

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

Proposal for a Country Case Study

ETHIOPIA

I. TFESSD Rural Institutions

The proposed study is part of an initiative of the Agriculture and Rural Development Department (ARD) and the Social Development Department (SDV) in FY06-08 to assess and build on the potential of rural institutions to augment access to public and private services to the rural poor. Funded under the TFESSD, this study proposes a new way of looking at pre-existing rural institutions as a resource—a form of organizational capital—that has the potential to adopt new functions in order to facilitate access and mediate between the rural poor and public or private goods and services.

The main activities to be financed by the TFESSD grant will be (1) a consultative workshop with rural institutions experts from CGIAR centers; (2) a mapping of local-level institutions that rural populations rely on (including informal institutions, and public and private institutions) for natural resources management and livelihoods in the study countries; (3) the development of a benchmarking tool for agricultural innovation systems with national indicators, and piloting implementation to strengthen institutions and track economic, social and environmental impacts particularly on the rural poor; and (4) an assessment of how Bank-supported operations can be embedded in local operational structures to enhance local capacities for natural resource management and sustainable livelihoods.

The immediate outcome will be a series of country-specific policy recommendations and measures to increase the ability of clients to effectively utilize rural institutions through better access to information, technologies, services and markets. The longer-term outcome will be lessons that will have broader relevance to rural livelihoods in developing countries.

COUNTRY CONTEXT

II. Background

A. The Government's Strategy

Ethiopia is a country often characterized by poverty and deprivation. Yet it is also a country endowed with a wealth of productive land and natural resources. Nearly 32 million hectares of viable agricultural land exists within the Ethiopia's landmass of 1.1 million square kilometers. Harnessing the potential of these resources could drastically improve the livelihoods of Ethiopia's 64 million small-scale, resource-poor farmers and pastoralists.

But in reality, less than 11 million hectares of arable land comes under cultivation annually, forcing smallholders to survive on increasingly marginal lands and natural resources. Ethiopian agriculture remains characterized by small-scale subsistence production systems where crop and livestock yields are very low. Still, agriculture remains the country's most important enterprise, employing more than 85 percent of the country's 75 million citizens and accounting for more than 40 percent of total GDP and 90 percent of export earnings.

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

In recent years, the Government of Ethiopia (GoE) has set forth a comprehensive set of development objectives that target economic growth and reduce poverty. Key elements of objectives are strategies designed to promote a market-led transformation of the rural economy, and the decentralization of political, economic, and administrative powers and functions.

Many of the objectives and strategies are described in the GoE's Program for Accelerated and Sustained Development to End Poverty (PASDEP) emphasizes development led by agricultural sector growth, improved governance and decentralization of delivery of services, and the reduction of vulnerability. Relative to the previous poverty reduction strategy, PASDEP places much greater emphasis on commercialization of agriculture, diversification of production and exports, and private sector investment in order to move farmers beyond subsistence farming to small-scale market-oriented agriculture.

Under PASDEP, these objectives would be pursued through a range of policies and instruments including: (i) modernization of the research and extension systems through investment in higher learning institutes, national and regional research, technical and vocational education and training, and farmer training centers; (ii) enhancing competition and increasing efficiency in agricultural input and output markets; (iii) strengthening the rural credit system; (iv) improving irrigation and water management; (v) increasing land tenure security; (vi) creating a conducive investment climate for commercial agriculture; and (vii) reducing the vulnerability of families living in regions prone to drought.

Key implementing agencies include the national and regional agricultural research system; post-secondary agricultural education services; extension services at the regional and local levels; and cooperatives and cooperative unions. Necessarily, implementation will also involve the growing number of private sector and civil society actors in the agricultural sector.

Major challenges facing the GoE include how to increase the responsiveness of rural institutions to the demands of both farmers and market agents; how to develop appropriately demand-driven interfaces between farmers, on the one hand, and research, education, and extension on the other; and how to extend these interfaces to include other emerging actors from the private sector and civil society.

This suggests the need for further analysis of the functioning and effectiveness of a wide range of rural institutions, including local *kebele* (peasant association) and *woreda* (district) administrations; cooperatives and cooperative unions; farmer training centers and development agents; rural credit and savings institutions; and national and regional research centers. It also suggests the need for greater analysis of how these rural institutions interact with other emerging actors in the agricultural sector such as private firms, investors, rural entrepreneurs, non-governmental organizations, and community-based organizations.

B. Focal Institutions

Key institutions and institutional innovations include the following:

Cooperatives. Since 1994, the GoE has actively promoted farmer cooperatives as part of its smallholder commercialization strategy. The current GoE policy aims at establishing at least one cooperative per *kebele* by 2010, and legal reforms in 1998 and 2004 were implemented to

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

strengthen membership incentives by improving member rights associated with ownership, voting, share transfers, and risk management.

Cooperatives provide a wide variety of services in Ethiopia: including input supply management; grain marketing; and the supply of consumer goods to members at prices that compete with local traders. Some cooperatives are also involved in grain milling, seed multiplication and distribution, veterinary medicine distribution, and technical skills development. Farmer cooperatives (and conglomerations of cooperatives in cooperative unions) have also found a clear niche in the production of high-value export crops such as coffee and the packaging and distribution of fertilizer. Areas of further potential include other commercial crops e.g., dairy, fruits, and vegetables, where cooperatives can play a key role in resource pooling and collective marketing.

At present, cooperative coverage is less than 35 percent of all *kebeles*, with membership estimated at 4.5 million farmers. Yet efforts to reach the coverage and membership targets by 2010 will ideally contribute to the GoE's strategies for promote market-led agricultural development and commercialization of smallholders. Specifically, cooperatives can play a crucial role in the procurement of inputs (seed, fertilizer, credit) and the sale of surpluses into markets where traders and processors frequently extract benefit from chronic information asymmetries, concentrations of market power, high transactions costs, and weak contract enforcement. They can also serve as portals or interfaces between smallholders and other innovation actors, e.g., public, private, and civil society organizations engaged in research, extension, business education, or entrepreneurship training.

Key challenges underlying the cooperative initiative relate to many of well-documented challenges that have been experienced by cooperatives in other countries, e.g., free-ridership, membership commitment, optimal size and function, and maintaining the independence of operations.

Extension. Since 2003, the GoE has been promoting a similarly ambitious plan in the realm of extension and advisory services: establishment of 15,000 Farmer Training Centers (FTCs), one in each *kebele*, and training for more than 45,000 development agents (i.e., extensionists) in one of 25 agricultural technical and vocational education and training (ATVET) colleges to staff the FTCs.

The FTCs are designed as local-level focal points for farmers to receive information, training, demonstrations, and advice, and include both classroom and demonstration fields. They are expected to form an important node between extension and farmers in the agricultural sector. Each FTC is to be staffed by three ATVET graduates (one each in the areas of crops, livestock, and a natural resource management) and supported by a peripatetic graduate covering several FTCs and trained in cooperatives management or a related field. Each graduate is expected to train 120 farmers per year in his/her field of specialization.

Key challenges include providing adequate material and infrastructural support to the extension system; building capabilities among extensionists that are specifically and sufficiently commercially-oriented; and creating constructive linkages between farmers, extensionists, and actors in the private and civil society sectors.

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

Research. Public sector research is a long-standing cornerstone of Ethiopia's agricultural sector. Between 1992 and 2000, public expenditure and staffing (measured in terms of full-time equivalent (FTE) researchers) doubled, while expenditure as a percentage of agricultural GDP also increased significantly. The growth in expenditure and FTE researchers are significant in light of the stagnation that occurred during roughly the same time period throughout Sub-Saharan Africa, although Ethiopia's expenditure as a percentage of agricultural GDP remains among the lowest in the region.

Within the public sector, the Ethiopian Institute of Agricultural Research (EIAR) accounts for the lion's share of expenditure and expertise: as of 2000, approximately 66 percent of national expenditure on agricultural research and 58 percent FTE researchers employed are attributable to EIAR centers and programs. About half of the researchers have postgraduate training; 10 percent have PhDs. EIAR operates as a semi-autonomous body under the Ministry of Agriculture and Rural Development (MoARD), and is complemented by seven regional agricultural research institutes (RARIs) and seven higher learning institutes; as well as extension and education services at the federal and regional level. The public research system has undergone several structural reforms in response to GoE strategies and priorities such as smallholder commercialization and administrative decentralization.

The research system—in partnership with regional extension services and cooperatives—has chalked up several critical successes in promoting the adoption and marketing of high-value commodities such as pulses, oilseeds, wheat, potatoes. The key challenge facing Ethiopia's agricultural research system is how to scale these successes up and out to cover a wider number of crops/commodities, farmers and areas in Ethiopia.

The private sector. Domestic and foreign firms, small-scale rural entrepreneurs, and industry associations are emerging as a potentially important force in Ethiopia's rural economy. Private investment as a percentage of GDP in Ethiopia has risen significantly in recent years, as has domestic lending to the private sector. Between 1992 and 2004, 614 domestic firms and 23 foreign firms invested approximately US\$310 million in the agriculture sector. Although the cumulative investment in agriculture during this period totals just 14 percent of all private investment in Ethiopia, compared to 40 percent for the manufacturing sector, it is a sign of investment growth. Moreover, changes in the business environment have yielded significant improvement in just a few short years. Key priorities for Ethiopia's agricultural development include linking this private investment growth to smallholders, rural institutions, and the rural economy as a whole.

Traditional institutions and civil society. Collective action organizations are a common feature in rural Ethiopia. Traditional, informal organizations at the community level include funeral groups (*idir*), work or labor sharing groups (*jigie*), and rotating savings and credit associations (*iquob*). More formal groups focused on explicit development activities—community-based organizations (CBOs) supported by or partnered with local and international non-governmental organizations (NGOs) exist side-by-side with these institutions. Emerging examples suggest the importance of civil society organizations, for example, CBO and NGO partnerships with local government and the private sector to promote commercial ventures in high-value crops such as milk, honey, and seed; and the use of traditional institutions to support rural health care services. Integrating and coordinating civil society organizations with other rural institutions poses an important challenge for country's development and growth.

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

AN OVERVIEW OF THE CASE STUDY

III. Study Objectives and Methods

A. Objectives

This study aims to provide a diagnosis of key elements of the Government of Ethiopia's efforts to enhance agricultural sector performance. Specifically, the study will examine the role and impact of rural institutions on agricultural productivity and rural livelihoods. Specific research questions are as follows:

- 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 greater commercialization of smallholders?
- What options are available to the GoE to strengthen the role and impact of rural institutions in support of their overall policy objectives—what interventions can improve the responsiveness and impact of rural institutions to smallholder needs? What types of interventions can be employed to enhance participation, inclusiveness, decentralized decision-making, and local ownership of rural institutions?

B. Approach and Methodology

Data for this study will be drawn from two sources:

- *The 2005 Ethiopia Rural Smallholder Survey (ERSS)* conducted by the Ethiopia Strategy Support Program (ESSP) and the Central Statistical Authority (CSA).¹ The objective of the ERSS was to collect data and analyze the economic activities and behaviors of smallholders in view of Government of Ethiopia's objectives of increasing rural welfare and incomes through increased interaction with the market. The ERSS survey itself was based on the CSA's Annual Agricultural Sample Survey (AASS), which 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. The ERSS used the AASS sampling frame of 25 agricultural households selected from each sample enumeration area (EA). A total of 293 EAs and 7,325 agricultural households were sampled based on a stratified two-stage cluster sample design.²

¹ 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. This paper is an ESSP output.

² For the purpose of the ESSP survey the country was divided into five strata. The first four strata consist of the four major regions; Tigray, Amhara, Oromia, and Southern Nations, Nationalities, and People's Region (SNNPR). The fifth stratum is formed by combining all regions other than the above four. Each of the four major regions was considered to be the domain of estimation or a stratum for which major findings

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

- *The 2006 Ethiopian Cooperatives Survey (ECS)* conducted by ESSP. The ECS survey was designed to examine the role played by cooperatives in the commercialization of Ethiopian smallholders. A total of 200 cooperatives in 60 *woredas* were surveyed, along with 600 households (among which 300 were cooperative members and 300 were non-members), and *woreda*-level cooperative offices.

Other datasets that would support this study include: the 2001/2 Ethiopian Agricultural Sample Enumeration (EASE) conducted by CSA. The EASE documented a number of smallholder characteristics, including detailed information on production strategies (inputs, marketing), land management, household characteristics and the use extension and credit services.

C. Main Tasks, Workplan, and Budget

The main tasks underlying this case study are outlined below and detailed in the workplan given in Table 1.

1. *Background analysis.* The first task will be to examine the ground realities and policy priorities relating to cooperatives and extension in Ethiopia. The review will place these rural institutions against the backdrop of wider changes occurring in rural Ethiopia, and review the existing literature on their history, performance, and impact.

2. *Descriptive analysis.* Using data from the survey above, this case study will provide a detailed diagnosis of smallholder participation in cooperatives and extension. Descriptives will combine both qualitative and quantitative analysis of key factors relating to outreach, performance, and impact of cooperatives and extension in varying contexts, e.g., different farming systems (cereal, cereal-livestock, commercial/high-value, etc.); different agro-potential areas (high/low potential and high/low risk areas); different degrees of market and infrastructure access (distance to markets, road networks, credit services, etc.); and other key factors.

3. *Policy analysis.* Based on findings from the above, the study will provide policy options that address such issues as the sequencing of policy implementation; approaches to capacity strengthening; and building networks and linkages in support of the GoE's objectives for the agricultural sector.

4. *Workshop/seminar.* Workshops and seminars are a critical means of ensuring that the case study analysis is understood and incorporated into the decision-making processes of key policymakers in the GoE and other stakeholders in the private sector and civil society. A series of workshops and seminars involving a range of stakeholders will be conducted as part of this case study to share and reflect on the background, descriptive and policy analyses discussed above.

of the survey are reported. Findings for the entire rural Ethiopia were also obtained by combining results of each of the above stratum.

TFESSD Mobilizing Rural Institutions for Sustainable Livelihoods and Equitable Development

Table 1. Workplan

	Activities	2007				2008	
		Q1	Q2	Q3	Q4	Q1	Q2
1	Finalization of workplan, assemble project team						
2	Design analytical framework for the study; Assessment of available data and literature; research seminar to discuss study design						
3	Collect additional case study data as necessary						
4	Hypothesis testing and data analysis						
5	Write-up of finding and results; research workshop to discuss study findings						

The case study work will be conducted by the Ethiopian Development Research Institute (EDRI), Addis Ababa; International Food Policy Research Institute (IFPRI) through its offices in Addis Ababa; and local consultants and experts required. Supervision of the work will be conducted by the Ministry of Agriculture and Rural Development of the Federal Democratic Republic of Ethiopia and the World Bank Country Office-Ethiopia.