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REVITALIZING THE ROLE OF COOPERATIVES IN ETHIOPIAN ECONOMY

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ABSTRACT

Cooperatives are indispensable institutions for addressing structural problems facing Ethiopia, and are believed to play a prominent role in achieving goals of the broad development policy and strategy of the country. *This study was conducted with a general objective of analyzing the role of cooperatives to Ethiopian Economy by looking at specific objectives such as analyzing cooperative development trends in Ethiopia; analyzing the role of cooperatives in agricultural input supply, export earnings; assessing employment generation role of cooperatives; and identifying constraints that affect cooperative development in Ethiopia.* Both primary and secondary data together with descriptive analysis are used in this study. The primary data is collected using expert interviews. Cooperatives have played significant role in the recently registered successive agricultural growth in the country, by serving as major agricultural input supplier and distribution channel throughout the country. They also contribute a lot to the national foreign exchange earnings, availing finance and employment provision. Cooperatives' membership trend has been significantly increasing in the country. On the other hand, cooperatives are not sensitive to gender mainly because of their limited women membership. But cooperatives are hampered by several constraining factors that hinder their utmost contribution and role in the economy. The cooperatives have limited engagement in various business areas and their operation is dominated by agricultural input delivery activities.

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INTRODUCTION

Food security in Ethiopia depends largely on smallholder agriculture. The sector has a very low capacity and is unable to meet the demand of agro-industries for food and raw materials and attain food security and national and household levels. Productivity of smallholder agriculture lingers at the subsistence level, due primarily to the unreliable supply and unaffordable prices of farm inputs, and to poor rural marketing infrastructure among many other factors. On the other hand, the government's strategy of Agriculture Development Led Industrialization (ADLI), as formulated in 1994, views agriculture as the driving force of the economy, and argues for investment in agriculture as both a motor for economic growth and a means of ensuring household and national food security (Dorsey and et al, 2005). ADLI aims to promote the adoption of improved technological inputs and practices, in order to

raise agricultural productivity and generate savings for investment in other sectors. The major components of ADLI include among others: input provision to peasants, promotion of small-scale irrigation, improved livestock herds, environmental protection and natural resource management, grain marketing efficiency, promotion of farmers' organizations and women's participation in agriculture (Stephen, 2000). In this regard, cooperatives are indispensable institutions for addressing structural problems facing the country, and are believed to play a prominent role in achieving goals of the broad development policy and strategy of the country (ACDI/VOCA, 2005). According to the International Co-operative Alliance (ICA), a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Another widely accepted cooperative definition is the one adopted by the United States Department of Agriculture (USDA) in 1987. A cooperative is a user-owned and user-controlled business that distributes benefits on the basis of use. The information about the overall trend of

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cooperative development and their role to the Ethiopian Economy is very limited. This paper, therefore aims at analyzing and synthesizing information on the overall role of cooperatives to the Ethiopian economy. This will help contribute to the existing stock of knowledge on the cooperative development endeavor prevailing at present with an objective of enhancing and revitalizing their role in the development of the Ethiopian economy.

Objectives

General Objectives

To analyze the role of cooperatives to Ethiopian Economy

Specific Objectives

- analyze cooperative development trends in Ethiopia;
- analyze the role of cooperatives in agricultural input supply, export earnings;
- assess employment generation role of cooperatives; and
- identify constraints that affect cooperative development in Ethiopia

MATERIALS AND METHODS

The data need for this study was collected using expert interview, and review of secondary sources. Time series data are collected for establishing trends in cooperative development and their role in export of agricultural inputs and other related issues. The study includes data on all regions of the country and is analyzed using descriptive techniques.

DISCUSSION

Cooperatives and Economic Growth: Theoretical Framework

In a wider sense, cooperative growth is an effective stimulant for economic growth. In general terms cooperatives are believed to have the following major roles in promoting local and national economy (Desalegn 1990).

Cooperatives help to rationalize distribution pattern

The substitution of the profit incentive in business by that of service to humanity or production for consumption is one of the most key roles of cooperatives. This is because cooperatives function with a purpose of giving priority to the satisfaction of human needs instead of greed of profits. In the global and national food crisis, cooperatives have played a role to distributing cereals to their members at reasonably lower prices (Braverman et al., 1991).

- a) increase purchasing power,
- b) promote/support/encourage consumer protections
- c) They contribute to the modernization of small-scale production in agriculture
- d) They ensure improved quality and greater volume of production and more efficient marketing of increased output.

This also involves reduction in cost of distributive system by the following ways elimination of unnecessary middlemen, removal of useless duplication of services, and elimination of fraudulent/ fake/imitation practices like adulteration, short weight, etc.

- e) They stimulate productive capital formation among large number of individuals.

According to Dorsey et al. (2005), cooperatives in Ethiopia play a significant role in poverty reduction and contribute to the MDG in the following ways;

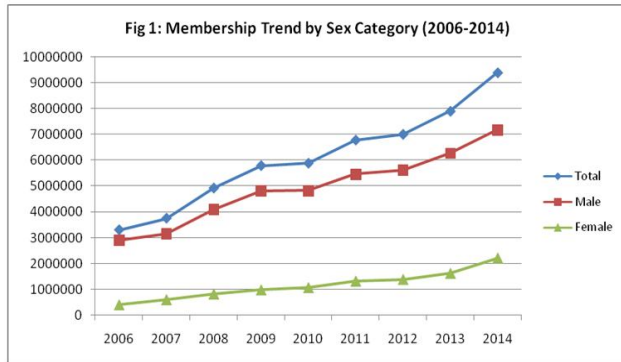
- by bringing services closer to their members at highly competitive prices, and increasing members' income by eliminating middlemen and reducing production costs;
- through improved production methods resulting from education and training activities offered to members of cooperatives, enabling farmers to improve incomes, nutrition and food security through higher yields;
- through profits accruing from efficiently managed business and reverted to the members, again raising their incomes and reducing poverty;
- through education and training activities for members promoting entrepreneurship and democratic management practices; and
- by promoting job creation and stabilizing existing self-employment in urban and rural areas.

Trends in Cooperative Development in Ethiopia

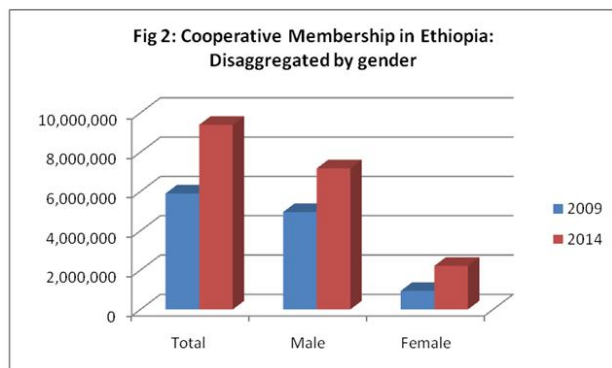
The cooperative movement in Ethiopia is expected to be evolved into a four tier system. At the grass-root, there are primary cooperative societies. The primary cooperative societies have joined up to form farmers cooperative unions to provide specific services to the members more cheaply than it would otherwise be the case by a primary cooperative alone. Two or more unions of similar activities form farmers' cooperative federations. The primary co-operative societies can be members, if they are engaged with similar and interrelated activities. Cooperative at federation level not yet formed in Ethiopia. The highest organizational body of cooperatives is known as cooperative league. It does not directly involve in production and service giving activities. It serves as a mouth piece of cooperatives in the country. It facilitates the horizontal and vertical relationship of cooperatives at national level. It represents the cooperative movement in the country at the international forum. The members of the cooperative league can be primary co-operatives, unions and federations. It has not yet been formed but there is a plan to form cooperative league in Ethiopia in the future. As it is clearly indicated on the vision of cooperative movement in Ethiopia; some activities have been started which might have substantial effect for the formation of cooperative league.

During the last five years the number of cooperatives has increased. At the year 2006, the total number of primary cooperatives and the number of members were 20,437 and 3,642,602 respectively. By the year 2009 the number of primary cooperatives increased to 26,672 and the number of members has risen to 5,899,761 and their capital grown to 1,003,470,660 birr. During these 4 years number of cooperatives has increased by 30%, and membership rose by

61.9%. The capital holding of cooperatives during the same period has increased by 22%. In 2014, the number of primary cooperatives, the number of members and their capital reach 60,126; 9,393,201 and 9,100,890,849 birr respectively. This shows a 225% increase in number of primary cooperatives, a 159% increase in members and a 907% increase in capital holding.



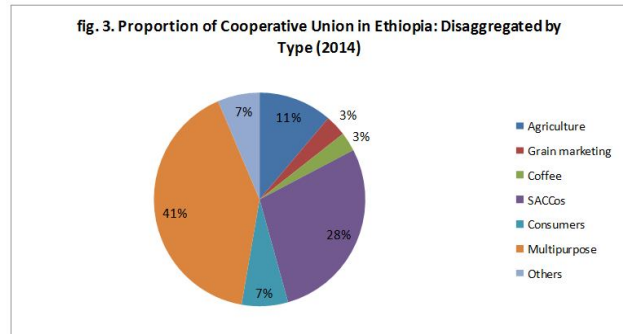
Despite the tremendous effort exerted by the government of Ethiopia to ensure participation of women in every sector of the economy, the involvement of female in cooperatives is remarkably low. The trend of women membership in cooperative growing very slightly compared with male membership. Female constitutes only 16% of the total members of cooperatives in Ethiopia in 2009 and 31% in 2014.



The number of secondary cooperatives (unions) at the year 2006 was 122 which consisted of 2532 member primary cooperatives. Their working capital in the same year was around 208,909,493 birr. The number of such cooperative unions in 2009 grew to 174 consisting of 3849 member primary cooperatives. Their number has further increased to 311 consisting of 8909 member primary cooperatives in 2014. The working capital reaches 2,216,185,592 birr in 2014. The overall growth trend of cooperative unions shows that their number has increased by 255%, where as membership has grown by 352%. Generally all cooperative unions established throughout the country have registered 1061% growth in their working capital during the last nine years.

Establishment of cooperative unions is also showing increasing trend. Multipurpose cooperative unions are the most dominant type of union existed in Ethiopia. At the year 2014, of the total cooperative unions established in the country, multipurpose cooperative unions constitute almost

half. Followed by saving and credit cooperative unions which constitute 28% of the total cooperative unions established in the country. (See fig 3). The 'Other' category in the chart below includes food processing, forestry, mining, construction, etc and together constitutes 7% of the total cooperative unions in the country.



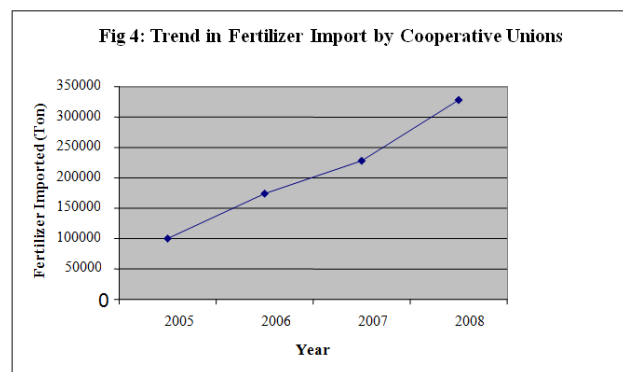
Role of Cooperatives in Ethiopian Economy

Employment

One of the prime roles of cooperative in the national and local economy is creation of employment opportunities for members and citizens in general (Dorsey, J. & Tesfaye 2005). Cooperatives serve not only members but also other non-members particularly through employment opportunities. In Ethiopia, cooperatives have provided self-employment opportunities for about 1,049,047 members, and for more than 100,000 non-members. This shows that cooperatives has enormous role in reducing unemployment problem of the country.

Agricultural Input supply

Agricultural inputs such as fertilizer, improved seed and pesticides are key ingredient for bringing about improved agricultural production and productivity. The continuous economic growth registered in the country is attributable to the growth registered in agriculture sector of the economy (CPA 2009). In this regards cooperatives are believed to have made the lion share contribution towards achievement of this remarkable agricultural growth in the country mainly through timely supply of agricultural inputs to member and non-members farmers in different parts of the country. Starting from the year 2005 cooperative unions have started to directly import fertilizer and distributed to farmers.



At this specific year there were only three unions engaged in importing and distribution of fertilizer. But in subsequent years the number of unions engaged in importing of fertilizer has increased. The total amount of fertilizer imported and distributed by the cooperative unions during the last four years (2005-2008), was 100,000; 175,000; 228,700 and 327,500 tons respectively. Trend in the volume of import and distribution of fertilizer by cooperatives is presented below (See Fig 4). Cooperatives are becoming increasingly important to individual members, the community, the business sector, and the national economy in Ethiopia. Apart from the role of cooperative unions in import, their role as 'distribution channel' is much more important. Cooperative unions have been playing tremendous role in distribution of fertilizer to farmers (ACDI/VOCA, 2005). In the year 2000, cooperative unions have distributed 3,645,503 Quintal of fertilizer. *Around 95% of the total inputs supplied to the rural community in 2014 is distributed through cooperatives.*

Export Earnings

Cooperatives search and provide better alternative market opportunities and price for members' produces. They also provide producers with substantial bargaining power in markets (Samia, 1989). Apart from their participation in domestic market, export business is one of the key areas of involvement by cooperative that magnify their contribution to the national economy through foreign currency earnings. Considering coffee, which is the major export commodity for Ethiopia, cooperative unions in the years 2005, 2006, and 2008 have earned 24,097,177 USD, 24,441,704 USD, and 10,995,055 USD. In addition, cooperative unions in 2008 have exported 1140 tons of Sesame and earned 2,099,550 USD. In 2014, they earned 75,263,219 USD from the export of coffee, sesame and common bean. *Cooperatives are responsible for over 75 percent of coffee exports.* Coffee unions are exporting high-quality, organic and Fair Trade coffee to the United States, Europe and Japan, fetching premium prices on behalf of smallholder coffee farmers. Increased involvement of cooperatives in export business contributes to the national economy by way of enhancing foreign currency earning capacity of the country and contributes to curbing trade deficit (Dorsey et al, 2005).

Role of Cooperatives in Financial Services Sector

The establishment of Oromia Cooperative Bank is one of the key developments that underpin the increasing importance and role of cooperatives to respond to the growing financial needs of cooperative members. Established in 2004 with capital raised solely by cooperative members, the bank has opened several flourishing branch offices in different parts of the region. Cooperatives as small financial institutions are curbing the problems of financial services delivery to smallholder farmers and other citizens who are members of any financial service delivery cooperatives. Saving and Credit Cooperatives (SACCos) are financial services delivery institutions which are currently playing major role in addressing financial problems of rural and urban residents in the country. These institutions are growing both in their number and quality of their services. The number of SACCos in 2000 throughout the country was 495 with more than 119,799 members and capital of Birr 78,772,710. The number of these SACCos grown to 5975,

with total number of membership around 477,818 and capital amounted more than 1 billion Birr between the period 2000 and 2008. *The capital amount and the number of SACCos have grown during the same period by 1179% and 1107% respectively.* SACCos are not only restricted in urban areas only, but they are also established in rural areas. At present there are 3,031 Rural SACCos which constitute 47.3% of the total SACCos in the country.

Major constraints/problems facing cooperatives

- Inadequate participation by members is one of the key challenges. Members' participation in annual planning process, controlling executive's performance, and their participation in the cooperatives business areas is very limited.
- Lack of professional management and weak accounting systems;
- Inadequate supply of inputs;
- Leadership and organizational problems and limited entrepreneurship knowledge and skills of executives and employed staff;
- Lack of market information and limited access to markets;
- Limited bargaining power;
- Insufficient number of and poor management of storage facilities; and
- Inadequate banking services and weak savings mobilization.

Conclusions

- Cooperatives have played significant role in the recently registered successive agricultural growth in the country, by serving as major agricultural input supplier and distribution channel throughout the country. But they are hampered by several constraining factors that hinder their utmost contribution and role in the economy.
- Cooperatives are not sensitive to gender mainly because of their limited women membership.
- The cooperatives have limited engagement in various business areas and their operation is dominated by agricultural input delivery activities.

Recommendations

To further enhance cooperatives role particularly to the achievement of rural and agricultural development objectives and Ethiopian economy in general, the following recommendations are made:

- Extend and strengthen cooperatives mandates and their roles in addressing natural resource management through cooperatives;
- expanding technology transfer roles of cooperatives (including, but not limited to, expanding the use of tractors);
- increase women participation and membership in cooperatives;
- improve entrepreneurship skill and knowledge of cooperatives executives and employees;

- continuous assessment of the challenges and problems affecting the performance of cooperatives and device timely solutions to enhance their role in Ethiopian economy;
- develop short and long-term strategic plans for cooperatives and strengthen monitoring and evaluation practices of their performances; and
- Continuing to improve the auditing system, including building the capacity of the auditors.
- Strengthen public and private higher learning institutions in the development of trained manpower in the field of cooperatives in the country.

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