Chapter III

Theoretical and Conceptual Framework

3.1 Cooperatives-Concepts, Definition and Principles

The idea of cooperation is older than man himself. Human being is a social animal who needs support to each other in order to make nature suitable for existence. Ancient people engaged in a collective manner to gather their food and to protect themselves from harmful wild animals. As history taught us, today’s civilization is the result of collective effort of people made to win social and economic problems. Traditional cooperation has been the spring board for the emergence of modern Cooperatives to imply cooperation as a form of economic organization of recent origin (ICA 2009).

According to International Cooperative Alliance (1995) definition, ‘Cooperatives’ 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. The seven principles that Cooperatives subscribe to are: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among Cooperatives; and concern for community. The first four of these are core principles without which a Cooperative would lose its identity; they guarantee the conditions under which members own, control and benefit from the business. The education principle is a commitment to make membership effective and so is a precondition for democratic control, while cooperation among Cooperatives is a business strategy without which Cooperatives remain economically vulnerable. The last principle, concern for community, is about corporate responsibility, and it pertains to other
concerns that the Cooperative movement is promoting, such as the prevention of poverty and protection of the environment.

There are three main types of Cooperatives. Consumer Cooperatives, which include financial Cooperatives, enable members to buy goods or obtain services at close to cost price. Producer Cooperatives, which include agricultural Cooperatives, enable members to achieve higher profits through reduced input costs and better marketing. Worker or employee-owned Cooperatives provide members with opportunities for employment and skills improvement.

The Cooperative business model is unique and distinct from other business models in three main areas: ownership, governance, and sharing benefits. Unlike other business models, a Cooperative enterprise is member owned, member controlled and member used. Ownership, control and utilization are practiced within the values and principles of democracy, equality and equity. The criteria for assessing a true Cooperative enterprise is, therefore, to ask whether it is owned, controlled and used by its users or not.

### 3.2 Livelihood-Definition and Concepts

The definition of ‘livelihood’ has been extensively discussed among academics and development practitioners since earlier times for example by Chamber and Conway in 1992 and by Carney in 1998. The livelihood of a household or individual can be interpreted as their ‘means of living’. Their means of living is based on their capabilities, assets (financial, physical, human, natural resource and social) and activities. Livelihoods consist of both generation of income as well as the ownership of assets that reduces the vulnerability of marginalized communities. The concept of livelihood is not only complex and delicate, but it is also broader. Livelihoods are the means by which households
obtain and maintain access to the resources necessary to ensure their immediate and long-term survival which of course encompasses welfare. These essential resources can be categorized into six categories: physical, natural, human, financial, social, and political. Households use these assets to increase their ability to withstand shocks and to manage risks that threaten their well-being. Kanji, MacGregor and Tacoli (2005) point out that livelihoods are understood not only in terms of income earning but a much wider range of activities, such as gaining and retaining access to resources and opportunities, dealing with risk, negotiating social relationships within the household and managing social networks and institutions within communities.

Generally, the livelihoods framework provides a comprehensive, and complex, approach to understanding how people make a living. It can be used as a loose guide to a range of issues which are important for livelihoods or it can be rigorously investigated in all its aspects. A livelihood is sustainable when it can cope with and recover from stresses and shocks, can maintain or build on available capabilities and assets, and does not undermine the natural resource base. There is a consensus that livelihood is about the ways and means of ‘making a living’. The most widely accepted definition of livelihood stems from the work of Robert Chambers and Gordon Conway: ‘a livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living’ (Carney 1998). Livelihood is a set of economic activities, involving self-employment and/or wage-employment by using one’s endowments (human and material) to generate adequate resources (cash and non-cash) for meeting the requirements of self and the household, usually carried out repeatedly and as such become a way of life. Ideally, a livelihood should keep a person meaningfully occupied, in a sustainable manner, with dignity.
Livelihoods, therefore, go far beyond generating income. A livelihood is much more than employment. Livelihood is about placing people, particularly rural poor, at the centre of a web of inter related influences that affect how these people create a livelihood for themselves and their households (IFAD 2012).

According to IFAD, closest to the people at the centre of the framework are the resources and livelihood assets that they have access to and use: including natural resources, technologies, their skills, knowledge and capacity, their health, access to education, sources of credit, or their networks of social support. The extent of their access to these assets is strongly influenced by their vulnerability context, which takes account of trends (for example, economic, political, and technological), shocks (for example, epidemics, natural disasters, civil strife) and seasonality (for example, prices, production, and employment opportunities). Access is also influenced by the prevailing social, institutional and political environment, which affects the way in which people combine and use their assets to achieve their goals.

3.3 Conceptualizing Households

The term ‘household’ covers a wide range of residential forms, groupings of people and functions, making a universal definition of ‘household’ impossible. A common definition is a group of people who pool resources or ‘eat from the same pot’ (Robertson 1984). The term ‘household’ can also be applied simply to co-residence, a task-oriented unit or the site of shared activities. Households may involve close family, wider kin networks and can include unrelated co-residents such as lodgers. ‘The household’ is an important arena of public policy research. It is frequently viewed as a single entity and treated as a unit of analysis.
3.4 Household Strategies and Livelihood Systems

The reproduction of households from one generation to the next is not an automatic process. For some low-income households, actual day-to-day survival is a struggle. Others simply survive while yet others prosper. Rural people in poverty usually seek multiple and resourceful strategies for survival and betterment and indeed, household level strategies have become an important focus. For rural poor the agriculture sector of which Cooperatives are a part is critically important for sustaining livelihoods in rural areas as it accounts for up to 80 per cent of employment and over 40 per cent of the national economies in the poorest African countries and up to 25 per cent of the economies in the Asian and Latin America countries (Chisholm & Crowley 2005).

3.5 Cooperatives and Rural Livelihoods

The study made by Ferguson (2012) in Canada on the impact of Cooperative development on rural livelihoods and poverty for four-years period (2007-2011) shows that over 5 million people in 24 countries across Africa, Latin America, and Asia benefitted from increased livelihood security through Cooperatives. The same study indicates that access to productive and vital assets has been increased for 706,500 individuals (415,000 men and 291,000 women), and 72,500 individuals gained control over new assets (58,000 women). These assets include land, houses, livestock, enterprises and micro-insurance policies. The study also highlights that new jobs have been created for 44,200 men and 68,000 women, and. On top of that he pointed out that Cooperatives brought positive effect on the environment.

Fundsforng (2008) also highlights the significance of Cooperatives in enhancing livelihood activities to satisfy the basic community needs by pooling
their resources without depending upon the government or other agencies. Study made by Jena et al. (2012) in Ethiopia point out that the impact of product certification on livelihood of small-scale coffee producers is low mainly due to (1) low productivity, (2) non-significant price premium, and (3) poor access to credit and information from the Cooperative. The study also highlights differences in production and organizational capacities resulted in variation in the outcome of certification. However, given the production and organizational capacity of Cooperatives, such support can help smallholders achieve sustainable livelihoods, improve food security in their communities and play a greater role in meeting the growing demand for food on local, national and international markets.

3.6 Rationality of the Study

Theoretically, there is no doubt that Cooperatives enhance rural livelihood. Even globally there are practical evidences whereby Cooperatives impact rural people livelihood. This has been widely recognized worldwide (Mannie et al. 2011; Emana 2012). In pursuit of this, the government of Ethiopia has revitalized Cooperatives since 1960. Hence, the sector has got recognition by policy makers recently. As a result huge amount of resources have been invested in the sector with the intention to transform and bring substantial change on the livelihood of rural community. However, the policy impact of this sector has not been evaluated since then. Recent evidences show that studies on impact of Cooperatives on livelihood and poverty in Ethiopia are limited witnessing the need to have comprehensive studies on Cooperatives to investigate the policy responses both at micro and macro level in Ethiopia, which the present study attempts to address.
3.7 Conceptual Framework

The conceptual framework of this study is not only drawing upon the literature for an understanding of the concept of livelihoods and poverty and its links to Cooperatives, but it also focuses on the comprehensive analysis of the impact of Cooperatives on household livelihood and poverty as well. Evaluating the impact of Cooperatives on household livelihood and poverty is a challenging and complex process. However, strategies and methodologies for effective impact assessment on livelihoods and poverty have been well designed to ensure the robustness of the result. Socio-economic and environmental variables associated with livelihoods and poverty parameters have been properly defined and operationalized to help gauge the impacts. Besides, measures for the propensity of participation in Cooperatives have been effectively operationalized to employ proper matching algorithms. Moreover, the study requires deeper understanding of livelihood and poverty concepts in terms of theoretical knowledge and methodological skills. Hence, the present study aims to evaluate the changes brought about as a result of intervention of Cooperatives on household livelihood and poverty. More specifically, the study intends to measure the socio-economic and environmental livelihood and poverty impacts of selected Cooperatives in Ethiopia.

The assumption under which the conceptual framework is designed has taken in to account that Cooperatives can impact household livelihood through economic (household income, household asset, household access to potable water, household access to education, household access to health); environmental (household participation on natural resource conservation and management), and social (sense of openness, self-confidence, absence of discrimination) factors. Moreover, the impact of Cooperatives on poverty is
perceived to be gauged using consumption expenditure as a proxy welfare indicator. The detailed conceptual framework model is stated in Figure 3.

**Figure 3: Conceptual Framework**

*Source: Author 2015*