

A decorative graphic consisting of several overlapping, diagonal bands of color (orange, yellow, and grey) that create a sense of depth and movement, extending from the top left towards the right side of the page.

**▶ COOPERATIVE ENTERPRISES  
IN THE TRANSFORMATION  
OF FOOD SYSTEMS**

A decorative graphic consisting of several overlapping, diagonal bands of color (orange, yellow, and grey) that create a sense of depth and movement, extending from the bottom left towards the right side of the page.

Inter-American Institute for Cooperation on Agriculture (IICA) 2021



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# ▶ **COOPERATIVE ENTERPRISES IN THE TRANSFORMATION OF FOOD SYSTEMS**

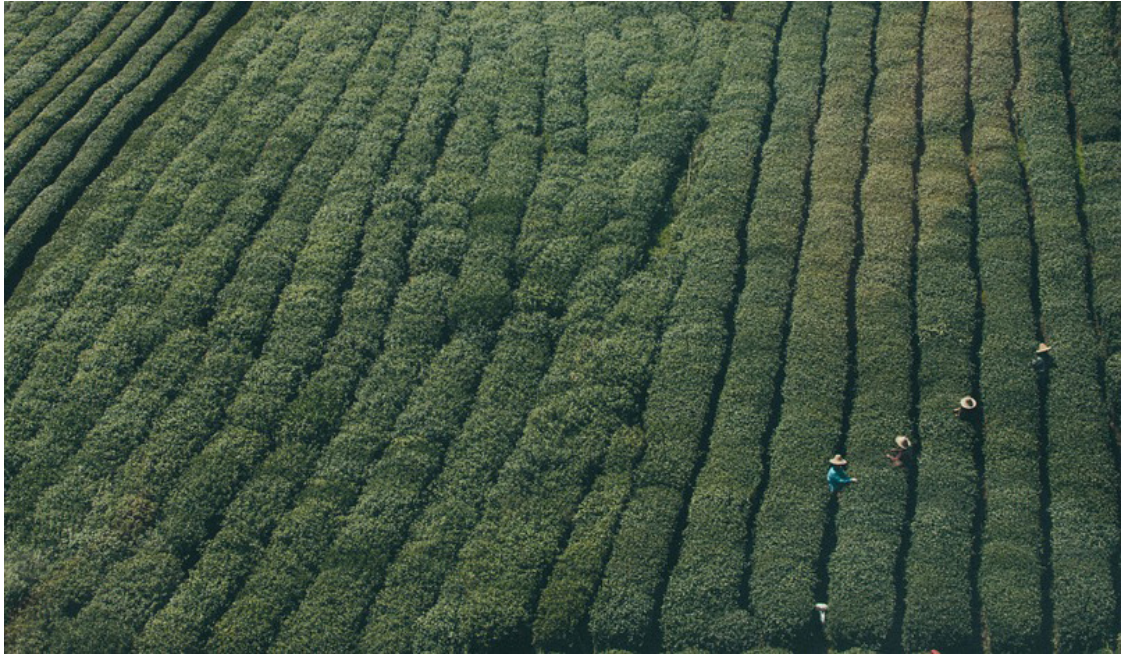
## **1. INTRODUCTION**

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This document describes the role played by the cooperative system in the transformation of the world's food systems, particularly in Latin America and the Caribbean (LAC).

The objective of the Summit convened by the United Nations Secretary General is to reach a consensus and establish agreements that can then be laid out in the text of a "convention." It is hoped that the countries will be able to implement the agreements adopted and involve the public and private sectors, so that everyone has a stake in the different activities and subsystems that make up global, regional and national food systems.

Food systems are organized in such a way as to ensure that the food needed flows in various directions and towards various destinations. Everything, of course, originates in rural territories. That is where millions of production units that vary in size and degree of specialization and development produce staple foods that then have to be crated, processed, conserved, transported, used to manufacture



final products, packed for retail sale, and distributed for consumption. The figures suggest that the agricultural components of food placed on a consumer's table in one of the world's big cities account for between 11% and 15% of the total cost of the food. Without agricultural production, there would obviously be no food and no food business.

Since the middle of the last century, the eating habits and behaviors of humankind have been changing as a result of mass migration, cultural changes, the hypotheses of conflicts, and, in particular, the impact on behavior of the science and technology (S&T) or knowledge revolution, driven by three elements: biotechnology, telecommunications, and information technology. As a result, so-called information and communications technologies (ICT) and the digitalization of the processes of ordinary life are now at the heart of the most profitable economic activity in the world.

According to the United Nations Food and Agriculture Organization (FAO 2017), the number of smallholders and family farmers worldwide, including producers, fisherfolk, foresters, pastoralists, and rural workers, is roughly two billion. That number would be even bigger if we included other segments in the chain. This shows that food systems in their entirety not only supply food, but also generate income and employment. As a result, they have an impact on economic growth in general.



## 2. COOPERATIVE ENTERPRISES IN FOOD AND AGRICULTURE

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### 2.1. Origin and principles. The 21st century: a wealth of opportunities

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The industrial revolution of the 19th century paved the way for cooperatives as people-centered economic systems, whose values of solidarity helped forge partnerships for the sharing of efforts and earnings.

The cooperative movement originated in Rochdale, and from there its principles and practices, and the mechanisms of the social economy and business organization spread across the globe, as they continue to do today.

The S&T revolution is opening up a host of new opportunities for the cooperative system. The new digital technologies, combined with advances in biotechnology and the biological and environmental sciences, are enabling cooperatives to turn the “theory” of cooperation into reality. The economic processes of food production, preservation and concentration, processing, and distribution are being transformed as never before, and at a minimum cost. Commercial partnerships are forged instantly. Transaction costs can be reduced substantially thanks to the pooled supply and demand of thousands of production units, and virtual markets that allow thousands of consumers to enter into direct contact with producers.

In the Americas, cooperatives have evolved and implemented initiatives aimed at integrating all their members into economic and social processes in which individuals (human capital) in a variety of circumstances, have been able to engage in income-generating production or service activities. Furthermore, the pooling of efforts has allowed members of cooperatives to enhance their skills and capabilities, and improve their living conditions. A successful business cooperative raises members’ income and the quality of life of members’ families. It also contributes to the development of the communities where it is located, and to the environmental conditions of rural territories.

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## 2.2. Importance

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According to the most recent data compiled by FAO (2019), there are some 108,000 active cooperatives in Latin America and the Caribbean (LAC). The countries with the largest numbers of cooperatives are Argentina, Brazil, and Uruguay (9782, 6828 and 3653, respectively). Of the total, almost 29,000 work with the agricultural sector (26.6%), and account for between 6% and 27% of the cooperative movement in each country. In Brazil, the figure is 24% (1613 cooperatives); in Argentina, 6.7% (654); in Ecuador, 16% (521); and in Peru, 27% (395). Agricultural and rural cooperatives have around 6.6 million members, equivalent to nearly 11% of the members of all cooperatives.

To give an idea of the scale of the cooperative movement, let us consider the following information compiled by the Colombian Association of Cooperatives (ASCOOP), using data from the ICA's World Cooperative Monitor and the European Research Institute on Cooperative and Social Enterprises (EURICSE). The economic, social and commercial dimensions of the three largest agrifood cooperatives in the world are as follows: a) in first place is Japan's Zen-Noh, which groups together 945 cooperatives with 8000 workers in 10 countries and a turnover of USD 56 billion per year; b) the Federation of Cooperatives of South Korea, with a turnover of more than USD 41 billion, supplies 48% of the country's fresh food, and has more than 100,000 members, a chain of supermarkets, a bank and a university-level school; c) the United States' CHS Inc., first organized in 1929, today has a turnover of more than USD 32 billion dollars and employs 10,000 people.

The types and characteristics of agricultural cooperatives in the Americas vary considerably. A cooperative can be classified according to:

- The sector(s) in which it operates, or the main product it handles (for example: dairy products, grains, wine, meat, etc.).
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- The principal functions it performs, such as joint production, the supplying of agricultural inputs, processing, marketing, and the production and post-production of agricultural products, among others.
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- The diverse functions and products covered, based on the economic activities (involving one or more products), or the social and political activities performed.
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- Its position in the food chain (or degree of vertical integration), from the collection of agricultural products through to the direct sale of brand name products to consumers.
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- The type of membership. A distinction is made between primary (or first-level) cooperatives, whose members are farmers, and federated (or second-level) cooperatives, whose members are first-level cooperatives.
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- The geographical spread of members, from the local, regional, and national levels up to the international and transnational levels. An international cooperative is defined as a cooperative that is supplied by farmers in other countries who are not members. A transnational cooperative, on the other hand, has members in several countries.
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What they all have in common is the fact that they make up fairly complex food systems, or are integrated into larger (national or international) systems.

The development of cooperatives in general, and agricultural cooperatives in particular, can be seen in the consolidation and expansion of their “social capital.” This has allowed them to position themselves in markets as a system of enterprises with the capacity to construct sustainable “food systems.” Thus, it is fair to say that a **set of cooperatives is a complete and complex food system in itself**. In fact, systems of this kind have found ways to combine, in a harmonious and simultaneous manner, a series of economic, commercial, social and environmental functions that are key in responding to the current demands—both the food that consumers require, and the behaviors and good production practices that societies and citizens wish to see employed

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### 2.3. The cooperative system, the State, and public policies

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Another important historical fact is that the cooperative food system has served as a strategic partner for the public sector on many occasions, helping it to fulfill its obligation of guaranteeing food and a healthy diet for the entire population (in times of crisis and under normal circumstances). Examples of this are to be found in the United States, Canada, Latin America, Europe, and Africa. Furthermore, the United Nations Food Programme (WFP) uses cooperatives as strategic partners in countries where it implements campaigns, and in others from which it purchases food.

While the public sector is responsible for public policies and agrifood regulations, and for campaigns aimed at ensuring that the population has access to food and a healthy diet, it relies increasingly on the private sector, organized in local, national, and global value chains to fulfill this responsibility. Doing so requires a coordinated effort to guarantee the food supply.

In performing this role, it is common to find the State partnering with large agroindustrial cooperatives and secondary and tertiary consumption cooperatives, or consortia of them. Agrifood cooperatives supply the food security programs of very many countries in the region, according to their economic size, commercial scale, breadth of operation, and social scope.

Sustainable agrifood systems of this kind, driven by cooperative enterprises, are built and sustained from the bottom up, that is, from rural territories, from primary production. Other businesses, or groups of businesses, process the supply of agricultural products and add value, and then distribute it in the various food markets so that it is available for consumers. This is particularly the case as urbanization gathers pace in our continent.

Certain types of agricultural producers are dispersed and fragmented in rural territories. In many cases, their participation in the “system” is marginal (appropriation of the final income) and totally subordinated to the interests of other businesses that are part of value chains (under that single business model or plan). The most effective way to get organized within territories is by joining forces to increase the volume of their supply (and demand), and their negotiating capacity. In that way, cooperatives become more efficient and effective when they are integrated into a bigger or broader value chain and form part of a single business plan.

Cooperatives that provide services to agricultural production and marketing operations in territories, among horizontally integrated farmers, and in vertically integrated chains or clusters of businesses, constitute a highly effective social economy business model for assuming certain production functions and increasing farmers’ capacity to share in the revenues generated by the agrifood business.

Described below are three aspects of the cooperative systems that exist in the hemisphere:

- a.** Many associations, groupings, and committees of agricultural producers, while not technically cooperatives, have a philosophy based on the social economy model and its principles of solidarity and mutual assistance. Furthermore, in LAC—especially in the Andean region, in Central America, and in Mexico—there are systems that date back to the pre-Hispanic cultures and conserve forms of collective and associative work similar to the cooperative model. Systems of this kind offer a very effective way of integrating farmers into economic and commercial life, and conserving ancestral formulas.



**b.** Smaller cooperatives, associations, and committees are hampered by major weaknesses, due to a lack of capital, resources, volumes, capabilities, or experience of associative enterprises. In such cases, it is clear that State support is required in the form of public economic and financial policies, as well as others targeting investment, infrastructure, education and training for leaders and for farmers who are members of cooperatives. In the region, there are also many examples of cooperatives with more economic and social resources that act as “godfathers” to small cooperatives or associations of peasants or family farmers in vulnerable situations.

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**c.** Cooperative enterprises have the potential to develop a virtuous, balanced duality, using business acumen to improve the income of their members and the quality of life of the communities in which they are involved. This also facilitates a balanced society, based on informed participation, democratic, representative business management, and the well-being of communities and territories, which is reflected in social, environmental and integrated development. The internal tensions related to participation, effectiveness, and efficiency, “open doors” and competitiveness, and transparency and commercial reservations, are resolved thanks to the experience, techniques and appropriate mechanisms that the system has developed under cooperative models, and which, in many cases, it applies successfully.

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# 3. COOPERATIVE ENTERPRISES AS AN INSTRUMENT FOR THE TRANSFORMATION OF FOOD SYSTEMS

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## 3.1. Their main contribution, importance, and performance

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*Cooperatives contribute to food systems by operating in different markets as relatively complex food systems themselves.*

*For that reason, a World Summit on food systems must listen to the voice and experience of the international cooperative movement*

All over LAC there are highly successful cooperatives and groups of cooperatives, and secondary and tertiary associations that impact not only the economies of rural areas. They include food exporting companies, with brands that are recognized in the marketplace. They are to be found in the coffee, wine, grain and oilseed sectors, and engaged in poultry, beef, honey and sugar production, among others. There are successful examples of commercial consortia or partnerships between cooperatives and other types of transnational enterprises.

Cooperatives make it possible to **pool** and **concentrate** the supply of agricultural products in markets, and negotiate from advantageous positions based on larger volumes and sustainability. The demand for services and inputs is also pooled and concentrated, leading to lower transaction costs.

However, it is also true that in the rural territories of LAC there have been cases of cooperatives that were unable to consolidate their position and failed, due to their small scale, very low level of investment, lack of stability, and a deeply rooted individualistic culture. The lack of expertise and pro-

professionalism are other contributing factors. Oftentimes cooperatives lack the technical know-how required for the specific legal and organizational characteristics of enterprises of this kind; and in some instances, they have been unable to resolve the internal tensions that arise among the professionals that assist them, and their leaders and decision makers.

This suggests that enormous opportunities exist for using public policies, economic thinking, and practical instruments to continue fostering the development and stability of social economy enterprises of this kind. The objective is for them to continue to contribute to the transformation of food systems and make them more sustainable, inclusive, and competitive.

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### **3.2. What they can offer and the attributes on which they need to focus**

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Cooperative enterprises should offer their members the best financial return as their businesses grow in the medium- and long-term. To achieve that, their business, accounting, administrative, and financial management must be first rate, providing timely, simple and transparent information so that their members understand the reasons for the economic and financial performance of the cooperative and their businesses. Trustworthy intelligence enables them to compete in the marketplace.

The objective is management excellence, which calls for actions on two fronts: a) the professionalization of human resources (workers, administrative, middle-management, and technical and professional personnel, decision makers, leaders, and members); and b) the development of better business management skills (in a broad sense). If successful, such enterprises are able to strike the appropriate balance between the need to hold to cooperative values and principles, and the need to compete with capitalist firms operating in the different markets.

Members generate more revenue and individual income by obtaining better prices for their products, and not only in isolated cases, but on a regular basis. Inputs and services can also be obtained for a lower price thanks to the better negotiating position afforded by the demand from hundreds or thousands of farmers.

Furthermore, improving distribution instruments can lower transaction costs and increase revenues, through partnerships with cooperatives engaged in different kinds of activities (agriculture, services, transportation and logistics, financial services, and those performed by consumer cooperatives).

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### 3.3. The digitalization of services: the big opportunity of the 21st century

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In this third decade of the 21st century, and given the challenges posed by what has been dubbed “the new normal,” the uncertainty created by the COVID-19 pandemic, and the related crises it has triggered, digital technologies (ICT) need to be incorporated into the management of agrifood businesses as quickly as possible in order to reap the benefits they offer.

The digitalization of services for the members of cooperatives engaged in both production and marketing is a strategy that the system of agricultural cooperatives is already adopting in many regions of the world (Europe, North America, several LAC countries, and Africa).

Digital cooperative services in support of agricultural production, marketing, and inclusion in rural financial services bring food producers and consumers closer together within food systems.

Cooperative enterprises can harness ICT to enable their members to work together more closely by digitizing the various economic functions that occur vertically and horizontally within the system or subsystems. The new business plans of cooperative enterprises that make a substantive contribution to the effectiveness of food systems could be summed up in the phrase: “less muscle and more intelligence.”

At present, the types of business conducted and services provided over the Internet call for investment in civil and industrial infrastructure, and logistical equipment. It is simply a question of implementing management plans that, based on contracts, consortia, and medium-term business agreements, free cooperative enterprises from onerous fixed investment that undermined their profitability, measured in terms of higher incomes for their members. Freed from this burden by digital and telecommunications technologies, 21st century cooperatives can re-invest more in permanent innovations.

Cooperative enterprises are faced with the challenge of constantly innovating in their business models, and in the processes of agricultural production, processing, marketing of products and inputs, accounting and administrative management, transparency, and information for their members. Cooperatives that are relatively smaller in size and less developed, which have difficulty consolidating their operations and being competitive, should be supported by the cooperative movement itself and international cooperation. This should be done via specialized plans and programs designed to stimulate this socioeconomic tool, through public policies and economic and financial resources. In fact, nearly all the LAC countries have institutes tasked with advancing, fostering, and controlling the cooperative system. Given the challenges posed by the Sustainable Development

Goals (SDG) and the 2030 Agenda, and the need to strengthen food systems, these institutes should review, update and further develop their instruments for action and intervention, working with the organized cooperative system.

To sum up, cooperatives operating as food systems help make better use of productive resources thanks to the pooling of efforts by production units and gains in scale. They generate more equitable value chains and revitalize rural territories as spaces for economic and social development, all of which increases their legitimacy as instruments for the transformation of food systems.

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### 3.4. Cooperatives as drivers of food system transformation

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The following proposed actions would galvanize the contribution that cooperatives make to the transformation of food systems: :

**Effective recognition** of the role played by social economy enterprises, and cooperatives in particular, by means of differentiated public policies designed to provide State stimulus and investment. Those policies should include more inclusive actions that promote a sustainable increase in agricultural productivity (in partnership with agricultural research centers), and others aimed at incorporating more family farms into the system, and making them more competitive. They should also target higher incomes and more jobs for members of cooperatives and the wider rural population, and the creation of more direct commercial mechanisms between farmers and consumers, so as to lower transaction costs and the price of food.

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**Policies or strategies for public-private partnerships.** These should take the form of partnerships between cooperatives and public institutions, for the delivery of public services by the State and the generation of public goods that are then made available to members of cooperatives and family production units.

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**Access to digitalization.** All systems of agricultural cooperatives should have access to their members' digitalization services. This calls for public policies that: a) foster connectivity networks in rural territories, either fiber-optic or antenna systems, through private or public investment; b) facilitate connection to data transmission networks for cooperatives and

associations of producers, to reduce connection costs and the use of networks; c) promote the construction of local data management centers, based on digital technologies, using cooperatives to do so; d) disseminate the supply of digital technologies for farmers and ranchers, in partnership with public and private services, and cooperatives, making use of their training platforms and citizen assistance services (CAS).

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***The use of digital technologies***, as the great “window of opportunity,” should be promoted by means of commercial agreements for the use of (public and private) processing, storage, conservation, transportation, and marketing infrastructure. A smart decision-making process should be used for this purpose, based on service contracts signed between cooperatives and the institutions or firms that are the owners of civil investments and investments in equipment that are needed and available. A policy of this kind, involving the State and cooperatives and other types of businesses, makes more efficient use of investment, and limited economic and financial resources.

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***Access to credit***, which will facilitate the production or marketing of agricultural products by the members of cooperatives. Commercial contacts and commitments should be recognized as financial guarantees by both the public and private banking systems, with the State providing collateral security.

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***The cooperative system and its territorial networks linked to the State***, should provide public services, especially in response to climate, sanitary and humanitarian catastrophes in rural territories. These actions should include the distribution of food, production inputs, and resources among isolated sectors of the rural population affected by such crises.

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***Public food procurement systems and mechanisms***. Joint marketing committees should be set up with representatives of the public institutions responsible for State procurement and the cooperative system, in order to give priority to cooperatives as reliable suppliers of the State on a level playing field. Objective guidelines should also be established for the evaluation of the capacity of cooperatives to fulfill supply contracts (quantities, quality, safety, deadlines, price, and any other key factors) for the most vulnerable consumers for whom the State purchases food.

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**Government educational policies for the rural milieu** under public-private agreements for the education and training of rural leaders, technical personnel, and professionals, especially those working for local associations and cooperatives, for capacity building in digital media, using the premises and infrastructure of cooperatives. Training courses should also be organized on adaptation to modern agricultural production systems, to drive the creation of skilled employment and foster the setting up of micro, small and medium-sized agricultural service provider companies, especially by rural women and young people.

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**Cooperative units devoted to the processing of agricultural production**, which should be promoted through public investment, seed capital or rotating funds, guarantee funds, and other incentive policies, associations and the creation of labor and service cooperatives by rural women and young people, for the packaging, processing and adding of value to food production at the local level.

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**Agricultural commercial negotiating mechanisms.** Efforts should be made to promote the participation of leaders who represent the cooperative system in each country and in regional, multilateral and international organizations, in order to establish market access conditions, permanence in markets, and tariff and para-tariff regulatory systems.

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**Export promotion mechanisms and instruments.** The cooperative system also needs an open economy, in order to engage in State-organized and financed trade negotiations, with inclusion and equal opportunities for smallholders and medium-scale farmers who are members of cooperatives. This means bringing the organizations that represent the cooperative system to the negotiating table, and including them in the groups that advise the negotiators and in trade missions, facilitating the participation of their leaders in regional and multilateral agreements, when applicable.

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## 4. A GLOBAL CONVENTION FOR THE DEVELOPMENT OF INCLUSIVE, SUSTAINABLE FOOD SYSTEMS

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The management of cooperative businesses that are more efficient thanks to technological innovation, the pooling of efforts, capacities and actions, and public policies that take account of the institutional and economic characteristics of cooperatives, will ensure that cooperative food systems are equipped to respond to each of the “Action Tracks” that will be discussed at the Summit with the aim of arriving at concrete commitments, namely:

**a. Ensure access to safe and nutritious food for all.** Producing and distributing food is the raison d’être of agricultural and consumption cooperatives, and commercial partnerships. The joint management of agribusinesses increases competitiveness and the scale of the supply of agricultural products.

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**b. Shift to sustainable consumption patterns,** based on a supply adapted to consumer requirements and the recommendations and strategies of each country’s food and nutrition security program.

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**c. Boost nature-positive production,** This is based on the seventh cooperative principle, which states that cooperatives have a responsibility to safeguard the well-being and quality of life of their communities. They are instruments for promoting the responsible use of natural resources and ecosystems.

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**d. Advance equitable livelihoods,** by means of social economy enterprises whose objectives are inclusion, fair trade and the creation of genuine jobs in the places where they are located and carry out their production and commercial activities.

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**e. Build resilience to vulnerabilities, shocks, and stress.** Once again, one of the basic tenets of cooperatives is concern for the well-being of their members, their workers, and the communities where they are located. Furthermore, the sixth cooperative principle advocates cooperation among cooperatives, which leads to exchanges and capacity building, and integrates socioeconomic sectors usually excluded from traditional systems, without affecting their economic and commercial competitiveness.

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**Inter-American Institute for Cooperation on Agriculture**

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