Euricse

European Research Institute on Cooperative and Social Enterprises

Identifying Processes and Policies Conducive to Cooperative Development in Africa

# Ethiopia Country Report

International Cooperative Research Group

US Overseas Cooperative Development Council

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This country report is one of the outputs of the research project "Identifying Processes and Policies Conducive to Cooperative Development in Africa", an exploratory study conducted by Euricse in partnership with the International Cooperative Research Group, a division of the US Overseas Cooperative Development Council (OCDC).
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## Outline

## 1. National context and agrarian policies

Ethiopia is one of the fastest growing economies in Africa. Its average growth in real GDP between 2003/04 and 2010/11 was 11.4% (MoA/ATA, 2012). In 2014, its GDP growth rate was 10.3%, which was much higher than other low income countries. The peculiarity of the Ethiopian case lies in the fact that, unlike other emerging African countries, the process of economic growth is not driven by the extraction of natural resources, but mostly by public investments in infrastructure and the improvement of productivity in the agricultural and manufacturing sectors. These processes have been promoted through emulating the Asian model of the developmental state, which implies a key direct role of the state in the economic development of the country (Chinigò and Fantini, 2015). Moreover, in terms of poverty indicators, the outcomes of Ethiopia are interesting when compared to other Sub-Saharan African countries (SSA) and other low income countries: in 2010, the poverty headcount ratio at the 1.90 USD per day poverty line was 33.5% compared to 46.1% in the SSA developing countries and 52.4% in the low-income countries[1].

Ethiopia has a specific colonial history, since it was independent until 1936, when it was occupied by Italian troops. Italy was under the fascist regime and occupied Ethiopia until its World War II defeat in 1941. In 1941, the emperor Heile Selassie, who was in power before the Italian occupation, came back to power and kept it until 1974, when he was overthrown by a military coup. The military established a junta (the *Derg*), which imposed totalitarian rule and a strongly centralized economy. In the imperial period, power was distributed from the center to the periphery, and one of the major tools for this was the provision of land grants to the military. In 1975 the *Derg* regime implemented a project of land nationalization, carried out against the imperial landed classes; a land redistribution followed, through the newly established "Peasant Associations".

The *Derg* regime was overthrown after the civil war in an insurrection led by the Tigray People Liberation Front (TPLF) that gave birth to the ruling coalition of the Ethiopian People Revolutionary Democratic Front (EPRDF) in 1991, which remains today as the ruling party. In 1994, the new constitution restructured Ethiopia into a federal and decentralized republic in the name of the right to self-determination of the "nations, nationalities and peoples" of the country (Chinigò and Fantini, 2015). The new government dismantled the *Derg*'s system of soviet-style planned economy in the 1990s, but rejected the structural adjustments programs and the macroeconomic policies promoted by the international financial institutions at the same time. The adhesion to a free market economy was therefore defined as "selective" (Chinigò and Fantini, 2015), as the Ethiopian government holds a main role in key economic sectors, such as finance, telecommunication, energy, and agriculture. The constitution reaffirmed state ownership of land and provided for a decentralized system of land administration, even though it allowed renting of land and strengthened inheritance rights, so the use of the land is more liberalized than during the *Derg*. In 2005, the Land Administration and Use Proclamation further decentralized the land administration, established registration rules and eased the procedures for public authorities to promote land expropriation for development purposes (Chinigò, 2013).

In the 1990s, the policy guiding the government approach to rural development was the Agriculture Development-Led Industrialization Strategy (ADLI), which aimed at achieving the objective of national food self-sufficiency through support for smallholder agriculture and, in the long run,

[1] World Bank data: http://data.worldbank.org/country/ethiopia [Accessed: February 9, 2016].

would also create the conditions for industry to develop (Bernard and Spielman, 2009; Chinigò, 2013). Since the 2000s, the policy has aimed at turning Ethiopia into a middle-income country by 2025, partially by investing more in industrialization and the construction sector. Still, the current policies provide a central role for agriculture. Ethiopian agriculture accounts for more than 40% of the GDP, 90% of exports, and 85% of employment, with a dominance of cereals and livestock production, and is dominated by smallholder farming.

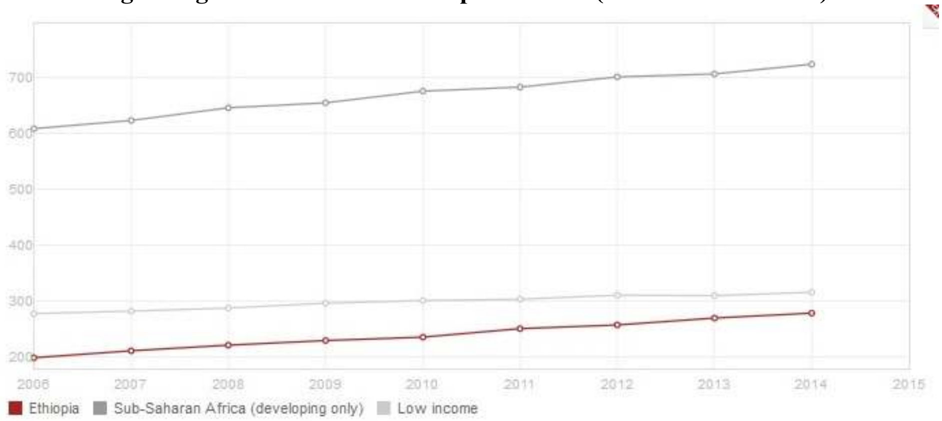
In analyzing Ethiopian agriculture today, the most relevant document is the 2010 five-year Growth and Transformation Plan (GTP). It pays specific attention to the tools put in place to increase the commercialization of agricultural production, since it is acknowledged that agro-commodity commercialization in Ethiopia was far below capacity in 2010 (Francesconi and Heerink, 2011). The development of market-led agriculture that is able to attract investment and to also create employment through micro- and small-sized enterprises (MSEs) is at the core of the strategy. Achieving national food security through household agriculture to has become a secondary, although not marginal, objective. According to Chinigò and Fantini (2015), support for commercial smallholders constitutes "by far the most remarkable shift in the government land policy since the 1970s." The GTP (MoFED, 2010) states the following:

> The agricultural strategy will direct on placing major effort to support the intensification of marketable farm products, both for domestic and export markets, and by small and large farmers. Fundamentals of the strategy include the shift to produce high value crops, a special focus on high-potential areas, facilitating the commercialization of agriculture, supporting the development of large-scale commercial agriculture where it is feasible. The commercialization of smallholder farming will continue to be the major source of agricultural growth. To complement this, concerted support will be given to increase private investment in large commercial farms. A range of public investments will also be continued to scale-up the successes registered in the past. Transparent and efficient agricultural marketing system will be strengthened. Investment in marketing infrastructure will also be increased.

In the same timeframe, input provision was reformed to avoid the mismanagement of subsidized provisions: for agricultural inputs, there are no more 100% credits, and farmers are required to pay cash for seeds and fertilizers. This went together with the expansion of microfinance institutions (MFIs) and credit cooperatives in rural areas, along with the organization of input distribution and the introduction of innovations around small groups of farmers, each of which includes a "model farmer". Through the Micro-Financing Business Proclamation of 2009, financial services have been increased for smallholders. A new emphasis was given to savings: incentives were provided to farmers to form savings groups linked to their commercialization activity (Chinigò and Fantini, 2015). The same authors underlined three pillars of the current agrarian policies: commercialized agriculture by smallholders, large-scale commercial agriculture that involves the private sector (on what the government defines as "unused land"), and food security initiatives that target less successful farmers.

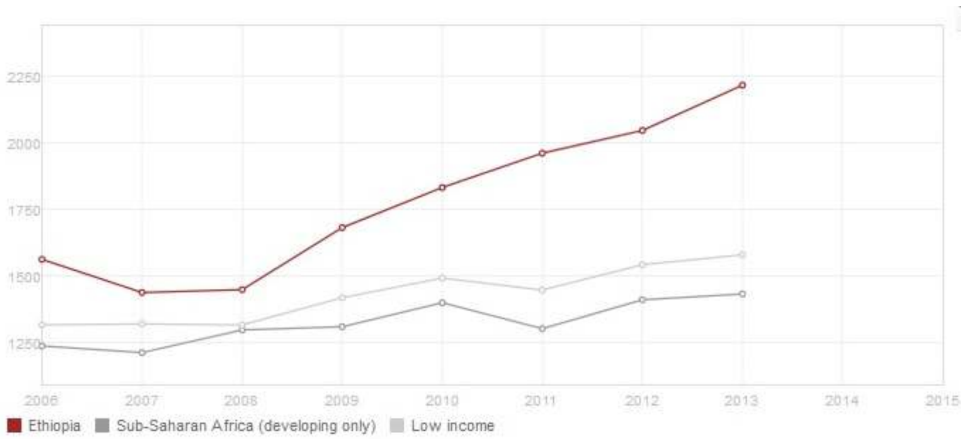
Productivity in agriculture is a major concern of these policies. The development of productivity indicators are shown in the graphs below. An upward trend is clear in both figures, but labor productivity has remained lower than other SSA or low-income countries, while cereal yields per hectare are higher than average and growing faster.

**Fig. 1: Agriculture value added per worker (constant 2005 USD)**[2]




*Source*: World Bank data[3]

**Fig. 2: Cereal yield (Kg per hectare)**[4]




*Source*: World Bank data[5]

The productivity issue is at the core of the activities of the Agricultural Transformation Agency (ATA), founded in 2010 and accountable to the Ministry of Agriculture (MoA). The agency is referred to as "the Secretariat of an Agricultural Transformation Council chaired by the Prime Minister." This body is aimed at addressing two issues: the need to develop skills in the agricultural sector and the need to increase agrarian productivity. It is one of the major actors of agrarian policies, together with the MoA and the Federal Cooperative Agency (FCA, under the MoA authority), that develops the strategies of cooperative promotion.

[2] "Agriculture value added per worker is a measure of agricultural productivity. Value added in agriculture measures the output of the agricultural sector (ISIC divisions 1–5) less the value of intermediate inputs. Agriculture comprises value added from forestry, hunting, and fishing as well as cultivation of crops and livestock production".

[3] http://data.worldbank.org/country/ethiopia [Accessed: February 9, 2016).

[4] "Cereal yield, measured as kilograms per hectare of harvested land, includes wheat, rice, maize, barley, oats, rye, millet, sorghum, buckwheat, and mixed grains. Production data on cereals relate to crops harvested for dry grain only. Cereal crops harvested for hay or harvested green for food, feed, or silage and those used for grazing are excluded. The United Nations Food and Agriculture Organization (FAO) allocates production data to the calendar year in which the bulk of the harvest took place. Most of a crop harvested near the end of a year will be used in the following year".

[5] http://data.worldbank.org/country/ethiopia [Accessed: February 9, 2016).

In September 2015, a second GTP was formulated, drawing upon an assessment of the results of the Ethiopian economy in 2010–2015. The focus remains on increasing the productivity of agriculture through supporting the process of industrialization. Agricultural value-added average growth has been below the target (6.6%). Within agriculture, the best performing sectors have been horticulture and food crops (cereals, pulses, and oil seeds), while the livestock subsector registered a disappointing performance. The GTP suggested that the structure of the economy did not change significantly during the five years of implementation, since agriculture performance has remained relatively stable, accounting for 40% of GDP (it dropped from 41.6% in 2010 to 40% in 2015). In comparison, the biggest increase occurred in the construction sector, which accounted for 5.8% of GDP in 2010 and 7.5% in 2015.

## 2. Agrarian cooperatives: an overview

Cooperatives in Ethiopia were first established under the imperial regime (1960s–1974), but they did not embrace cooperative principles and were exclusive to farmers with larger farm sizes. Their development was also constrained by several problems relating to incentives and decision making (Abate et al., 2014). During the *Derg* regime (1974–1990) agricultural cooperatives were extended arms of the state and were used primarily as instruments of the government to control the agricultural sector. Agrarian cooperatives were divided between collective production co-ops and service co-ops; the efforts of these cooperatives resulted in poor outcomes, since participation was coerced and the policies were not effective. It is only since the economic reform in 1991 that cooperatives have been promoted and revitalized as autonomous organizations, a process that was helped by the establishment of a new legal framework (Borzaga and Galera, 2012). Today, cooperatives are based on voluntary participation and are embedded in the market economy.

Other institutions strongly rooted in Ethiopia that are relevant to cooperatives are the traditional mutual organizations (e.g., *idir).* The main service provided by these mutual organizations is traditional insurance, or a safety net, typically for paying funerals. They operate using resources pooled by members on a regular basis.

Since the fall of the *Derg*, agricultural cooperatives have become an integral part of the national strategy for agricultural transformation (MoFED, 2010), and they have been promoted by the government to encourage smallholders' participation in the market (Abate et al., 2014). In this framework, the Federal Cooperative Agency (FCA) was established in the early 2000s. The agency is a public body that promotes, regulates, and supervises the cooperative sector at the national level. According to the federal statute of Ethiopia, the agency has regional divisions (the Regional Cooperatives Promotion Agencies). When it was first established, the FCA came under the Prime Minister's office; it then shifted to the Ministry of Rural Development and later moved again to the Ministry of Agriculture (Co-operative College, 2013). The Agricultural Transformation Agency (ATA) also has a focus on agricultural cooperatives as preferential institutions for moving smallholders out of subsistence agriculture and linking them to input and output markets (Abate et al., 2014). Ethiopia's cooperative movement does not have a national apex body, but has a second-level organization of primary cooperatives and unions.

Ethiopia's Growth and Transformation Plan (GTP, MoFED, 2010) identifies a central role for agricultural cooperatives in increasing the productivity of smallholder farmers, which is one of the main aims of the medium-term development program of Ethiopia. The Agricultural Cooperatives Sector Development Strategy 2012–16 is also clear about the role of agricultural cooperatives: “to contribute to Ethiopia’s overall vision of achieving middle income status by 2025 through increased smallholder farmers’ productivity and income by leveraging the activities of agricultural cooperatives” (MoA/ATA, 2012: 4). According to the Ethiopian government, commercialization through cooperatives should be favored over individual approaches, since the formation of cooperatives can allow farmers to scale up production and gain market power (Francesconi and Heerink, 2011). One of the policy directions is the extension of the coverage of agrarian cooperatives, with the aim of having a cooperative in each *kebele.*[6] Indeed, the number of *kebeles* with the presence of a cooperative has increased. According to Bernard et al. (2008), the share of *kebeles* with cooperatives went up from 10% in 1991 to nearly 35% in 2006 and to around 50% in 2011 (Borzaga and Galera, 2012). The number of cooperatives in the country is growing at a fast rate: between 2007 and 2012, the number of cooperatives grew by about 87% (Borzaga and Galera, 2012). As of 2012, a total of 43,256 primary or first-level cooperatives have about 6.5 million member households. Of the total, about 26% are agricultural cooperatives. About 70% of agricultural cooperatives are multipurpose, while 30% have a single function (marketing, dairy production, irrigation, etc.). Almost half of these cooperatives are members of a cooperative union. There were also three agriculture-related federations at the regional level: an agriculture federation in SNNP,[7] a multipurpose marketing federation in Tigray that focuses largely on sesame, and a grain federation in Oromia.

**Tab. 1: Main Types of cooperatives in Ethiopia by region and their percentage shares, 2012**

| | Types of cooperative | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Region** | **Multi-purpose** | **Irrigation** | **SACCOs** | **Housing** | **Consumer** | **Dairy** | **Mtkting** | **Other** | **Total** |
| Tigray | 657 | 479 | 774 | - | 76 | 97 | 257 | 1,406 | 3,746 |
| Amhara | 1,906 | 359 | 1,578 | 1,468 | 275 | 112 | 247 | 1,105 | 7,050 |
| Oromia | 3,457 | 518 | 3,579 | 5 | 703 | 136 | 1,685 | 1,238 | 11,321 |
| SNNP | 990 | 91 | 2,460 | 128 | 100 | - | 327 | 3,809 | 7,905 |
| Benshangul | 95 | 2 | 76 | 1 | 24 | 1 | 61 | 49 | 309 |
| Harrari | 17 | 8 | 36 | 116 | 16 | - | 24 | 231 | 448 |
| Gambella | 96 | - | 11 | 3 | 38 | - | 51 | 39 | 238 |
| Afar | 165 | 59 | 79 | 1 | 17 | 12 | 31 | 1 | 365 |
| Addis Ababa | - | - | 1,415 | 5,599 | 168 | - | - | 2,300 | 9,482 |
| Dire Dawa | 54 | 7 | 176 | 254 | 62 | 2 | 49 | 456 | 1,060 |
| Somali | 265 | 140 | 86 | 12 | 23 | - | 66 | 740 | 1,332 |
| **National** | **7,702** | **1,663** | **10,270** | **7,587** | **1,502** | **360** | **2,798** | **11,374** | **43,256** |
| % share | 17.8 | 3.8 | 23.7 | 17.5 | 3.5 | 0.8 | 6.5 | 26.3 | 100 |
| % growth last 5 years | 46.1 | 213.8 | 96.2 | 94.9 | 531.1 | 40.6 | | 119.4 | 87.4 |

*Source:* Federal Co-operative Agency, 2012, cited in Borzaga and Galera, 2012

[6] Administrative divisions in Ethiopia: Ethiopia is divided into 11 administrative regions (Addis Ababa, Afar, Amhara, Benishangul-Gumuz, Dire Dawa, Gambela, Harari, Oromia, SNNP, Somali and Tigray. *Woreda* are the third-level administrative divisions and are divided into *kebeles* (neighborhood associations), the smallest administrative division in the country.
[7] Southern Nations, Nationalities, and Peoples’ Region.

*Note:* The growth rate is calculated using 2007 data on the number of primary cooperatives in Ethiopia from Bernard et al. (2010). Multipurpose cooperatives are agricultural cooperatives that provide input and consumer goods supply, credit and output marketing services.

Financial and housing cooperatives are the most widespread cooperatives next to the agricultural ones. The former expand credit services and spread a savings culture among the unbanked segments of the population: these are considered important policy tools in mobilizing savings in the country. According to Borzaga and Galera (2012), about 90% of the cooperatives are found in five regions: Oromia, Addis Ababa, SNNP, Amhara, and Tigray.

Membership has also increased in the last 10 years. Prior to that, as underlined by Bernard and Spielman (2009), only 9% of all smallholders were found to be members of such organizations. The same authors identify a "middle class effect" in cooperative membership: education and landholding seem to be the dominant variables explaining household participation, but the marginal effect of landholding decreases with the amount of land after a maximum is reached (around 4 ha). An important constraining criterion may be that all members must buy a share of the cooperative[8]: nearly 50% of nonmembers living in *kebeles* with cooperatives did not join because they cannot fulfill the financial criteria (Bernard and Spielman, 2009). Abate et al. (2014) found that the propensity to become a member of agricultural cooperatives increases with family size, experience in farming, number of farm plots, and wealth, but—after a certain threshold—wealth, household size, and age adversely affect the probability of participation. Growers of teff[9] and wheat have higher probability of being members. On the other hand, farm households that have off-farm incomes, live closer to roads, and grow diverse crops are less likely to participate in cooperatives.

According to 2005 data, cooperatives did not increase cereal commercialization. Bernard et al. (2008) show that cooperative members tend to commercialize a similar proportion of their output as compared to nonmembers; this goes, nevertheless, together with higher prices obtained for members. Francesconi and Heerink (2011) discerned that this was true for "livelihood cooperatives," but not for marketing cooperatives. The authors define marketing cooperatives as those that collectively market members' production; "livelihood cooperatives" are defined as those who do not.[10] Cooperatives in which members commercialize their production collectively allow for greater commercialization rates; even though these co-ops are growing rapidly, livelihood cooperatives are still more numerous. In 2005, agricultural cooperatives commercialized about 10% of the marketable surplus. Out of the 20% of smallholder grain output marketed in 2012, cooperative unions market 15% of maize, 20% of wheat, 15% of sorghum, and 10% of pulses (MoA/ATA, 2012). At the same time, Abate et al. (2014), using 2008 data, found that farmers belonging to agricultural cooperatives are more efficient than independent farmers; that is, member households are in a better position to obtain maximum possible outputs from a given set of inputs by about five percentage points.

Cooperatives are also the dominant distributors of seed and fertilizer to farmers: they account for about 90% of modern input distribution. In 2011, the share of cooperatives in fertilizer marketing was 95%, with a similar proportion for improved seed (MoA/ATA, 2012). Cooperatives generally

[8] In 2008, the costs were 45 birr (5.00 USD at the time) on average but could reach up to 1,000 birr (111.00 USD at the time).

[9] Teff is a fine grain native of Ethiopia and Eritrea and is an essential component of the local diet.

[10] The authors declared that the distinction between marketing and livelihood cooperatives could be done using household data referring to the question: "Does your cooperative purchase/collect your output to sell it in the market?"

obtain inputs from quasi-public agencies and seed producers and sell both fertilizer and seeds to all farmers (members and nonmembers). According to MoA/ATA (2012), cooperatives charged less for this service than comparable organizations in other countries. This activity is usually carried out both towards members and nonmembers. In principle, bulking and marketing agricultural produce can also be done with members' and nonmembers' production, but it seems that a small proportion of cooperatives actually also buys from nonmembers (Bernard and Spielman, 2009).

Limited access to financing is one of the main concerns, according to MoA/ATA (2012). Most cooperatives have access to some financial products, but more sophisticated services, such as warehouse receipts and insurance, are rare. Many rural financial institutions (mainly savings and credit cooperatives, or SACCOs, and microfinance institutions, or MFIs) generally have insufficient capital and capacity to provide agricultural cooperatives with services at the scale they need, mainly because of individual-based loans and high interest rates that are too high. One of the major problems is that legislation on cooperative banking is missing; thus, the involved stakeholders are now thinking of a proposal concerning the formation of a Federal Cooperative Bank that should provide financing to the whole system. At the same time, SACCOs (in the rural areas: rural savings and credit cooperatives, or RUSACCOs) are increasing in number and importance and are becoming relevant in rural areas—together with MFIs—for providing input buying for farmers. As we will see, an integrated system between agricultural co-ops and credit co-ops is developing.

The main policy document on agricultural cooperatives is the Agricultural Cooperatives Sector Development Strategy 2012–2016, defined by the MoA and the ATA. This document identifies the FCA and Cooperative Promotion Agencies as the key stakeholders in regions, zones, and *woredas*, as well as the MoA, the Ministry of Trade, the Ministry of Finance and Economic Development, the ATA, the Ethiopian Seed Enterprise, the Ethiopian Standard and Grading Agency, and universities. Moreover, many nongovernmental organizations (NGOs) provide support to cooperatives in various forms. Agricultural cooperatives are defined as "cooperatives whose primary purpose is increasing member producers' production and incomes by helping better link with finance, agricultural inputs, information, and output markets." According to Chinigò and Fantini (2015), while the mobilization of the smallholders and input distribution were the two main functions of agricultural cooperatives until recently, the Strategy 2012–2016 focuses particularly on agricultural commercialization.

According to this strategy, cooperatives have to deal with several farmers' needs: input procurement and distribution, specialized extension, output marketing, and the efficient allocation of surpluses. The strategy argues that early-stage cooperatives should provide a limited range of services and focus on the production of one or a few crops. Co-ops have to be self-sustaining and do not depend on external funds. They shall provide and enforce reliable marketing contracts with institutional buyers, which should include the few buyers with whom the cooperative has long-lasting relationships. Cooperatives have to benefit members more than nonmembers, but they have to provide services that benefit both men and women farmers. Concerning input supply, the strategy recommends that the margins that unions and co-ops add to fertilizer prices create an incentive to undertake this activity. In terms of credit, this should be provided by entities other than co-ops, which can be farmer savings group, RUSACCOs, credit guarantee schemes, buyers in outgrowing schemes, and weather insurance schemes. What has been implemented up to now is the Input Voucher System (IVS): farmers buy fertilizers with a voucher that can be bought in cash or credit at a local RUSACCO or MFI (evaluations on this system are not yet available). With respect to output marketing, agricultural cooperatives should at least implement two services: selling output on behalf of farmers using robust market information and establishing systematic marketing relationships with reliable demand sources. A second step would be to provide post-harvest storage, post-harvest processing, and cash advances. The provision of other services (consumer finance, sale of consumable goods, advocacy, social services, seed production, etc.) should be delegated to other bodies, such as SACCOs and higher-tier organizations. A pilot project managed by ATA also introduced a voucher system on output marketing: farmers bring their produce to the cooperative and receive a voucher corresponding to the value of their produce. A SACCO is then authorized to give them credit for a value up to 70% of the voucher (if the farmers want it). When the cooperative sells the product, it pays back the farmer who can repay the loan. This would allow the cooperatives to sell the production at the most favorable time, without leaving the farmers with a lack of liquidity; at the same time, it may allow for profit distribution without the need of an audit, which is a major bottleneck in providing incentives to cooperative membership.

Concerning cooperative financing, the strategy recommends strengthening RUSACCOs and MFIs and underlines that "input credit is currently provided by the government, but in the long term should be provided by either rural financers or input suppliers themselves." This strategy also foresees a training program to be established through the creation of a "Centre of Cooperative Excellence" (the UK Co-operative College has been involved in the proposal phase, as well as in the development of a proposal of certification mechanism, as we will see later). Finally, the strategy mentions the need to address the issue of autonomy from the government, since it reports that "farmers identify cooperatives directly with the government" in some communities.

## 3. The legal framework of cooperatives

The main law regulating cooperatives is Proclamation 147/1998, which is intended "to provide for the establishment of cooperative societies." The law represents the effort to promote a new generation of cooperatives that are different from their top-down predecessors. The new statute proclaims that the new wave of cooperative organizations should be based on voluntary participation, able to fully participate in the market, free of external interventions, and democratic in their governance system.

The MoA/ATA Strategy (2012), in reference to the law, states that it "is considered to be one of the strongest cooperative laws in Africa." It has some 2,004 amendments. A new law is currently under discussion, but information about it is currently unavailable.

The definition of Cooperative Society given in the law (Art. 2) states that it is a society established by individuals on a voluntary basis to collectively solve their economic and social problems, and that it is democratically managed. The types of cooperatives are:

a. Agricultural Cooperative Societies
b. Housing Cooperative Societies
c. Industrial and Artisans Producers' Cooperative Societies
d. Consumers Cooperative Societies
e. Savings and Credit Cooperative Societies
f. Fishers Cooperative Societies
g. Mining Cooperative societies

Article 5 cites the principles of cooperative societies, which include voluntary participation, open nondiscriminatory membership, and democratic principle (one-member-one-vote). The article says, “Members shall receive dividends from profit according to their shares and contribution after deducting and setting aside an amount necessary for reserve and social services.” Autonomy and democratic control also have to be guiding principles when cooperatives enter into relationships with external bodies (government, financers, etc.). Cooperatives should provide education and training to enable members to effectively participate to strengthen the co-op movement and to “work for the sustainable development of their communities through policies approved by their members.”

Concerning cooperative funds, Article 32 states that “except as otherwise prescribed (…) the asset and fund of a society shall not be divided for the members or any other party.” Article 44 regulates the creditors’ position and states that, in the case of dissolution, “until the creditors of the society have been paid or amounts required for payment are deposited, the liquidators may not distribute any part of assets among the members.” Article 33 regulates profit distribution to members and was amended in 2004: the Cooperative Proclamation mandates that 30% of a cooperative’s net surplus goes to a reserve fund until that fund reaches 30% of the capital of the society. The allocation of the remaining 70% is decided by the general assembly. The proclamation also provided guidance at one time for allocation of the remaining 70%, stating that it was supposed to be distributed as dividends. Even though it was not mandatory, general assemblies often interpreted this guidance as if it were mandatory, so the guideline was removed from the amendment in 2004 and left allocation completely to the general assembly (Moa/ATA, 2012). The law, moreover, states that co-ops can only pay dividends to members after a certified auditor has declared that the group made a net surplus; the MoA/ATA Strategy (2012) highlighted the problem that yet fewer than 35% of co-ops are audited each year.

The rules for registration require that a cooperative provides a business plan, which is considered a sign of the business orientation that the State is promoting (Nkandu, 2010). Article 9 also states the times for obtaining a response to the application, which is within 15 days, and provides a shortcut for appeal to the high court just in case registration is rejected.

The Cooperative Proclamation, together with regional regulations, provide for four cooperative levels: primary cooperatives, unions, federations, and a national cooperative league to lead the cooperative movement for all types of cooperatives. For the time being, no national cooperative exists. A problem with the limitation imposed by the law, which is highlighted by the MoA/ATA Strategy, is that the cooperative law currently stipulates that only multi-purpose cooperatives can provide services outside the sphere of activity for which they were founded. This limits single-purpose cooperatives’ ability to provide additional services when it makes commercial sense to do so, and some members want to do so.

On share issuing, the original version of the law left a wide margin to the general assembly, while the amended version is more detailed: “Any cooperative society shall collect, upon its formation from the members at least one-fifth of the amount of the share that the General Assembly has decided to be sold and it shall sell the rest of the shares within four years as of the time of its establishment.” A member cannot hold more than 10% of shares, and “A society which faces shortage of capital may sell certain shares to a person who is not a member of the society without contradicting the principle of the society.”

Part 5 is important, since it provides for government assistance, the exemption from income tax ("provided however, members shall pay income tax on their dividends"), and the possibility of co-ops to acquire land and to receive training.

## 4. The selected projects

In Ethiopia, four cooperative development projects have been selected for the study. Two projects are carried out by US-based CDOs (Land O'Lakes and ACDI/VOCA) and intervene respectively on the dairy value chain and on capacity building for government co-op promoters and co-op leaders. The third project is carried out by the Canadian Co-operative Association and intervenes in supporting farmers' cooperatives in poor contexts where dependency on weather conditions is strong and harmful. The fourth project has been implemented by the British CDO Co-operative College and intervenes at the institutional and regulatory level, directly in relationship with the ATA.

### *4.1 Land O'Lakes, Cooperative Development Program (CDP)*

| CDO | Target country | Project title | Main partners | Period |
|---|---|---|---|---|
| Land O' Lakes Inc. (US) | Ethiopia (and Kenya) | Cooperative Development Program (CDP) | Ethiopia: Ada'a Dairy Cooperative, Selale Dairy Cooperatives Union. | 2014–ongoing (expected end date: 2016) |

Land O'Lakes, through CDP, seeks to assist dairy cooperatives in Ethiopia "to respond to evolving market conditions and increasing competition by achieving and sustaining economies of scale through horizontal and vertical integration." The idea behind the program is that investment in bulking and processing capacity is crucial for cooperative development. The CDP intervention mainly focuses on developing an assessment tool to identify problems at different scales and empowering cooperatives to tackle them appropriately.

The program has selected two organizations to be supported in the framework of the project: a first level cooperative, namely Ada'a Dairy Cooperative, and a second-level organization, namely Selale Dairy Cooperatives Union. Both organizations were founded in the late 1990s to early 2000s and were considered the most promising organizations to support, as they could become models for others. At the time CDP started, Ada'a had 11 milk collection centers placed in strategic sites in and around the town of Bushoftu and surrounding smallholder farmers' villages. Selale's milk collection capacity was about 8,000 to 10,000 liters per day, which was then sold to processors and other consumers. Ada'a had a processing plant, while Selale established one during the program (but without CDP's funds). They both had a feed processing plant, but the plants were not working at the time CDP started.

CDP started in May 2014 with a cooperative level diagnostic tools assessment and a household level survey. The program lasted for one and a half years.

After the diagnosis, the proposed actions were aimed at activity planning: action plan preparation, business plan preparation, a learning event, and training focused on governance and strategic planning for leaders and managers. The aim of the program is to provide knowledge about the strengths and weaknesses of the organizations, market conditions, and so on and to provide tools for strategic planning, given that cooperatives often suffer from limited resources.

The main problematic issues that emerged in the diagnosis conducted within the project (and that were partially addressed by the project itself) are linked to competition and side selling, the development of processing activities, the input purchasing side, and management problems.

Many traders want to buy individually from individual milk producers, as they know the price paid by the cooperative and offer higher prices. This highlights a first point: the presence of the cooperative itself seems to make prices rise for all producers. At the same time, this endangers the life of the cooperative, since it provides incentives for side selling. The competition among traders, nevertheless, does not seem to benefit producers much, since a lot of cases lack the enforcement of contracts (the price negotiated at the beginning is not respected during the sales), and some degree of collusion prevents farmers from easily switching from one trader to another. Moreover, it seems that the traders often compete on prices by lowering the quality of the milk (by mixing it with water); that is a way to attract producers, but it is damaging to consumers. Facing this, the cooperative has to follow more than one strategy. First, information (and trust) on patronage refunds that will be distributed should be increased and should be added to the price paid at the moment of sale. Second, capital should be invested in independent processing, which is relevant to the two target cooperatives that still use only a small part of the capacity of their plants. Higher investments could allow a big jump in the price earned from milk sales, but adequate management capacities would be required. This has been the direction followed by CDP through training and follow-up. Third, the input purchase side needs to be developed. One problem that seems to emerge is that the competitor processors buy raw materials and store it, which allows them to have an oligopoly on inputs and increases prices. This pushes the cooperatives to provide inputs on credit to members, making the feed processing plant operational, but of course, this requires financial stability.

These issues raised by these programs are crucial in cooperative development, and value chain integration may be of strategic importance. The CDP also highlights that a high number of buyers is not enough to increase competition in favor of producers, since buyers can collude on prices and decrease the quality of the product (when quality is difficult to observe). The CDP also teaches the importance of upstream value chain integration on input supply.

A clearer, stricter rule and—most of all—enforced rule on the quantity that has to be sold to the cooperative is important in this context: the co-ops find themselves in the vicious circle of low mobilization of raw material and low financial capacity to provide further services. Greater enforcement of selling rules could help in exiting the “small scale trap.”

In terms of project strategies, a crucial issue is time. One and a half years is probably too short of a time frame for a close follow-up of training and strengthening of cooperatives in such a competitive environment.

A further question that may arise (and that relates to all programs that promote training without any physical handout) is whether the possibility of intervening financially might be worth it—after having identified some specific bottlenecks and having strengthened management capacities—to address some elements that tend to reinforce the vicious circle.

### *4.2 ACDI-VOCA, Cooperative Development Program (CDP) II*

| CDO | Target country | Project title | Main partners | Period |
|---|---|---|---|---|
| ACDI/VOCA (US) | Ethiopia (and Kenya) | Cooperative Development Program (CDP) II | Ethiopia: Regional branches of the Federal Cooperative Agency.<br><br>Other: US Overseas Cooperative Development Council (OCDC)<br><br>Funding organization: US Agency for International Development (USAID) | 2010–2015 |

ACDI/VOCA's CDP aims to improve the governance, management, and productive capacity of business-oriented farmer-owned organizations. This project is part of the same USAID-funded program that was implemented in Kenya (and in Paraguay).

The project is mainly focused on capacity building of local service providers to the cooperative sector to limit the dependency on an international NGO. The local partners in Ethiopia are the Regional Cooperative Agencies, which are branches of the FCA.

CDP Ethiopia started in 2011 and has operated in four regions (Benshangul Gumuz, Oromia, Tigray and SNNP). One target union and three primary cooperatives were selected from each region.

CDP has been designed to leverage the resources of the large-scale Agricultural Growth Program-Agribusiness and Marketing Development (AGP-AMDe), another ACDI/VOCA program that promotes public-private partnerships in agribusiness and focuses on some specific value chains.

It follows the strategy of being a partner with public actors, and its policies aim to provide sustainability and continuity to the initiatives. Training is directed to government-paid promoters, who then move on to train cooperative leaders and members. Indeed, a baseline survey found that there were huge capacity gaps both at the levels of the cooperatives and government promoters in Ethiopia. The first activity has been to train the trainers on the following list of topics:

- Cooperative leadership, good governance, and membership development
- Business skill development (entrepreneurship, value chain analysis, business planning, marketing management, and record keeping)
- Financial management, cooperative accounting, and auditing
- Women empowerment and gender mainstreaming
- Pre- and post-harvest handling and warehouse management
- Good agricultural practice (GAP)
- Savings and credit management

In a second phase, the trainees from the first "training of trainers" provide training on business skill development to primary cooperative leaders and promoters within each target union. Another major activity has been the establishment of Cooperative Learning and Information Centers (CLICs). According to an analysis of the ICT constraints, organizers decided to establish stand-alone CLIC facilities at the FCA and within the various RCA headquarters. Five CLICs were established in Addis at the FCA and in the RCAs of Benshangul Gumuz, Oromia, SNNP, and Tigray.

One of the problems that CDP tried to address has been the low participation of women through promoting the representation of women's interests in the cooperatives and unions.

Two elements have to be underlined. On the one hand, the partnership with local governments and the focus on strengthening the capacities of government officials is an important element to guarantee the sustainability of an intervention. On the other hand, continuity of training is a major concern. After a generation of leaders is trained, it will be necessary to intervene with the following generation. Since democratic management requires turnover, it is necessary to have a structure that can constantly provide skills and tools for newly elected leaders. The CDP approach seems to be focusing on digital training: the risk is that it is not adapted to the highly ICT-constrained context.

### *4.3 Canadian Co-operative Association, Climate Resilience and Cooperatives*

| CDO | Target country | Project title | Main partners | Period |
|---|---|---|---|---|
| CCA (Canada) | Ethiopia | Climate Resilience and Co-operatives | Self Help Africa (SHA, UK), Ethio-Wetlands and Natural Resources Association (EWNRA, Ethiopia).<br><br>Funding organizations: Co-operative Development Foundation of Canada (CDF) Department of Foreign Affairs, Trade and Development of Canada (DFATD). | 2012-2014 |

This project targeted resource-poor farmers who are dependent on rain-fed agriculture in the context of degraded soils in Fogera Woreda of Amhara National Regional State in Ethiopia. The main problems identified are the lack of resilience to the shocks in farmers' livelihoods and the lack of production surplus. The promoted activities have targeted four areas: (i) improving farmers' ability to practice gender appropriate, diversified, and climate-adapted crop production and utilization techniques; (ii) increasing the ability of cooperatives to promote entrepreneurship and facilitate market access for men and women members; (iii) enhancing skills of farming households to restore and maintain community-owned forests and grazing lands; and (iv) strengthening the ability of local stakeholders to restore and/or enhance natural capital/assets through a gender equitable approach.

The project is now closed, but CCA would like to continue working in the area on the same issues. The project has been carried on with two local partners: Self Help Africa (SHA), working specifically on cooperatives, and Ethio-Wetlands and Natural Resources Association (EWNRA), working on environmental issues. The project lasted 18 months between 2012 and 2014. The target cooperatives were identified by SHA and were located in 17 *kebeles*. Most of them were at the early stage of development or characterized by slow growth.

The main aims were to introduce new technologies that are more compatible with the worsening natural conditions, with the intention to increase productivity (given the impossibility—because of natural conditions—to expand land use) and to lower the vulnerability to rain variability.

Among the actions that have been taken, the construction of eight warehouses, the diffusion of higher quality seeds, and the introduction of nine irrigation schemes have been recognized as more effective. The warehouses store both seeds and output. This allows the introduction of higher quality seeds that are bought on credit by farmers through SACCOs: these are obtained from the project seed money to provide revolving loans to members at a 15% annual interest rate. This has been considered low when compared to the preexisting loans that were mainly from informal moneylenders. The link between farmers and SACCOs has been built within the project, since the coop members were not farmers at the beginning. The warehouses also play the role of output storage facilities, allowing the farmers' produce to be marketed through the cooperative and to increase their bargaining power on price determination.

Even though the project did not have a focus on a specific value chain, it advised cooperative members to focus on three crops to benefit from the gains made possible by specialization: a food crop, a crop to be sold on the market, and a third one as a reserve in case one of the other crops fails. The main crops are potatoes, maize, teff, beans, and vegetables.

The introduction of techniques with a lower negative impact on the environment has been an important component of the project. The rehabilitation of gullies, halting soil erosion from farmlands, and greening bare lands have been demonstrated as sustainable solutions to improving ecosystems. Efforts were also made to transform animal husbandry from free grazing to the "cut and carry" method. A particular effort was made to promote conservation farming. Through the use of crop rotation, cover crops, and techniques that allow for less soil disturbance, the negative impacts of farming on land can be reduced, thus lowering the need for inputs, mostly in the form of fertilizers. The reduction in fertilizer consumption has also been a way to address the issue of fertilizer distribution, which is done through cooperatives. However, both members and nonmembers can participate, thus possibly lowering the incentives to become a member.

This project had a focus on cooperatives as vulnerability-reduction tools and, according to its responsible, has been a success. The main aspect that it highlights—in resource-poor contexts and for those vulnerable to weather variability—is the centrality of good quality-input provision and of common storage facilities and marketing devices to defend farmers from post-harvest losses and to increase their bargaining power. Credit for input provision is central for its accessibility to poor farmers.

Another issue raised by this project is the time dimension: the follow-up needed by the promotion and strengthening of cooperative enterprises is likely to require longer spans of time.

### *4.4 Co-operative College (UK), Assessment of Advanced Certification and Rebranding of Agricultural Co-operatives*

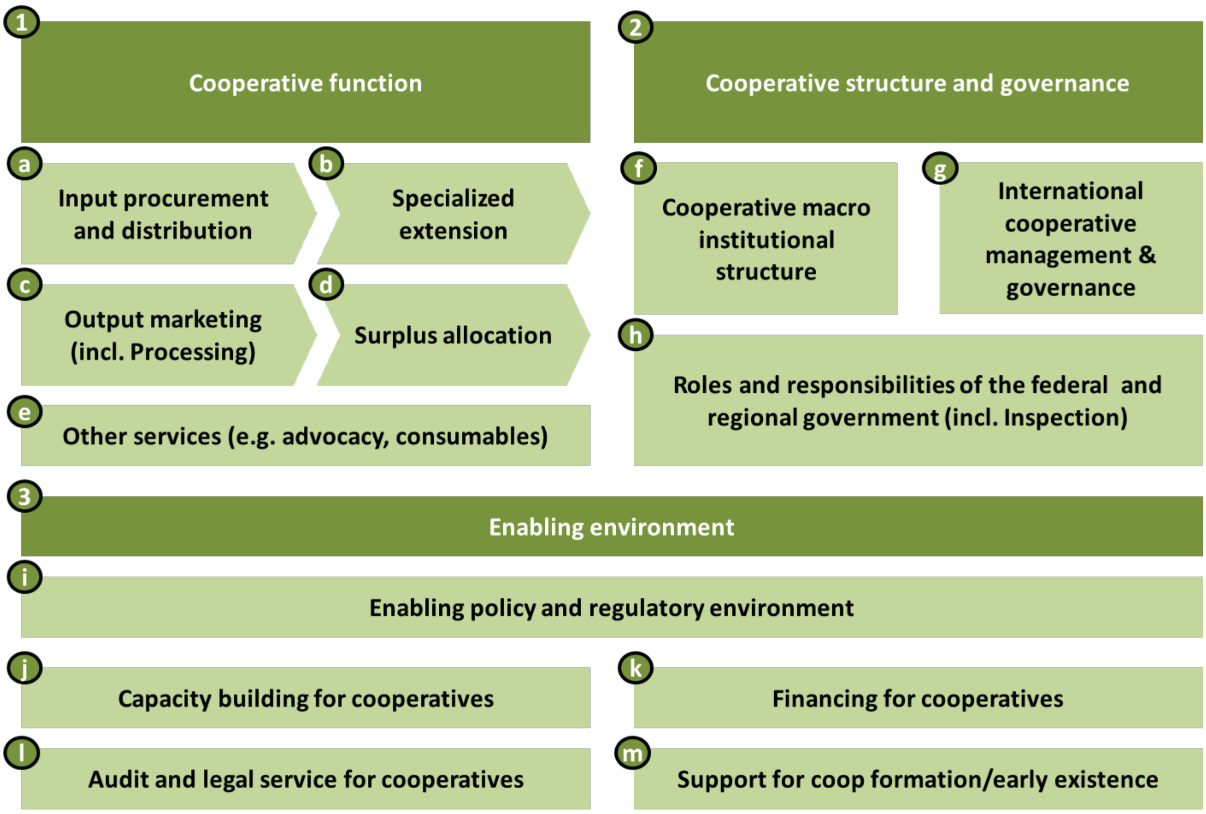
| CDO | Target country | Project title | Main partners | Period |
|---|---|---|---|---|
| Co-operative college (UK) | Ethiopia | Assessment of Advanced Certification and Rebranding of Agricultural Co-operatives | Agricultural Transformation Agency (ATA, Ethiopia)<br><br>Funding organizations: Agricultural Transformation Agency (ATA, Ethiopia) and Bill & Melinda Gates Foundation (US) | 2012–2013 |

Within the framework of the Agricultural Cooperatives Sector Development Strategy 2012-2016, the ATA asked for intervention by the UK Co-operative College (UKCC) to formulate a proposal for the establishment of a rebranding and certification mechanism for Ethiopian cooperatives. UKCC carried out a study in 2012 and published a report with recommendations in 2013. This project closely interlinks with the national policy, and this is reflected in the structure of the proposal. The certification system is indeed undergoing an implementation process[11] (the training phase has been completed, and now certification itself is in process), but not in connection with UKCC.

One of the aims of ATA is the rebranding of cooperatives, starting from the idea that cooperatives have been perceived either as top-down bodies, sometimes identified with the government itself, or as associations with no comparative advantage, as "something for the poor." The need for rebranding, in ATA's view, went together with the need for a certification system that allows observers to distinguish well-functioning cooperatives from poorly functioning ones, since the belief was that at that time they were all perceived negatively. The main aims of a certification system were to serve as a sign of quality, to give guidelines for cooperative formation and behavior, and to align the incentives of the different stakeholders.

UKCC was involved in the definition of this proposal and in the formulation of the proposal for a Center of Cooperative Excellence, which is a center for training and cooperative education.

**Fig. 3: Structure of the proposal for a Center of Cooperative Excellence**




Concerning the certification system, UKCC conducted several case studies worldwide and several focus groups in Ethiopia with potential stakeholders. The main general recommendations were to pay attention to the following:

1) What is measured is important and should encompass a broad range of parameters, both financial and nonfinancial.

[11] Interview with Ato Kindie Aysheshm, ATA, 22/2/2016

2) A certification system in Ethiopia will need to be located within a broader policy framework so that certification is not perceived and received as a punitive measure. It has to be conceived of as an empowering activity, not an inspection facility.
3) The right incentives to seek certification should be put in place: cooperatives will need to be assured that advanced certification will be beneficial, especially when accessing finance and markets.

The structure of the proposal follows the structure of the strategy that has been illustrated above, as can be seen in figure 3.

Even though it is recognized as possibly too complicated, the final proposal puts forward four levels of certification: i) uncertified, ii) basic, iii) intermediate, and iv) advanced. The approach followed is known as a "balanced scorecard," as it is necessary to achieve a minimum score in a number of critical components. Examples of these criteria concerning coop functions include the following: whether the society provides inputs for members and does so in an economic way (the cooperative is not selling the inputs at a loss), whether the coop purchases outputs from members and pays a price that is "transparent and based on robust market information," whether the coop makes a surplus and its allocation has been approved by the annual general meeting, and whether 30% of net surplus has been deposited in the reserve fund (unless fund has already reached 30% of the society capital). Other critical elements are found in the area of governance and in the area of financing (a subsection of "enabling environment"). Internal management and governance are considered fundamental criteria, as the cooperative needs to achieve the minimum required score in each of the seven subcomponents to be awarded the level of certification.

The advantage of being certified for a cooperative is that it will receive tailored support related to its recognized category.

This project was more a consultancy than a proper project owned by UKCC; therefore, its outcomes are not under the control of the CDO. We know from ATA that the system was put in place and that the first round of certification is in process. Nevertheless, it highlights the problem of short-term relationships between the CDO and the local partner (in this case, it is on the national level at the ATA).

Concerning the certification system, it is crucial to clarify the advantages that coops would access when registering/certifying, since most of these processes are complex. A clear explanation of the advantages should be provided to farmers so that they have incentives to participate.

## 5. Concluding remarks

With respect to most other SSA countries, it seems that there is a greater investment on cooperatives as development tools in Ethiopia. This is related to the more central role that agriculture has in a country that is not focused on natural resources extraction. According to some authors, the investment in cooperatives is a tool to reconcile the need for efficiency and the need for equity in rural development. Cooperatives are more closely related to public policies than in other countries because they are also still the channels for input distribution in the countryside. A major policy issue is how to develop the commercialization side of their activity, thus providing incentives for membership.

This strong relationship with the national policy level is reflected in the selected projects, which seem more embedded into public policies with respect to other countries. This may help avoid the risk of project isolation and help project sustainability in the long run.

The cooperative movement in Ethiopia is likely to suffer from the absence of apex bodies, both concerning agrarian cooperatives and the financial sector (i.e., a cooperative bank). This limits both the advocacy capacity at the decision-making level and the capacity to exploit economies of scale. Both horizontal and vertical integration of value chains are crucial aspects of cooperative development in Ethiopia. If there is an important investment in extending cooperative outreach ("one cooperative per *kebele*," the smallest administrative unit), investment may also be needed to satisfy the needs of single cooperatives to reach wider markets and to be able to engage in processing activities.

As in numerous cases, a selection effect seems to be at work. Bernard and Spielman (2008) identify a "middle class effect," such as in the case of the banana sector in Kenya (Fischer & Qaim, 2012).

A major policy shift that is worth underlining is the willingness to transform input-purchasing cooperatives into marketing cooperatives. Agrarian cooperatives cannot sell inputs on credit anymore and rely on the credit of SACCOs for input provision; a pilot project also applies this system to output marketing (voucher systems). This is important, since it invests in a strong integration of cooperatives with different purposes, which can be a crucial positive element. At the same time, since credit is a key function of agrarian cooperatives, this link should be closely followed and monitored, verifying that delegating credit to another institution does not limit access to it.

Although we did not find that this model has been implemented in the analyzed projects, it seems that the policy for cooperative development in Ethiopia proposed by ATA in the 2012 strategy goes in the direction of the agribusiness model, as it states the following: "One reason that successful African agricultural cooperatives tend to market cash crops is that they have fewer buyers, making it easier to form strong relationships with buyers over time." Nevertheless, this model has to be adapted to the market structure of each context. In the case of a monopsony, cooperatives may find themselves in a risky position if they rely on a few buyers. It might be best, in such situations, to vertically integrate the value chain and internalize some of the processing functions.

All of the observed projects have the characteristic of being framed in a short span of time. This is probably a major challenge to be addressed, since 12–18 months is a very short time to intervene in cooperative development. Time is even a stronger constraint for projects focusing on training and capacity-building activities.