

3. DEVELOPMENT OF THE INSTITUTIONAL FRAMEWORK OF THE COOPERATIVE COMMERCIALISATION ENTERPRISES

132. In this chapter we will describe and propose the institutional framework for the institutions to be established. To this end we will present: (i) our proposal of the vision and strategy of the intervention (section 3.1.); (ii) the results of the consultations on the idea of introducing co-operative enterprises in communities from the selected districts (section 3.2); (iii) the proposal of the most important principles for the functioning of the co-operative enterprises (section 3.3.); (iv) proposals for amendments to the *PROJECTO DE LEI QUE APROVA O CÓDIGO DAS COOPERATIVAS* (law that authorizes the statutes of co-operatives), subsequently to be presented to the Comissão dos Assuntos Jurídicos, Direitos Humanos e de Legalidade (Committee on Legal Issues, Human Rights and Legality) from the Assembly of the Republic (section 3.4); (v) the proposal for the statutes of the new institutions (section 3.5.).

3.1. Vision and strategy.

133. According to the Draft Strategy Document Proagri II (Nov. 2003) of MADER, the agricultural sector contributes 32% of the GNP. This represents 80% of the exported value and 70% of the country's employment. 80% of the poor families in Mozambique (with less than 0,5 USD/day) live in the rural areas. The main causes of the high poverty rate are the low production levels and the limited development of the agricultural markets. As a consequence, the agricultural potential is not transformed in a way that would enable the rural population to improve its standard of living.

134. Rural development in Mozambique is a complex process, about which opinions differ. Although there is not a national strategy as yet, the main policy followed by governmental institutions during the last decade seems to have been to leave the private sector in charge of leading rural development. The private sector, in the rural context, appears as an agricultural entrepreneur or company, whose main function is the linkage between the small producers and the market, and who is considered as the factor boosting the rural economy's dynamics. The private sector has occupied key positions in the rural economy, mainly in agro-industry. The farmers, the local communities and the rural population in general are viewed as suppliers of labour and as partners who can ensure access to land, natural resources and surpluses of agricultural produce.

135. In the following table we try to compare the characteristics of the two participants in this partnership for rural development.

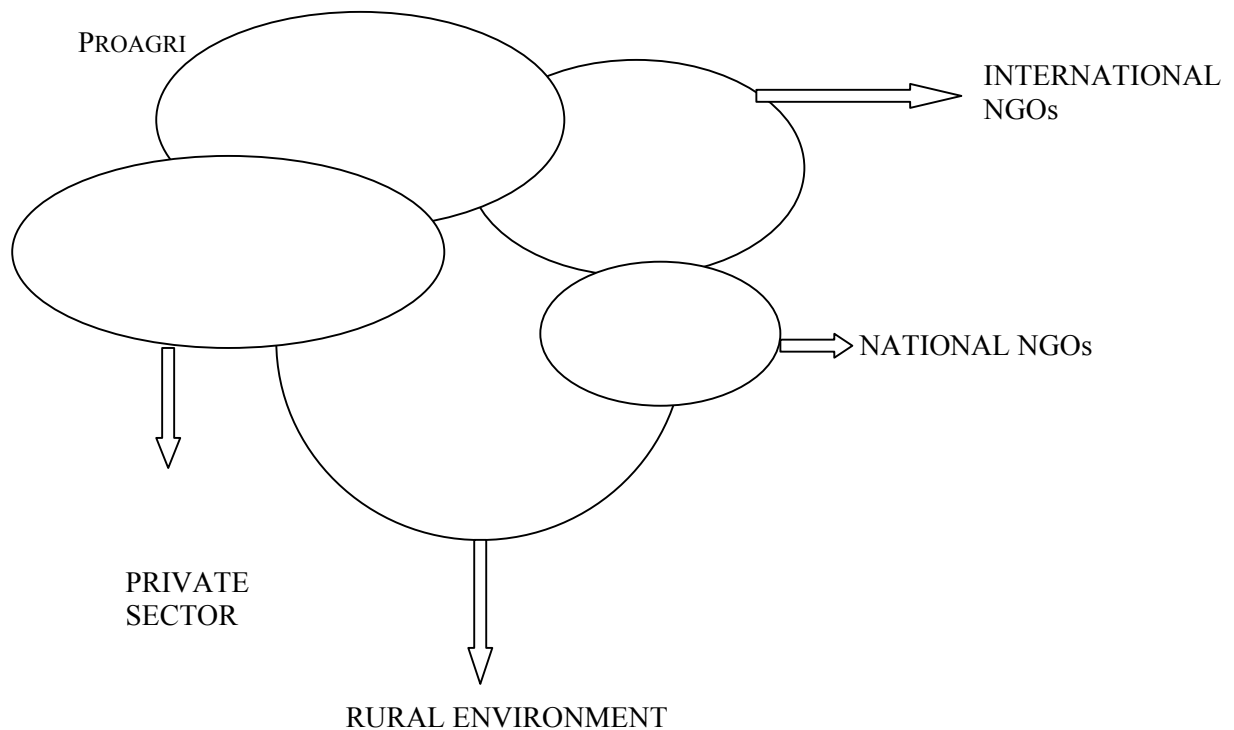
Table 13: CHARACTERISTICS OF THE LOCAL COMMUNITIES AND OF THE AGRO-COMMERCIAL PRIVATE SECTOR.

Local Community	Agro-Commercial Private Sector
Guided by customary laws	Guided by market principles
Semi-collective entity	Individual entity or entity of partners (Ltd/Sarl)
Large group of people with their individual and collective interests (socio-economic and cultural)	Little group of people with specific economic interests
Leadership guided by common interests	Leadership guided by individual interests
Leadership with difficulties in reacting (vulnerable to manipulation)	Leadership with high management and reaction capability
Partially integrated in local market	Directly linked to regional and global market

In practice, these characteristics are often incompatible and thus do not allow for building a genuine partnership. As a result, the rural population is left without room to decide its own future, even under favourable conditions.

136. The following figure offers a diagram of the interventions in the rural environment:

Figure 11: INTERVENING PARTIES IN THE RURAL ENVIRONMENT (STATE, CIVIL SOCIETY AND PRIVATE SECTOR).

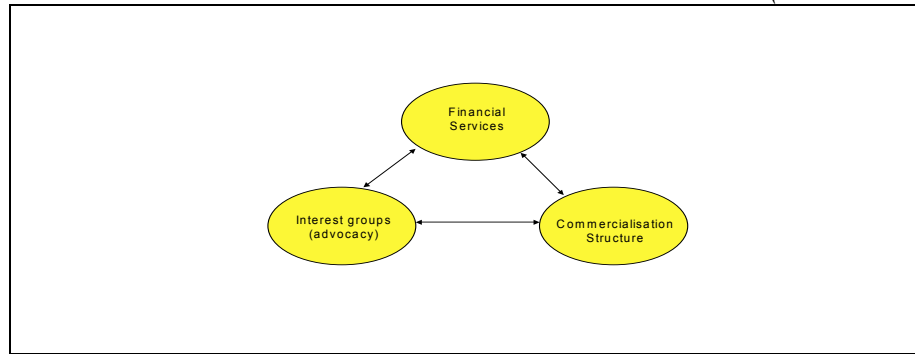


The four intervening groups are in a position to influence, modify and manipulate the agricultural socio-economic structure in the field. Looking at the experiences from the last the years leads us to the conclusion that not one of the intervening parties managed, or had the intention, to create sustainable supply structures under the control of the producers proper.²³ There exists, *de facto*, an organizational void, as a result of which the rural development process is not participatory.

137. In order for the producers to leave this dependency behind and obtain a strong position on the free market, it will be necessary to create their own organizational structures or institutions with a view to commercialisation. See the following figure:

²³ In fact, some of these civil society organizations assisted the producers in organizing themselves into associations and association forums in order to facilitate the linkage with the market. However, its impact on the organization of commercialization to the benefit of the producer has yet to be felt.

Figure 12: SOCIO-ECONOMIC EMANCIPATION STRATEGY OF THE RURAL POPULATION (*IRON TRIANGLE*).



The figure indicates the 3 structures that may sustain the emancipation process of the producers, to wit:

1. Organizations defending interests (their identity and their rights).
2. Commercial entities that ensure the purchase of surpluses.
3. Financial services to guarantee access to credit and savings.

The last two structures and their interconnections have been depicted in figure 1. The objective of this report is to elaborate business plans in order to operationalize commercial entities for the purchase of agricultural surpluses.

138. It should be noted that each one of the three structures has its specific function. In the following figure we compare the two first two structures, the associations (defending interests) and the co-operatives (commercial entities):

Figure 13: COOPERATIVE ENTERPRISES VERSUS ASSOCIATIONS.

Cooperative Enterprises	Associations (ASAM, ORAM, UNAC(UCAMA, UCASN), etc.)
<ul style="list-style-type: none"> • Business structure and instrument for rural development, but does not realize rural development activities as such (the non-existence of these costs may reduce the price of products). • Focussed on profit. 	<ul style="list-style-type: none"> • Communication channels to reduce poverty (mainly structures of services not aimed at doing business). • Organizations such as ORAM, UNAC, etc. should engage in capacity building of farmers, etc. • Focussed on lobby and advocacy.

The farmers simultaneously may be members of co-operative enterprises and associations, such as UCAMA, ORAM, UNAC, etc.²⁴

²⁴ Within this context it should be noted that the transformation of UDACs into commercial organizations constitutes an error in terms of institutional development of producers' organizations. Lobby and advocacy functions are incompatible with commercial functions.

3.2. Consulting the local communities

139. Between July and November of 2004, meetings and seminars were organized with producers, who would, potentially, be the future members of the co-operative enterprises. The objectives of these meetings, the summary of which is presented in the table below, were: (i) consultation of the producers in the selected districts on the strategy to be used; (ii) identification of the farmer leadership capable to manage the second-tier co-operative enterprises, in their function of representatives in the assemblies, or as members of the managing board or Supervisory Boards (see TOR in annex 1; Volume 2).

Table 14: CONSULTATION MEETINGS WITH PRODUCERS.

District	Nr	Crop	Participants in each meeting ²⁵
Nicoadala	6	Rice	40
M da Costa	4	Cashew	35
M da Costa	2	Rice	55
Gurué	1	Maize and beans	45
Mopeia	0	Rice	
Gorongosa	2	Maize and beans	35
Gondola	1	Maize and beans	45
Sussundenga	2	Maize and beans	50

140. The meetings were held at district or administrative post level. Invited parties mostly were from within the community leadership; while efforts were made to avoid inviting political or party structure representatives. The networks of ORAM and its partners were used, and in particular the members of committees on land/local community development, who participated in the demarcation of land, were invited. The following topics were on the agenda:

1. Consultation on the commercialisation problems.
2. Brainstorming with respect to solutions.
3. Introduction of the Co-operative concept.
4. Planning of the inventory to be carried out with respect to the possible future members.

141. It is clear that the agenda is very full for a meeting of half a day and that each subject would merit more consideration. In some districts, it was possible to expand the discussions with the same group, but in other districts the meetings were repeated at administrative post level. Six meetings with the same group were organized in the district of Nicoadala. Compared with the other groups, this one showed a stronger awareness of its own strength and of its capacity to intervene in commercialisation processes. The agenda assumes that point 4 is only discussed in case one agrees to embark upon the process as determined in point 3. In this respect there were big differences between the groups. In Sussundenga for instance, the 50 participants applauded upon hearing the explanation of the idea of the co-operative enterprise; the participants in Gurué on the other hand, clearly showed distrust (“*com um pé atras*”).

142. The consultation session always took almost half of the meeting’s duration. The following figure shows, as an example, notes on big paper sheets that were jotted down during the discussions in the district of Sussundenga.

²⁵ The written reports and the lists of participants of each meeting are available.

Figure 14: NOTES OF THE CONSULTATION SESSION ON RURAL COMMERCE SYSTEMS IN THE DISTRICT OF SUSSUNDENGA.



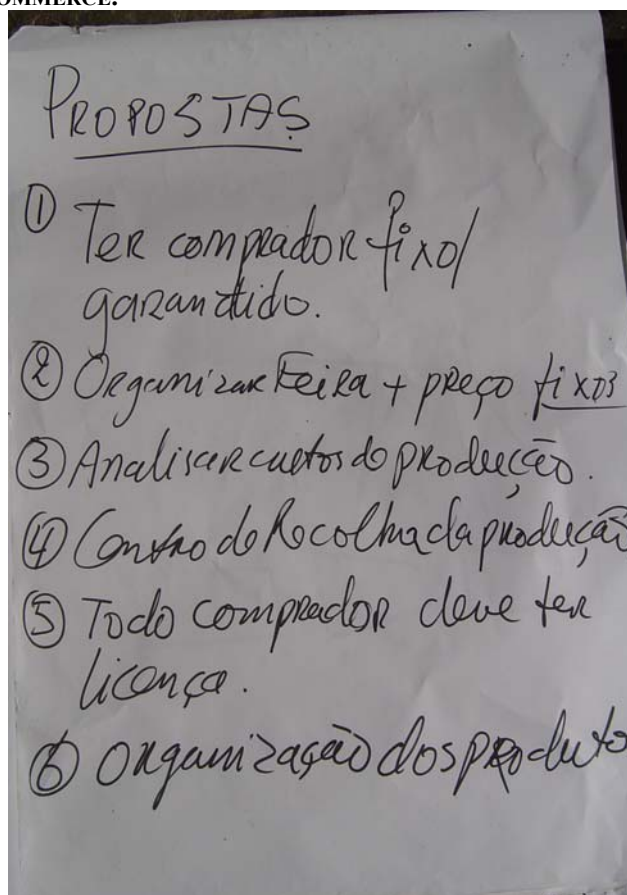
The row at the bottom of the picture represents the products grown by the producers while the row at the top indicates the final markets. For each level, one tried to indicate the price and the added value. The arrow from bottom to top indicates the product’s supply chain plus the agent involved.

143. We observed that in all districts, producers in general did not know (or only had a vague idea) the destination of their produce after having sold it. For instance, it came as a big surprise to the cashew producers of Alto Mutola and Maganja da Costa, when they learned that the cashew they produced, after having been hauled to Nacala, went to India for being processed, and that the final product is often sold in Europe, where it turns up in supermarkets, all beautifully packed, for a public with great purchasing power. It was even hard to grasp the connection between the kernels of maize of the Gorongosa producers, and the pack of maize flour of the brand “TOP SCORE”, to be found in the supermarkets of Mozambique’s big cities.

144. In general, the producers were shown to have no power to influence the price. The participants in almost all meetings stated, “We don’t have any say in this...”.. “The buyer comes with his scales or his can or his galão (measure), and it is he who dictates the price”.

145. After the consultation session, the participants were asked to come forward with ideas and their opinions about how to improve the situation. The figure below is an example of an answer, in this case the ideas of the farmers in Gondola.

Figure 15: PROPOSALS BY THE LEADERSHIP OF THE FARMERS OF GONDOLA FOR ALTERNATIVES TO THE CURRENT SYSTEM OF AGRICULTURAL COMMERCE.



[Proposals: (1) Have a fixed/guaranteed buyer; (2) Organize Fair + stable prices; (3) Analyze production costs (4) Centre for Collection of produce; (5) Each buyer should have a license; (6) Organization of the products]

“Have a guaranteed market” was heard in each meeting. Some participants expressed this wish as follows: “... we want a *patrão* (boss)...”, thereby referring to colonial times when the owners of the rural shops always bought the surpluses. The guaranteed market means stable prices, a fixed commercialisation post and a buyer recognized by the community and the local government. In general, the participants of the different meetings expressed concern about the “anarchy” that prevails at present, and the effects of which they feel during the commercialisation periods.

146. Therefore in the session where the functioning principles of the co-operative enterprises were explained, it was necessary to convince the participants that they themselves can and should directly intervene in the system of commerce, rather than waiting for the arrival of “a *patrão*” – the State, “the institute” or some NGO – to solve the problem. At this stage of the process, one had to face the notions of leadership and submission, that to date continue to dominate and “mess up” the ideas of the farmers in Mozambique. The possibility of standing up and taking the course of their lives in their own hands, remains a challenge to be taken up by the Mozambican farmer.

147. When the meetings came to an end, one came to the conclusion that it is urgent to start the process of creating the co-operative institution, so that the problems of the 2005 campaign could still be solved!! To this end, the farmers agreed that the community leadership (with the heads of the *povoações* – settlements) would collect data concerning the producers. In order to facilitate this

process, 16 inquirers were contracted, who worked together with the local leadership. Table 15 summarizes the situation with respect to the inventories, at the time of the present report's completion.

Table 15: UPDATE OF THE INVENTORY IN THE FIELD.

District	Adm Post	QT	M	A	M	J	J	A	S	O	N	D	Situation field work	Situation of report
Nicoadala		1	X	X							X		Field work completed	Final report completed
Maganja da Costa	Nante	1						X	X				50% of field work still to be done	
Maganja da Costa	Cariua	1					X	X	X	X			Field work completed	Preliminary report completed
Maganja da Costa	Bajone	2						X	X	X	X		Field work completed	Preliminary report completed
Maganja da Costa	Mucubela	1					X	X	X	X			Field work completed	Preliminary report completed
Gurué		1									X	X	75% of field work still to be done	
Sussundenga		2						X	X	X	X	X	25% of field work still to be done	25% Preliminary report completed
Gondola	Amatongas	1								X	X		Field work completed	25% Preliminary report completed
Gondola	Cafumpee	1								X	X		Field work completed	25% Preliminary report completed
Gondola	Inchope	1								X	X		Field work completed	25% Preliminary report completed
Gondola	Macate	1								X	X		Field work completed	25% Preliminary report completed
Gondola	Matsinho	1								X	X		Field work completed	25% Preliminary report completed
Gondola	Zembe	1								X	X		Field work completed	25% Preliminary report completed
Gorongosa		1						X	X	X	X	X	25% of field work still to be done	75% Preliminary report completed
TOTAL		16												

The fieldwork was hampered by the fact that, during the months September, October and November of 2004, the civic and electoral education campaigns were being conducted.

148. The inventory in the district of Nicoadala was completed. In the following table we summarize the final report.

Table 16: SUMMARY OF THE FINAL REPORT OF THE INVENTORY OF RICE FARMERS IN THE DISTRICT OF NICOADALA.

Nr	Local community	Number of settlements	Houses	Family members active in production	Area in ha
1	Mucelo Novo	8	1.221	2275	1.613
2	Mugrima	6	1.640	3925	1.636
3	Mirremene	6	1.195	2.197	1.304
4	Murrua	6	1.704	3766	1.664
5	Mualima	4	794	1.360	531
6	Neriri	1	599	1.308	210
7	Nantide	2	781	1.455	453
8	Mariebe	1	609	1.337	937
9	Mingano	4	1.428	2.603	937
	TOTAL	38	9.971	20.228	9.054

Nine local communities indicated that they own rice fields, three of which have demarcated their land. The 9 communities consist of 38 settlements. There are 9.971 families producing rice on an area of 9.054 ha, involving 20.228 family members. These are the dimensions the intervention in the rice sector of Nicoadala has to deal with!

Table 17: SUMMARY OF THE FINAL REPORT OF THE INVENTORY OF CASHEW PRODUCERS IN THE DISTRICT OF MAGANJA DA COSTA.

Nr	Communities	Settlements	Nr. houses	Old Cashew trees	New Cashew trees	Total of Cashew trees	Fee	Delegates
1	Cariua	12	1.028	18.611	12.722	31.333	62.666.000	11
2	Alto Mutola	14	1.044	46.759	10.104	56.863	113.726.000	20
3	Maneia	10	831	13.668	6.868	20.536	41.072.000	7
4	Mocubela	12	729	14.046	7.687	21.733	43.466.000	8
5	Mucarua	7	258	7.978	2.560	10.538	21.076.000	4
6	Murabiua	6	237	3.603	2.416	6.019	12.038.000	2
7	Muso	8	330	1.845	2.364	4.209	8.418.000	1
8	Mualama	3	159	2.245	937	3.182	6.364.000	1
9	Madabo	6	659	26.922	6.503	33.425	66.850.000	12
10	Murramela	8	1.208	45.053	15.239	60.292	120.584.000	21
11	Missal	11	1.284	50.908	9.041	59.949	119.898.000	21
12	Naico	7	832	39.264	11.921	51.185	102.370.000	18
13	Capitão	1	56	385	642	1.027	2.054.000	0
	TOTAL	105	8.655	271.287	89.004	360.291	720.582.000	125

Table 17 offers a summary of the inventory of cashew trees in a part of the district of Maganja da Costa. The inventory totalled 8.655 families with 360.291 cashew trees (75% old ones and 25% new ones). In the last two columns were calculated: (i) the membership fees, counting on 2.000 MZM per tree; (ii) the number of delegates the General Assembly of the Co-operative should have.

3.3. Conditions and principles of the functioning of co-operative enterprises.

3.3.1. Facilitating environment.

149. The basic conditions that are fundamental for the functioning of the co-operative structures for agricultural commercialisation may be considered to be the following:

1. Security with respect to land among the producers. ORAM's experience shows that land conflicts obstruct the discussions on community development.
2. Monetary and political stability. As a matter of fact, many communities are still politically divided. The most important message to keep in mind is that the new structures to be established should not have any political link whatsoever.
3. Development of the market economy and of the agricultural policy, which recognizes the importance of the potential of the rural economy driven by the small producers.
4. The development of a civil society, which can be trusted by the farmers.
5. A judiciary system where the conditions agreed upon in business contracts can be enforced, in an expeditious manner, through the legal system.

150. The co-operative enterprises for commercialisation that are to be established, should have dimensions that are big enough to be able to influence price-making on the market, and they should have the market volume needed to operate processing industries (for example, a rice husking factory or a maize flour mill) in such a way, that they can cover the entire supply chain, from producer to wholesaler, or even up to retailer or consumer. It should be stressed that these co-operatives will

have to compete on the national, and even on the international market. In this context of globalisation, concepts of small-scale business are neither competitive, nor sustainable.

151. However, large scale and efficient co-operative enterprises cannot be created from one day to the next. A considerable time of development and capital formation, and of confidence vis-à-vis credit providers are obvious conditions, which must be combined with an installation period in which one may expect donations and Government support. This includes for example the readiness of the Government to privatize strategic infrastructure such as rice husking plants, industrial mills or (previously existing) warehouses, for the co-operative enterprises in formation.

152. However, the privatisation of warehouses and mills must not be to the exclusive benefit of private investors or this may, within this context, ruin the development of the co-operative enterprises. In addition it may lead to monopolistic or oligopolistic (market pricing controlled by a few) power in the hands of private investors, rather than to the economic strengthening and capacity building of farmers that one wishes for.

153. The economic system of the co-operative enterprises should operate on a sufficiently big scale to be able to have a real impact on the market. In addition to this, the functioning of a co-operative enterprise should be based on economic concepts and modern management, which differ fundamentally from the social concepts that dominated the co-operatives of the past, and which to date still impede a real development of co-operative enterprises in many developing countries.

154. The business concept of the co-operative enterprises should include the following elements:

- Proportionality with respect to businesses, rights and obligations of the members, including the proportional allocation of revenues, expenditures, reserves, and proportionality of the right to vote.
- A consistent zero-loss policy, i.e. the consistent transfer of market risks to the members (see section 3.3.2).
- A consistent capitalization system for capital formation and the building of trust vis-à-vis providers of credit to the members.

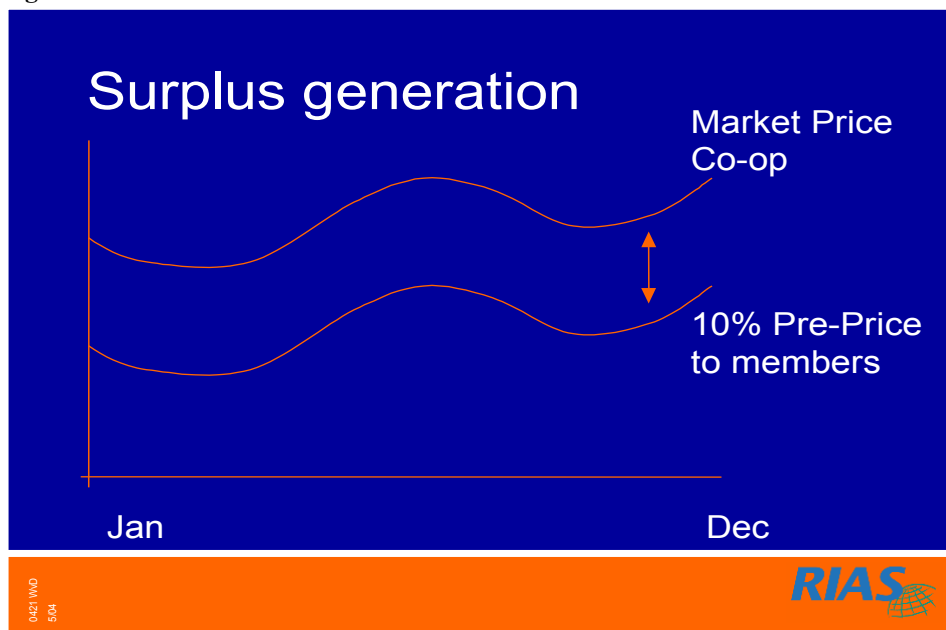
3.3.2. Capitalization system.

155. In order to begin with the capitalization system of the co-operative enterprises, it is necessary to inform the members, in an adequate manner, on the reasoning behind this capitalization and the economic system as such. There are a series of options when it comes to capitalization, but the basic principle is that the co-operative enterprise proper does not take on risks, instead it operates with the risks taken by its members. This means a consistent transfer of net market prices to the members, after the annual reduction of reserves, in accordance with what has been laid down by the General Assembly. One of the options is that the reserves are not applied anonymously as general reserves, but rather in the form of members' accounts. These accounts are risk capital, as is the case with general reserves, but they are distinguished as individual reserves of the members, and distributed to these members after a period of, for instance, 20 to 25 years.

156. The capitalization system is a central element in the development of the co-operative enterprises, because a correct capitalization results in the building of trust on the part of the credit providers, and in the enterprises being "bankable". However, as has been explained above, in order to develop the enterprise, an installation period is necessary. But no matter how, the co-operative enterprise should show, right from the start, that it consistently applies an adequate financial and capitalization policy.

157. The financial policy may be simplified in the following manner:

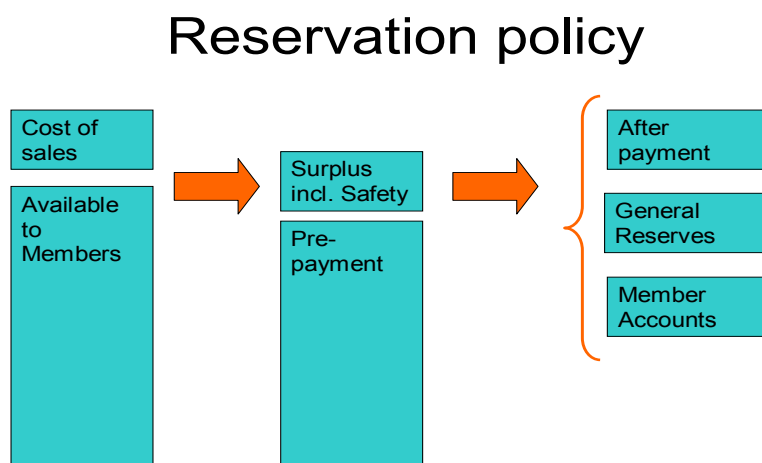
Figure 16: FUNCTIONING OF THE ZERO-LOSS POLICY.



The co-operative has to offer secure prices to its members in such a way that it succeeds in making profits. Pre-payments may differ in the course of the year, but differences should be eliminated in post-payments. In order to avoid post-harvest losses, production will be purchased immediately upon the harvest, in a period of more or less two months.

158. The following diagram shows the allocation of revenues and reserves:

Figure 17: SYSTEM OF ALLOCATING REVENUES AND RESERVES IN THE CO-OPERATIVE ENTERPRISES.



It is extremely important that there are close consultations with the members, so that they are prepared to apply this scheme. Members should be well aware of this financial discipline including a

pre- and a post-payment; which is something completely different from the practice of total payment upon concluding negotiations with traders.

159. As has been explained above, the co-operative enterprises should be oriented towards the agro-industrial economy. However, these co-operative enterprises should also provide inputs for the members; in particular for:

1. Work instruments, manure etc.
2. Mechanized services, especially for preparing land.
3. Organization of a labour force for critical periods during the season.

Special attention should be given to guarantee a just allocation of service costs to the members, so that one will not engage in using a particular activity (for instance commercialisation) to subsidize another one (providing inputs on credit), within the co-operative enterprise.

160. As far as credit for producers is concerned, it should be stressed that a co-operative enterprise can only play a particular and limited role as an intermediary for credit. The co-operative enterprise is not a banking institution, and it cannot grant credit to the farmers as if it were a bank. On the contrary, the co-operative enterprise should stay out of this banking role. It should focus its attention on providing services that are directly related to the growing of crops and to commercialisation, and in becoming bankable as soon as possible. Providing credit is not compatible with the business objective, and in practice it can endanger the co-operative enterprise's sustainability. One should develop financial services in parallel to the co-operative enterprises, but providing such services cannot be a task of these enterprises themselves. Concerning this point, see paragraph 3.

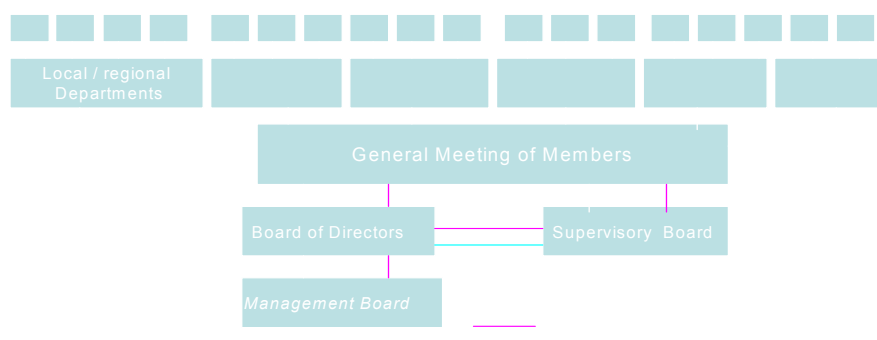
3.3.3. The management and communication system

161. The management and communicating structure required for the co-operative enterprises, is fundamentally different from the one applied by private agro-industrial companies. This structure should be adapted to the local situation and to the conditions of the members so as to guarantee a system of open and transparent communication with these members. This requirement is an absolute and necessary condition when the members are obliged to supply their produce to the co-operative enterprise, pay membership fees and contribute to the financial reserves. Transparency in decision-making and open communication are indispensable factors in obtaining sustainable commitment on the part of the members. Thus, the management and communication structure of the co-operative system, and its consequences and implications, should be very clear for all members.

162. The following model is proposed for the management of a one-tier co-operative enterprise (see the following figure).

Figure 18: MANAGEMENT MODEL FOR THE ONE-TIER CO-OPERATIVE ENTERPRISES.

Agricultural Co-operative One-tier structure



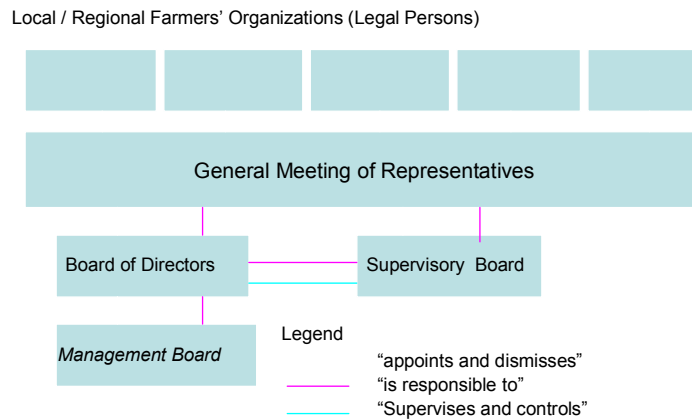
The diagram expresses the following:

1. Individual members are organized in settlements (also indicated as *povoados* or *sabucos* in central Manica), where they meet and discuss questions concerning their co-operative enterprise.
2. Individual members elect their representatives (or delegates) for the General Assembly of Representatives, according to the proportional voting system (for instance 1 to 3 votes, depending on volume commercialised by the member).
3. The number of representatives for the farmers of each settlement in the General Assembly of Representatives, is proportional to the total commercialised volume in each settlement; therefore, in accordance with this principle, the different settlements will send 1, 2, 3 or more representatives to the Assembly. All in all the General Assembly of Representatives will have some 125 representatives.
4. The General Assembly of Representatives is the legal General Assembly, and therefore it will vote without direct influence of the individual members. That is why the communication between the General Assembly of Representatives, the settlements and the individual members is fundamental for reaching consensus, and for creating commitment, viability and sustainability of the co-operative enterprise.
5. The General Assembly of Representatives elects from its midst the Board of Directors, which, when the occasion arises, is entitled to increase the number of non-voting members.
6. The General Assembly of Representatives elects the Supervisory Board, which – if it deems fit - may contract a licensed auditor in order to assist in controlling and supervising.
7. The Board of Directors may appoint a professional manager who is responsible for the preparation and implementation of the daily policy and management. This manager is accountable to the Board of Directors. The Board of Directors makes the main decisions and is responsible for the organization of the Assembly of Representatives.

163. The following model is proposed for the management of a two-tier co-operative enterprise (see the following figure).

Figure 19: MANAGEMENT MODEL FOR THE TWO-TIER COOPERATIVE ENTERPRISES.

Agricultural Co-operative Two-tier structure



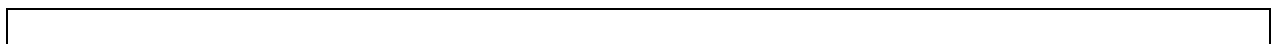
The diagram expresses the following:

1. The three (or more) affiliated one-tier Co-operative Enterprises assign their Boards of Directors and Supervisory Boards to establish a General Assembly of the two-tier Co-operative Enterprise. Eventually, if the one-tier Co-operative Enterprises agree, they may decide on proportional voting in the General Assembly, in accordance with the respective commercialised volumes.
2. The General Assembly elects, from the midst of its members, the Board of Directors and the Supervisory Board.
3. The Board of Directors contracts professional managers.

3.3.4. Organizational, administrative and logistical principles of the co-operative enterprises

164. In this paragraph we present some ideas that may be helpful in the implementation of the Co-operatives. The four figures below offer, in diagram form, proposals on the systems of internal control, on the information flow of individual members, and on the structures of internal communication, and logistics and transport.

Figure 20: INTERNAL CONTROL SYSTEM IN THE SUPPLY CHAIN.



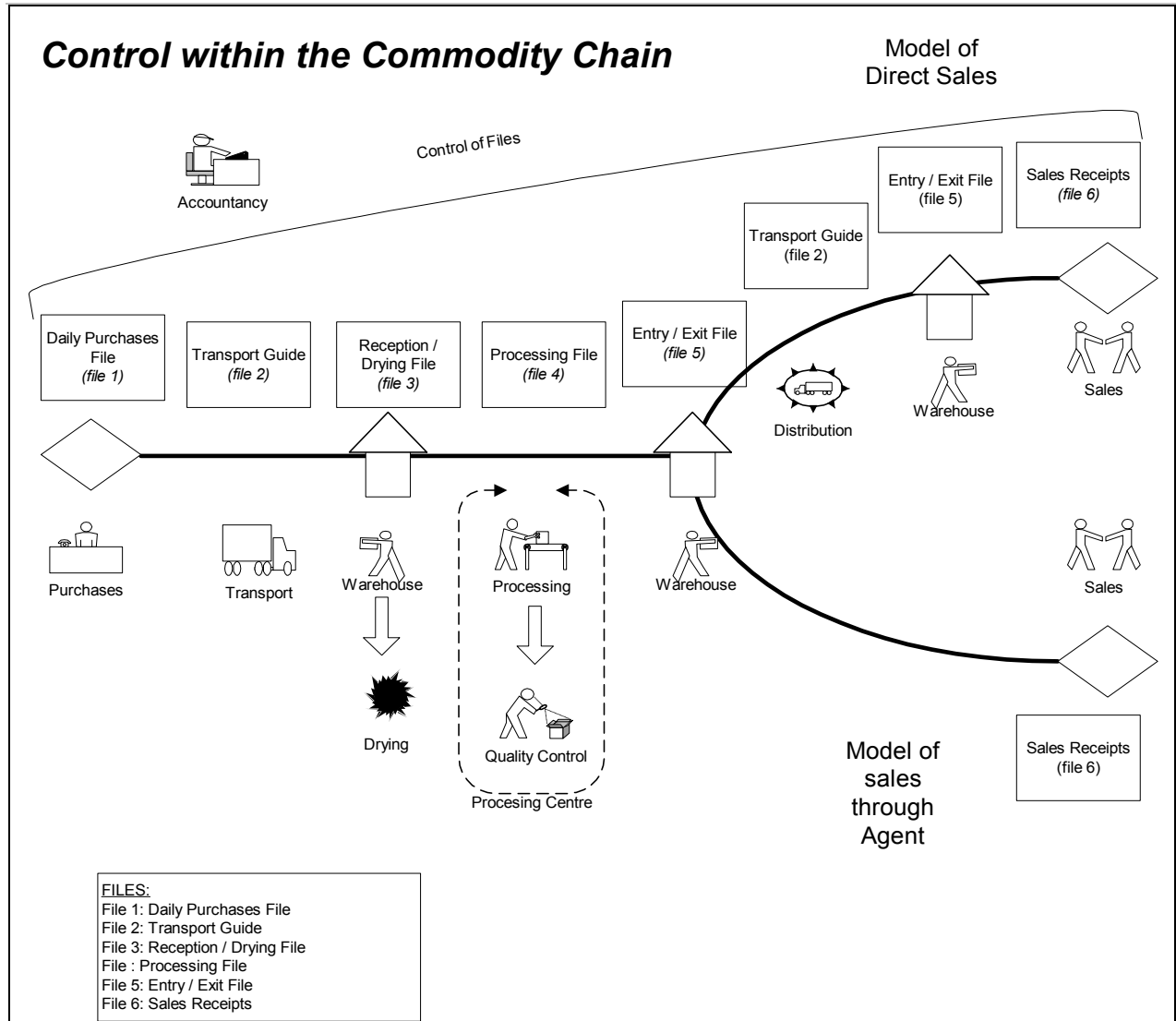


Figure 21: INFORMATION FLOW FOR INDIVIDUAL MEMBERS.

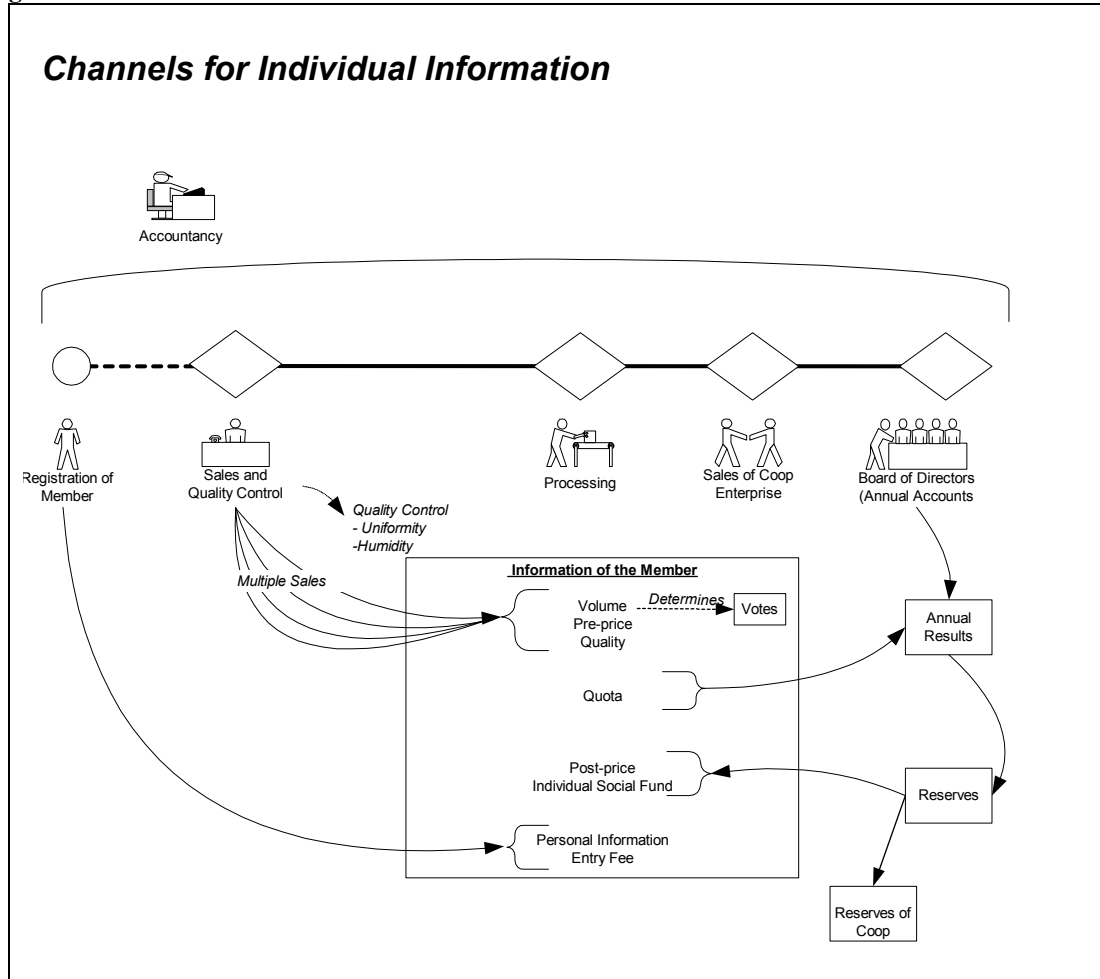


Figure 22: INTERNAL COMMUNICATION STRUCTURE (MEETINGS CALENDAR).

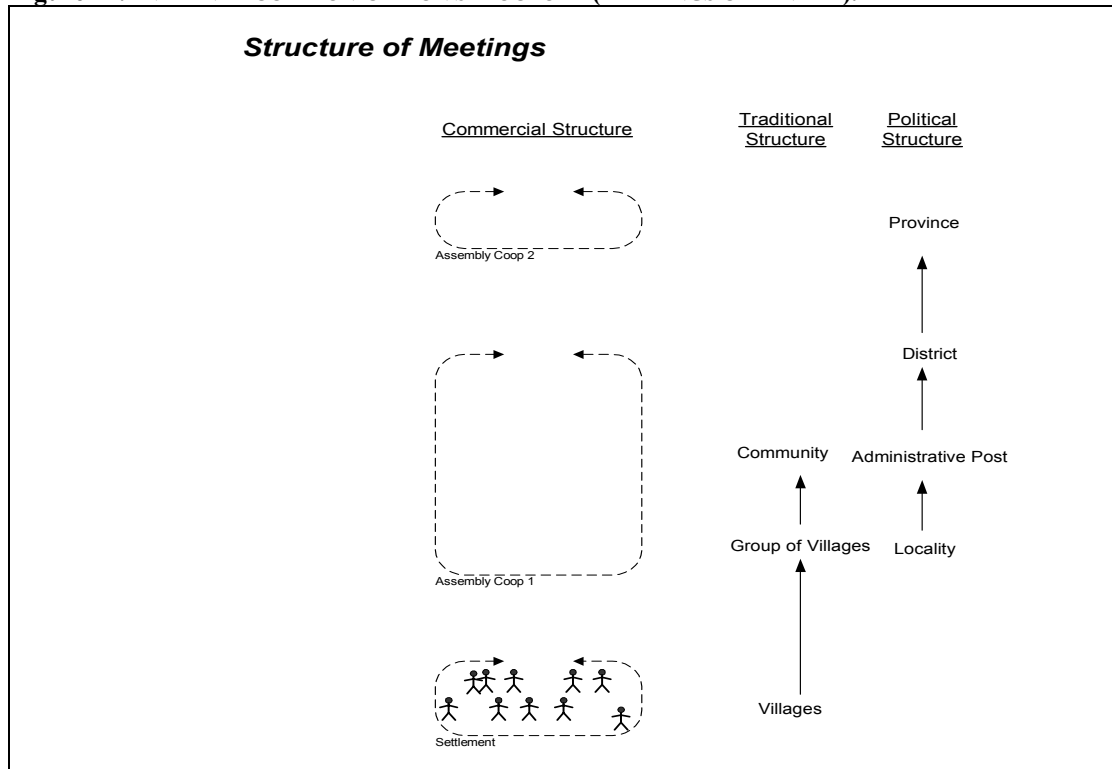
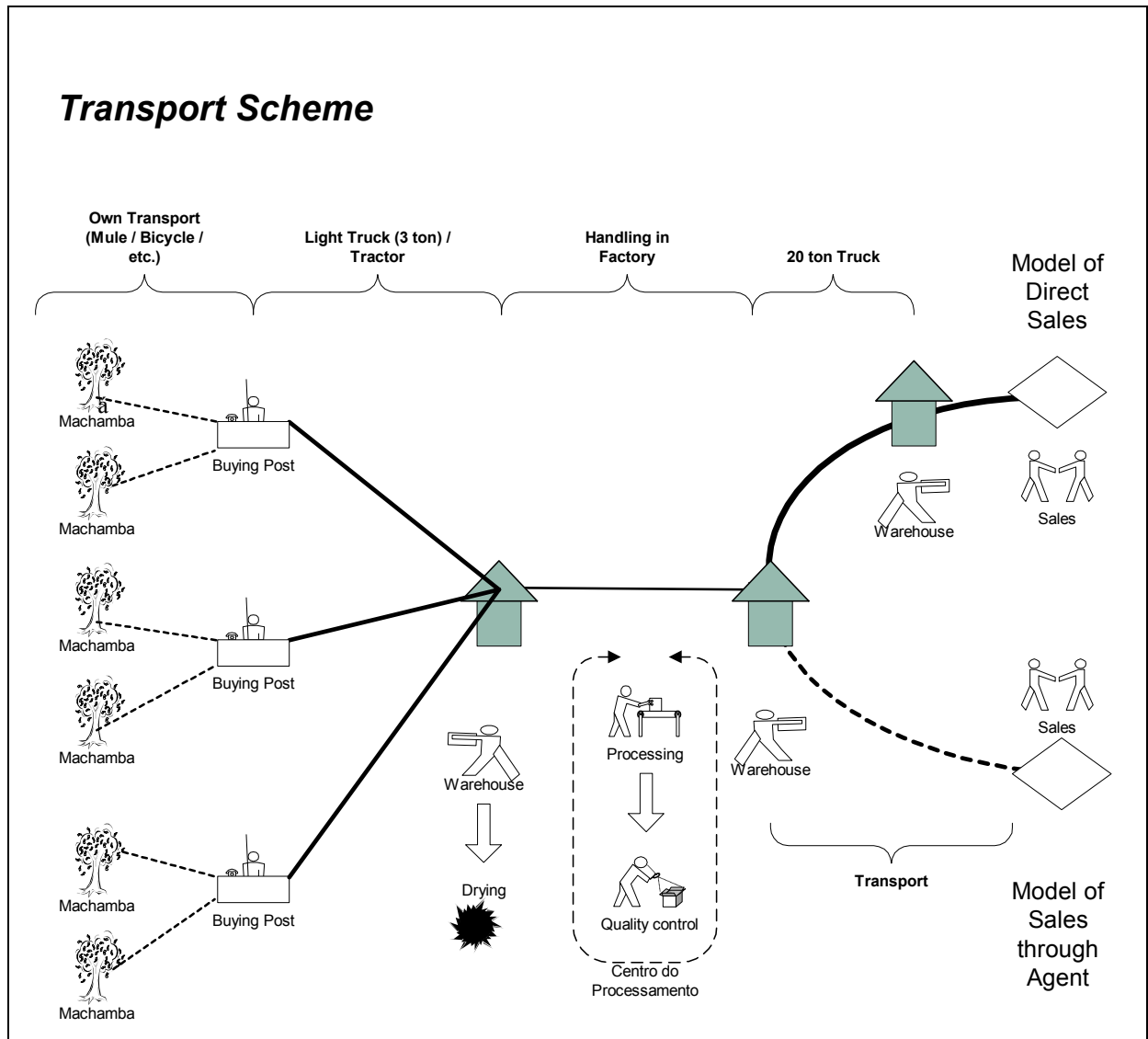


Figure 23: LOGISTICS AND TRANSPORT FOR ONE-TIER AND TWO-TIER CO-OPERATIVE ENTERPRISES.



3.4. The Law that approves the statutes of Co-operatives.

165. There are two laws that are important for the commercial organization agricultural producers in particular; the law that regulates the associations and the law on cooperations. The current law on associations is being contested by many for being very bureaucratic and causing significant delays.²⁶ Since 1996 civil society (national and international NGOs) has been trying to get the law changed. Consultations have been made, seminars held and proposals put forth for alternatives. A proposal for a new law was submitted to Parliament, but it never was put on the agenda during the legislature of 1999-2004. There is hope that the 2005-2009 legislature will pronounce itself on the proposals made.

166. Although associations are an important instrument for groups of farmers who want to organize in order to defend their interests, the operations foreseen in this report – mobilize, process and commercialise big volumes of agricultural produce from many small producers, so that they can exert an influence on the market – call for a legal framework other than that of associations. Therefore the Verde Azul team has sought alternatives by way of the law regulating cooperations. A meeting was held with the “Comissão dos Assuntos Jurídicos, Direitos Humanos e de Legalidade” (Committee on Judicial Issues, Human Rights and Legality) from the Assembly of the Republic, whose representative passed on the text of the proposal “PROJECTO DE LEI QUE APROVA O CÓDIGO DAS COOPERATIVAS” (Law that approves the statutes of co-operatives). In the text that follows we try to formulate some observations concerning this proposal, while Annex 5 (Volume II) contains detailed comments on and proposals for amendments to this law.

167. On the concept of organization of co-operatives: In the European Union, the United States etc., well organized producer co-operatives are market leaders or important participants in the agricultural markets. They have a decisive influence on the market (EU: 50%, USA: 30%). These co-operative are strong negotiating instruments, owned and controlled by the farmers. They are strong competitors of private companies, especially when it comes to products that are homogeneous and commercialised in huge volumes, like for example cereals. It is very much in the interest of the farmers of Mozambique that well organized co-operative play a dominant role in the agricultural markets. One cannot achieve agricultural development which benefits the local population without commercialisation co-operatives. Without them, one would only have monopolistic/oligopolistic market structures in the supply chain, and these would certainly not defend the interests of the primary producers.

Advice: the Government should create an environment that facilitates the development of co-operatives. Legislation is part of such an environment.

168. On the method of legislation: The method of legislation reflected in the “PROJECTO DE LEI” we discuss here, is “enumerative” rather than “basic”. This has to do with differences between countries and does not pose any problem. However, the “enumerative” method runs the risk to prescribe in detail all elements required to register and operate a co-operative, requiring any minor changes in government policy to necessitate changes in the law. What is needed is a general legal framework containing the main elements for co-operative organization, but which allows for sufficient organizational flexibility, because in practice there are big differences among, and within, the co-operatives.

Advice: establish a legislative framework, but one that guarantees self-responsibility and flexibility for the co-operatives.

²⁶ The coordinator of Clusa in Mozambique confirmed that in the Republic of Mali, setting up a farmers association takes 10 days and costs 100 USD, whereas in Mozambique the process is much more expensive and may last more than six months.

169. On social versus economic design: the preliminary version of the law on co-operatives refers to the Aliança Cooperativa Internacional (ACI). It should be noted that the ACI's work method is out of date. It is based on consumer rather than producer co-operatives. The ACI mainly considers co-operatives as socio-political organizations (for example: one-person-one-vote; education for the members, etc.), not as business organizations (for example: voting proportional to commercial volume, etc.) When it comes to issues concerning business, the ACI formulates the "rules of the game" of nineteenth century consumer co-operatives. This way of working is not the appropriate one for the modern co-operatives Mozambique needs. Moreover, the "one-person-one-vote" system promotes cooperations of the poor, of members with a low financial potential, whereas in order to create co-operatives that are viable in terms of financing and management, it is crucial that these can count upon the participation of medium and big farmers. In addition, the ACI ascribes macro-political and macro-social responsibilities to the co-operatives, in their function as private enterprises. This macro-political approach of co-operatives, as substitute and supplement of the State – which is incorporated in the ACI principles – has had a negative effect on the development of co-operatives in many developing countries for the last five decades.

Advice: give priority to modern co-operative concepts. Leave the responsibility with the members, do not treat members as if they were incapable of thinking. Ensure self-determination and flexibility. Admit proportional voting in the co-operatives if the members so wish (topic for the General Assembly).

170. On capitalization of the co-operatives: For them to be viable and sustainable, the co-operatives have to be trusted by credit providers. They will only succeed through an organized capitalization system that includes "individual member accounts". In addition, one cannot forbid the use of external capital for starting the co-operatives. See also the preliminary version of the legislation on initial entries (shares) that seem to be impossible for a large part of the small farmers (article 18 ff.).

Advice: Avoid initial contributions that most future members cannot afford. Facilitate a proportional and flexible capitalization system that includes individual member accounts.

171. On taxes for cooperations: Avoid practices which discriminate against the co-operatives in terms of tax payments, compared to private enterprises. Correct the practices which provide unfairly advantages to informal traders and tax evasion loopholes for the competition. Above all, it is of importance to establish a tax payment system for co-operatives that takes their nature into account, and which recognizes that co-operatives cannot make "independent profits" the way many private companies do, but they produce a "nominal surplus" for account and risk of the members.

Advice: establish equal conditions with respect to competition and tax payment, however, recognize the specific nature of the profits made by co-operatives.

3.5. The statutes

172. In section 3.4 we discussed the Law that approves the statutes of the co-operatives; this law awaits to be discussed in Parliament during the next legislative period. In the meantime, the only legal instruments available for legalizing the establishment of co-operatives are the Laws number 9/79, of 10 July, number 7/82, of 28 April, and the various Ministerial Decrees and Dispositions (see Annex 5). In Annexes 5 and 6 we present the proposals for the statutes of one-tier and two-tier co-operative enterprises. With these statutes the legalization process can be initiated. Adaptations and modifications can be introduced after the change of the legal framework.

A major concern is that the principle of proportional voting be respected. In the two following sections, we present the models of the future statutes (after the change of the current law) for one-tier (3.5.1.) and two-tier (3.5.2.) enterprises. In accordance with the legislation in force, we propose to adopt the judicial statute of the "Sociedade Cooperativa de Responsabilidade Limitada" (SCRL).

3.5.1. Model of the statutes for one-tier co-operative enterprises

173. Name and constitution: On ... of 2005 was established – in accordance with the Laws of the Republic of Mozambique – the Producers Co-operative of..... (for example: “ SOCIEDADE COOPERATIVA DE COMERCIALIZAÇÃO DE ARROZ E FRUTA DE NICOADALA”).

174. Objectives of the Co-operative: The objectives of the co-operative are the commercialisation of rice, copra and fruit from its members and the supply of inputs to its members, for the account and risk of these members. The co-operative may extend its activities to include non-member farmers.

175. Membership: Producers of rice, copra and fruit (individual persons, with the possibility to include husband and wife in case they carry out separate agricultural operations) may apply for membership if they subscribe to the co-operative’s statutes and regulations. The Board of Directors decides on admission of members. The General Assembly (or the one of the Representatives) decides on the exclusion of members, as defined by law. The member may appeal against the decision with the competent legal entity.

176. Supply of produce: Each member is obliged to exclusively supply to the co-operative the production of all rice, copra and fruit grown by him on his *machamba*, which is not used for sustaining his family or as seeds for the next campaign.

177. Regulation on supply of produce: Each member is obliged to supply the entire production (see 176.) in accordance with the stipulations in the supply regulations as defined by the General Assembly of Representatives. The regulations on supply of produce will stipulate the nature of the produce, the quality of the produce, the necessary packaging, the place and time of supply, etc

178. Activities: The co-operative is authorized to purchase, sell and utilize state property, movable and immovable property, to lend and owe capital and money, employ personnel and acquire, hire and apply other legal means in order to realize its objective.

179. The organs of the co-operative: The organic structure of the co-operative has the following organs:

- The General Assembly, or, optionally, the General Assembly of Representatives.
- The settlements, in case of the General Assembly of Representatives.
- The Board of Directors.
- The Supervisory Board.

180. The composition of the co-operative organs:

- The General Assembly: Each member of the co-operative is a member of the General Assembly as well.
- The General Assembly of Representatives: The number of representatives is around 125.
- The settlements: The number of settlements, their geographical area and the number of representatives sent by each settlement to the General Assembly of Representatives, will each year be determined by the General Assembly of Representatives. The number of representatives of each settlement will be proportional to the production supplied by the settlement in question.

181. The Board of Directors: The Board of Directors consists of 9 members, elected by and from the General Assembly (of Representatives) through secret voting. The representative who is elected to the Board of Directors will be replaced by the settlement in question.

182. The Supervisory Board: The Supervisory Board consists of 5 members, elected by and from the General Assembly (of Representatives) through secret voting. The representative who is elected to the Supervisory Board will be replaced by the settlement in question.

183. Voting rights and powers of the co-operative organs:

- The General Assembly of Members: Each member of the General Assembly of Members will at least have one vote. The General Assembly of Members may decide upon a plural voting system whenever it wishes to. The General Assembly may decide – in accordance with its preference – to install a General Assembly of Representatives, consisting of members' representatives, elected by and from the members.
- The settlements (or local departments): In case the General Assembly of Members decides to install a General Assembly of Representatives; the representatives who represent the members in this General Assembly of Representatives will be elected in the settlements through secret voting, and in accordance with the proportional voting system as determined by the General Assembly.
- The General Assembly of Representatives: In case the General Assembly of Members decides to install a General Assembly of Representatives, it represents the members and has all the legal powers and obligations of the General Assembly, as stipulated by law. In the General Assembly of Representatives, each member/representative will have one vote. The representatives vote voluntarily.

184. Powers and obligations of the General Assembly (of Representatives): The General Assembly (of Representatives) will exclusively:

- Define and change the statutes of the co-operative, and decide upon the voluntary liquidation and/or fusion of the co-operative. Decisions on these matters have to be taken with a 2/3 majority of votes.
- Elect and dismiss the Board of Directors and the Supervisory Board.
- Approve the next year's budget.
- Approve the audited accounts, the annual report and release the Board of Directors and the Supervisory Board from its responsibilities of the previous year.
- Decide on admission of members.
- Take other decisions in accordance with what has been laid down by law.

185. Powers and obligations of the Board of Directors:

- The Board of Directors is elected and dismissed through secret voting by the General Assembly (of Representatives) in accordance with the terms of the law. The Board of Directors appoints, from among its members, a president and a vice-president. The Board of Directors may appoint, if it deems fit to do so, external advisors.
- The Board of Directors decides on admission and exclusion of members.
- The Board of Directors represents the co-operative in any judicial and extra-judicial process whatsoever.
- The Board of Directors prepares and executes the policies and businesses of the co-operative.
- The Board of Directors may contract a professional executive manager, and employ staff if this is necessary in order to carry out the operations of the co-operative.

186. The Supervisory Board:

- The Supervisory Board is elected and dismissed by the General Assembly (of Representatives). The task of the Supervisory Board is to monitor and control – in the name of the General Assembly (of Representatives) – the Board of Directors with respect to the correct application of the statutes and a responsible and correct financial management. It proposes to the General Assembly to approve or not approve the Annual Report. If necessary, the Supervisory Board may contract a licensed auditor for assistance, at the expense of the co-operative. The Supervisory Board may and should advise the Board of Directors upon its request, or on its own initiative. The General Assembly (of Representatives) may rule that certain decisions taken by the Board of Directors require prior approval of the Supervisory Board.
- In case of a long term dispute within the Board of Directors, the Supervisory Board may, upon written request by the President of the Board of Directors, hear and interrogate the various interested parties, and take a final decision so as to resolve the dispute in an appropriate manner. It may request external advice if deemed necessary.

187. Financing and capitalization system and the price mechanism:

- The price mechanism of the co-operative consists in transferring the financial results, based upon the production of the members and after the deduction of the reservations, and attributing the operational costs to the members in accordance with the principle of proportionality.
- To this end the co-operative will apply a system of pre-payments and post-payments, in order to ensure the reservation of an annual margin.
- The Board of Directors in the annual report proposes to the General Assembly (of Representatives) the margin to be reserved.

188. The reservation system:

- Each member must – upon subscription – pay 50% of the legal minimum of the subscription fee.²⁷ They should pay the remaining 50% in two equal payments within a period of two calendar years, in accordance with the stipulations by the Board of Directors. The fees will constitute the first line equity.
- The system of annual reserves must show a certain combination – in accordance with the decision by the Board of Directors – of general reserves and individual member accounts. These reserves will constitute the first line equity.

²⁷ In the first year the subscription fee will be proportional to the size of the *machamba*; while in the second year the commercialized produce will be the criterion for determining the member's contribution to the general reserves and the individual accounts.

- The general and other (mandatory) reserves as specified by law, will be available for being used by the co-operative. They cannot be distributed among the members, except in the case of voluntary liquidation when there is a credit balance. In this case, the credit will be distributed according to the volume commercialised by each member during the last three years.
- The co-operative may accept donations from national and international donor organizations and similar external entities. These donations must immediately enter the reserves of the co-operative and may not be distributed in any way, be it directly or indirectly, among the members. These donations may not – in any way – interfere with the self-determination of the co-operative. However, the respective donor may, upon request and in written form, present his opinion about and recommendations for the Annual Report to the General Assembly (of Representatives).
- The individual member accounts will be distributed:
 1. immediately among the heirs, in accordance with the Family Law, upon the member's decease.
 2. in case the member retires, in three equal annual parts from the first day of the second commercial year after the date of their retirement.

3.5.2. Model of the statutes for two-tier co-operative enterprises

189. Name and constitution: On ... of. 2005 was established, in accordance with the Laws of the Republic of Mozambique, the Union of primary Co-operative of rice producers named (for instance the “UNIÃO DAS COOPERATIVAS PRIMÁRIAS DE COMERCIALIZAÇÃO E PROCESSAMENTO DE ARROZ DA ZAMBÉZIA”).

190. Objectives of the Co-operative: The objectives of the co-operative are the processing and commercialisation of the rice of its members, primary co-operatives, and providing for the account and risk of its members.

191. Membership: Members may be primary Co-operatives based in the province of (for example Zambézia). The Board of Directors decides on admission of members. The General Assembly decides on the exclusion of members, as defined by law. The member may appeal against the decision with the competent legal entity. As members will be admitted only primary Co-operatives that adopt the uniform statutes and the regulations concerning the supply of rice.

192. Supply of produce: Each member-co-operative is obliged to exclusively supply all commercialised rice, in accordance with the regulations as defined by the Board of Directors of the secondary Co-operative.

193. Activities: The co-operative is authorized to purchase, sell and utilize state property, movable and immovable property, to lend and owe capital and money, employ personnel and acquire, hire and apply other legal means in order to realize its objective.

194. The organs of the co-operative: The organic structure of the co-operative has the following organs:

- The General Assembly.
- The Board of Directors.
- The Supervisory Board.

195. The composition of the secondary co-operative's organs:

- The General Assembly: Each member-co-operative is a member of the General Assembly as well.
 - The Board of Directors: The Board of Directors consists of 9 members, elected by and from the General Assembly. Each member-co-operative appoints a number of members for the Board of Directors of the secondary co-operative, in proportion to the volume of rice supplied during the last year.
 - The Supervisory Board: The Supervisory Board consists of 7 members. Each member-co-operative appoints a number of members of the General Assembly for the Supervisory Board of the secondary co-operative, in proportion to the volume of rice supplied during the last year.
196. Voting rights and powers of the co-operative organs:
- The General Assembly of Members: In the General Assembly of Members each Board of Directors of a primary co-operative that is member will have a vote proportional to the volume of rice supplied during the last year to the secondary co-operative. The General Assembly will exclusively:
 - Define and change, according to decision, the statutes of the co-operative, and decide upon the voluntary liquidation and/or fusion of the co-operative. Decisions on these matters have to be approved by the General Assemblies of the affiliated primary co-operatives.
 - Elect and dismiss the Board of Directors and the Supervisory Board;
 - Approve the next year's budget.
 - Approve the audited accounts, the annual report and release the Board of Directors and the Supervisory Board from its responsibilities of the previous year.
 - Decide on admission of members upon request by the primary co-operatives.
 - Take other decisions in accordance with what has been laid down by law.
197. Powers and obligations of the Board of Directors:
- The Board of Directors is elected and dismissed by the General Assembly in accordance with the terms of the law. The Board of Directors appoints, from among its members, a president and a vice-president. The Board of Directors may appoint, if it deems fit to do so, external advisors.
 - The Board of Directors decides on admission and exclusion of members.
 - The Board of Directors represents the co-operative in any judicial and extra-judicial process whatsoever.
 - The Board of Directors prepares and executes the policies and businesses of the co-operative.
 - 1. The Board of Directors may contract a professional executive manager, and employ staff if this is necessary in order to carry out the operations of the co-operative.
198. The Supervisory Board:
- The Supervisory Board is elected and dismissed by the General Assembly. The task of the Supervisory Board is to monitor and control – in the name of the General Assembly– the Board of Directors with respect to the correct application of the statutes and a responsible and correct financial management. It proposes to the General Assembly to approve or not approve the Annual Report. If necessary, the Supervisory Board may contract a licensed auditor for assistance, at the expense of the co-operative. The Supervisory Board may and should advise the Board of Directors upon its request, or on its own initiative. The General Assembly may rule that certain decisions taken by the Board of Directors require prior approval of the Supervisory Board.

- In case of a long term dispute within the Board of Directors, the Supervisory Board may, upon written request by the President of the Board of Directors, hear and interrogate the various interested parties, and take a final decision so as to resolve the dispute in an appropriate manner. It may request external advice if deemed necessary.

199. Financing and capitalization system and the price mechanism:

- The price mechanism of the co-operative consists in transferring the financial results, based upon the production of the members and after the deduction of the reservations, and attributing the operational costs to the members in accordance with the principle of proportionality.
- To this end the co-operative will apply a system of pre-payments and post-payments, in order to ensure the reservation of an annual margin.
- The Board of Directors in the annual report proposes to the General Assembly the margin to be reserved.

200. The reservation system:

- Each member-co-operative must participate in the initial capital of the secondary co-operative in proportion to the volume commercialised during the last year **AND/OR** each member-co-operative must – upon subscription – pay 50% of the legal minimum of the subscription fee. The member-co-operative should pay the remaining 50% in two equal payments within a period of two calendar years, in accordance with the stipulations by the Board of Directors. The fees will constitute the first line equity.
- The system of annual reserves must show a certain quantity of general reserves, to be decided by the Board of Directors –and individual member accounts. These reserves will constitute the first line equity of the secondary co-operative.
- The general and other (mandatory) reserves as specified by law, will be available for being used by the co-operative, and they cannot be distributed among the member-co-operatives, except in the case of voluntary liquidation when there is a credit balance. In this case, the credit will be distributed according to the volume commercialised by each member-co-operative during the last three years.
- The co-operative may accept donations from national and international donor organizations and similar external entities. These donations must immediately enter the reserves of the co-operative and may not be distributed in any way, be it directly or indirectly, among the member-co-operatives. These donations may not – in any way – interfere with the self-determination of the co-operative. However, the respective donor may, upon request and in written form, present his opinion about and recommendations for the Annual Report to the General Assembly