the members according to the capital they have invested in the cooperative; **b)** reimbursements or discounts according to members' use of cooperative services; and **c)** retained as institutional capital to finance growth and development of the organization. Cooperatives in NES will be challenged to form sufficient capital to develop services. It will take clear vision and strategy and sound business plans to build profitable cooperatives.

Capital formation by cooperatives: Forming capital is one of the most significant challenges to cooperatives. This is done in three ways, raise capital from cooperative members; reinvest the net surpluses of the cooperative, and external finance.

- **Member Finance:** Member finance will be the most important source of finance for a cooperative. This is raised from direct payments by members into the cooperative to form its equity. Member finance can be raised on a one-time basis or as regular member contributions, for example at harvest.
- **Institutional Capital:** Successful cooperatives are profitable businesses and cooperative boards and members can either return profit to members or allocate some surplus income to finance development of cooperative services or operating costs.
- **External Finance:** External finance can come from many different sources, but given the lack of formal financial institutions in the NES, this is more likely to come from either Local Authority or donor-funded grants. Linking cooperative services to either supplier credit or trade finance are other options.

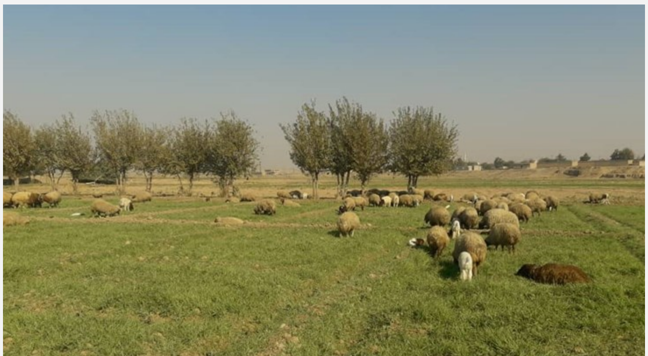
The ability of cooperatives to form finance is a factor of three primary requirements. First, the cooperative must plan carefully to develop services and business lines that directly serve the interests and needs of members. There must be transparency in the decision making process with the direct participation and agreement by members. Secondly, the cooperative must be efficient and profitable so there is surplus revenue that can be allocated as investment capital or dividends to shareholders. The dividend process must be equitable and transparent, fully documented through sound financial management and record-keeping. Third, there must be clear participatory decision-making processes to decide how to allocate profit, either to members according to their use of coop services or to reinvest in the cooperative business. This is often one of the most contentious elements of cooperative management. Clear financial statements and the ability of the coop board to document for members the competing benefits of alternatives is crucial.

Managing Cooperative Services: Cooperatives find their niche in a marketplace by finding efficient ways to enable members to overcome market inefficiencies. Determining member challenges and needs and by using the cooperative structure to create more efficient and profitable ways to produce, market or process goods and services that mutually benefit the cooperative is an advantage for the cooperative model. Coop methods that form capital and use it efficiently are among the features of successful cooperatives. Determining those market niches and how to exploit them also depend upon sound cooperative financial management and the ability of the cooperative to secure the investment and capacity to manage those services.

Financial Management Challenges for Cooperatives. In a survey of U.S. cooperative leaders, Barton et al. [3] identified several critical challenges in financing agricultural cooperatives. Although operating in a very different context, these challenges are also appropriate for cooperative finance in northeast Syria. Meeting these challenges and adapting financial management systems that enable cooperative members to make informed choices in the growth and development of services can facilitate increased member income and equity in the coop.

- **Financing Asset Growth**: The financial challenge most often mentioned by cooperative leaders was the difficulty to acquire and maintain sufficient equity capital to finance coop growth and maintain working capital. Given increased volatility of farm inputs and outputs there is increasing price risk for producers and cooperatives. Increased yields, plus improved seed genetics and advances in irrigation technology have created a need for investment in new agronomic assets to drive continued production increases.
- **Maintaining Consistent Profitability**: Because the equity of a cooperative, as well as its cash flow, is largely driven by earnings, there is a tight link between cooperative investment and its ability to maintain cash flow. Profitability is the main driver for financing for cooperative assets as well as maintaining a strong balance sheet. In addition, cooperatives in a strong financial position offer risk management options to members by locking in a net margins, grain selling decisions and support for energy purchases.
- **Managing Ownership Needs of Members and Business Risk**. Cooperative leaders also identified the challenge between investment in assets that increase profitability and reduce business risk and members' desire for cooperative equity to be distributed to them. Members often place their personal interests in benefits from the cooperative above their ownership responsibility. This is understandable and one prescription for managing this natural friction is to use the balance sheet as a management tool for equity distribution. By using the balance sheet and selecting clear liquidity and solvency targets, redeeming equity to members based upon residual distribution of cash, there is an established method for managing these decisions in an objective manner.
- **Education about Cooperative Finance**: It is important that all cooperative stakeholders, members, board of directors, managers and staff, receive training and support in managing cooperative finance. Leaders and members must uniformly understand why the cooperative must be profitable and that cooperative financial practices must align with the cooperative business model. There must be a full understanding of the balance sheet and how it is used as a management tool for distribution of the cooperative's income. If members simply view the cooperative as an extension of their production and marketing system, their natural focus will be on maximizing cash flow back to each individual member.

Cooperatives in NES have a significant opportunity for private sector growth in agricultural production and marketing. By introducing member services that enable bulk purchases of inputs, aggregation of produce, competitive marketing strategies, and linkages to better terms for financing production costs, there is an opportunity to improve both production and profitability of farmers in the region. Realizing these opportunities has many challenges. Sound financial management of evolving cooperatives is one tool to assist cooperative leaders and member s to make strategic decisions in their best interest



Sheep grazing *(Photo Credit: i-APS)*

[3] Barton, David, Boland, M., Chaddad, F., and Eversull, E. 2011. Current Challenges in Finaning Agricultural Cooperatives. Choices: The Magazine of Food, Farm and Resource Issues. Agricultural and Applied Economics Association. 3rd Quarter 2011 | 26(3)