Chapter I

Introduction and Design of the Research

1.1 Background of the Study

The role played by Cooperatives and their contributions at micro and macro level is very immense global wide. Cooperatives maintain higher levels of income and sustain rural livelihoods. They also have the advantage of accessing Cooperative education and business development capacity building. Cooperative education enables members to participate in democratic debates, exercising democratic principles and leadership that would ensure livelihood demands (Chambo 2009).

Cooperatives, as a business model provide a means for addressing many economic, social and environmental concerns. Cooperatives are essentially a response to development opportunities or challenges (Ryan 2005). Cooperatives operate by a broader set of values and principles than those associated with the narrow pursuit of profit. This makes them unique as compared to other business enterprises. Hence, they are considered as organizational means through which they can create social integration and ensure economic development. Cooperatives continue to be an important means, often the only one available, whereby the poor, as well as those better off but at perpetual risk of becoming poor, have been able to achieve economic security and an acceptable standard of living and quality of life (Mannie 2011). Cooperatives have been designed specially to solve the economic ills of members and thereby contribute to building sustainable livelihoods¹ by providing needed services at cost.

¹ A livelihood is a means of making a living. It encompasses people’s capabilities, assets, income and activities required to secure the necessities of life.
Cooperatives are considered to have immense potential to deliver goods and services in areas where both the state and the private sector have failed (Baishree, Nirod and Kumar 2006). On top of this, Cooperatives have inherent advantages in tackling the problems of food security, employment generation and poverty alleviation whereby trying to improve livelihoods of the people.

Cooperatives also continue to play a role in building sustainable livelihoods of the community. Studies have shown that although Cooperative businesses may take longer to set up, they last longer than privately owned small businesses. Cooperatives have proven to be a lasting, resilient approach to support people building sustainable livelihoods and fight against poverty. In this regard, the establishment of farmer organizations such as Cooperatives has been suggested as a potential institution to revert the poverty condition and that may meet all dimensions of poverty (Wanyama, Develtere and Pollet 2008). To this end, there has been a consistent focus throughout to establish and grow Cooperatives to reduce poverty, build sustainable livelihoods and to use the Cooperative model to help poor people work their own way out of poverty and to reduce vulnerability.

The recognition of Cooperatives as self-help organizations with capacity to improve peoples’ livelihoods and wellbeing is global and widespread among institutions (Sarangi and Thanulingam 2003; Bernard et al. 2007; David et al., n.d.; Demke 2007; David et al. 2008; Bernard et al. 2010). The United Nations, in 1994, estimated that Cooperatives provide livelihood security for three billion people. In effect, “Cooperatives seek to harness and exploit collective latent and potential resources available to members that would have hitherto remained
unexploited and ineffective”. Hence, they are considered as critical rural institution in the removal of market barriers too.

Cooperatives have also a long history in Ethiopia and are considered as vital institutions that can play remarkable role in improvement of smallholder livelihoods and in poverty reduction in Ethiopia (Bernard, Gabre-Madhin and Alemayehu 2007). Besides, the 2005–2010 development plan of the country (Plan for Accelerated and Sustainable Development to End Poverty-PASDEP) placed due emphasis on the role of Cooperatives in promoting commercialization of smallholder agriculture (MoFED 2006) that enlarges livelihood strategies and contribute to poverty reduction effort.

An empirical study in Ethiopia shows the poverty incidence of farm households in Jima zone is about 40 per cent (Mitiku 2014). Income poverty is widespread and deep in Ethiopia. Optimistically nearly 31 million people live below poverty line (MoFED 2006). This indicates how much poverty reduction undeniably needs increased opportunity sets for the poor (Bernard and Taffesse 2012). Since poverty is one among highly prevalent problems in rural Ethiopia (Bernard, Dercon and Taffesse 2012); the contribution of Cooperatives in this regard is considered vital. Despite this fact, available studies in Ethiopia witness that the contribution of Cooperatives as a policy measure in terms of impacting rural livelihood and poverty was an open question which the present study has tried to address.

1.2 Statement of the Problem

Poverty is prevalent in large parts of the world and is one of the largest challenges of the 21st century. Hence, member states of the United Nation have decided to combat global poverty and to halve the number of poor living below
poverty line by the year 2015. Ethiopia as one of the members of the United Nations has planned to reduce poverty by half. In view of this, the contributions of Cooperatives towards poverty reduction in Ethiopia have got recognition by policy makers. The significance of Cooperatives in poverty reduction and enhancing livelihood in Ethiopia has widely recognized (Emana 2012).

In fact, Cooperatives in Ethiopia enhanced members’ livelihood through its varied services such as agricultural input adoption for productivity growth, the potential role that Cooperatives could play in terms of smallholder commercialization and poverty reduction is significant and this has been widely recognized (Mannie et al. 2011; Emana 2012). Only a few studies have been made so far on the impact of Cooperatives in Ethiopia. One of such studies has shown that Cooperatives have positive effects on producer prices and market participation, and on the likelihood to adopt improved technologies (Abebaw and Haile 2013; Bernard and Taffesse 2012; Ito et al. 2012; Asfaw et al. 2012; Aebew & Haile 2013). The impact of agricultural Cooperatives on members’ level of technical efficiency is found to be positive (Abate et al. 2013). On average members are better situated to get maximum possible output from a given set of inputs used, by at least five per cent. These results are in line with the predicted role of agricultural Cooperatives in improving efficiency by providing easy access to productive inputs and embedded support services such as training, information, and extension on input application. Similarly, it has been opined that marketing Cooperatives have smallholder commercialization impact (Francesconi and Heerink 2010).

Study by Ejigu (2008) also has shown that agricultural Cooperatives have not significant positive impact on income generated from grain marketing, but
positive significant impact on commercialization of smallholder agriculture. The study made in Tigray region of Ethiopia has also shown that agricultural extension program had a large positive impact on household welfare increasing income (which is key component of livelihood) by about 10 per cent (Kidanemariam et al. 2013). Empirical study has shown that Cooperatives have both direct and indirect impacts on socio-economic development, poverty reduction, enhancing social inclusion, social protection and community building (Governance and Social Development Resource Centre 2011). An empirical study also has shown that the contribution of agricultural Cooperatives in improving the livelihood of users is immense. The impact on rural livelihoods is positive. Particularly, their impact on income of users is promising and their effect on savings is positive. The study also highlighted, the impact of Cooperatives on productive asset accumulation is mixed (Getnet and Alluro 2012).

However, evidence shows that studies on impact of Cooperatives on livelihood and poverty in Ethiopia are limited. Such studies have addressed the impact of Cooperatives in terms of mainly economic variables such as income, savings, and assets (Bernard & Spielman 2009; Bernard, Taffesse and Gabre-Madhin 2008). Recently the need for all kinds of Cooperatives to find ways of encouraging employment and investment and integrate environmental sustainability into development endeavors has given due emphasis (Stephen and Jonathan 2013). Moreover, social and environmental impact of Cooperatives that are the crucial dimensions for livelihood enlargement and its impact on welfare level, depth of poverty and severity of poverty have not been fully assessed which remains an open question and critical gap. Thus, the present study is of paramount importance in view of the fact that it is a comprehensive approach
that combines social, economic and environmental dimensions in evaluating livelihood and poverty impact of Cooperatives on rural households in selected Districts of Ethiopia.

1.3 **Objectives of the Study**

The general objective of the study is to evaluate the impact of Cooperatives on household livelihood and poverty. The specific objectives are:

1. To analyze the impact of Cooperatives on household livelihood
2. To analyze the mean differences in livelihood and poverty impact indicators between member and non-member households in the study area
3. To analyze the incidence, depth and severity of poverty in the study area
4. To compare the level of poverty between member and non-member households in the study area
5. To examine key determinants influencing household livelihood in the study area

1.4 **Hypotheses of the Study**

The study has made an attempt to evaluate the impact of Cooperatives on livelihood enhancement and poverty reduction in selected Districts in Oromia Region of Ethiopia. The broader objective of the present study has been to analyze to what extent Cooperatives development policies and programmes in Ethiopia have effectively and sustainably improved rural livelihood and enabled people come out of poverty. Hence, the study has made an attempt to find an answer to the following specific set of questions: Do Cooperatives have impact on household livelihood? Do members have better livelihood as compared to
that of non-member\textsuperscript{2} households? What are the incidence, depth and severity of poverty in the study area? What is the level of poverty between members\textsuperscript{3} and non-member households? What factors most determine household livelihood?

To this end the following specific hypothesis has been developed to substantiate the above research questions. The general hypothesis is that participation in Cooperatives has no impact on household livelihood and poverty. Specific hypothesis has been developed for each objective as shown under:

\textbf{Objective #1:} The effect of selected economic, social, demographic and environmental variables on household livelihood is statistically not significant.

\textbf{\(H_0\):} Participation in Cooperative has no economic impact (i.e. There is no mean difference between treated and control groups in terms of selected economic impact indicators)

\textbf{\(H_0\):} Participation in Cooperative has no social impact (i.e. There is no mean difference between member and non-member households in terms of selected social impact indicators)

\textbf{\(H_0\):} Participation in Cooperative has no environmental impact (i.e. There is no mean difference between member and non-member households in terms of selected environmental impact indicators):

\textbf{Objective #2:} There is no difference between member and non-member households in terms of selected economic, social and environmental response variables. The specific hypotheses are:

\textsuperscript{2} Non-member in this research denote either control/comparison or non-participants

\textsuperscript{3} Members in this paper denote either treated/experimental or participants
Chapter I: 

*Introduction and Design of the Research*

**H₀:** There is no statistically significant difference in terms of the means of selected economic variables between member and non-member households.

**H₀:** There is no statistically significant difference in means of selected social variables between member and non-member households.

**H₀:** There is no statistically significant difference between member and non-member households in terms of selected environmental variables between member and non-member households.

**H₀:** There is no statistically significant difference between member and non-member households in terms of selected demographic variables between member and non-member households.

**Objective #3:** Cooperatives have no significant impact on poverty (consumption expenditure proxy indicator) in the study area.

**Objective #4:** There is no statistically significant mean difference in terms incidence, depth and severity of poverty between member and non-member households.

### 1.5 Need and Significance of the Study

The need to promote research on Cooperatives is very much tied to raising the general awareness on Cooperatives within and beyond academic circles. Cooperatives are an important part of the social and economic fabric for national and local communities. For instance, the United Nations Department of Economic and Social Affairs Division for Social Policy and Development (2011) highlighted that few members of the general public or even of academia or policy-making bodies are aware of the reach and impact of Cooperatives within
their communities. The study also spelt out the need to move towards a research agenda on Cooperatives with an emphasis on social, economic and environmental impact of Cooperatives.

The context of Ethiopia is not also different from this situation. Therefore, this study is quite necessary to deeply understand how Cooperatives are able to impact livelihoods and poverty at micro level and the changes they brought on the broader economy of the country. The study has also been of paramount significance in coming up with a possible solution that may contribute towards moving Cooperatives forward as an effective and sustainable business model equipped to solve today’s social, economic and environmental challenges of the farming community. Besides, analyzing Cooperatives’ impact on household livelihood and poverty is very critical from policy point of view. It helps policy makers to gauge the responsiveness of the Cooperative sector to the policy demands in terms of bringing rapid and sustainable positive changes on the target beneficiary.

The present study has evidently academic relevance in generating contextualized realities and facts that may have significant contributions to the scientific debates. Moreover, development practitioners interested in intervening and aimed at promoting Cooperatives may also benefit from the findings and information which result from the present study.

The last but not the least is that the data base generated by this research may be used as reference and it can serve as a spring board for future research in the sphere of Cooperatives. On top of these, due to its policy implication, relevance, contributions and mutual benefits; the research is perceived to have valuable inputs to those who play prominent role in supporting, promoting and
transforming the Cooperative sector to enhance household livelihood. Especially, the research outcomes would have a wide range of benefits to donor organizations, academic and research institutions, Cooperatives at different tiers and other stakeholders.

1.6 Scope of the Study

The scope of this research has been delimited to the specific objectives stated and the study has been carried out on households and Cooperatives in selected Districts in Ethiopia. The study has focused generally on analyzing the impact of agricultural Cooperatives on households’ livelihood and poverty. Major livelihood (such as economic, social and environmental variables) and poverty (incidence, depth and severity of poverty) indicators has been taken into account to gauge the impact. In this study key household livelihood determinants have been examined. A comparative analysis in view of livelihood and poverty outcomes between members and non-members of Cooperatives has also been carried out. But, it is worth mentioning that the purpose of this paper is not to draw nationally representative solid conclusions, but rather to highlight pertinent policy implications and signals on the basis of household’s behavioral response to their participation in Cooperatives in the study area.

1.7 Limitations of the Study

As Cooperatives in Ethiopia are required to supply basic farm inputs for all farm households regardless of membership requirement, households in a given village where Cooperatives are found may get indirect services from the respective Cooperatives without being a member. The existence of such an externality may create problem of spillover that may underestimate the
Cooperative impact in the process of comparing members of the Cooperatives with non-members.

Besides, the non-differentiability nature of non-user households from user households in a particular area where Cooperatives are found would be the potential limitation that may cause selection bias. These potential biases are common in evaluations aimed at measuring ex-post impact of programs that involve some degree of self-selection among members. Participation in Cooperatives is non-random. The other source of bias is selection on unobservable, which arises due to differences between members and non-members in the distribution of unobservable characteristics for which controlling could be difficult. So, to mitigate such selection bias, matching technique is applied for the reasons that it provides unbiased estimate through controlling for observable confounding factors in one hand and it accounts for differences in observed covariates between members (treated groups) and non-members (control groups) on the other hand (Becker and Ichino 2002).

1.8 Organization of the Thesis

This thesis has six chapters. The first chapter thoroughly discusses about the background of the research, while the second chapter deals with the review of related literatures. The theoretical and conceptual framework pertinent to the subject of the study has been given in the third chapter. Chapter four discusses methodological aspects of the study. Chapter five deals with analysis and interpretation of the data, and the last chapter furnishes a brief summary of the findings, conclusion and suggestions of the present study.