

# **Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development**

## **A Case Study of Farmer Cooperatives in Ethiopia: An Overview**

By

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### **1. Rural institutions and sustainable livelihoods: an overview<sup>1</sup>**

The rural poor in developing countries are often at a competitive disadvantage in the wider economy because of persistent market, state and institutional failures. For example, smallholders may face difficulties in selling their small agricultural surpluses because of the prohibitively high transactions costs incurred in assembling, transporting and marketing these surpluses. Smallholders may be unable to access necessary public sector services needed to sustain and improve their livelihoods—services such as input supply, output marketing, credit provision, or conflict mediation—because the state’s infrastructure is insufficiently responsive to their needs. Smallholders may also face long-term difficulties in managing scarce common-pool resources because local socioeconomic institutions fail to emerge and establish commonly-accepted systems to govern the resources’ use and to resolve conflicts.

There is a growing body of empirical evidence to suggest that membership-based rural producer organization (RPOs) can help overcome these market, state and institutional failures (World Bank 2007; Chen et al. 2006). For example, RPOs can help smallholders achieve scale economies in input provision and output marketing, thus reducing their costs of production and improving their bargaining power in the marketplace. RPOs can also lend voice to the needs of the rural poor, and thus improve their ability to demand public resources, resolve local conflicts, or manage their own development priorities (World Bank 2003; Berdegue 2001; Collion and Rondot 1998).

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RPOs can potentially play a role in improving smallholder productivity and commercialization, managing scarce natural resources, and strengthening local governance systems. Policies and programs designed in recognition of this potential have succeeded in many parts of Asia, and have contributed significantly to reducing food insecurity and rural poverty, while also stimulating agricultural development and wider economic growth.

These issues are particularly relevant to Ethiopia, a country characterized by persistent food insecurity and deep rural poverty. Indeed, Ethiopia represents one of the world's greatest challenges in terms of agricultural development and economic growth. The country's agricultural sector accounts for about 40 percent of national GDP, 90 percent of exports, 85 percent of employment, and 90 percent of the poor. Moreover, its agricultural sector is deeply dependent on smallholder subsistence production systems: Just 28 percent of total agricultural output is commercialized (Dessalegn, Jayne, and Shaffer 1998). About 37 percent of farming households in the country cultivate less than 0.5 hectares and about 87 percent cultivate less than 2 hectares (CSA 2003). Marginal productivity of labor in agriculture is estimated at close to zero, while rural access to rural infrastructure such as roads, water, and electricity is extremely limited.

In recognition of this reality, the Government of Ethiopia (GoE) places high priority on agriculture and rural development as an engine of pro-poor growth. Efforts to enhance agricultural productivity, increase the commercialization of smallholder surpluses, and reduce rural poverty are a cornerstone of the GoE's development objectives and strategies.

To this end, the GoE has embarked on an ambitious plan to promote RPOs throughout the country. The plan aims to provide cooperative services to 70 percent of the population through the presence of at least one cooperative in each *kebele*<sup>2</sup> by 2010. Under this strategy, each *kebele* is expected to have a cooperative in place by 2010, through which 60 percent of the agricultural outputs will be marketed and 90 percent of agricultural inputs supplied. What remains to be seen is whether the rapid implementation of this plan is contributing to improving rural livelihoods in the country.

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<sup>2</sup> In Ethiopia, *kebeles* or peasant associations (PAs) are the smallest administrative unit below the *woreda* (district) level. For purposes of comparison, *kebeles* correspond to a cluster of villages in most other sub-Saharan African countries.

This study summarizes evidence on how smallholder cooperatives in Ethiopia contribute to the improvement of rural livelihoods by (a) facilitating commercial linkages between smallholders and markets, (b) managing scarce natural resources, and (c) strengthening governance systems at the local level. It does so by examining the following research questions.

- Who tends to participate in key rural institutions—how inclusive and responsive are rural institutions to smallholders and smallholder demands? This question focuses on the spatial, social, and economic determinants of participation and interaction.
- How do smallholders specifically interact with or link to key rural institutions—how does participation actually occur, and how does participation translate into smallholder commercialization?
- What options are available to the GoE and its development partners to strengthen the role of rural institutions in support of their overall policy objectives—what interventions can improve the responsiveness of rural institutions to smallholder needs, and what types of interventions can be employed to enhance participation, inclusiveness, decentralized decision-making, and local ownership of rural institutions?

This paper is meant to stimulate discussion and exploration of innovative policy options and solutions by policymakers and development partners to improve rural livelihoods through the promotion and strengthening of rural institutions. Thus, it should be noted from the outset that this study is an analysis of a national cooperative promotion effort that is presently at an interim phase of development. It should also be noted that this study attempts to provide analysis at both the national and local levels using several different data sources designed for varying (and sometimes divergent) objectives. Thus, the insights offered below should be viewed as tentative conclusions and recommendations that, at most, are meant to allow for reflection and exploration of innovative policy options and solutions.

The paper is organized as follows. Section 2 provides insights into the relevance of this study by examining Ethiopia's development strategies and priorities for the agricultural sector, with specific reference to cooperatives. Section 3 reviews the methods, data sources and data used in this study. Section 4 presents the main findings from the study, followed by conclusions and recommendations in Section 5.

## **2. Growth, development and rural institutions in Ethiopia**

Poverty is an underlying theme in much of the research on rural Ethiopia. Factors such as extreme weather-related risk, highly dispersed populations, poor physical infrastructure, and history contribute to persistent failures in markets for production inputs, credit, insurance, and labor, and commodities, ultimately resulting in a low yield/low output agricultural system, volatile growth trends in the agricultural sector, and a vicious cycle of poverty affecting large portions of the country's population.

Rural institutions such as cooperatives can play a potentially important role in addressing these problems and improving social and economic welfare in Ethiopia. Thus, to put this study in an appropriate context, this section examines national strategies for rural development, local governance, and cooperative promotion in Ethiopia.

### **2.1. National strategies for rural development**

Ethiopia's program for economic growth and development—the Agriculture Development-led Industrialization" (ADLI) strategy—was set forth in 1991 and places significant emphasis on agriculture and rural development as an engine of pro-poor growth (FDRE 2005, 2002). The strategy has driven the introduction of policies in the 1990s that sought to generate: (i) a more supportive macroeconomic framework for growth and development; (ii) liberalized markets for agricultural products; and (iii) a strong extension- and credit-led push for intensification of food staples production through the use of modern inputs, especially seed and fertilizer. The resulting reforms have included tariff reductions, relaxation of import quotas, simplification of licensing procedures, easing of foreign exchange controls, privatization of state enterprises, establishment of private banks, discontinuation of compulsory grain delivery and forced membership in cooperatives by smallholders discontinued, and input supply programs to intensify cereal output and efficiency. This strategy has also guided the design and implementation of the GoE's poverty reduction strategies, including the Sustainable Development and Poverty Reduction Program (SDPRP) approved in 2002, the 2004 Food Security Strategy (FSS), and, most recently, the 2006 Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (FDRE 2002, 2006).

In support of the ADLI strategy, the GoE has allocated a greater share of its budget resources to agriculture than any other country in Africa since the early 1990s. However, recent studies suggest that the impact of public spending on agriculture has yielded limited returns in terms of economic growth or poverty reduction (Mogues, Ayele, and Paulos 2007). Meanwhile, specific strategies meant to increase yields through intensive use of modern inputs in cereal production, or commercialize surpluses from

smallholder production through cooperatives have yielded mixed results to date (Bernard, Gabre-Madhin and Taffesse 2007; Byerlee et al. 2007; DSA 2006).

In fact, Ethiopia has yet to experience the agricultural growth and food security improvements expected from these policies. Gains in agricultural production during mid-1990s resulted primarily from area expansion rather than intensification, and have since experienced a slow-down in sectoral growth, large annual fluctuations in agricultural output, and volatility in grain and other prices (Mogues, Ayele, and Paolos 2007; Bernard, Gabre-Madhin and Taffesse 2007; Byerlee et al. 2007; DSA 2006).<sup>3</sup>

A growing body of literature that evaluates the promises and shortcomings of ADLI provide additional insights into key aspects such as land tenure policy (e.g. Deininger and Jin 2005), reforms in agricultural input markets (e.g. DSA 2006; Jayne et al. 2002) and agricultural output markets (e.g. Dercon 1995), the agricultural extension system (e.g. EEA/EEPRI 2006; Gebremedhin, Hoekstra, and Tegegne 2006; Alene and Hassan 2005; Belay and Abebaw 2004; Benin, Ehui, and Pender 2004), food security programs (e.g. Farrington and Slater 2006; Gelan 2006), rural energy policy (Wolde-Ghiorgis 2002, Teferra 2002), and cooperatives for smallholder commercialization (Bernard, Gabre-Madhin and Taffesse 2007), and returns to public investment (Mogues, Ayele and Paolos 2007). In general, these studies suggest that while the GoE's commitment to agriculture and rural development as an engine of pro-poor growth is laudable, both incremental and far-reaching reforms to the actual policies and investments being made are needed.

## **2.2. National strategies for rural governance**

In conjunction with its economic growth strategy, the GoE has also pursued several reforms to rural governance systems in an effort to improve government effectiveness. These reforms began with the fall of the military *Derg* regime in 1991 and were highlighted by the creation an ethnic federalist state.

Ultimately codified in the 1994 Constitution, this process led to a relatively novel process of devolution in which political, fiscal and administrative powers were reallocated to each of the country's nine regions and the urban administrations of Addis Ababa and Dire Dawa. Each region and administration is provided with wide executive and legislative powers, and is financed through a combination of transfers from the federal level and regional tax revenues.

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<sup>3</sup> Although estimates of growth rates for per capita agricultural GDP and per capita grain production vary by source for the period in question, an analysis of data from the Ministry of Finance and Economic Development (MoFED) and Central Statistics Authority (CSA) indicates negative or stagnant growth over the period 1996 to 2005. However, estimates for the 10-year period 1997-2006 show stagnant or slightly positive growth for both measures, possibly attributable to adequate and timely rainfall during 2004-06, supportive policy interventions, and larger structural changes in the economy. Many of these causal factors remain a subject of research.

Subsequent rounds of reform in 2001-02 led to decentralization of unrestricted block grants and civil servants to the *woreda* (district) level. This second wave of decentralization mirrored in many ways the earlier devolution of administrative, political, and fiscal responsibility to the regions, with line agencies established at the *woreda* level, which report to the *woreda* administration and which are assigned important service delivery roles in agriculture (especially extension), water supply, and the social sectors. Similarly, the block grants transferred from the regional governments to the *woredas* are resources provided for use in implementation of local development plans. As with the higher-tier transfers, these grants are distributed based on a predetermined formula, are given formally with few conditionalities, and can be used in conjunction with resources raised and held locally.

Ethiopia's decentralized federalist system can be seen as a complement to its economic growth strategy. For example, a potentially constructive combination of the federalist system and ADLI is manifested in the decentralization of rural services for smallholders, specifically agricultural extension, input supply, credit provision and infrastructure development. If accompanied by improvements in the effectiveness of local governance systems, this combination can make rural service provision more responsive and accountable to the needs of smallholders, ultimately contributing to increases in smallholder productivity and commercialization (Mogues, Ayele, and Paulos 2007).

The rapid pace of decentralization in Ethiopia is driven by strong political will within the central government. However, capacity, finances, and local governance systems have yet to catch up with the responsibilities and assignments given to local governments. Various reform initiatives and large-scale donor-supported programs have been launched in order to align supply-side and demand-side features with the demands of decentralization.

Moreover, Ethiopia continues to be characterized by a mixed governance record. In terms of government effectiveness and control of corruption—two of six governance dimensions analyzed by Kaufmann, Kraay, and Mastruzzi (2007)—Ethiopia ranks globally in the 31<sup>st</sup> and 37<sup>th</sup> percentiles, respectively (where the country in the highest, i.e., 100<sup>th</sup> percentile, performs best). This is a somewhat higher ranking than the average for countries with income levels comparable to Ethiopia's. In contrast, Ethiopia's relative status in terms of voice/accountability, and in terms of political stability, is relatively weak (17<sup>th</sup> and 5<sup>th</sup> percentiles, respectively). These levels are very low even compared to countries with similar incomes.

### 2.3. National strategies for farmer cooperatives

As part of its long-term growth and development strategy, the GoE has assigned a central role to rural cooperatives in improving smallholder productivity and promoting smallholder commercialization (cf. Proclamations 85/1994 and 147/1998; FDRE 1994, 1998; Rahmato 2002). See Annex 1 for a review of the GoE's five-year plan for cooperatives (2005/06-2009/10), and the role of the Federal Cooperative Agency in that plan.

The GoE's cooperative promotion efforts have proceeded since 1994 even in spite of the long and tumultuous history of cooperatives in Ethiopia that started during the Imperial era prior to 1973 and continued through the Derg regime (1974-1991), at the fall of which they were dismantled. Under the GoE's current strategy, each *kebele* is expected to have a cooperative in place by 2010, through which 60 percent of the agricultural outputs will be marketed and 90 percent of agricultural inputs supplied. Legal reforms in 1998 and 2004 were introduced to strengthen membership incentives by improving member rights associated with ownership, voting, share transfers, and risk management.

At present, cooperatives play a central role in providing smallholders with *access to inputs* (seed, fertilizer and credit) typically provided by the government. Cooperatives provide these inputs where private traders do not operate, or at more favorable prices or better terms than those provided by private traders. This role necessarily links cooperatives to extension services provided at the *kebele* level; to credit disbursement and recovery by regional savings and credit institutions; and in some instances, to mobilization of community work teams for public works initiatives—all of which are associated state agencies or agencies with close ties to the state.

However, as of 2005-06, cooperative coverage was estimated at less than 35 percent of all *kebeles*, with only 17 percent of households living in a given *kebele* actually participating in a cooperative. And while cooperatives are not meant to be selective, participants tend to be better-off in terms of physical and human capital. Meanwhile, only 55 percent of the cooperatives that claim to be involved in marketing their members' surplus cereals output had actually sold any produce in 2005 (Bernard, Gabre-Madhin, and Taffesse 2007).

Having said this, it should be reiterated here that the national cooperative promotion effort is presently at an interim phase of development. Thus, the incidence and growth of cooperatives can only be viewed as an intermediate observation about the effort's success to date. More importantly, there is a need to view cooperatives not only in terms of their role in boosting smallholder commercialization, but also in a

meeting point for the GoE's economic growth strategies and its governance reforms. While their primary role is to serve as a mechanism to promote the *modernization and commercialization* of smallholder agriculture, they also play a variety of other roles. Cooperatives are, for example, the key channel through which smallholders *access public services* such as the supply of credit for agricultural production. They are a means of *collectively managing scarce natural resources* such as land and water. They provide a venue within which households and communities *act collectively* by making their common needs heard, resolve local conflicts, and articulate their own development priorities. They offer nongovernmental organizations with *partners for local development* by providing access to communities and their collective action capabilities. As will be shown in the subsequent sections, the role and effectiveness of cooperatives in each of these areas is an important element of Ethiopia's development program, and thus deserves in-depth attention and analysis.

### **3. Study methods, data, and data sources**

Data for this study are drawn from three main sources: (a) a set of eight case studies conducted in selected cooperatives and *woredas* in 2007; (b) a large-scale survey of smallholder cooperatives conducted in Ethiopia in 2006; and (c) a nationally-representative survey of smallholder commercialization in Ethiopia conducted in 2005. Each is described in detail below.

#### **3.1. The 2007 Cooperative-level Case Studies**

The primary source of data for this study is a series of cooperative case studies conducted in 2007. Purposively-selected case studies of eight cooperatives at four different sites were undertaken in October-November 2007 to provide both qualitative and quantitative insights into the role of cooperatives in Ethiopia (see Table 1 and Figure 1). Case study sites were selected to include: (a) a range of agroclimatic characteristics, namely highland/lowland and drought prone/reliable moisture areas; (b) a range of socioeconomic characteristics, namely food secure/food insecure and high/medium/low market access areas; and (c) the presence of a cooperative engaged in crop production/marketing, natural resource management, or social service provision. Individual cooperatives at each site were selected from an inventory of all cooperatives in each *woreda* compiled by a separate survey (described below) and were chosen based on their accessibility and relevance to the objectives of this study.

At each site, key informant interviews and focus group discussions were held with (a) the *woreda* office of the Bureau of Agriculture and Rural Development (BoARD), including administrators and technical specialists with the Cooperative Promotion Desk, the Natural Resource Management Desk, and other

BoARD units, (b) the cooperative leadership, typically the chairperson and members of the management committee, and (c) other organizations identified by the cooperative as important to their activities, including cooperative unions, nongovernmental organizations, and civil society organizations located in the locality. In addition, interviews were conducted with households that were members of the cooperative and households in the locality that were not members of the cooperative. A total of 68 member households and 53 non-member households were interviewed, or approximately six members from each group per cooperative. Issues covered in the key informant and household interviews included *woreda* and *kebele* development constraints and priorities, cooperative governance and management systems, and agricultural production and marketing practices.

An additional site, Dejen *woreda* in Amhara region, was included in the case study sites to delve further into governance issues that were not captured in the surveys conducted at the other four sites. This particular component of the study relied on key informant interviews on topics relating specifically to the *woreda*'s governance system. Key informants included administrators, BoARD staff, and political leaders in Dejen *woreda*; along with development agents (DAs, or local extension agents) and focus groups composed of male and female farmers in Elajama *kebele*.

### **3.2. The 2006 Ethiopian Smallholder Cooperatives Survey**

The 2006 Ethiopian Smallholder Cooperatives Survey (ESCS), also conducted by ESSP, was designed to examine the role played by cooperatives in the commercialization of Ethiopian smallholders. Data were collected in mid-2006 across four regional strata (the Amhara, Oromia, SSNNP and Tigray regional states) from 207 cooperatives in 54 *woredas*, and cooperative offices in each *woreda*. In each stratum, 15 *woredas* were randomly selected, within which a maximum a four agriculture-related cooperatives were randomly chosen from the lists available at the *woreda* cooperative promotion office. For each cooperative, questions about the organization's history, membership, activities (including marketing), governance structure, and external links were asked.

The 2006 ESCS also provides information from interviews with 540 randomly-selected household heads (10 households per *woreda* across 54 *woredas*) divided equally between (a) individuals who were members of a cooperative that was less than one year old, and (b) individuals who were not members of any cooperative but residing in close proximity to these cooperatives. Questions covered household asset portfolios, agricultural production and marketing practices, and perceptions about the cooperative.

**Table 1. Case study site characteristics**

<i>Woreda</i> , region -- cooperative name: membership size	Agroclimatic characteristics		Economic characteristics		Focal themes		
	Highland/ lowland	Reliable moisture/ Drought prone	Food secure/ insecure	Market access	Crop production/ marketing	Natural resource management	Governance/ services
<b>Shebedino, SNNPR</b>	High	Reliable	Secure	Medium			
-- Leku Area Honey Products Marketing Cooperative: 127 members (all male)					Yes	--	--
-- Taramessa Multipurpose Cooperative: 2,012 members (all male)					Yes	--	--
<b>Goro Gutu, Oromia</b>	High	Drought	Insecure	Low			
-- Kara Luku Multipurpose Farmers Cooperative: 380 members (360 male, 20 female)					Yes	--	--
-- Medda Inciny Irrigation Users Cooperative: 140 members (all male)					Yes	Yes	--
<b>Oromia, Dugda Bora</b>	High	Reliable	Secure	High			
-- Woyo Seriti Gebreal Multipurpose Cooperative: 48 members (42 male, 6 female)					Yes	Yes	--
-- Tepo 140 Irrigation Cooperative: 38 members (all male)					Yes	Yes	--
<b>Tigray, Ahiferom</b>	High	Drought	Insecure	Low			
-- Thahetay Megare Tsemri Multipurpose Cooperative: 805 members (690 male, 109 female)					Yes	Yes	Yes
-- Maigebetta Irrigation Users Cooperative: 25 members (23 male, 2 female)					Yes	Yes	Yes

Source: Authors; CSA/EDRI/IFPRI (2006).

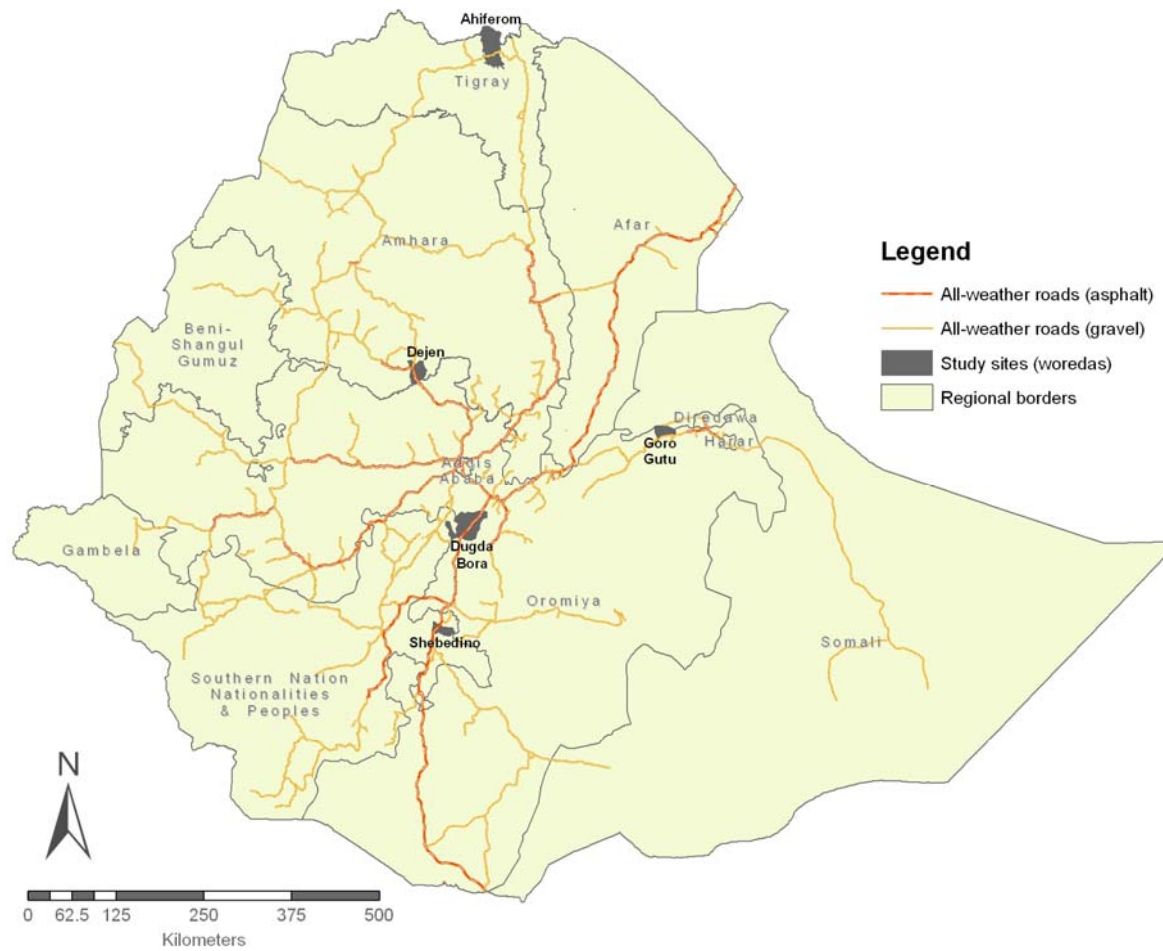


Figure 1. Case study sites, by *woreda*

### **3.3. The 2005 Ethiopia Rural Smallholder Survey**

The 2005 Ethiopia Rural Smallholder Survey (ERSS) was conducted by the Ethiopia Strategy Support Program (ESSP) and the Central Statistical Authority (CSA).<sup>4</sup> Data were collected mid-2005 from 7,186 households randomly drawn from 293 enumeration areas (EAs, roughly mapping to a *kebele*) based on a stratified two-stage cluster sample design. The sample is considered representative at the national level as well as at the regional level for four regions: Amhara, Oromia, Tigray, and the Southern Nations, Nationalities, and Peoples (SNNP) regional state. The ERSS survey was based on the CSA's Annual Agricultural Sample Survey (AASS) which used a sampling frame of 25 agricultural households selected from each EA, and covered all of rural Ethiopia except Gambella Region, and the non-sedentary population of three zones of Afar Region and six zones of Somali Region.

## **4. Findings**

This section summarizes key findings from this study. It should be reiterated here that this study is an analysis of a national cooperative promotion effort that is presently at an interim phase of development. It should also be noted that this study attempts to provide analysis at both the national and local levels using several different data sources designed for varying (and sometimes divergent) objectives. Thus, the insights offered below should be viewed as tentative conclusions and recommendations that are meant to stimulate discussion on how cooperatives can improve rural livelihoods in Ethiopia.

### **4.1. The cooperative as development partner**

Cooperatives function within the wider landscape of organizations and institutions involved in improving the economic and social welfare of smallholders and contributing more widely to agricultural development, economic growth, and poverty reduction in Ethiopia. This landscape includes public administrative and extension services, nongovernmental organizations, civil society organizations, private companies, party-based political systems, traditional governance institutions, and informal credit systems. Table 2 illustrates the key non-state linkages for those cooperatives examined as part of the 2007 Cooperative-level Case Studies.

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<sup>4</sup> The Ethiopia Strategy Support Program (ESSP) is a collaborative undertaking of the International Food Policy Research Institute (IFPRI) and the Ethiopian Development Research Institute (EDRI), and was established in September 2004 to conduct policy research to address key knowledge gaps in Ethiopia's rural development strategy, build an integrated knowledge support system, and strengthen national capacity for policy analysis.

Cooperatives are closely tied to many of these organizations and institutions, both directly and indirectly. For example, cooperatives play an important role as *interfaces* between farmers and the various *woreda*-level offices and services of the regional Bureaus of Agriculture and Rural Development. They serve as *facilitators* that bring communities into productive relationships with nongovernmental organization, cooperative unions, private agricultural and agroprocessing concerns, and private traders and brokers. They function as *conduits* not only for marketable surpluses of agricultural commodities, but also for agricultural inputs, credit, technologies, organizational innovations, and capacity strengthening. Thus, cooperatives may be viewed as a relevant partner to the wider development community—to both state and non-state actors—in Ethiopia, and a potentially useful means of meeting the GoE’s goals of increasing smallholder production and commercialization.

This discussion of the relationship between cooperatives, the state, and non-state actors raises the issue of roles and responsibilities. Evidence from this study suggests that external actors such as *woreda* offices of the BoARD, NGOs, and the private sector can play an important role in cooperative promotion and development. However, their exact roles and responsibilities vary significantly, potentially resulting in varied livelihood outcomes.

A few observations from this study illustrate the variations in roles and responsibilities. For example, some external actors work with cooperatives by relying on standard package-based approaches to group formation, irrigation design and construction, productivity improvement, and marketing. Rarely do these actors give attention to developing and offering a wider range of packages that is appropriate to a given community and to a range of households and individuals within that community. Fewer still give attention to the opportunity costs of one package relative to other packages in a given locality. Excessive focus on a single package—a technology, a commodity, or an organizational structure—may reduce the number of livelihood options that different types of individuals, households, and communities can explore and diversify into.

Second, many external actors rely on one-time asset transfers to cooperatives (e.g., an irrigation pump, generator, or equipment) rather than long-term engagements with a cooperative that focus on individual and organizational capacity strengthening. While the former approach is an effective means of covering large numbers of communities in a short period of time, it is likely to be unsustainable in the long run without support provided by the latter approach. Investment in capacity building for cooperative governance, management, accounting, and conflict resolution—as well as more technical areas such as

irrigation and water management systems design and maintenance—should be viewed as necessary investments to ensuring the success of cooperative promotion efforts in Ethiopia.

**Table 2. Cooperatives and their key linkages**

<b>Cooperative (<i>woreda</i>, region)</b>	<b>Associated NGO</b>	<b>Associated cooperative union</b>
Leku Area Honey Products Marketing Cooperative (Shebedino, SNNP)	Plan International	--
Taramessa Multipurpose Cooperative (Shebedino, SNNP)	ACDI/VOCA	Sidama Coffee Producers' Cooperative Union
Kara Luku Multipurpose Farmers Cooperative (Goro Gutu, Oromia)	Catholic Relief Service (CRS); Comitato Internazionale per lo Sviluppo dei Popoli (CISP)	--
Medda Inciny Irrigation Users Cooperative, (Goro Gutu, Oromia)	Comitato Internazionale per lo Sviluppo dei Popoli (CISP)	--
Thahetay Megare Tsemri Multipurpose Cooperative, (Ahiferom, Tigray)	Relief Society of Tigray (REST)	--
Maigebetta Irrigation Users Cooperative, (Ahiferom, Tigray)	FARM Africa	--
Tepo 140 Irrigation Cooperative, (Dugda Bora, Oromia)	Oromia Development Association (ODA); ACDI/VOCA	Meki-Batu Cooperative Union
Woyo Seriti Gebreal Multipurpose Cooperative, (Dugda Bora, Oromia)	Oromia Development Association (ODA); ACDI/VOCA	Meki-Batu Cooperative Union

Source: 2007 Cooperative-level Case Studies

## **4.2. The limits of inclusion and representation**

Evidence presented in this study suggests that cooperatives are unlikely to become as inclusive as current GoE targets expect. Inclusiveness in cooperatives is limited by several different factors including the history and legacy of cooperatives in previous regimes; the current processes of cooperative conception and formation; the terms and conditions of membership; the absence of sufficient economic incentives and the “middle-class effect” described in this study; and the tradeoff between scale economies and coordination costs in a cooperative (Table 3). These factors may present obstacles to achieving the objectives of the GoE’s strategy to 2010 that envisions establishment of a cooperative in each *kebele*,

cooperative services to 70 percent of the population, marketing through cooperatives of 60 percent of the country's agricultural surplus, and provision of 90 percent of agricultural inputs supplied.

This is particularly the case with respect to cooperatives engaged in irrigation and water management activities, where cooperative formation is typically a highly localized initiative based on a clear delineation of beneficiaries and member-households. Membership is typically defined by geography, i.e., possession of landholdings in the irrigation scheme's catchment area. It is also the case with certain types of marketing cooperatives, where cooperative formation revolves around those households with marketable surpluses only. A potential outcome of this reality is that cooperatives may not be inclusive of the poorest households in a community, e.g., households that reside on less-favorable land that is not part of the irrigation catchment area, households that are incapable of producing marketable crop surpluses, or households that face severe labor shortages.

At the same time, the evidence presented in this study shows that in spite of limited inclusiveness, some cooperatives are still able to generate benefits for individuals and households that are not formally members of a cooperative. The spillover effects occur in a number of instances, for example, where the cooperative supplies inputs (seed and fertilizer) to both members and non-members, or where non-members are able to access services through a family member who is also a cooperative member. These spillovers are an unintended consequence of cooperative design and implementation, and may contribute to improving the livelihoods of both members and neighbors by enhancing agricultural production and productivity, and generating income from the sale of marketable surpluses. Moreover, these spillovers may contribute to strengthening or expanding the social networks that smallholders need to access resources, adopt new technologies, search for new information, leverage external support, and otherwise improve their livelihoods.

Evidence presented in this study also suggests that representation varies among cooperatives. Significant differences exist in the extent to which cooperatives host frequent and open discussions on objectives, activities and performance, consultative decision-making processes, and regular rotation and/or election of leaders. In the case of irrigation cooperatives, for example, participation tends to be high because successful and sustainable use of the common pool resource in question—scarce water—requires some capacity to consult and coordinate among members. To do otherwise would likely cause rapid failure, as illustrated by several cooperatives examined in this study.

**Table 3. Reasons for not being a member of a cooperative**

<b>Response</b>	<b>ESCS cooperatives (in percent, n=270)</b>	<b>Case study cooperatives (in percent, n=53)</b>
Doesn't think the organization could benefit him/her	39	9
Was not accepted as a member in the organization	14	9
Prefers to wait until he/she sees that the organization is benefiting other members	13	4
Scared that once money is invested in the organization, it will be difficult to get it back	11	0
Does not trust this organization's management	9	2
Does not trust organizations in general	4	0
Is not aware that the organization exists	0	23
Does not have land (e.g., in the cooperative's area of operation)	--	28
Does not have money to meet membership requirements	--	13
Other	9	11

Source: ESCS (2006); 2007 Cooperative-level Case Studies.

Note: Figures may not total to 100 percent due to rounding.

What remains to be seen is whether a trade-off exists between a highly representative cooperative—one that acts on a wide range of members' interests—and the cooperative's contribution to rural livelihoods. In other words, does a tradeoff exist between specialization and diversification; and if so, how do these tradeoffs affect cooperative performance and the contribution of cooperatives to improving rural livelihoods?

Evidence presented in this study suggests a tradeoff between marketing-related activities undertaken by a cooperative and other non-production or non-marketing activities. Cooperatives may be taking on responsibilities and activities beyond the scope of either their mandate or capacity, potentially reducing their effectiveness in commercializing smallholders' surplus output. This, in turn, may negatively affect the livelihood outcomes expected from marketing cooperatives in Ethiopia.

### **4.3. The internal governance challenge**

The evidence presented in this study suggests that cooperative governance and management systems and capacities are still under development. While many cooperative members express some degree of satisfaction with the services provided by their cooperative, issues such as participation, responsiveness,

accountability and adaptability are concerns raised often by members. Given the checkered history of Ethiopia's cooperatives and the large-scale initiative currently being pursued to again promote cooperatives, it is likely that these governance and management issues will remain a concern in country.

The majority of cooperatives examined in this study displays a high degree of upward accountability, i.e., to the Cooperative Promotion Desk of the *woreda* office of the regional BoARD. At this interim phase of cooperative promotion in Ethiopia, the BoARD's leadership role in cooperative promotion and formation is likely to be necessary. But the long-term success of a cooperative—and its long-term impact on rural livelihoods—is likely to result from greater responsiveness to members' interests and needs. And, in light of the checkered history of cooperatives in Ethiopia, less upward accountability and more downward responsiveness is likely to contribute to building trust between communities and the state, and within communities themselves.

#### **4.4. The external governance challenge**

The relationships and interactions between local governance systems and cooperatives are an important issue in Ethiopia because both play an essential part in promoting and implementing the GoE's far-reaching rural development and poverty reduction strategies. These strategies include the GoE's Agricultural Development-led Industrialization program, its ethnic federalism policy, its administrative and fiscal decentralization efforts, and a whole range of social welfare and capacity building programs designed to support these strategies.

Findings from this study suggest that local governance systems and cooperatives are closely linked by interactions at multiple levels and with varying effects on smallholders. Firstly, cooperatives play a central role in providing smallholders with access to inputs (seed, fertilizer and credit) that are otherwise routed through BoARD and other public or quasi-public agencies. Secondly, cooperatives are often characterized by interlocking leadership between formal and informal governance systems at the local level. Thirdly, cooperatives are often engaged in the collective management of common pool resources, typically under the direction of government programs and projects. Fourthly, cooperatives serve an important governance role in that they are often an articulation of community voice. Finally, cooperatives are also implementing agencies for public sector programs such as HIV/AIDS awareness training. These interactions have the potential to strengthen the role of cooperatives in local development.

But these interactions also run some serious risks. For example, state intervention in cooperative design and management raises the historical issue of trust between government and community in Ethiopia. More specifically, to what extent do administrative interventions in cooperative affairs (e.g., credit-worthiness reviews by *kebele* officials, or credit recovery by DAs) reinforce the historical legacies of the Derg and play a destructive role in rebuilding trust between state and community? And to what extent do these interventions impede the ability of cooperatives to develop their own systems and structures that respond to the expectations and demands of their members, e.g., systems and structures that promote representation, responsiveness, accountability, and adaptability?

State intervention in cooperatives also raises the issue of whether scarce public resources are being put to efficient use. When *kebele* officials and DAs are used to disburse and recover credit on behalf of a cooperative, are they being diverted from the more essential tasks for which they were established and trained? Arguably, the roles and responsibilities outlined for cooperatives, councils, cabinets, DAs and other local-level actors are built on investments in developing their respective skills and capabilities; to allocate these actors to overlapping roles may lower the returns on such investments.

## **5. Conclusions and recommendations**

This paper provides an overview of evidence on how smallholder cooperatives in Ethiopia contribute to the improvement of rural livelihoods. In doing so, it examines the specific role of cooperatives in facilitating commercial linkages between smallholders and markets, managing scarce natural resources, and strengthening governance systems at the local level. Key issues examined include the historical, institutional and policy context in which the current effort to promote cooperatives is evolving, and how issues such as inclusion, representation, responsiveness, accountability, and adaptability affect the contribution of cooperatives to livelihood improvements in Ethiopia.

This paper presents findings and draws conclusions about a cooperative promotion effort that is at an interim phase of development by using qualitative data from a small number of non-representative case studies and quantitative data from sources that were designed for varying (and sometimes different) research objectives. Thus, the recommendations given here are meant to stimulate consideration and exploration of innovative policy options and solutions to improve rural livelihoods through the promotion and strengthening of rural institutions.

***Leverage the institutional landscape.*** Policies and investments made at the federal, regional and *woreda* levels should continue to encourage cooperative promotion. These same policies and investments should also encourage elected and appointed public officials—*woreda* administrators, BoARD officers, BoARD specialists, *kebele* development agents, *woreda* council members, *kebele* council members, and others—to take advantage of the diverse institutional landscape in Ethiopia to leverage resources and expertise in support of cooperatives and the smallholders they represent. Closer and more productive linkages with industry and civil society may contribute to strengthening cooperatives, and thus the impact of cooperatives on rural livelihoods.

***Acknowledge what cooperatives can and cannot do.*** Because they are inherently non-inclusive, cooperatives cannot be expected to serve as the primary vehicle for rural development. Thus policy and investment initiatives should do more to (a) acknowledge, identify and promote alternative interventions that respond specifically to the needs of individuals, households and groups that are excluded from cooperatives, e.g., groups facing extreme economic and social vulnerability; (b) recognize that the existence of spillover benefits from cooperatives means that all-inclusive membership may not be a necessary condition for improving livelihoods; and (c) recognize the tradeoffs between specialized and diversified activities in a cooperative. This first recommendation makes a strong case for continued investment in targeted interventions such as the Productive Safety Net Program (PSNP), which could be developed further to recognize their complementarities with cooperatives in Ethiopia. The second recommendation makes a case for sustaining the commitment to establishment of cooperatives based on a non-compulsory membership as set forth in revisions to the laws and regulations governing cooperatives in Ethiopia today. The third recommendation makes the case for more careful consideration of what is expected from cooperatives, and what their capacity is to manage a diversified activity portfolio: too many activities that are too heterogeneous in character could reduce a cooperative's performance and, in the long run, both its viability as an organization and its livelihood impacts.

***Diversify away from package approaches.*** Public, private and civil society actors that are external to the cooperative need to develop more extensive menus of more flexible packages that are responsive to local opportunities and challenges, rather than to the priorities of the external actor itself. These same actors need to invest in longer-term partnerships with cooperatives to provide both the physical capital investments to improve their natural resource management capacities, and the human and organizational capital investments to improve their ability to govern, manage, and act collectively. Formal coordination bodies such as *Woreda* Coordination Committees, as well as informal communication and collaboration between actors may contribute to such efforts, especially if local-level interactions are supported and reinforced at the regional and federal levels.

***Invest in capacity strengthening.*** Efforts to replicate successful cooperative experiences in Ethiopia will require greater investment in strengthening the capacity of cooperatives to govern and manage themselves independently from the BoARD or other external actors. Paradoxically, this will require new and innovative investments in developing the skills and knowledge of BoARD officers, BoARD specialists, and DA to convey governance and management expertise to cooperative leaders and members. This requires more investment and improvement in the curriculum and teaching practices in Ethiopia's Agricultural Technical, Vocational Educational Training (ATVET) colleges, particularly with respect to topics such as social mobilization, cooperative management, cooperative accounting and bookkeeping and community conflict resolution.

***Roll back the state's role in cooperative promotion and management.*** While continued BoARD support of functioning and nascent cooperatives may be necessary at this interim phase of cooperative development in Ethiopia, strategies are needed to graduate cooperatives to higher levels of independence and separate them from their ties to the state. Such strategies might include efforts to extricate local administrative and political intervention in cooperative management and governance, and more capacity-building efforts to enhance the private-sector orientation of cooperatives.

In summary, this study recognizes the potential contribution of smallholder cooperatives to increasing agricultural production and improving rural livelihoods in Ethiopia. In the long run, these contributions are likely to play a role in meeting Ethiopia's wider objectives of agricultural development, economic growth, and poverty reduction. A range of innovative policies and investments are needed to ensure that this contribution ultimately play a part in meeting these goals. If efforts to promote cooperatives can focus on defining the right role for cooperatives, strengthening local capacity to govern and manage cooperatives, and building trust between government and community, there is much cause for hope. Efforts to get this balance right will require the long-term attention of policymakers at the federal, regional, and *woreda* levels of government.

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## **Annex 1. Five-year plan of the Federal Cooperative Agency (2005/06-2009/10)**

Source: Federal Cooperative Agency (2006)

1. Making 70 percent of the society user of the cooperatives' services
2. Increasing the cooperatives' input marketing coverage from its present level of 70 percent to 90 percent
3. Increasing the cooperatives' output marketing coverage from its present level of 10 percent to 60 percent
4. Increasing the number of primary cooperatives from its present level of 14,423 to 24, 677
5. Increasing the cooperative Unions from its present level of 105 to 646??
6. Establish 6 cooperative Federations (crop, coffee, Saving & credit, milk & milk products, mining, and fruits and vegetables)
7. Establish one Cooperative league
8. Give professional support in the establishment of 3 other cooperative banks in regions. By so doing, increasing the number of regional cooperatives' banks from its present level of 1 to 4. Also establish one national cooperative bank to solve the financial shortage of cooperatives and their members
9. Through organizing 420 rural electrification service cooperatives, enabling 1,260,000 households or 6.3 million rural population to get electric power
10. Through organizing 20 telecommunications cooperatives, enabling the rural population to get access to market information
11. Through organizing and strengthening cooperatives in pastoralist and semi-pastoralist areas based on their resources, provide professional support in getting right price for their produce as well as providing consumable goods and inputs with a reasonable price
12. Increasing women membership from its present level of 13 percent to 30 percent
13. Increasing the current low level of youth membership to 25 percent
14. Increasing the employment created by cooperatives from its current level of 7000 to 126,000
15. In training programs organized by the Federal Cooperative Agency, issues concerning HIV/AIDS will get coverage of 30 minutes up to one hour in the session. Support will also be made to newly established cooperatives to give trainings on HIV/AIDS to their members. The would be organized unions will allocate 0.5-1 percent of their social fund to their HIV affected members
16. Increasing the current level of 630 million Birr saving to 1.2 billion Birr through organizing saving and credit cooperatives both in urban and rural areas and build the saving and investment capacity of the society

17. Helping cooperatives get 13 billion Birr credit so that they raise their productivity and production, enable them provide agro-processing service and making member get better benefit from their produce
18. To enhance the execution and implementation capacity through the program of “building the capacity of cooperatives”: give capacity development training to 50186 employees and 3767 professionals. Also train 7763 and 4000 employees at diploma and degree level respectively. In addition to this, on-job training will be given for 2195 professionals, 20082 cooperative management bodies and 322 cooperative employees. 120 professionals will get a MSc degree training and 10 will get PhD training in cooperatives through RUFIP program
19. Achieving better implementation of plans through undertaking experience sharing and consultative conference between the Agency and regions once in six months
20. Ensuring the continuity of information provision in the cooperative sector through facilitating cooperatives to have radio program transmission ownership