

# The Role of Cooperatives in Poverty Reduction in Ethiopia: A Review Paper

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**Abstract**— The purpose of this discussion has been to demonstrate the contribution of co-operatives to poverty reduction in Ethiopia. From a rural livelihoods perspective, it is evident that co-operatives have significantly contributed to the mobilization and distribution of financial capital by creating employment and income generating opportunities for both their members and non-members alike. In the midst of lingering patterns of exclusion and inequality that tend to be based on ethnic, class or professional biases, cooperatives are increasingly witnessing the participation of people from these diversities in the same ventures. Accordingly, these organizations are utilizing their relatively less excluding features like open and voluntary membership and democratic leadership to reduce exclusion in society by enabling those willing to join an opportunity to generate an income. The income so-generated is used not just to meet household consumption needs, but also to enhance income generating capacities of people by investing in educational and health requirements of individuals and households. Furthermore, co-operatives contribute to human capital by creating a forum for education and training for their members in a bid to reduce ignorance. They also enable their members to mobilize funds for taking care of their health needs. In the absence of formal social security systems, co-operatives are increasingly creating solidarity mechanisms to re-enforce the informal traditional mutual aid systems by opening opportunities to set up schemes to cater for unexpected expenses related to illness, social welfare, death and other unexpected socioeconomic problems like drought and crop failure. It is in this regard that co-operatives are increasingly contributing to poverty reduction in Ethiopia.

**Index Terms**— co-operatives, poverty reduction, cooperative members, role.

## I. INTRODUCTION

### A. Background

Enhancing productivity and commercialization among smallholder farmers is widely perceived as a key strategy for rural development, poverty reduction, and food security in Sub-Saharan Africa (World Bank, 2008). For productivity gains to be achieved, smallholder farmers need to have better access to technology and improve their technical efficiency. It is important for smallholders to have easy access to extension services in order to optimize on-farm technical efficiency and productivity, given the limited resources available. While the private sector is gradually emerging as a contender, the public sector remains the major provider of extension services in

most of these countries (Venkatesan and Kampen, 1998). A third option for providing services to smallholder farmers is agricultural cooperatives, which serve the dual purpose of aggregating smallholder farmers and linking them to input and output markets (Coulter et al., 1999; Davis, 2008).

Given that agricultural systems in Sub-Saharan Africa are typically fragmented into a myriad of small or micro farms over vast and remote rural areas, the role of agricultural cooperatives has become increasingly important (Wanyama et al., 2009). Despite the turbulent history sometimes associated with post-independence and highly centralized governance regimes, agricultural cooperatives are nowadays omnipresent throughout the sub-continent. In recent days considerable public development programs or private initiatives are channeled through cooperatives in order to overcome prohibitive transaction and coordination costs (Pingali et al., 2005). However, it is still empirically unclear and highly contested whether these collective organizations can deliver and live up to their promises. Given the prominence of agricultural cooperatives, this is an important policy question for many African countries.

Since the downfall of the *Derg* regime in 1991, agricultural cooperatives in Ethiopia have become an integral part of the national strategy for agricultural transformation (Ministry of Finance and Economic Development, 2006). With varying degrees of success, agricultural cooperatives are longstanding and widespread throughout the country. The recently established Agricultural Transformation Agency (ATA) has also strongly asserted agricultural cooperatives as preferential institutions for moving smallholders out of subsistence agriculture and linking them to emerging input and output markets. In conjunction with promotional activities by the National Cooperative Agency, this effort has resulted in considerable growth both in number of agricultural cooperatives and the services they provide to their members. In June 2012, the majority of both the 400,000 primary cooperatives and the 200 cooperative unions in the country were agricultural cooperatives engaged in input and output marketing.

By 2005, agricultural cooperatives had commercialized more than 10 percent of the marketable surplus in Ethiopia (Bernard et al., 2008). In recent years they are the major suppliers of improved seeds and chemical fertilizer for all farm households (Ministry of Agriculture and Rural Development, 2010: unpublished). While their role in agricultural inputs adoption for productivity growth is widely recognized (Abebaw and Haile, 2013; Spielman et al., 2011), the role of technical efficiency gains among their members remain unproven. Whether cooperative members are

technically more efficient than non-members is an open question. Agricultural cooperatives, as producer organizations, are mandated to supply inputs together with providing embedded support services and for facilitating farmer linkage with extension service providers; hence, members are expected to be technically more efficient.

Abate *et al* (2013) in their paper that aimed to answer the above question by comparing cooperative members and similar independent farmers within the same *kebeles* (in order to reduce potential differences in technology and agro-ecology in which this procedure tempers possible diffusion effects). This approach, which compares members and non-members within the same area in which the agricultural cooperatives operate, enables them to precisely capture the efficiency gains from membership, since members receive benefits from dividends, information, and extension services that are embedded in new technologies and have prior access to inputs, which are directly linked with technical efficiency gains.

### B. The Objective of the Review

The objective of this review paper is to identify different thoughts and ideas in relation to the role of cooperatives in poverty reduction in Ethiopia.

## II. RESULTS OF THE REVIEW

### A. Cooperatives and Their Roles in Poverty Reduction

#### 1) Definition of Cooperatives

Co-operatives are autonomous associations formed and democratically directed by people who come together to meet common economic, social and cultural needs.

Koopmans (2006) also defined a cooperative as a member-controlled association for producing goods and services in which the participating members, individual farmers or households share the risks and profits of a jointly established and owned economic enterprise.

According to this definition a cooperative is established by farmers in response to unfavorable market conditions, which is a shared problem. This could be a problem related to the marketing of produce resulting in low farm-gate prices to the supply of good-quality and reasonably priced farm inputs such as seed and fertilizer, or to the supply of sufficient and cheap credit

In short, a co-operative can be defined as a jointly owned enterprise engaging in the production or distribution of goods or the supplying of services operated by its members for their mutual benefit typically organized by consumers or farmers.

#### 2) Cooperatives Principles

According to ICA (1995), any cooperative should pass through the following guiding principles: 1<sup>st</sup> Principle: Democratic Member Control. Co-operative societies are democratic organizations controlled by their members who actively participate in setting their policies and making decisions. Every member has equal voting rights and

accordingly one member shall have one vote.

2<sup>nd</sup> Principle: Voluntarily and Open Membership. Co-operative societies are voluntary organizations open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, political or religious discrimination.

3<sup>rd</sup> Principle: Members' Economic Participation. Members contribute equally to, and democratically control, the capital of the cooperative. This benefits members in proportion to the business they conduct with the cooperative rather than on the capital invested.

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

5<sup>th</sup> principle: Education, Training, and Information. Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

6<sup>th</sup> principle: Concern for Community. Cooperatives work for the sustainable development of their communities through policies approved by their members.

7<sup>th</sup> principle: Cooperation among Cooperatives. Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

### B. Cooperative Movement in Ethiopia; History and Current Status

#### 1) History

Modern cooperation has a reasonably long history in Ethiopia stretched over 50 years since the birth of the first modern cooperatives in 1960. There are three distinct periods of cooperative movement observed in the country over these years: Cooperative movement during the Imperial period, the Socialist period and the EPRDF period. Modern cooperative movement was started in 1960 (during the Imperial period) under Farm Workers' Cooperatives Decree (Cooperatives Decree No. 44/1960) with the objective of assisting the development of the agricultural sector. Introduction of modern cooperatives into the country was in a similar movement to that of the rest of African countries which experienced proliferation of the Second Generation Cooperatives during the post-independence period in order to assist government development efforts.

While there have been developments in the cooperative movement of the country during the Imperial period, both in the agriculture and service sectors, there were problems facing the cooperative sector as a whole. Lack of credit facilities and trained manpower were among the

Most important constraints, including the problem of the

feudal land tenure system that excluded the peasant farmers from joining cooperatives to reap the benefits (Kindie and Tsegaye, 2012).

Following the regime change in 1974 to a Socialist government, a new cooperative proclamation was issued (Proclamation No. 138/1978). The objective was to promote cooperatives for self-reliance and member interest promotion, by putting means of production under the control of cooperatives. Cooperatives were also entrusted with the objective of increasing production, expanding industry, building up of a socialist economy and accumulating capital and mobilizing human resources to sustain economic growth.

However, cooperative establishment and their operation during the Socialist government was state driven. Membership to cooperatives was not on a voluntary basis, cooperatives were not based on strong foundations and they were not sustainable. Most producer and service cooperatives in different parts of the country became dissolved following the downfall of the Socialist government in 1991. The current government enacted Agricultural Cooperative Societies Proclamation (Proclamation No. 185/1994) as a new cooperative proclamation to provide an enabling environment for agricultural cooperatives to flourish.

Currently, cooperatives are considered as appropriate models to promote agricultural and rural development in Ethiopia. Cooperative activities have been encouraged since the late 1990s and the sector receives various supports, despite the bad legacy from cooperative movements experienced during the socialist regime (Kodama 2007). Different measures have been taken in support of cooperative sector development, including organization and reorganization of different types of agricultural cooperative societies, establishment of cooperative promotion bureaus at regional level, establishment of Cooperative Commission at a federal level and launching of education and training programs on cooperatives at different universities in the country. A new proclamation on cooperatives was issued by the government in 1998 (Proclamation No. 147/1998) to provide a ground for the establishment and development of all types of cooperative societies.

## 2) Current Status

Using household data drawn from the Ethiopia Agricultural Marketing Household Survey in Owing to the enabling environment created cooperative enterprises in Ethiopia are growing from time to time both in terms of number, type, membership size and capital. In 2009, there were 26,128 registered primary cooperatives with a total membership of 5,270,208. Multipurpose cooperatives, saving and credit cooperatives and housing cooperatives are the most important types in terms of number of establishments. There are also encouraging developments in terms of secondary level cooperatives (cooperative unions), a movement necessary to promote service provision, capacity building and the overall development of the cooperative sector in the country.

Over the past decade and a half, agricultural cooperatives in Ethiopia have strongly promoted as instrument to transform subsistence agriculture by preserving market

options and increasing farmers' income, as they are believed to be efficient in internalizing transaction costs, reducing the variability of farmers' income through risk pooling and countervailing opportunistic behaviors (Hogeland, 2006; Staatz, 1987).

Currently, agricultural cooperatives market more than 10 percent of farmers' produce and supply farm inputs for all farm households irrespective of membership. Although their share in input and output marketing shows how vibrant the cooperatives are in supporting agricultural transformation, empirical studies on their efficiency and productivity impacts are very limited.

## C. Cooperatives in Poverty Reduction

### 1) Poverty Definition and Concepts

Poverty is a complex concept which does not fit into a neat definition. It is multidimensional but specific to a location and a social group (Walton, 2001:3). It entails a complex interconnection of descriptors surrounding the livelihood status of people in communities. According to the World Summit for Social Development held in Copenhagen in 1995: Poverty has various manifestations including lack of income and productive resources sufficient to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; and social discrimination and exclusion. It is also characterized by lack of participation in decision making and in civil, social and cultural life.(Walton, 2001:3). Deprivation of these basic and fundamental demands of life results into the exclusion of the individual in society due to lack of capability to function and exercise the freedom of choice. Subsistence is the tendency in production and the emphasis is still on meeting food security needs. The smallholder farm sector in developing countries is largely left without necessary support arrangements in infrastructure, extension services, local processing capacity, basic health care and education. At the same time, the price paid to farmers for their products has always been very low. In most cases, decade after decade, price policies have consequently punished farmers in order to benefit the urban consumers (clients of the ruling parties). For that reason, governments have been pressing prices down through price regulations and imports of staples from major producing nations. This was the case in many former Soviet States as well as in young free nations such as Mozambique, Zambia, Zimbabwe, Tanzania, and elsewhere in Africa. During this period, meetings with ministers and government officers have been painful exercises when the focus of the discussions was centered on small-scale farming or farmers' cooperatives. The World Bank, the bilateral agencies and most of the major NGOs followed the same path. In many African countries, incentives for local farming have no longer been a priority. However, since the scale of poverty weights too heavily on rural people, any type of development approach which neglects the rural area cannot be successful. Among the

various rural development strategies, the development of agricultural cooperatives holds a relatively significant promise to the improvement of small scale peasant agriculture (Walton, 2001). The cooperative sector in Africa is very heterogeneous in terms of its membership. Members of cooperative societies cut across ethnic backgrounds, the rural-urban divide and sometimes professional categories. Whereas members of agricultural cooperatives are largely rural large and small-scale farmers, the majority of the members of non-agricultural cooperatives live in the urban areas. In these settings, there are people from diverse ethnic backgrounds participating in the same cooperatives.

### 2) *Employment Creation and Income-Generation*

Cooperatives create employment opportunities in three different ways. First, they offer direct wage employment to people who work in primary and secondary cooperatives as well as in governmental cooperative support institutions (e.g. ministries, departments, cooperative colleges, etc.).

Secondly, cooperatives offer self-employment to members, whose participation in the economic activities that they make possible substantially guarantees a decent income.

Thirdly, cooperatives also indirectly employ through the spillover effects of their activities on non-members whose income-generating activities are only viable through the transactions they have with, as well as opportunities created by, cooperative ventures. The role of cooperatives on employment creation and income-generation is more discernible in the self-employment realm. A significant proportion of farmers and their households access the market to sell their produce to earn an income through their cooperatives. For instance, In Ethiopia, members of cooperatives in the agriculture sector fully or partially generate their income through cooperative activities. About 900,000 people in the agriculture sector of Ethiopia are estimated to generate part of their income through their cooperatives (Lemma, 2007).

Even more significant for income-generation is the fact that these cooperatives not only create marketing opportunities for members, but also try to increase their income margins by negotiating for better prices. In Ethiopia, for example, grain producers' cooperatives play an important role in securing better prices for farmers throughout the year. This effort reduces the seasonal price fluctuation and stabilizes the local grain markets in favor of co-operators. It is for this reason that grain farmers have not been severely affected by price fluctuations in recent years (Ibid.). Similarly, coffee cooperatives have played a similar role in Ethiopia by penetrating alternative markets that offer better prices in Europe and USA through fair trade (Ibid; Tesfaye)

By creating employment opportunities, generating income and facilitating financial flow for the members and non-members, cooperatives make available to the individual and household financial resources that are utilized to participate in activities through which a living is earned.

Cooperatives, therefore, significantly contribute to both members' and non-members' access to financial capital in Africa.

### 3) *Empowerment of Men and Women*

This strategy entails the following:

- ✓ Political commitment to securing and protecting the economic, social and civil rights of poor people;
- ✓ Policy reforms and actions to enable poor people to gain access to assets so as to make them less vulnerable;
- ✓ Education and health care for all, including safe water and sanitation;
- ✓ Social safety nets to prevent people from falling into destitution or to rescue them from disaster.

Both directly and indirectly, cooperatives help both members and employees to escape from poverty or to protect those of them who may be facing the risk of poverty.

### D. *Cooperative for Rural Development*

Agriculture, including farming, forestry, fisheries and livestock, is the main source of employment and income in rural areas, where the majority of the world's poor and hungry people live. Agricultural cooperatives play an important role in supporting men and women small agricultural producers and marginalized groups by creating sustainable rural employment. Producer cooperatives offer men and women smallholders market opportunities, and provide them with services such as better training in natural resource management, and better access to information, technologies, innovations and extension services (FAO, 2011)

### E. *Investing in Human Capital*

As much as ignorance or illiteracy and poor health tend to be manifestations of poverty, they are also causes of the same. Consequently, efforts towards improving on the provision of educational and health services are fundamental for poverty reduction. Cooperatives have made a contribution in this regard in three different ways.

First, members of cooperative societies use the income that these societies make possible to educate their children, with a view to reducing poverty in future following children's employment.

Secondly, cooperatives are also serving as educational centers for members. Many are the members that shade off some degree of ignorance on economic opportunities in their milieu through cooperative educational programmers.

Thirdly, cooperatives have also invested in human capital by contributing to the improvement of the health of their members. It is also significant to note that cooperatives in some countries participate in health promotion campaigns. This is the case in Ethiopia where five cooperative unions in Oromia region have established HIV/AIDS clubs for raising awareness about the disease and enhancing the use of prevention and control measures to reduce its spread among members. This effort has created a forum for exchanging experiences with people living with HIV/AIDS as well as disseminating information on the disease through the distribution of translated manuals provided by the ILO (Lemma, 2007)

#### F. Social Protection

By social protection we refer to societal security mechanisms in response to unexpected socioeconomic scarcity and risks that people encounter in their livelihoods. Traditional African society relied on mutual aid to secure every individual from calamities that were beyond his/her capacity to handle. In its simplest form, mutual aid on a daily basis found expression in interfamilial and neighborly help in bringing back strayed cattle; tending the crop of someone fallen ill; chasing away marauding wildlife; and helping family, kin and villager to ease the burden of death by meeting the expenses of a funeral, among others (Bouman, 1995: 118).

Though some of these mutual support habits have survived the onslaught of modernity, they are clearly inadequate to withstand the shocks that visit livelihoods today. On the other hand, the small tax base, the prevalence of the informal economy and the institutional weaknesses of the African state hinders the establishment or extension of formal, centrally-organized and state-run social protection systems to cater for all in society. This has quite often exposed the poor to the vagaries of unexpected calamities. In the circumstances, it is only the minority wealthy people who benefit from social protection systems provided by private insurance companies. Though the extent to which cooperatives have acted as networks for securing the individual against unexpected calamities that derail livelihoods is hardly explored in existing literature, they seem to make some contributions.

In the first place, both the back office and front office activities of SACCOs secure members from unexpected calamities. With regard to back office activities, SACCOs offer emergency loans to their members for a term of twelve months to solve unanticipated problems. This acts as a fall-back for members to quickly respond to unexpected socio-economic problems like sickness, an accident, crop-failure and food shortages, among others, which can potentially disrupt a livelihood. Though most cooperatives usually have limited funds for such loans, resulting in the inability of SACCOs to effectively respond to increasing demands for emergency loans as is the case at Maseno University SACCO in Kenya (Wanyama, 2007), many are the SACCOs that have designed regulations to ensure that only the very deserving cases benefit from these loans to guarantee the availability of some funds at any given time.

In the front office service activities, SACCOs have devised innovative banking services and cash salary advances that are popularly referred to as "instant loans". Under varying conditions, SACCOs approve and pay these advances in less than one day (Evans, 2002: 18). Unlike emergency loans, these advances are payable in a shorter period of time, usually not more than six months, and the ceiling on borrowing depends on the individual's ability to repay within the said period of time. Nevertheless, they can be accessed within a very short time to respond to unexpected emergencies. It is in this regard that instant loans are increasingly becoming more popular than emergency loans though their repayment terms are shorter and interest rates higher. In Kenya, the popularity of these loans has, however, outstripped the available funds in

most SACCOs (Ibid.).

Secondly, in response to the rising cost of funerals, some cooperatives, particularly SACCOs, have introduced benevolent funds to cater for burial expenses of members and their immediate family members in case of death, for which no one is usually prepared as it is normally not expected. Cooperative members make regular contributions to such funds, but only draw from when they are bereaved. The schemes define the relatives on whose death the member could get assistance to meet the burial expenses as well as the respective amount of money he/she would be entitled to. In the event of a member's death, his/her immediate family gets assistance from the fund to meet burial expenses. It should, however, be emphasized here that in some instances, it is not the cost of funerals that has led cooperatives to set up these funds, but the exclusion that their members encounter. For instance, the Jinja Teachers Savings and Credit Cooperative Society in Uganda, most of whose members were seriously affected by the killer HIV/AIDS disease, had been excluded from the burial contribution scheme within the District Council by virtue of their infection. The cooperative responded by establishing its own benevolent fund to cover burial expenses for any society member who died or who lost a family member (Mrema, 2007).

Thirdly, cooperatives in some countries have established social funds from their annual profits to provide for communal needs. For instance, in Ethiopia, all cooperatives are required to allocate 1-5% of their profit to a social fund that is used to provide basic social services and develop communal infrastructure such as roads, schools, health clinics or watering points. For example, YirgaChefe Coffee Farmers Cooperative Union gives financial support to 21 students in institutions of higher learning in the country every year. It also provides school uniforms and other educational materials to 250 orphans annually. In the same spirit, Dibandiba Primary Cooperative Society made a contribution of 7,500 Ethiopian Birr towards the construction of a watering point and the purchase of chairs at a local primary school in 2005 (Lemma, 2007).

Fourth, cooperatives are also making provision for food security in some countries. The Mooriben federation, formed in 1988 in western Niger, serves as an example. It started with the broader objective of fighting ignorance and poverty ("mooriben" in Djerma-Sonrai means "poverty has ended"), but has since initiated a multiplicity of activities. Mooriben's package of services includes training, grain banks, shops, credit lines and community radio stations. Each element of this package meets a specific need, but the synergy between all the elements helps to promote development and improve farmers' living conditions. In particular during periods of food crisis, the neighborhood services made possible by the grain banks and provision of farm inputs to members have been instrumental in ensuring food security. Indeed, the grain banks and shops have substantially changed farming practices. Before, farmers consumed or sold all of their harvest and accrued debts to traders in lieu of the next harvest. This dependence on traders has declined sharply since the creation of the grain banks. The existence of Mooriben shops has improved farmers' access to quality seeds and other farm

inputs. Farmers are able to make informed choices between the various inputs in order to improve productivity. This partly explains why Mooriben is one of the three civil society organizations to which the Ministry of Agriculture in Niger has quite often turned for the distribution of seeds in order to manage food crises. In terms of food security, the grain banks made it possible to cover the food needs of about 24,941 people (about 37% of the needy population) during the critical months of famine in 2005 (Sani, 2007).

Fifth, it is significant that cooperatives also safeguard the jobs of their members, particularly in countries where the trade union movement provides the foundation for cooperatives. A case in point is Rwanda where cooperatives pool their efforts to provide workers in the informal sector with greater bargaining power vis-à-vis the administration with regard to taxes, workplace conditions and the relaxation of certain repressive regulations that target the informal economy (Nyamwasa, 2007). For instance, before Assetamorwa was formed, the jobs of motorcycle taxi operators were threatened by a host of problems, including the Kigali City Council regulations like the wearing of a helmet by both the driver and the passenger as well as possession of an up to-date driving license, both of which required money that most operators did not have. To overcome these problems, the operators formed this cooperative cum trade union with a view to collectively secure their jobs by combating unemployment; improving the image of public transport operators; fighting ignorance; strengthening the unity of, and promoting reconciliation among, public transport operators; teaching public transport operators the Highway Code; establishing insurance for public transport operators; fighting for the security of public transport operators and their passengers; and mobilizing savings to enable operators acquire expensive requirements for their jobs like helmets and driving licenses. The good progress so far recorded on all these issues has substantially helped to secure the jobs of these operators (Smith and Ross, 2006:18-23).

In these various small ways, cooperatives are increasingly protecting their members and the wider community against unexpected calamities that tend to disrupt livelihoods. We note that these organizations sometimes re-enforce traditional mutual support habits that are common to most African communities by simply formalizing them. As Enete (2007) rightly remarks, social security systems in cooperatives tend to be spelt out in the constitution and by-laws, whereas in typical African communities, the system is conventional and ad hoc in character. It is, therefore, significant that cooperatives are formalizing social security in a region where this mechanism is largely underdeveloped, exposing the poor to extensive vulnerability.

### G. Economic Significance

A large number of cooperatives in Ethiopia participate in marketing of agricultural inputs and produce. As a result, a significant proportion of cooperative unions are engaged in marketing of agricultural produce (Bernard et al., 2007). Cooperatives provide marketing options for the members and

non-members, though the members receive higher prices for their produce. Cooperative unions are involved in export and domestic marketing activities, financial transactions and social capital development. The economic role of cooperatives is significant in terms of foreign currency earning for Ethiopia. For instance, four unions (Oromia, Yirga-Chefe, Sidama and Yeka-Chaka coffee farmers' unions) have generated a total USD 104,154,838 by exporting 36,593.36 tons of coffee between 2000-2007/08. This was equivalent to 0.9 per cent of Ethiopian GDP in 2006 (CSA, 2006). Unions provide multiple services to their members. The major services delivered by cooperative unions to primary cooperatives include the following. Cooperative unions import agricultural inputs, such as fertilizer, seeds and chemicals, and distribute these inputs to members at reasonable prices. According to the information obtained FCA's annual survey, cooperatives accounted for 67 per cent of the total agricultural inputs that were imported by Ethiopia between 2000-2007/08. To further illustrate, 14 cooperative unions have imported a total of 906.2 metric ton of chemical fertilizers in the same period. It should be noted however that these achievements were possible due to the collateral provided by the Government, without which bank loans for importing fertilizer would not have been possible to obtain. Cooperatives were also responsible for distributing 75 per cent of the total agricultural inputs that went to farmers during the same period. Seed multipliers cooperatives were able to satisfy 25 percent to 35 percent of seed demands in their locations.

- Some cooperative unions provide machinery renting services to cooperative members in order to introduce modern farming techniques at lower rental prices. For example, the LumeAdama Grain Farmers Cooperative Union in Oromia provides a tractor rental service, as well as seed and grain cleaners, harvesting machinery and transportation trucks to their members.
- Cooperative unions purchase agricultural produce from members at a competitive price and offer dividend on share capital to their members. The primary cooperatives get loans through unions and sell agricultural commodities to unions, which then sell the commodities in local and export markets. For example, coffee cooperatives purchase coffee in competitive markets, where the market price is determined by the competition between the traders and the cooperatives. Cooperatives sell the coffee to unions, which distribute 70 percent of the profit as dividend and hold 30 percent of the net profit including dividend from the unions (Kodama, 2007). These activities have increased the farmers' share of the commodity price margin. The existence of cooperatives in the coffee market has improved the purchasing price offered by private traders. But the activities and actual volume of coffee purchased by cooperatives is limited due to financial constraints.
- Other services cooperative unions provide to members include transportation of produce, storage of produce, credit, and facilitation of training to

primary cooperatives. The extent to which the services offered by cooperative unions meet the demands and needs of the members varies on a case by case basis. Some cooperatives unions have not provided the services demanded by member cooperatives at the level expected. A good illustration comes from the Geda Livestock Marketing Cooperatives Union in Oromia region, which could not render the required service to members due to management problems. The achievements of coffee cooperative unions regarding development of business partnerships with Fair Trade are also worth mentioning. Of a particular importance is the dialogue made with Starbucks, an American giant coffee processor and retailer, in obtaining a trademark for the Ethiopian coffee -Yirga Chafe Coffee. The production of the "Black Gold" documentary film by Oromia Coffee Farmers' Cooperative Union has also helped to raise the profile of Ethiopian coffee. These activities help to ensure that cooperatives in Ethiopia will hold the trademark and continue to help farmers earn premium prices from their coffee export. The involvement of cooperative unions in economic activities is prominent in the following areas:

- Importation and distribution of agricultural inputs, such as fertilizers and chemicals;
- Export of agricultural commodities, such as coffee, oilseeds, and pulse crops such as haricot bean, among others;
- Marketing of agricultural produce for their members to the Government and private institutions. The participation of cooperative unions in the economic activities is affected by their management capacity, experience and access to credit. Due to lack of a strong financial position and lack of a policy supporting their access to credit, cooperative unions are highly dependent on government collateral for accessing bank loans. It is in this regard that the government plays a key role in strengthening the financial capacity of cooperative unions, especially through allocation of foreign currency for the importation of agricultural inputs. For instance, the Government supported cooperative unions by allocating foreign currency and allowing unions to import fertilizers and pesticides in 2007 and 2008. However in 2009 the Government gave preference to the Agricultural Inputs Supply Corporation (AISCO). In addition, the Government supports cooperatives for the purpose of stabilizing cereal prices. For instance, Lume Adama Grain Farmers' Cooperatives Union played a crucial role in the stabilization of prices by supplying food grain at a reasonable price during times of soaring food prices, as was seen in 2007/08. It appeared that cooperative unions acted in a socially responsible way as they did not take the soaring food price as an opportunity to increase prices.

### III. SUMMARY AND CONCLUSION

Various studies argue that cooperatives had great role in poverty reduction and improvement of rural livelihood. They have significantly contributed to the mobilization and distribution of financial capital by creating employment and income generating opportunities especially for their members. In the midst of lingering patterns of exclusion and inequality that tend to be based on ethnic, class or professional biases, cooperatives are increasingly witnessing the participation of people from these diversities in the same ventures. Accordingly, these organizations are utilizing their relatively less excluding features like open and voluntary membership and democratic leadership to reduce exclusion in society by enabling those willing to join an opportunity to generate an income. The income so-generated is used not just to meet household consumption needs, but also to enhance income generating capacities of people by investing in educational and health requirements of individuals and households. Furthermore, co-operatives contribute to human capital by creating a forum for education and training for their members in a bid to reduce ignorance. They also enable their members to mobilize funds for taking care of their health needs. In the absence of formal social security systems, co-operatives are increasingly creating solidarity mechanisms to re-enforce the informal traditional mutual aid systems by opening opportunities to set up schemes to cater for unexpected expenses related to illness, social welfare, death and other unexpected socioeconomic problems like drought and crop failure. It is in this regard that co-operatives are increasingly contributing to poverty reduction in Ethiopia. Therefore, further strengthening cooperatives will have great impact on rural transformation and poverty reduction in Ethiopia.

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