Chapter II

REVIEW OF LITERATURE

In this chapter related literature on impacts of Cooperatives on household livelihood and poverty is presented. Though direct studies on livelihoods and poverty impacts of Cooperatives are scarce, there are ample previous works indirectly related to the present study. The summary reviews of those studies are presented in this section.

2.1 Development of Cooperatives: Past and Present

Studies conducted in the 1960’s, 1970’s and 1980’s have shown disappointing results of Cooperative performance (Birchall et al. 2008; Myers 2004). Thus, the disappointing results from this time neither proves nor disproves the case for Cooperatives (Birchall et al. 2008). Researchers, however, have blamed heavy government intervention and bad policies for such failures (Hussi et al. 1993).

In 1990s, liberalization of Cooperative regulation has taken place. Since then, the interest for Cooperatives has experienced a renaissance and organizations such as the United Nations, the World Bank, and the International Labour Organization still believe Cooperatives to be viable partners for rural development (Birchall et al. 2008; Myers 2004). Modern Cooperative originated in Europe and spread to other industrializing countries during the late 19th century as a self-help method to counter extreme conditions of poverty. The Cooperative sector has shown a tremendous development and has got recognition since then.
The importance of Cooperatives has been emphasized by a number of researches conducted in those periods. Recent research has found that Cooperatives particularly agricultural Cooperatives effectively can assist smallholder farmers (Myers 2004). The significance of Cooperatives has been universally recognized and has got wider acceptance since organizing within Cooperatives enable farmers to achieve economies of scale, bargaining power, and allow farmers to invest in more advanced stages of the value chain. Furthermore, Cooperatives are found to be important civil society actors that transfer decision making to the community level, and enhance social capital (Birchall et al. 2008).

2.2 Role of Cooperatives: Global Perspectives

The global representative body for Cooperatives, International Cooperative Alliance (ICA), is one of the largest non-governmental organizations in the world by the number of people it represents. The ICA represents close to one billion individual members in 94 countries across the world. The country with the largest number of individual members indirectly represented by the ICA is the United States with 256 million members, India with 93.7 million individual members, Japan with 77 million individual members. The fourth largest number of members is in Iran with 36.9 million individual members and Italy with 22.5 million individual Cooperative members represents ICA through their organizations (ICA 2013).

Cooperatives invariably can produce positive effects at the micro-, meso-, and macro-levels. It is generally taken for granted that Cooperatives contribute to the betterment of the living conditions of the participating members (micro-level), induce positive economic and social changes in the direct environment
surrounding the Cooperatives. Dülfer (1974) on the other hand in his major study on the operational efficiency of agricultural Cooperatives has stated that “certainly there is hardly a better organizational means than the Cooperative for achieving the dual effect of change in social and economic development”. This fact indicates how vital Cooperatives are in playing prominent role in the global economic development.

Cooperatives can also play key role in economic activities like export and import, disbursement of credit, distribution of agricultural inputs. Cooperatives’ inherent role in tackling the problems of poverty alleviation, food security and improvement of household livelihood is vital. It is considered to have immense potential to deliver goods and services in areas where both the public and the private sector have failed. By and large, Cooperatives’ role in counterchecking migration is valuable, as the Cooperatives exhibit vast potential for generating self-employment opportunities at grassroots (Dubey et al. 2009).

In summary, Cooperatives play important role in all the sectors such as service, industry and agriculture worldwide in terms of adding meaningful values both at micro (household) and macro (national) level socio-economic development. The capacity of Cooperatives for creating viable and sustainable enterprises, secure productive employment and the generation of income is immense. Its position in contributing to poverty reduction is vital. In addition, Cooperatives’ role in providing significant positive externalities for the rest of society in rural area is immense. Cooperatives’ role in financial sector that promotes the growth of agricultural Cooperatives through access to finance, adoption of sustainable production techniques, investments in rural infrastructure and irrigation, strengthened marketing mechanisms, and support for the
participation of women in economic activities; promotion of education and training is also promising.

2.3 Cooperatives and Economic Crisis

Study made by UN (2009), revealed that Cooperatives play significant economic role in difficult economic times and instances of market failures. Cooperative organizations are widely accessible especially for the impoverished and the marginalized societies, where private enterprises or government is weak. Cooperatives role in the development of agriculture, banking, finance, credit, agro-processing, storage, marketing, dairy, fishing and housing is enormous.

Past studies (Richard et al. 2008; Stephen and Jonthan 2013) highlighted that in times of economic turmoil and crisis consumer Cooperatives have been successful in cutting the cost of living for working class people. The same study opined that in the late 1970’s and early 1980’s, when very slow job growth had been noticed, Cooperatives experienced a much faster rate of employment growth than the economy as a whole. Italy can be the best example with the largest Cooperative sector, approaching six per cent of total employment. Moreover, since the 2008 crisis, Birchall and Ketalson (2009) stated that financial Cooperatives experienced growth along a number of dimensions while the larger financial markets have been in turmoil. The study shows evidences from the United States, Canada, the Netherlands, the UK, and Taiwan reflect that financial Cooperatives increased their deposits and loan portfolios in the midst of the banking crisis when lending freeze in 2008 and 2009.

Worker and producer Cooperatives can also have benefits during times of economic crisis. Birchall and Ketalson (2009) witnessed how farming Cooperatives grew during the Great Depression. Further evidence on the benefits
of the Cooperative sector during times of crisis comes from Argentina. This evidence from a number of countries in many different time periods shows how Cooperatives can be important in terms of withstanding financial shocks and as a source of employment creation and layoff prevention during times of economic downturn and crisis.

Although, evidences on the role of Ethiopian Cooperatives during economic crisis is lacking, study made by Emana (2012) witnessed that Cooperatives in Ethiopia created employment opportunity to 207,587 casual workers (18 per cent by Cooperative unions and 82 per cent by primary Cooperatives). And the workers have generated total income valued at USD 72 million by 2009/10 fiscal year.

2.4 Cooperatives as a Tool for Development

Cooperative proponents, argue that Cooperatives serve as “mediating agencies” for accessing livelihood assets and poverty reduction. As Develtere et al. (2008) argue, “people’s access to assets that they require to earn a living is a matter of organization”. In line with this, Birchall (2003) argues that self-organization of the poor and poverty reduction seems to go hand in hand. Another argument in favor of the Cooperative organizational form comes out of the literature on poverty reduction strategy papers (PRSPs). These strategies are supposed to include the voice of the poor. However, unless the poor are organized at the local level, it will be difficult to represent themselves and their ideas on development. The Cooperative form, because of its open membership, democratic principles, and inclusion of the poor may provide the organization that they need in order to have their voices heard in the processes of development (Birchall 2003).
ILO (2003), one of the primary contributors to the pro-Cooperative debate, argue that Cooperatives can achieve economies of scale, and can have economic, social, and political impact on development. Perhaps one of the strongest arguments for Cooperatives as a potential tool for poverty reduction is that the organizational form has been actually created by the poor in order to seek economic advantages that have not been achievable working alone.

Münkner (2001), one of the more objective writers on the topic of development and cooperation, views Cooperatives not as a tool that helps the poor, but as a tool that the poor use to help themselves. He notes that “members have their Cooperative”, not the other way around. He explains that the poor can utilize the Cooperative form to pool their resources and by conceding their own interests to the interests of the group, can benefit more from organized self-help than they would working alone. Devletere et al. (2008) on top of these point out that Cooperatives have a demonstrated ability to create employment opportunities not only for members, but also for people and organizations with which they do business. Birchall (2004) further notes that Cooperatives can also build sense of dignity among community.

Devletere et al. (2008) also point out the contribution of Cooperatives towards social equality and that they can have a positive impact on social exclusion. Devletere et al. (2009) argue that Cooperatives provide important social benefits in that they tend to foster the creation of internal social safety nets that may be lacking formally. Instances where Cooperatives have been shown to support members in paying funeral, wedding, and illness related expenses are cited. Cooperatives can also play a political role when they represent the views of their members (Mukarugwiza 2010).
The UN Department for Policy Coordination and Sustainable Development in its report (1994) on Cooperatives to the General Assembly concluded that Cooperatives, which are sometimes the only organizational form open to the poor and vulnerable, have helped to improve the financial stability and standard of living of this target group (Birchall 2003). Ofeil (2005) notes that given the principle of Cooperatives, the organizational form allows local communities the freedom to choose activities that will define their livelihood. Along similar lines, in the early 1990’s, the World Bank highlights that Cooperatives that have the freedom to operate like a business within the market economy have more potential in development endeavor (Develtere et al. 2008). Holmen (1990), who has been critical of Cooperatives, says that Cooperatives are not designed as extensive, comprehensive development strategies, but rather they should remain local and true to the culture and people at that level. In effect, though he recognizes their role, he warns against the use of Cooperatives as a “one size fits all” approach to development.

Opponents argue that what has been written on the impact of Cooperatives, especially since liberalization, is mainly conceptual. Develtere et al. (2008) argue that Cooperatives have not had significant success in helping members to move outside of mere subsistence. Corresponding to this Holmen (1990) notes that Cooperatives are not appropriate structures for the poorest of the poor (people living at subsistence level or below), given that this group often do not have resources to pool as part of their Cooperative membership. This may prevent them from being able to even join a Cooperative. He pointed out that serving the interests of the poor is not a core guiding principle of Cooperatives and therefore questioned whether Cooperatives can really be tools for aiding the
poor when they may not even be able to participate. He reinforced this point when he too noted that the poorest, who often have no resources to pool, will not likely be able to join a Cooperative. Birchall (2003) also argues that the principle of open membership has been designed to make the organizational form inclusive, but it has not been designed to primarily benefit the poor.

A commonly cited obstacle for the success of Cooperatives has been the involvement of the state. In connection to this, Holmen (1990) argued that, if Cooperatives are developed through external pressure before they are sufficiently linked to a market, they are not likely to perform adequately. Most of the writings before liberalization point out that Cooperatives lack autonomy in serving their members’ interests. Pertaining to this, Münkner (2001) and Holmen (1990) have argued that in order for Cooperatives to have a positive impact on the poor, the state must reduce its involvement and enable Cooperatives to democratically control their own activities. As noted earlier, however, while this indictment of the state’s involvement is an important critique, at the time of their writing, autonomy and independence from the state have not yet been a guiding principle of Cooperatives and so it could be argued that the critics have been holding Cooperatives up to a not yet reasonable expectation.

At the same time, Cooperatives of the very poor often need outside assistance in the form of education, training, and market opportunities. Without this assistance, typically from NGOs and the government, these Cooperatives are less likely to advance (Birchall 2003). There is a fine line, though, between being supportive and being paternalistic. Too much intervention can cause
dissatisfaction among members and prevent Cooperatives from pursuing its own economic interests (Münkner 2001).

Additionally, it can be argued that too much emphasis is placed on the power of the form of the organization and not enough on the members themselves. Birchall (2003) stated that it is the members within the Cooperative rather than the Cooperative itself that contributes to poverty reduction through income generating activities.

Lele (1981) argued that the Cooperative form has been expected to deliver socially, politically, and economically, but these three objectives often are not mutually agreeable. They typically involve trade-offs. She argued that critics who expect Cooperatives to deliver all three areas simultaneously and without trade-offs will be disappointed with the structure. Perhaps the best argument for not looking at Cooperatives as utopian is to remember that often times their successes and failures are contextual and like all organizational forms is not perfect. As Holmen (1990) reminds us “There is no panacea to development, not even in Cooperative disguise”.

2.5 Cooperatives and Rural Development

The significance of Cooperatives in rural development is immense worldwide. A large number of empirical evidences support the vitality of Cooperatives to rural development. Studies made by Das et al. (2006), Bhavsar (2012) and Chopra (2012) opine that Cooperatives have immense potential to deliver goods and services in areas where both the state and the private sector have failed. Similarly, UN (2007) reveals that Cooperatives, as self-help and member owned enterprises, have proven to be effective in generating employment opportunities and decent work in economic sectors and areas, and
their activities complement government and other private sector initiatives for job creation. Further, Cooperatives create employment opportunities for marginalized people, who might otherwise remain unproductive and underserved by other businesses.

According to Gicher (2012) Cooperatives have had significant impact in addressing both local and global challenges and that it has tremendous potential to address the ongoing challenges to youth employment and creating more secure livelihood prospects for informal economy workers.

Adefila and Yamusa (2014) concluded that Cooperatives have the potential to make maximum contribution to agricultural development. Nweze (2003) highlighted that agricultural Cooperatives play an important role in supporting small agricultural producers and marginalized groups such as young people and women. Same study highlighted that Cooperatives empower their members economically and socially and create sustainable rural employment through business models that are resilient to economic and environmental shocks.

According to Gibson (2005) the impact of Cooperatives on employment creation and income-generation is more discernible in the self-employment realm. A significant proportion of farmers and their households access the market to sell their produce to earn an income through their Cooperatives. In Ethiopia, members of Cooperatives in the agriculture sector fully or partially generate their income through Cooperative activities. About 900,000 people in the agriculture sector of Ethiopia are estimated to generate part of their income through their Cooperatives (Lemma 2007).
Bernard et al. (2008) also recognized the potential contribution of smallholder Cooperatives to agricultural production and marketable surpluses in rural Ethiopia and, in the long run, to overall agricultural development, economic growth and poverty reduction in the country. As a matter of fact, grain producer Cooperatives played an important role in linking small holders with market and thereby providing Ethiopian farmers with better prices by reducing seasonal price fluctuations and by stabilizing the local grain markets in favour of the producers (David et al. 2008; Bernard et al. 2010. Francesconi and Ruben (2007) witnessed that dairy farmers in Ethiopia perform better under Cooperatives than otherwise in terms of quantitative indicators such as herd size, productivity and market access. Based on a case study on the coffee farmers’ Cooperatives, Myers (2004) concluded that Cooperatives helped to successfully position Ethiopian smallholder farmers in the international coffee market that would substantially improve the livelihood of the producer members.

2.6 Cooperatives and Rural Poverty

Modern Cooperative originated in Europe and spread to other industrializing countries during the late 19th century as a self-help method to counter extreme conditions of poverty. Since then a continuous effort has been made in investing on Cooperatives towards realization of such ends worldwide. Because, this would help creating or strengthening sustainable development that have the potential for large scale impact when it comes to improvement of livelihood, lifting rural households out of poverty, providing services to the underserved and protecting the economic assets of the rural poor. The vitality and inherent role of Cooperatives in tackling the problems of rural poverty, food security and improvement of household livelihood is undeniable.
Empirical evidence from various corners of the world has also witnessed the global Cooperative movement is promising in terms lifting people out of poverty. To this end, study made by Gibson (2005) further highlighted an increasingly important role played by Cooperatives worldwide in poverty reduction, facilitating job creation and economic growth. Ellen and Meit (2014) in their study on agricultural Cooperatives in Rwanda, indicated that despite entry constraints, Cooperative membership has significant impact on farm income and poverty reduction. The study shows agricultural Cooperatives has significantly increased farm income (with about 40 to 45%), and has significantly reduced the likelihood of being poor (with 10 to 14% points).

Further, the study made by Richard et al. (2008) underscored the significance of Cooperatives in impacting rural poverty and improving livelihoods. Their unique characteristics, based on their values and principles, make them institutionally important in improving livelihood and reduction of poverty. Besides, Bernard et al. (2008) recognized the potential contribution of smallholder Cooperatives to agricultural production and marketable surpluses in rural Ethiopia and, in the long run, to overall agricultural development, economic growth and poverty reduction in the country. Thus, while they directly benefit their members, they also offer positive externalities for the rest of society and have a transformational impact on the society, economy and environment.

2.7 Previous Studies on Cooperatives and Livelihood Impacts

Cooperatives’ potential to respond to the triple bottom line of sustainable development (economic development, social justice, and environmental protection) is immense. Hence, investing on Cooperative development is considered as investing in creating or strengthening sustainable development that
have the potential for large scale impact when it comes to improvement of livelihood, lifting households out of poverty, providing services to the underserved and protecting the economic assets of the poor. Thus, while they directly benefit their members, they also offer positive externalities for the rest of society and have a transformational impact on the society, economy and environment. Undoubtedly, in fact Cooperatives, like other enterprises have seen their operations significantly affected by external challenges in the political and economic environment. Despite these fact, studies from various corners of the world has witnessed Cooperative movement is promising in terms of improving livelihood and lifting people out of poverty.

Evidence from the global Cooperative movement witnessed that Cooperatives have brought a wide range of positive changes in improving the economic wellbeing of the society all over the world. Gicheru (2012) has practically witnessed that Cooperatives have had significant impact in addressing both local and global challenges and that it has tremendous potential to address the ongoing challenges to youth employment and creating more secure livelihood prospects for informal economy workers as well (Tesfaye 2009; Demeke 2007). According to IFAD (2011), in Brazil, Cooperatives have been responsible for 37.2 per cent of agricultural GDP and 5.4 per cent of overall GDP in 2009, and earned about US$ 3.6 billion from exports. In Mauritius, Cooperatives account for more than 60 per cent of national production in the food crop sector and in Kenya the savings and credit Cooperatives have assets worth US$ 2.7 billion, which account for 31 per cent of gross national savings.

A study done by ICA in (2008) revealed that the top 300 global Cooperatives alone have a combined turnover of US $1.1 trillion, that
Cooperatives employ over 100 million people (more than multinational corporations) and contribute to increased agricultural productivity, expanded access to financial services and critical economic development (ICA 2008). The study also revealed that, besides their major contribution to household incomes, Cooperatives make a significant contribution to national economies. For example Cooperatives contributed around 45 per cent of GDP in Kenya and 9 per cent in Vietnam. Further studies show that, much more than other forms of business organizations; cooperatives help create more equitable growth by making markets work better for poor people, by generating economies of scale, increasing access to information, and improving bargaining power. The study made by Deller et al. (2009) highlighted that Cooperatives have been found “responsible for many market innovations and corrections of market imperfections”.

According to ICA (2010), data from global census on Cooperatives 2013-2014, shows that 145 countries in all regions of the world shows that 2.6 million Cooperatives have over 1 billion membership and 12.6million employees working in 770, 000 Cooperatives. Same study reveals that at a national level the Cooperative economy comprises over 10 per cent of the GDP in 4 countries in the world (New Zealand (20%), Netherlands (18%), France (18%) and Finland (14%)) UN (2014). The study conducted by Center for Cooperatives, University of Wisconsin, shows the 29,284 Cooperative firms operating in US generate over 2 million jobs. The same study witnessed that Cooperatives represent 1 per cent of the USA GDP and accounts for more than $ 654 billion in revenue.

According to Woldegebreal, Guido and Jeroen (2013) Cooperatives have brought significant changes in terms of ensuring household food security
through increased incomes, improved purchasing power and broadening livelihood opportunities. The study highlighted Cooperatives have also brought positive changes in reducing unemployment, protecting environmental degradation and stabilization of local markets. There are recent examples from all over the world of a positive impact of Cooperative membership on specific aspects of smallholder farm performance. Ito, Bao and Su (2012) show that membership in a Cooperative has a strong positive effect on the income of watermelon farmers in China. Vandeplas, Minten and Swinnen (2013) find that dairy farmers in India are more efficient and have higher profits when organized in a Cooperative.

Abebaw and Haile (2013) and Francesconi and Heerink (2010) respectively have shown that Cooperative membership in Ethiopia also have brought positive impacts on the adoption of improved agricultural technologies, especially mineral fertilizer, and the rate of commercialization. Fisher and Qaim (2012a) found that Cooperative membership leads to higher prices and higher farm incomes among banana farmers in Kenya. Shiferaw et al. (2009) have also indicated that membership in grain Cooperatives in Kenya lead to increased adoption of improved varieties, higher producer prices and larger marketable surpluses.

Wollni and Zeller (2007) studied that Cooperative membership facilitates access to more lucrative specialty markets in the coffee sector in Costa Rica. But, likewise, there is evidence of a lack of success of Cooperatives to improve farm performance. Bernard, Taffesse and Gabre-Madhin (2008) and Bernard and Taffesse (2012) indicated that grain marketing Cooperatives in Ethiopia, while offering higher prices, do not succeed in increasing commercialization. Its
potential to improve rural livelihoods through improved local and regional market potential and access, reduced market uncertainty, and greater net incomes is also immense.

Mujawamariya, D’Haese and Speelman (2012) pointed out the existence of double side-selling problems in coffee Cooperatives in Rwanda. Hellin, Lundy and Meijer (2009) conclude that producer organizations in the maize sector in Mexico are not successful because the cost of the organization is not compensated by an increased income from sales. Cooperatives (credit Cooperatives in particular) have far reaching direct and indirect impacts on agricultural growth and rural development (Rabi and Mahendra (2013).

Cooperative membership does impact positively on overall well-being of members. Particularly its impact on incomes and promotion of education is found to be significant (Cecilia 2011). Ito et al. (2012) argue that agricultural Cooperatives in China include a wide range of producer organizations with important differences but they do not explore potential heterogeneous impacts. There is a need to better understand what type of contemporaneous agricultural Cooperatives are most successful in stimulating the development of the smallholder farm sector in developing countries.

Ellen and Miet (2013) in their study have concluded that Cooperative membership in general has a positive impact on different farm performance indicators. Despite this fact, a study by Jena (2012) concluded that certification of coffee Cooperatives in Ethiopia has in total a low impact on small-scale coffee producers’ livelihoods mainly due to low productivity, non significant price premium, and poor access to credit and information from the Cooperative.
Experience of various countries has shown that Cooperatives also have had very significant economic impact in developing countries in various sectors. Cooperatives provide legitimate livelihoods in agricultural economies. Majee et al. (2011) has witnessed that nearly three-quarters of the poor in developing nations live in rural areas and derive their livelihoods from agriculture or related activities. Ellen and Meit (2014) in the study on agricultural Cooperatives in Rwanda indicated that despite entry constraints, Cooperative membership has significant impact on farm income and poverty reduction. This study highlighted agricultural Cooperatives has significantly increased farm income (with about 40 to 45%), and has significantly reduced the likelihood of being poor (with 10 to 14% points). Hence, lifting people out of poverty is highly dependent on what happens in the agriculture sector which requires substantial public investment. At the most fundamental level, when people move from subsistence to sufficiency they have the security, resources and motivation to contribute to the development of civil society.

The United Nations estimated in 1994 that the livelihoods of nearly 3 billion people, or half of the world’s population, had been made secured by Cooperative enterprises. They provide an estimated 100 million jobs. They are economically significant in a large number of countries providing foodstuffs, financial services as well as the provision of services to consumers. According to ILO (2005), Cooperatives have created over 13.8 million jobs in India, with 92 per cent of the jobs created through self-employment in the workers’ Cooperatives. ILO in 2005 pointed out that in Japan, the consumer Cooperative movement provided 58,281 full-time and 95,374 part-time jobs in 1997.
Chapter II:  

Review of Literature

US Overseas Cooperative Development Council (2007) has also witnessed illustrating the impressive impact of Indian dairy Cooperatives in which producers have gained annual payment of US$ 1.6 billion by the year 2004 from 88.1 million MT of milk production. The International Cooperative Alliance (2013) has also boldly witnessed the positive impact of Cooperatives worldwide.

For instance, in France (2010), 21,000 Cooperatives provide over 1 million jobs representing 3.5 per cent of the active working population; In Colombia (nd), the Cooperative movement provides 137,888 jobs through direct employment and an additional 559,118 jobs as worker-owners in workers Cooperatives providing 3.65 per cent of all jobs in the country; in Indonesia (2004), Cooperatives provide jobs to 288,589 individuals; in the United States (nd), 30,000 Cooperatives provide more than 2 million jobs; in Denmark (2007), consumer Cooperatives held 36.4 per cent of consumer retail market; in Japan (2007), the agricultural Cooperatives gained US$ 90 billion with 91 per cent of all Japanese farmers in membership while consumer Cooperatives gained a total turnover of US$ 34.048 billion with 5.9 per cent of the food market share.

In Côte d'Ivoire (2002), Cooperatives invested US$ 26 million into setting up schools, building rural roads and establishing maternal clinics; in New Zealand (2007), 3 per cent of the gross domestic product (GDP) is generated by Cooperative enterprise and Cooperatives are responsible for 95 per cent of the dairy market and 95 per cent of the export dairy market; in Uruguay (n.d.), Cooperatives are responsible for 3 per cent of the GDP. They produce 90 per cent of the total milk production, 340 per cent of honey and 30 per cent of wheat.
About 60 per cent of Cooperative production is exported to over 40 countries around the world.

According to ILO (2009) for instance, in Kenya, 63 per cent of the population derives livelihoods from Cooperatives. Approximately 250,000 Kenyans are employed or gain most of their income from Cooperatives. These global experience shows how significant and vital is the economic impact of Cooperatives. When it comes to Ethiopia, though the potential of Cooperatives in bringing positive impact on rural livelihood is promising, Cooperatives have created employment opportunity only for about 7,000 people according to Tesfaye (2009) and that has not been promising given large proportion of employable people. It is reported that agricultural Cooperatives in Ethiopia contributed in providing better jobs, more saving and reduced input costs (UNDESA 2012). However, in Ethiopian context, the multidimensional impact of Cooperatives both at micro (household livelihood) and macro (national economy) levels might not have been yet exhaustively studied and supported by empirical evidences.

After the outbreak of the global financial crisis in 2007, global growth has decelerated and unemployment has started to increase again, leaving an accumulated total of some 202 million people without job in 2013 (ILO 2014). The impact of Cooperatives in providing income to rural population creates additional employment through multiplier effects, including enabling other rural enterprises to grow and in turn provide local jobs (ILC 2007). In Europe alone, Cooperatives employ more than 5 million individuals (Cooperatives Europe, 2013). According to Chandrashekhar (2012) Cooperatives in India have successfully addressed the problems of the rural poor. Furthermore,
Cooperatives play major role in employment generation, poverty alleviation, improved quality of life and improvement in socio-economic conditions of the rural people.

Cooperatives also enhance economic growth through increased agricultural production and productivity. The case in point is that agricultural Cooperatives help in food security by giving incentives to small and subsistence farmers to contribute in food production. Through economies of scale in obtaining training, credit for farm inputs, and arranging for irrigation, Cooperatives enable these farmers to improve their productivities and raise output. With improved marketing, Cooperatives enable these farmers to obtain better prices in the market place, giving them the right incentives to produce for surplus (Veerakumaran n.d.).

UN (2009) highlighted that agricultural Cooperatives play an important role in food production and distribution. According to this report, in India, there are some 150,000 primary agricultural and credit Cooperatives serving more than 157 million agricultural/rural producers. In the Republic of Korea, agricultural Cooperatives have a membership of over 2 million farmers (representing 90% of all farmers). In Japan, agricultural Cooperatives cover 90 per cent of all farmers. In France, they account for 60 per cent of agricultural inputs, 57 per cent of agricultural production and 35 per cent of agricultural processing.

In Brazil, for example, Cooperatives are responsible for 40 per cent of agricultural GDP, and six per cent of the agricultural business exports. However, some very large producer Cooperatives, by behaving as monopolists, impose a social welfare cost by restricting production, resulting in higher prices for
consumers. Some agricultural Cooperatives improve farm productivity by obtaining inputs at low cost, and by adopting sustainable farming techniques and through management and organizational development of members.

Cooperatives work towards improving farmers’ collective bargaining power. Especially, agricultural Cooperatives help farmers’ in marketing their products operates through an apex organization. Evidence shows that 50 per cent of global agricultural output is marketed through Cooperatives (Bibby and Shaw 2005; Veerakumeran n.d.). Moreover, Cooperatives support farmers enter into high-value supply chains. Through this process, small farmers in Ethiopia as well are able to increase farm revenues, lower marketing and transaction costs. The case in point is that smallholder farmers belonging to coffee Cooperatives in Ethiopia benefit from Fair trade arrangements.

Furthermore, Cooperatives have had significant impact in addressing both local and global challenges. Cooperatives are often leading the way in providing inclusive solutions to social problems. Cooperatives provided an opportunity for self-determination and empowerment of poor people because they foster a culture of good citizenship and enable their members to have a voice and participate in a democratic process, peace and social cohesion (Cooperative Europe 2014). The study made by Chandrashekhar (2012) points out that Cooperatives in India have brought considerable impact in improving social integration. The further studies highlight that Cooperative have significantly improved social inclusion, social capital, social protection and social stability through building trust and solidarity (Cecilia 2011; Panda 2008; UN 2009; Gibson 2005). More importantly, evidence shows that Cooperatives through their systematic and organized efforts have promoted human growth and
development while bringing significant improvement on social matters such as those relating to health, awareness, social security, civics and the like (Sarangi and Thanulingom 2003).

Today, environment is degrading at an alarming rate due to a number of factors of which the main include non-sustainable urbanization, industrialization and agriculture. Unsustainable trends in relation to climate change and energy use, threats to public health, poverty and social exclusion, demographic pressure and ageing, management of natural resources, biodiversity loss, land use and transport still persist and become challenges. Since these negative trends bring about a sense of urgency, short term action is required, whilst maintaining a longer term perspective at all levels. But it is not always easy to work out exactly when and where threats will have their effects and often the impacts are hard to reverse. In cognizance to this, environmental managers adopt strategies aimed to prevent damage being done in the first place.

To face such global challenges, the contribution of Cooperatives is considered vital and as such its concern for the environment, particularly for the protection of natural resources such as water resources and biodiversity has recently increased (ILO 2013). To this end, Birchall (2012) recommended that the need to have a full sustainability program that is action packed to prevent threats, protect the environment from destruction and damage; and to put efforts to restore and reverse the damage of the same. Similarly, Horwat (2009) and Hallett (2001) too emphasized the need to encourage environmental Cooperatives and sustainability. Glasbergen (2000) also emphasized the integration of environmental values into their production system. Walter (2003) in his study pointed out that the potential of Cooperatives in addressing
environmental repercussion of industrialized agriculture, including the waste-management problem.

In this regard, a carbon offset project started in 2013 in Kenya, and waste managing and packaging projects in the UK by Cooperatives can be best examples. However, Borzago et al. (2008) pointed out that in spite of their importance, Cooperatives have not yet received the attention they deserve in protecting the environment. Moreover, given their ability to effectively combine economic, social, and ecological goals, and their potential to address and alleviate crisis, Cooperatives have not yet been fully exploited.

2.8 An overview of Cooperatives in African Economy

Recent research has shown a resurgence of Cooperatives within sub-Saharan Africa (SSA). The Cooperative structure is used in many sectors within a country, most notably agriculture, but also credit, distribution, manufacturing, and social services (Develtere et al. 2008). There are two distinct periods in the history of Cooperatives in SSA: the period prior to liberalization and structural adjustment programs (i.e. the late 1980s/early 1990s) and after liberalization (i.e. 1990s to present).

Prior to the 1990s, Cooperatives have been generally led more by state than member interests. Governments often utilized Cooperatives as a tool to move forward social and economic policies. However, this state involvement often meant that when states or state policies failed, the Cooperatives entangled with them failed too (Develtere et al. 2009). On top of these, the first era running from the immediate post-colonial period in the 1960’s to the mid1990s which has been characterized by stringent government control over Cooperatives
development through enactment of policies, legislation and programmes that promoted Cooperatives as vehicles for accelerating national economic development has also weekend African Cooperatives beyond the merits (Chambo 2009). According to this study the implication is that state control over the Cooperatives movement in Africa is not conducive for Cooperatives development.

In order to understand the picture of Cooperatives in Africa, one has to articulate certain general features and dynamics taking place in the economy of African countries today. According to Chambo (2009), African continent continues to be producer of raw materials but trading with industrialized countries. The industrialized countries have the capacity of rationalization on the economic utilization of imported raw material from the developing nations. As a result of this position, Africa continues to occupy a weak bargaining position when it comes to trade negotiations. It is the industrialized countries determining the quantity, quality, and price of raw material they need and not the other way round. This structural position of the African continent puts African Cooperatives in much a weaker position relative to world’s trade.

Due to this, many countries liberalized their Cooperative sector. As a result of liberalization process, new Cooperatives have been developed that relied less on government support than previous Cooperatives had. Since then, Cooperatives become more independent (Birchall 2003). Hence, African Cooperatives have started to maximize their advantage somehow since the global economic reforms from the mid 1990’s to the present after the liberalization of the economy when it starts operating like business ventures responding to market demands (Wanyama, Develtere and Pollet 2009).
liberalization of the economy that resulted from the said wave necessitated several changes in Cooperatives development in Africa. Since then, African Cooperatives have significantly contributed to the economy in terms of the mobilization and distribution of financial capital; created employment and income-generating opportunities; constituted a forum for education and training; and set up solidarity schemes to cater for unexpected expenses related to illness, social welfare, death and other socio-economic problems (Wanyama and Develtere 2008).

For examples, in 2013, a total of 22,385 credit unions existed in 25 African countries, representing 17 million individual members and 7.2 billion US-$ in assets. This figure illustrates the spectacular growth of financial Cooperatives in Africa during the last decade (Jürgen 2014). Similarly, in Burkina Faso, agricultural Cooperatives are the largest producers of fruits and vegetables for the national market and in Côte d’Ivoire they are responsible for 77 per cent of cotton production. In Kenya 63 per cent Kenyans earn their livelihoods from Cooperative enterprises (Schneider 2015) whereas Cooperatives in Philippines contributed 3.8 per cent of GDP by 2013 (Teresa 2014).

The contribution of Cooperatives to African economy is not up to mark even today since the structure of Cooperatives is directly affected by the shocks of declining world market prices and since Africa has not changed its pattern of production and consumption. To this end, study by Schneider (2015) witnessed that Africa does not have the industrial capacity to process its products into different end use products. This macroeconomic structure of Cooperatives, have to be reviewed with the intention of making such organizations, respond both to
the needs of the members but also making them contribute to macroeconomic stability, especially in dealing with the production and marketing of agricultural commodities.

2.9 **Cooperative Policies, Legislations and Education in Africa**

Generally, African Cooperatives have a number of challenges. These includes, stiff competition (sometimes without clear rules), controlling government policy and legislation, leadership, management and governance, member participation, empowerment and the challenge of capital investment in Cooperatives. Many well-functioning Cooperatives sectors have a single comprehensive policy that conveys the strategic direction of the sector and defines the roles and relationships between various stakeholders within the sector.

Most countries have Cooperatives development policies. For example Kenya, Tanzania, Ghana, South Africa, and Uganda have their own policies (Alemayehu and Meherka 2011; as cited in FCA 2012). Such policies often delineate various types of Cooperatives, clarify the country’s strategic direction to inform support programs and objectives, Cooperatives autonomy, and interaction with other key policies, like gender impact and agricultural finance, define the relationship between government and Cooperatives, and between Cooperatives and their members (Chambo 2009). Though the ILO, ICA, UN Summit, and key stakeholders in Ethiopia recommend such a policy as an important contribution to Cooperatives sector development in Ethiopia, such policies and legislative processes are still constraining Cooperatives development in Africa and are not yet participative (Chambo 2009). The state
continues to be the main promoter of Cooperatives and as such, the message sent to the public is that of state controlled Cooperative movement.

If Cooperatives want to register any meaningful change, the nature and content of Cooperative education and training has to be reflected in the framework of knowledge as input to member empowerment. The traditional member education and training did not expose members to issues of their entitlements to power and authority in decision making and resource allocation. To the contrary, traditional member education has been conceptualized and carried out in a framework that is outside the change process needed by the members. It has not even geared to problem solving, but rather to impart general knowledge about cooperation. It has been therefore, more of an instrument of maintaining the status quo of exploitative power relations inside and outside the Cooperative movement (DFID 2008).

2.10 Cooperatives Movement in Ethiopia

Alike the rest of the world, in principle, Cooperatives in Ethiopia are form of organizations that are owned, controlled and used by its members. They are established by individuals who live and work together and have shared social and economic goals. Informal cooperation among people is an inherent and historically important element of traditional societies, while the formal Cooperatives that allow people to systematically pool efforts and resources in order to accomplish a shared set of goals have existed in Ethiopia since 1960, for only about five decades. Over the first three decades of their existence, Cooperative organizations have not been Cooperatives in their practices. That is, they did not espouse the concept of voluntary cooperation and participatory governance. Their growth and development
have also been constrained by various economic systems and policies adopted by different political regimes. Three distinct periods of Cooperatives movement observed in the country namely Cooperatives movement during the Imperial period, the Socialist period and the Ethiopian People’s Revolutionary Democratic Front (EPRDF) period.

Modern Cooperatives movement has been started in 1960 (during the Imperial period) under Farm Workers’ Cooperatives Decree (Cooperatives Decree No. 44/1960) with the objective of assisting the development of the agricultural sector. Introduction of modern Cooperatives into the country has been in a similar movement to that of the rest of African countries which experienced rapid reproduction of the Second Generation Cooperatives during the post-independence period in order to assist government development efforts (Getnet and Alluro 2012). Currently, Cooperatives are considered as appropriate models to promote agricultural and rural development in Ethiopia. However, when farmers have been allowed to join or leave Cooperatives at will in 1991, Cooperative membership fell drastically. Though there are success stories in countries like dairy Cooperatives in Kenya, coffee Cooperatives in Ethiopia and cotton Cooperatives in Mali, unfortunately, to date, many Cooperative development programs have failed to achieve their objectives. Despite the bad legacy from Cooperative movements experienced during the socialist regime, Cooperatives activities have been encouraged since the late 1990s and the sector receives various supports in Africa in general and in Ethiopia in particular (Kodama 2007).

The government of Ethiopia has established Federal Cooperative Agency in 2002 as regulatory and supervisory authority responsible for cooperatives
movement in Ethiopia. The Agency is a public body that promotes, regulates and supervises the Cooperative sector at the national level. The purpose of the agency is to expand primary Cooperatives and to promote cooperation among Cooperatives through establishing Cooperative unions, consortia and federations. In addition to public support, the growth and development of Cooperatives over the last two decades also relied on the efforts made by local and international NGOs (e.g., Volunteers in Overseas Cooperative Assistance, Self Help Africa) and donors (e.g., USAID, DFID, UNDP, ILO, IFAD). Thus, Cooperatives are not fully self-propelled entities in Ethiopia.

A recent study on agricultural Cooperatives shows that the members themselves initiate only about 26 per cent of the Cooperatives. The remaining 74 per cent are externally initiated either by public bodies or NGOs (Bernard et al. 2010). By the year 2012, there are more than 32 types of Cooperatives operating across sectors from agriculture to finance, construction, and public utilities. Data from the Federal Cooperatives Agency indicate that the number of Cooperatives in the country is growing at a rapid rate. Between 2007 and 2012, the number of Cooperatives grew by about 87 per cent. As of 2012, a total of 43,256 primary or first-level Cooperatives reportedly are providing services for about 6.5 million member households, of which about 1.4 million are female headed households. Of the total, about 26 per cent are agricultural Cooperatives that provide input supply, irrigation and output marketing services for a considerable proportion of smallholder farmers in the country. They account for about 90 per cent of modern input distribution and commercialize more than 10 per cent of the marketable surplus from agriculture over the last five to six years (Bernard et al. 2008; Rashid et al. 2013). Recent estimates show that, on
average, 50 per cent of the *kebeles* in Ethiopia have at least one agricultural Cooperative.

2.11 Current Status of Cooperatives and Agricultural Development in Ethiopia

Agriculture is the backbone of the Ethiopian economy, and the overall economic growth of the country is highly correlated to the success of the agriculture sector. According to MoA, as cited in the strategic document (2012), agriculture accounts for about 43 per cent of GDP, 90 per cent of export and 85 per cent of employment. About 51.3 million hectares of land is arable land of which only 11.7 million hectares of land being cultivated in 2012. Nearly 55 per cent of all smallholder farmers operate on one hectare or less. Cereals account 70 per cent of Agricultural GDP while livestock accounted only 32 per cent of agricultural GDP.

According to FCA (2012), about 40,000 Cooperatives are found in Ethiopia, of which approximately 10,000 are agricultural Cooperatives; about 3000 focus on a single agricultural commodity (example coffee, dairy, livestock) or irrigation; the majority of the 7000 are multipurpose Cooperatives concentrating primarily on agriculture. The same document shows that out of 600 non-members of Cooperatives in Ethiopia, 24 per cent of them stated that they did not join Cooperatives since they have been able to get the same service (like input supply and output marketing) with members. In Ethiopia, farmers who are members of Cooperatives tend to attain a price premium of around seven to eight per cent. Indeed, the 2008 World Development Report reviewed the evidence and concluded that “Producer organizations are essential to achieve competitiveness for small-scale producers” (Wanyama 2008). The same year
study showed that Cooperatives buy farmers’ output at a price higher by 7.9 per cent than the counterparts.

2.12 Cooperatives Policy, Regulatory Environment and Structure in Ethiopia

Cooperative Policy

Participatory Cooperative policy is basically important to encourage an effective and efficient operation and functioning of Cooperatives in Ethiopia. Policy formulation is perceived as one of the key stages of the policy process (Roux 2006). A study made in Lesotho has shown that the government imposed Cooperative policy without including members in the process of formulation, implementation and evaluation of the policy. Even, policy makers and Cooperative officials have failed to educate the farmers about what is entailed in the policy. Hence, Members perceived that Cooperatives policy has not brought any changes because they are not even aware that a Cooperative policy exists (Daemane 2014).

However, policies concerning Cooperatives are currently spread across several policy documents, and the absence of a comprehensive Cooperative development policy constrains the sector’s strategic development and well-regulated and understood roles and relationships among stakeholders. Agriculture and Rural Development Policy and Cooperative Proclamation 147/98, is considered to be one of the strongest Cooperative laws in Ethiopia (Emana 2012). Despite global experience and practices, however, in the context of Ethiopia the Cooperative policy though the draft is formulated it has not yet been ratified and implemented. Though the government of Ethiopia has considered the contribution of Cooperatives as vital instrument for the
implementation of the national agricultural development policy and strategy as well as the recently launched growth and transformation plan (GTP), its role in rectifying Cooperatives independent policy is found to be minimal and the reason behind could be one of the potential area for further research.

Generally, the presence of proper Cooperative policy in Ethiopia can help in leveraging the contribution of Cooperatives to improve rural livelihood through the promotion, formation and growth of Cooperatives in a manner that is sustainable and respectful of their autonomy. Recently, through their business operations and programmes, Cooperatives of various types in Ethiopia are striving towards ensuring household livelihoods and welfare of the community. They contribute to food production and food security, provide access to financial services and help to create a resilient financial system, while generating jobs and raising incomes to some extent. They also enhance skills and education to local communities, empowering women and marginalized segments of society. Their unique characteristics, based on their values and principles, make them institutionally important in improving livelihood and reduction of poverty.

However, still Cooperatives in Ethiopia face a large number of challenges that dictates the aforementioned outcomes. The key challenge is how to harness Cooperatives towards such ends especially in the context of Ethiopian Cooperatives. The primary means, therefore, of leveraging Cooperatives for socio-economic development and for better livelihoods is to promote their formation and growth in a sustainable manner, consistent with Cooperative values and principles and respectful of their autonomy. This requires a sound independent Cooperative policy and legislative framework, and consistent commitment from government side to improve a number of inefficiencies
hampering the advancement of Cooperatives on one side to help Cooperatives realize real impacts in terms of ensuring livelihoods of members and other segments of the community on the other side.

The presence of proper policy in itself is not an end, but it adds more value if accompanied with the existence of qualified and competent human power who can translate the policy effectively. Moreover, most of Cooperatives in Ethiopia need to have well-informed and vigilant membership base to combat the challenges hampering the proper functioning and development of the Cooperatives which in turn dictates its impact on members’ livelihoods and welfare. The current lack of robust and harmonized statistics, including comprehensive and systematic research on Cooperatives, makes it difficult to quantify and communicate their real impacts.

The presence of sound regulatory guidelines and policy ensures that Cooperatives maintain their autonomy and safeguard against politicization of Cooperatives. Besides, credible regulatory enforcement is also necessary in order to realize the real impact of Cooperatives on household livelihoods.

_Regulatory Environment_

Most well-functioning Cooperatives sectors in the world have documents that define their policy, laws, regulations, and model bylaws. Each of these documents serve a different purpose, namely, Laws: federal and regional laws regulate the Cooperatives sector, enforceable from the federal level down through regions, counties, and villages, Regulations: provide detailed rules that enforce the laws, Model bylaws: suggest certain bylaws for the Cooperatives which the General Assembly can choose to institute, refine, or reject.
The Federal Cooperative Agency (2012) policy framework developed by Emana, Alemayehu and Meherka points out that in many countries, including Ethiopia, there are strong Cooperative laws (proclamation) and regulations, but they are not always well enforced. To improve enforcement, two parallel strategies are often used: a) capacity building to improve officials’ ability to enforce rules and regulations, and b) accountability mechanisms to better incentivize officials to enforce rules and regulations. Unlike many other self-sustaining enterprises, Cooperatives often also require support in their formation to overcome the collective action problems entailed by the Cooperative model. The free rider problem and other market failures sometimes make it difficult to enforce laws and regulations of Cooperatives. Hence the government interferes to support Cooperative formation. For example, the majority of Cooperatives in Andhra Pradesh in India have been formed with government assistance. In China, local officials supported the formation of 84 per cent of Cooperatives. In Ethiopia, government has supported the formation of 63 per cent of Cooperatives, and NGOs an additional of 11 per cent support in Cooperatives formation (Bernard et al. 2010).

**Institutional Structure**

As stated in the Proclamation 147/98, Ethiopian Cooperatives have four tiers in terms of structure namely league, federation, Unions and Primary Cooperative structures that are in charge of leading the overall Cooperative movement for all types of Cooperatives. However, currently only three main tiers such as macro, meso and micro levels have been found and operational in Ethiopia. The macro level structure constitute federation which is functioning at
national and regional level while the meso level structure constitute unions operating at zonal and District level. The micro level structure of Cooperative constitutes primary Cooperatives operating at kebele and village level. According to FCA (2014), there are over 10,000 primary agricultural and multipurpose Cooperatives. Out of these, 4500 (45%) of these Cooperatives are members of one of 157 Cooperative unions. There are also currently three agriculture-related federations at the regional level: an agriculture federation in SNNP, a multipurpose marketing federation in Tigray that focuses largely on sesame, and a grain federation in Oromia. The organization of primary Cooperatives varies by region. In general, primary Cooperatives tend to serve one or several kebeles, while unions serve multiple Districts or an agricultural zone (Figure 1 and 2).

2.13 Key Services of Cooperatives in Ethiopia

Normally Cooperatives are established to solve the socio economic ills of its members by providing full-fledged and multilevel services in an effective and efficient manner. As empirically witnessed by various scholars and researchers, Cooperatives are anticipated to impact the livelihood of its members as well as that of the overall community through its varied interventions. A joint strategic document produced by ATA, MoA and FCA (2012) revealed that well-functioning Cooperatives in Ethiopian context tend to provide four core services to members. The strategic document identified core services implemented by Cooperatives: input procurement and distribution (100%), efficient allocation of surplus (100%), output marketing (92%) and specialized extension services that accounts 83 per cent of implementation success by relatively well functioning Cooperatives.
Figure 1: Existing Institutional Structure of Cooperatives in Ethiopia

Figure 2: Organizational Structure of Primary Cooperatives