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**Local agricultural institutions as agents of development -
case study of effectiveness of farmer's associations in
woreda Angacha, southern Ethiopia**

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Declaration

I hereby declare that this thesis entitled Local agricultural institutions as agents of development - case study of effectiveness of farmer's associations in woreda Angacha, southern Ethiopia is my own work and all the sources have been quoted and acknowledged by means of complete references.

In Prague, 20.04.2015

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Abstract

Agricultural sector in Ethiopia is the key part of the country's economy. Moreover, it is mainly represented by small-scale farmers – 87 percent of them cultivate less than 2 hectares. That is the reason why the Government of Ethiopia puts such an effort on boosting of agriculture in its strategic plans and policies, and emphasizes cooperative societies as one of efficient tools in smallholders' development and poverty reduction.

The aim of this paper was to examine whether agricultural cooperatives in Angacha woreda, SNNPR help their members – small-scale farmers – to generate improved incomes, get access to other benefits, and generally achieve higher standard of living. Therefore, 100 members and 6 leaders from 6 agricultural cooperatives were chosen as respondents. The data was collected afterwards using questionnaires for members and semi-structured interviews for leaders of coops. The evidence in this paper showed that smallholders experience income growth and receive other benefits after becoming a member of an agricultural coop, however not all the cooperatives functioned on the same level of efficiency. Moreover, the survey revealed several significant problems, for example members' insufficient knowledge on basic organizational principles of coops or problems with management capacity.

Keywords: small-scale farmers, agricultural cooperatives, rural institutions, development.

Abstrakt

Zemědělský sektor v Etiopii je klíčovou součástí ekonomiky země. Především proto, že poskytuje obživu a zaměstnání velké části populace, zejména venkovské chudé vrstvě drobných zemědělců - 87 procent z nich obdělává méně než na 2 ha půdy. Je to jeden z důvodů, proč vláda Etiopie vkládá takové úsilí do rozvoje zemědělství ve svých strategických plánech a politikách, a zdůrazňuje družstva jako jeden z účinných nástrojů pro rozvoj drobných zemědělců a snižování chudoby.

Cílem této práce bylo prozkoumat, zda zemědělská družstva ve wordě Angacha, SNNPR pomáhají svým členům – drobným zemědělcům – v dosažení lepších příjmů, získání přístupu k dalším výhodám a dosažení vyšší životní úrovně. Tudíž bylo vybráno 100 členů a 6 vedoucích z 6 zemědělských družstev. Poté, byla sbírána data pomocí dotazníků pro členy a strukturovaných rozhovorů s vedoucími těchto družstev. Výsledky této práce ukazují, že příjmy drobných zemědělců vzrostly, a že zemědělci dosáhli na další výhody poté, co se stali členy zemědělského družstva, nicméně ne všechna družstva fungovala na stejné úrovni účinnosti. Kromě toho, průzkum odhalil několik významných problémů, například nedostatečné znalosti členů o základních organizačních principech družstev nebo problémy s řízením a managementem.

Klíčová slova: drobní farmáři, zemědělská družstva, venkovské instituce, rozvoj.

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1 INTRODUCTION

Agricultural sector in Ethiopia still generates main portion of the country's economy. It accounts for 45 percent of Ethiopia's GDP (World Bank, 2015), 75 percent of labour force (FAO, 2014), 90 percent of export earnings, and 90 percent of the country's poor (Bernard et al., 2010). Moreover, Ethiopian agriculture is largely a smallholder phenomenon, since about 37 percent of households in the country cultivate less than 0.5 hectares, about 87 percent cultivate less than 2 hectares, and only 0.9 percent cultivate more than 5 hectares (CSA, 2003).

Importance of agricultural sector is the main reason why Ethiopia's government puts emphasis on accelerating agricultural growth in its development and economic strategies and programs. Cooperative movement support and development is one of the key instruments. This is demonstrated for instance by the Sustainable Development and Poverty Reduction Program (FDRE, 2002b) where one of the main aims is stated as: *“Organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as bridges between small farmers (peasants) and the non-peasant private sector”*. In A Plan for Accelerated and Sustained Development to End Poverty (FDRE, 2005) cooperatives serve as a tool to *“strengthen the position of farmers on the market”*. The latest Growth and Transformation Plan (FDRE, 2010a) states that maintenance of agriculture as a major source of economic growth and *commercialisation of smallholder farming will continue to be the major source of agricultural growth*.

Cooperative societies are not new to Ethiopia. Traditional forms of associations existed in Ethiopian society centuries ago; however, the first formal directive of cooperatives was introduced in 1960 and was known as Directive No. 44/1960. After that four proclamations and one amendment on cooperative societies were enacted by Ethiopian government: Proclamation No. 241/1966, Proclamation No. 138/1978, Proclamation No. 85/1994, Proclamation No. 147/1998, and Amendment Act No. 402/2004 (Emana, 2009).

During the socialist Derg regime (1974 – 1987) cooperative societies were used by the government as instruments for imposing a socialist, collectivized, and centralized mode

of agricultural production upon the peasantry. Compulsory membership was prevalent (Holmen, 1990). The new generation of cooperative societies in Ethiopia was brought by Proclamation No. 85/1994. The policy gave a new birth of democratic coops and meant to revitalize them after fall of the socialistic regime. It says that the societies should (1) be established on a voluntary basis; (2) carryout any of its activities on a democratic basis; (3) be non-aligned and free of any political influence (FDRE, 1994; 1998).

During last several years number of cooperatives in Ethiopia increased rapidly. According to Bernard et al. (2013) their number grew by 87.4 percent from 2007 to 2012 with dramatic growth especially in Oromia, Tigray, and Somali regions where number of coops increased by 283, 181, and 191 percent respectively. According to the same author, in 2012 there were total 43,256 primary cooperatives in Ethiopia. On the other hand, SNNP Region has shown the second lowest growth rate in number of coops with only 43.4 percent in five years.

Despite the fact that cooperative societies are widespread in both developed and developing countries and modern cooperatives becoming more and more popular among policies of national governments an international donors, they also face many well documented challenges. Much of research and critique has been aimed on coops' limitations and lack of competitiveness compared to investor-owned firms. The most discussed problems, for example, are: problem of common ownership; horizon problem; portfolio problem; control problem and influence costs problem (Nilsson, 2001; Ortmann and King, 2007). However, despite claims of many economists over the last few decades about cooperatives' technical, allocative, and scale inefficiency, this type of business form still expands and grows even on very competitive markets. Some authors (for example Nilsson, 2001) believe that if cooperatives were inefficient indeed they would have been forced out of the market. On the other hand some others claim that cooperatives grow and survive mainly due to generous support of national governments and international donors. The topic related to the role of cooperatives' external dependence is discussed for example in Thorp et al. (2005).

The major body of evidence is mainly considering issues of developed world's cooperatives. Coops in developing countries are different, first of all, because they are used as a main tool for small-scale farmers' commercialization, their integration to local and

regional markets. Therefore, cooperatives in the Third World should be seen on the first place as a development tool to reduce poverty, support political empowerment of rural inhabitants, increase social capital and food security. Still, there has been a lot of discussion on whether coops are an efficient way to achieve these goals. Experiences with cooperation differ from one country to another and even from one region to another within one country. Holmen (1990) has summarized the main critique of cooperatives in developing countries: (1) Cooperatives bring no structural change; (2) Cooperatives do not benefit the poor; (3) Cooperatives suffer from bad management; (4) Cooperatives are exhausted by government interference. Although the report was written 25 years ago, problems mentioned in it are still relevant.

The paper deals with smallholder cooperative societies in Angacha woreda, SNNPR, and tries to establish whether they help small-scale farmers to improve their financial situation, develop their skill, and generally achieve better standard of living. The research conducted in the field and presented in this thesis is based on information gained from farmers-members of selected agricultural cooperatives in the area.

The thesis is divided into four main parts. The first chapter is a literature review which provides background information on cooperative societies, their structure and functioning; agricultural sector in Ethiopia and SNNPR; and cooperation in Ethiopia – history and development of cooperatives, legislative and policies concerning coops, and their spread in the country. The second part of the paper describes methods and materials used during a research. The third part deals with results of the survey.

2 LITERATURE REVIEW

2.1 Basic principles and functioning of cooperative organizations

In the western world cooperative firms take a strong position in various business sectors. For example, in agricultural sector farmers' cooperatives in the European Union and North America make 30-70 percent of the market. All types cooperatives can be found almost everywhere in the world, however, their strength is not what it used to be (Nilsson, 2001).

Generally, the overall economic share of cooperative firms is much higher in developed countries than in developing ones. Cooperatives developed in the late nineteenth century and their market share has grown during the twentieth century which means that this form of business is really young (Hansmann, 1999).

2.1.1 Reasons for cooperation

"Undoubtedly the need for countervailing power has been the most important historical reason for why farmers and horticultural producers have set up their co-operative enterprises" (Dijk, 1997). Furthermore, Dijk (1997) assumes that agricultural cooperatives started to appear when farmers began to integrate into the market economy. Their trading partners were private companies which had all the market information and enjoyed monopoly power in relation to the farmers. The only exit for the farmers was to join together to have enough economic power to control economic structure and economic behavior of the buyers and suppliers. Therefore, price competition between farmers was replaced by quality-oriented one. Another reason for farmers to start cooperatives was to gain access to industrially produced goods and services (for example fertilizers or machinery). Furthermore, they were interested in getting an access to credit with low interest rates.

Risk management is one more reason for cooperation. *"No doubt CF¹s had to find their place in the market by gradual quality improvement involving all members. So on the one hand CFs reduced competition among members ..., but on the other hand competition*

¹ Cooperative firms

was based on such marketing elements as quality of farm products. This contributed to the farmers' knowledge of the market and more stable conditions of investment" (Dijk, 1997).

In addition to this, there is also an element of solidarity among members of a cooperative. Furthermore, transaction cost element is present as well. Likewise, members of cooperative firms can successfully avoid opportunistic behaviour and uncertainty within the firm, and there is less fear that one of party will behave in an exploitative manner. It is caused by the fact that cooperatives are owned by their patrons and it is less likely to default on agreements. One more reason, the most desirable between the members of cooperatives, is the improvement of the firm's income. This aspect is the outcome of all the activities mentioned above.

2.1.2 Definition of a cooperative and its principles

ICA² (2015) defines a cooperative society as 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"*. While Dunn (1988) claims that *"The basic philosophy underlying all cooperative action is that through joint effort and mutual self-interest individuals may collectively achieve objectives unattainable by acting alone"*.

It is very important to define a cooperative and its principles in order to distinguish it from another types of business organizations, and to ensure full understanding of rights, responsibilities, and expectations of all members within an organization, and outside of it (i.e. users, directors, employees, general public).

According to ICA (2015) cooperative societies are based on several basic values: *"1) self-help; 2) self-responsibility; 3) democracy; 4) equality; 5) equity; 6) solidarity"*.

The association in its statement also defines the main cooperative principles or *"guidelines by which co-operatives put their values into practice"*:

² International Co-operative Alliance

“1. Voluntary and Open Membership. Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control. Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.

3. Member Economic Participation. Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence. Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information. Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Co-operation among Co-operatives. Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community. Co-operatives work for the sustainable development of their communities through policies approved by their members” (ICA, 2015).

Based on a great distinction between investor-owned firms and cooperative firm, which lies in the relationship of user interests to ownership and control interests, Dunn (1988) defined other main principles of a cooperative:

"1. The User-Owner Principle: Those who own and finance the cooperative are those who use the cooperative.

2. The User-Control Principle: Those who control the cooperative are those who use the cooperative.

3. The User-Benefits Principle: The cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use".

Basing on these principles the author stated a simple definition of a cooperative:

"A cooperative is a user-owned and controlled business from which benefits are derived and distributed on the basis of use" (Dunn, 1988).

Dunn also assumes that all the principles are interrelated. The user-owner and user-control principles present the status of interests of the cooperative, and user-benefits principle defines its purpose. These three principles are a part of a whole with the user above other interests. True cooperative organization is the one which operates on these principles.

Novkovic (2008) concludes that cooperative firm is a type of business which contains a social component rooted in the cooperative principles and values and its main task is to serve their members' interests. Main principles of cooperative perform a number of economic, managerial, and social functions. Furthermore, principle-based cooperatives may function as *“laboratories of social innovation, and social entrepreneurship, due to their features based on the principles, such as democratic nature, governance structure, education, and learning, networking, and community focus”*.

2.1.3 Cooperative membership

The user focus of a cooperative requires several things of it. First of all, it must have clear definition of the requirements for membership. Secondly, it must have up-to-date lists of its members and clearing it from inactive or low-use members. And, thirdly, a cooperative must put a great emphasis on a recruitment of new members, development and involvement programs.

There are two themes that should be mentioned about cooperative user financing. Firstly, the user-members of a cooperative must have a financial stake in it. Without it, the user-owner principle is violated. Furthermore, financial contribution means control over a cooperative, so without it user-control principle is stained as well. User equity can also motivate members to increased use and commitment to the cooperatives.

Second theme also considers financial aspect of the cooperative. *"... the cooperative's equity structure should reflect current patterns of use. Farmers currently benefiting from the cooperative should be those financing it"* (Dunn, 1988). In such a system the stakes should be even: heavy users of the cooperative should provide more finances, and vice versa, those who do not use the cooperative should not be expected to contribute an equity stake.

2.1.4 Classification of agricultural cooperatives

Referring to Bijman J, et al. (2012) Final Report on Support for Farmer's Cooperatives it can be said that agricultural cooperatives can be classified on the basis of:

"1. the sector(s) in which it operates or the main product it is handling (e.g. dairy, cereals, wine, pig meat, etc.);

2. the main functions it performs, such as joint production, providing farm inputs, processing farm products, marketing farm products, etc.;

3. the diversity of functions and products it covers, such as focusing on economic activities (for one or multiple products), or also including social and political activities;

4. *the position it has in the food chain (or the extent of vertical integration), ranging from only collecting farm products to selling branded products directly to consumers;*

5. *the type of members it has, distinguishing between primary (or first-tier) cooperatives that have farmers as members and federated (or second-tier) cooperatives that have primary cooperatives as their members;*

6. *the geographical scope of the membership; ranging from local, regional, national to international and transnational; An international cooperative is defined as a cooperative that sources from non-member farmers in other countries. A transnational cooperative, on the other hand, has members in several countries.*

7. *the financial/ownership structure; ranging from traditional cooperatives, proportional investment cooperatives, member-investor cooperatives, new generation cooperatives, cooperatives with capital seeking entities, to investor shared cooperatives".*

2.1.5 Structure of a cooperative

In his paper about the theory of cooperative societies Hansmann (1999) shows that it is common that firms in all industries are owned by the patrons of this firm. It may be true when we mean firms which are called producer and consumer cooperatives. A consumer cooperative is owned by its customers. A firm's earnings are distributed among its owner-members in proportion to the amount each of them purchases. Producer cooperative has the same structure with a difference that it is owned by persons who sell a production to the firm. *"The same is true of the standard business corporation, which is a firm which is owned by persons who supply capital to the firm. In fact, the conventional investor-owned business corporation is nothing more than a special type of producer cooperative - namely a lenders' cooperative, or capital cooperative".*

Hereafter the structure of a typical producer cooperative will be presented. For example, there is dairy farmers' cheese cooperative. The farmers, who provide the raw milk for the cheese, are the owners of the cheese factory. The price for the milk which is paid to the farmers is predetermined. It is usually set low to enough, so the cooperative can be sure of making a profit from its operations. At the end of the year the profit that has been made

from the sale of the manufactured cheese is divided between the farmers according to the amount of the milk they sold to the firm during the year. *"Voting rights are held only by those who sell milk to the firm, either on the basis of one-member-one-vote or with votes apportioned according to the volume of milk each member sells to the firm"* (Hansmann, 1988). *"In short, ownership rights are held exclusively by virtue of the fact, and to the extent, that one sells milk to the firm"* (Hansmann, 1988). On the other hand, not everyone who sells milk to the cooperative has to be its member. It can purchase some amount of milk from farmers-nonmembers, who are paid a fixed price without being involved in earnings or control of the cooperative.

Consumer cooperatives are structured similarly with the only difference that earnings and votes are divided according to the amount that a member purchases from the firm. Another typical structural feature of a cooperative organization is that a member generally remains free to vary his volume of transactions with firm over the time, and even to terminate his patronage completely. That is why cooperatives can be structured so that members have a long-term commitment to remain patrons. For example, a cooperative can set a requirement for its members to enter into contract that last for certain amount of time (Hansmann, 1988).

2.1.6 Ownership

Cooperative societies have a different type of ownership comparing to investor-owned firms. Chaddad and Cook (2004) state that the economic analysis of ownership is concentrated on two concepts: residual returns (or claims) and residual rights of control. Residual claims are defined as the rights to the net income generated by the firm, and residual claimants are considered the residual risk bearers of the firm. Therefore, the owners of the firm are the residual claimants. The second concept, residual rights of control, is defined as the rights to make a decision regarding the use of an asset. Though, the residual right of control over an asset defines who owns it.

On the other hand, traditional cooperative organizational model – as polar to investor-owned firms – are upon a broad definition of ownership rights that includes both residual returns and residual control rights. Moreover, traditional cooperatives have the following property rights attributes: ownership rights are restricted to member-patrons,

residual return rights are non-transferable, non-appreciable, and redeemable, and benefits are distributed equally among members (Gupta, 2014).

Hansmann (1999) states that, theoretically, a cooperative firm can be owned by someone who is not its patron. Such a firm would have to borrow in order to meet the needs of its capital. The owner of this firm would control it and receive residual earnings (positive or negative) after all the outputs were sold and inputs were paid for. However, this type of firms is rare. As mentioned above, owners of a cooperative are commonly those who have some transactional relationship with the firm. *"The reason for this, evidently, is that ownership can be used to mitigate some of the costs that would otherwise attend these transactional relationships if they were managed through simple market contracting - that is, by handling the transactions in question simply as a matter of a contract between parties acting at arms' length, without either party having any ownership interest or other form of direct form of control rights over the other party"*.

Market contracting is especially costly in presence of such conditions as monopoly or a severe disparity in information between the contracting parties, so called "market failures". The total costs of transacting can be reduced by merging the purchasing and selling party through ownership, so that one party owns the other. Ownership has such an advantage as reduced conflict of interests between buyer and seller.

A great example is monopoly. For example, there is a regional company that provides farmers with agricultural supplies and has a very little competition in the given region. This company enjoys monopolistic position which gives it a power to set high prices for products it sells. If the farmers, who are the customers of the supply company, were the owners of that firm collectively they would totally eliminate the monopolistic prices of the products. *"The farmer-owners of the supply firm would then have no incentive to let the firm charge monopolistic prices, since they would be simply exploiting themselves. In simple terms, when you are on both sides of the transaction, you can always trust the other party"* (Hansmann, 1999). It means that ownership of a firm should be appointed to those patrons of the firm (investors, workers, customers, or other) for whom the costs of market contracting otherwise would be the highest. The most efficient way, obviously, is when ownership is assigned in the way that total transaction costs for all patrons are minimized.

2.1.7 Governance in cooperative firms

The internal governance in cooperatives has different features than in investor-owned firms of the same size. Cooperatives are commonly much more closely controlled by their member-owners. *"All member-owned organizations face a delicate balancing act in terms of serving the needs of both the members and business. The key to balancing these needs lies in clearly defining the responsibilities of the board, members, and management"* (Harris et al, 1996). However, it is not without problems. Cornforth (2004) states that governance of cooperatives and mutual organizations is far more theorized in comparison with the governance of business corporations, where there is a large literature on corporate governance.

Governance in cooperatives is presented by three groups of people: (1) management; (2) board of directors; and (3) member-owner-users.

2.1.8 Management of a cooperative

The role of manager in cooperatives has changed over the years. In the past it was a one person system, where manager did all kinds of work: from treating the customers to maintaining the buildings. However, recently the role of manager in cooperative firms is perceived in a different way. Today even small cooperatives invest in a professional and well educated management team, which is experienced in directing day-to-day activities of the firm. Many cooperatives have failed because of incapable management. *"Overextension of credit, unsound collection practices, speculation in handling member commodities, poor-quality products and services, overexpansion of facilities, inadequate financial planning (including overly generous pooling of returns to members), and dominance by a single manager are but a few examples"* (Burt, 2004).

Besides day-to-day activities successful management focuses on executing policies, encouraging efficiency, and maintaining financial strength of a cooperative. Management also has to control and maintain the basic nature of any cooperative firm - serving the needs of members, and fair distribution of returns to them. Managers of a cooperative firm have to be in constant contact with their owner-members. *"The members created the cooperative to provide needed products and services, and they frequently are involved in critiquing the performance of the business they own - almost every time they come into*

contact with the cooperative. Managers find themselves in direct communications with their members on a regular basis - not just at the annual meeting" (Burt, 2004).

Management in cooperatives is similar to management in other types of business organizations. It includes such functions as planning which involves establishing policies and procedures according to the cooperative's mission. As soon as planning is finished it is on management to effectively organize all available people, capital, and resources to complete the plan.

Management is also responsible for such functions as *"... accounting systems; control reports; security and safety measures; training and evaluation programs; personnel incentive packages; communications systems such as membership and employee publications, periodic and annual reports, member and employee meetings, and reports by educational and government agencies; and long-run planning efforts aimed at encouraging growth in services, facilities, and capital" (Burt, 2004).*

Although management in a cooperative organization has a lots of work and responsibilities in its hands, board of directors also plays an important role of a cooperative's proper functioning.

2.1.9 Board of directors

First of all, directors in a cooperative provide leadership and aim the business affairs in the organization. The board has a leading role in strategic planning. Usually directors are members of a cooperative. Their eligibility, method of selection, term of office, and board organization are set by rules of the cooperative.

Directors have to be able to communicate, listen and response with both management and member-owners. As an advisory body the board must be able to provide recommendations and guidance. Usually the board of directors are aimed on the long term and on policy issues, such as *"... board/manager functions and relationships; member, employee, and public relations; organizational concerns; and operational policies related to credit, pricing, purchasing, marketing, and services provided to the membership" (Burt, 2004).* Directors have to introduce developing goals and objectives, which are then implemented by management through its control of daily operations.

Another important function of the board is to stay in touch with the membership in order to take into account their concerns during decision-making. Further, directors have to discuss with the membership about policies they establish. *"Particularly important is communication about the board's decision on distribution of year-end earnings to owner-patrons. When some portion of earnings is retained as operating or equity investment, the decision must be explained carefully"* (Burt, 2004).

Further function of the board is protection and wise investment of membership's assets. In addition, it is on directors to distribute benefits equitably to a typically diverse membership.

Perhaps, the most important task of the board of directors is to hire management of the cooperative and review its performance at least once a year. Also directors have to do a regular self-evaluation. Directors have to objectively answer such questions as *"Is there a good relationship between the board and the manager? Were the board meetings conducted in a harmonious manner? Were the needs of members put above the needs of the directors? Is there a good relationship between the cooperative and the general community?"* (Burt, 2004).

2.2 Agricultural sector in Ethiopia and SNNPR

Ethiopian agricultural sector represents the greatest part of the country's economy. According to data from World Bank (2015) agriculture accounts for 45 percent of Ethiopia's GDP, FAO states that 75 percent of labour force is engaged in the sector. Furthermore, agriculture accounts for 90 percent of export earnings, and 90 percent of the country's poor (Bernard et al., 2010). Moreover, many other activities are dependent on agriculture. These, for example, are: marketing, processing, transportation, etc. Another feature of agriculture in the country is that it is represented mostly by small-holders. According to CSA³ (2003) of Ethiopia 37 percent of households in the country cultivate less than 0.5 hectares, about 87 percent cultivate less than 2 hectares, and only 0.9 percent cultivate more than 5 hectares. Because of this, Ethiopian farmers mostly produce food for their own consumption, leaving little production for sale.

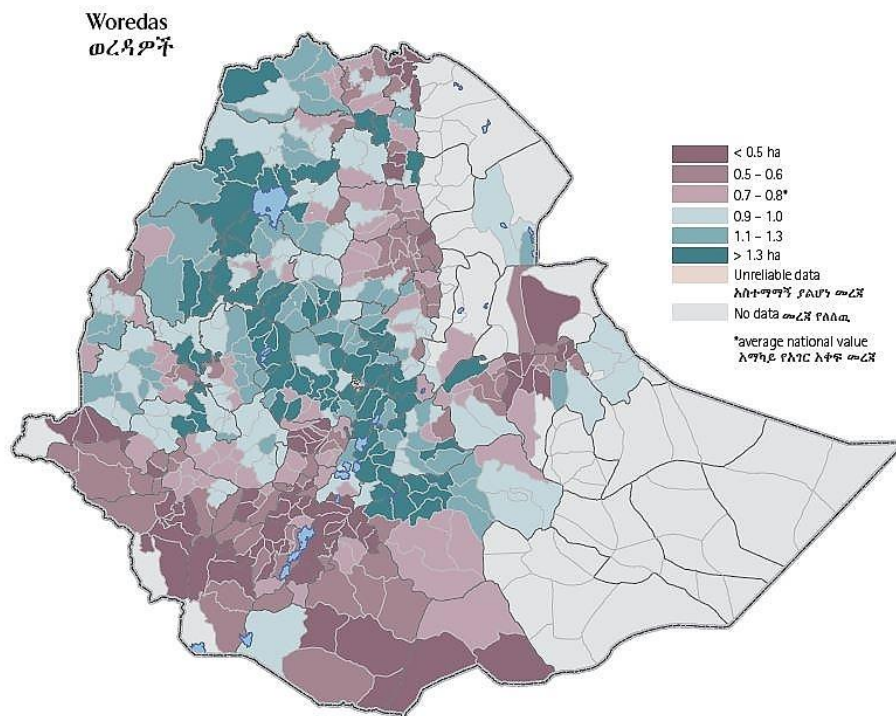


Figure 1: The average crop holding size per holder

(Source: CSA, EDRI, IFPRI, 2006)

³ Central Statistical Agency of Ethiopia

2.2.1 Land use

Total area of Ethiopia covers 110.43 million of hectares from which, according to data from 2011/2012, 15.35 million is arable land and 22.09 million is used as permanent pastures and meadows (see Table 1). Almost 82 percent (12.56 million hectares) of arable land is used for cultivation of temporary crops and only 1.14 million hectares is under permanent crops. As it is seen from the table, within years 2002 and 2007 volume of arable land experienced almost 50 percent increase, while during 2007 – 2011/2012 it has not changed much. This in turn influenced land use for both temporary and permanent crops – it has also increased for almost 50 percent.

Table 1: Land use in Ethiopia

	Area [Million of hectares]		
	2002	2007	2011/2012
Total area	110.43	110.43	110.43
Arable land	9.85	14.04	15.35
Temporary crops	8.06	11.34	12.56
Permanent crops	0.65	1.04	1.14
Pastures/meadows	22.09	22.09	22.09

Source: FAO, 2015

2.2.2 Agricultural production

The diverse climate and geographical features of the country allow agricultural producers to cultivate a wide range of temporary (cereals, pulses, oilseeds, vegetables, and root crops) and permanent crops (bananas, coffee, enset, chat, etc.). Importance and pattern of growth of crops are mostly similar across the country, but there is difference in the volume of production.

Temporary crops

The largest part of area under temporary crops in the country is used for cultivation of cereals (78 percent), while cultivation of pulses, oilseeds, vegetables, and root crops use significantly less land – 13 percent, 5 percent, 3 percent, and 1 percent respectively (see Figure 2).

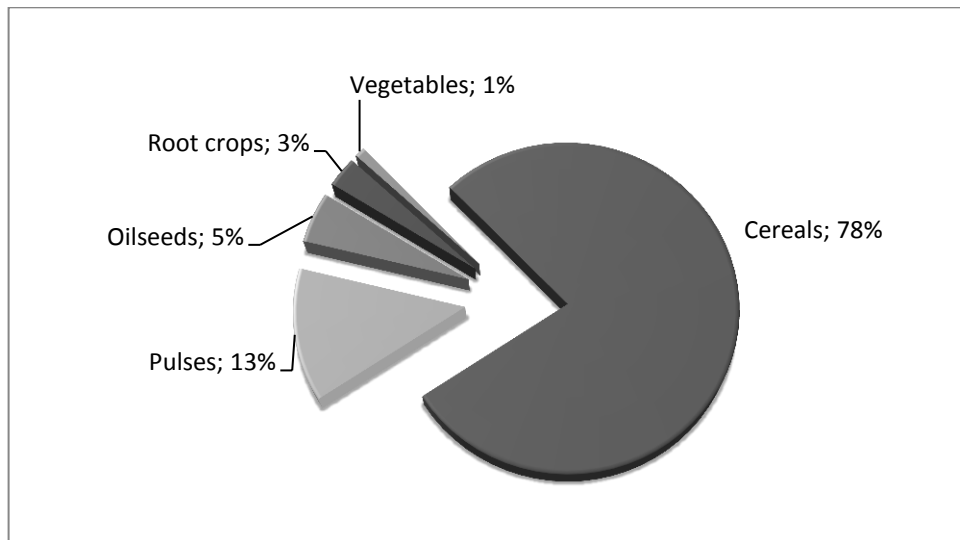


Figure 2: Area under temporary crops

(Source: CSA, 2003)

Cereals are dominant compared to other temporary crops in production also, because they are primary export commodities at times of bumper harvest in the country. “Between the months of September 2001 and August 2002 it was learned that 242,794 quintals⁴ of cereals worth 106,028,521⁵ Birr was exported from Ethiopia to various countries” (CSA, 2003). According to CSA (2003) total production of cereals in Ethiopia in 2001/2002 was 127.25 million quintals. The main cereals are: maize, teff, sorghum, wheat, and barley. Lesser widespread cereals include finger millet, oats, and rice; however, proportion of these crops is about 4 percent from total cereals production.

⁴ 24279.4 ton

⁵ About 5.3 million US dollars

Table 2: Production of temporary crops

	Production (Million of quintals)	% from total temporary crops production
Cereals	91.60	71
Root crops	18.77	15
Pulses	10.98	9
Vegetables	3.76	3
Oilseeds	2.14	2

Source: CSA, 2003

Table 3: Production of main cereals

	Production (Million of quintals)	% from total cereals production
Maize	30.86	34
Teff	16.57	18
Sorghum	15.83	17
Wheat	14.84	16
Barley	9.87	11

Source: CSA, 2003

The second biggest group within temporary crops is root crops. They represent 15 percent of production, but take only 3 percent of area under temporary crops. The most widespread are potatoes which account for 50 percent of total root crops production. Among others are sweet potatoes, onion, taro, garlic, carrot, and beetroot. The most important pulses are horse beans, haricot beans, field peas, chick peas, and grass peas. Oilseeds are mainly represented by neug, linseed, and sesame; and among the most widespread vegetables belong Ethiopian cabbage, red peppers, green peppers, and tomatoes.

Permanent crops

“Permanent crops are long term crops that occupy the field planted for a long period of time and largely harvested every year and do not have to be replanted for several years after each harvest” (CSA, 2003). Permanent crops can be divided into 2 categories: fruit crops (bananas, oranges, mangos, avocados, etc.), stimulant crops (coffee, chat⁶, hops), and sugar cane. These crops mainly serve for farmers as cash crops and help both them and the country to generate foreign exchange exporting these commodities. CSA (2003) states that during 2001 – 2002 Ethiopia exported 53,142 quintals of fruits and nuts, and 91,705⁷ quintals of chat valued at 16.5 and 426.7⁸ million Birr respectively.

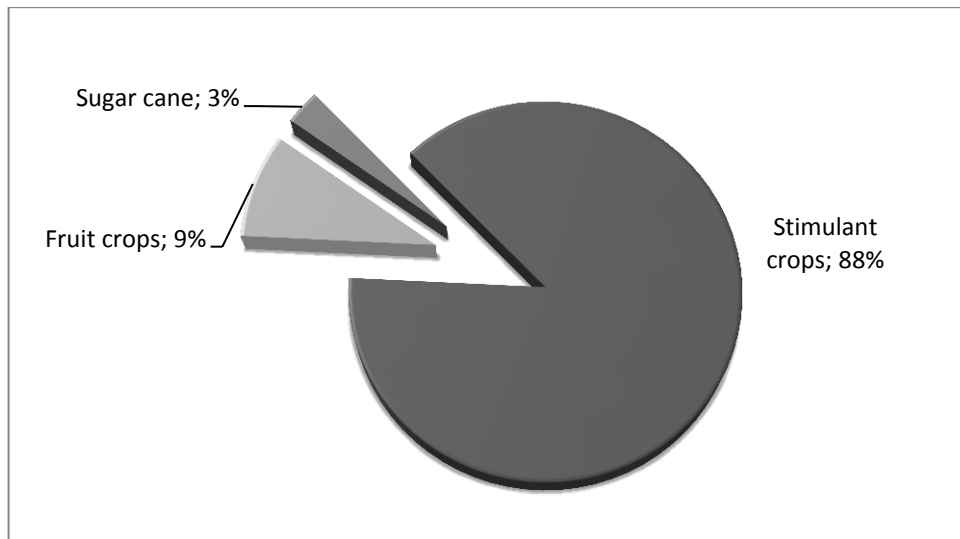


Figure 3: Area under permanent crops

(Source: CSA, 2003)

Majority of area of permanent crops cultivation is taken by stimulant crops – coffee and chat (see Figure 3). However, division of the area is not proportional across the

⁶ Khat (also known as qat or chat) – comprises the leaves and fresh shoots of *Catha edulis* Forsk, a flowering evergreen shrub cultivated in East Africa and the South-West Arabian Peninsula. Its fresh leaves and tops are chewed or, less frequently, dried and consumed as tea, to achieve a state of euphoria and stimulation (EMCDDA, 2015).

⁷ 5314.2 and 9170.5 ton respectively

⁸ About 6,6 and 170,7 million US dollars.

country – 66 percent and 24 percent of the country’s stimulant area is shared between Oromia and SNNPR respectively. These regions are Ethiopia’s leaders in production of stimulants also. 70 and 28 percent of coffee production and 56 and 26 percent of chat production are shares of Oromia and SNNPR on the whole country’s stimulant production. Furthermore, Oromia and SNNPR are also dominant fruit crops and sugar cane production regions.

Table 4: Production of permanent crops

	Production (Million of quintals)	% from total permanent crops production
Stimulant crops	2.61	48
Fruit crops	1.90	35
Sugar cane	0.78	17

Source: CSA, 2003

2.2.3 Agricultural sector in SNNPR

Southern Nations Nationalities and Peoples Region is situated in south-western part of Ethiopia and it shares borders with Oromia and Gambella regions, and with Kenya and South Sudan. The region takes about 10 percent of the country's land area and its population is about 15 million people which make about seventeen percent of the total country's population. Average population density is 140 persons per square kilometer (CSA, 2012). The region is multinational; about 56 ethnic groups live on its territory. The major groups include Gurage, Hadiya, Kambata, Wolayta, Sidama, Gamo, Goffa, Ari, Sheko, and others.

SNNPR is divided into 13 zonal administrations which are institutionally separated from the regional government. Zones consist of 126 woredas and 8 special woredas (FDRE, 2010b). Woredas are further divided into kebeles, which are the smallest administrative units. The capital of the SNNP region is Awassa.

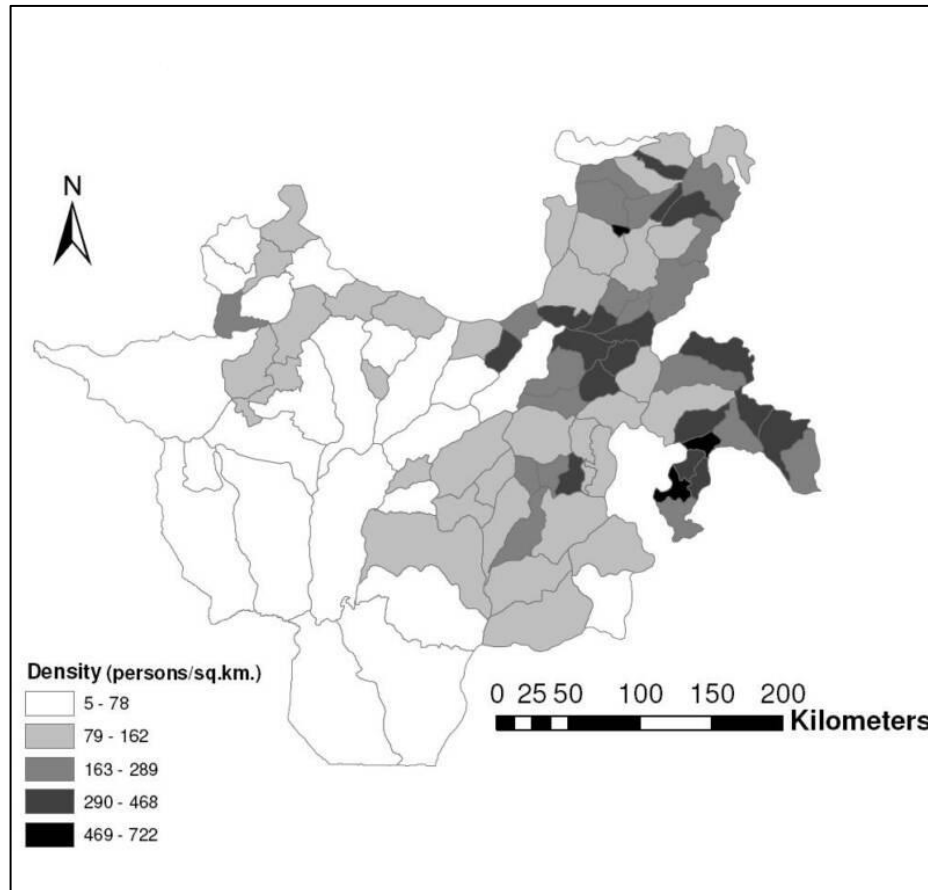


Figure 4: Population density in SNNPR by woreda

(Source: CSA, 2012)

All of the inhabitant environments are presented in SNNPR: "... *arable highlands (dega), midlands (woina dega) and lowlands (kolla), and pastoral rangelands (bereha)*" (USAID, 2005). However, the most typical environment for the region is fertile and humid midland, where the densest rural population of Ethiopia is situated.

The most characteristic product of SNNP region is enset. Enset is a unique plant for Ethiopia and is one of the main in the southern part of the country. "*Enset (Ensete ventricosum) is sometimes called 'False Banana' because its leaves are so similar to those of the banana plants to which it is related; but it is the starchy base of the plant – the corm and the leaf-sheaths – which provides the foodstuff*" (USAID, 2005). Enset is eaten in various forms, for example, as boiled corm, in form of bread or pancakes, porridge or dumplings. The plant matures after four years and grows for around seven years. It is relatively drought-resistant plant, and the leaves provide food for livestock.

However, enset is not the only source of food of households and is not the main product traded. Cereals, beans, and oilseeds are also cultivated in the region. Root crops such as sweet potatoes, Irish potatoes, cassava, and taro are common and important source of food in midland areas.

The most important cash-crop in SNNPR is coffee. Other cash-crops include ginger, chili peppers, and the drug leaf chat, which has been increasingly marketed product in recent years. In the lowlands of the region honey is produced as well as local production of bananas from irrigated plots. Also there is a localized production of cardamom-like spice aframomum. Further, there are lots of livestock in region, because butter and meat are important products that commonly reach even Addis Ababa market (USAID, 2005).

The only big urban centre in SNNP region is its capital Awassa, which has grown substantially in size and economic activity during the last years. It means that there is an important demand for labour not only for local people, but also for those who migrate seasonally. However, Awassa is situated near the eastern border of the region and on the national highway that proceeds to Adis Ababa which provides a larger labour market compared to Awassa. It means that far northern parts of the region have more intense employment relationship with Addis Ababa.

Another source of seasonal employment are the irrigated farming establishments on the Awash river, dominated by the Metahara sugar plantation. *"On the other hand, the southern, south-western and far western populations are mainly isolated from external labour demand; and more generally it can be said that for the Region as a whole, the national commodity market is far more important than the national labour market"* (USAID, 2005).

Despite the population density in SNNP region it is not as food insecure as some other regions of Ethiopia. Unlike other regions SNNPR has not been struck by erratic rainfalls or outright droughts. *"More fundamentally, the bimodal and generally relatively abundant rainfall has allowed the diversity of food and cash crops as well as intensive livestock production noted above, and this in itself makes for less risk than exists in an economy with a single rainy season and high dependence only on staple cereal crops"* (USAID, 2005).

Production of temporary crops

Major part of agricultural production in SNNPR is represented by temporary crops. The pattern includes all types of crops cultivated countrywide: cereals, pulses, oilseeds, vegetables, and root crops. The production of temporary crops in 2001/2002 was 20.8 million quintals (CSA, 2003).

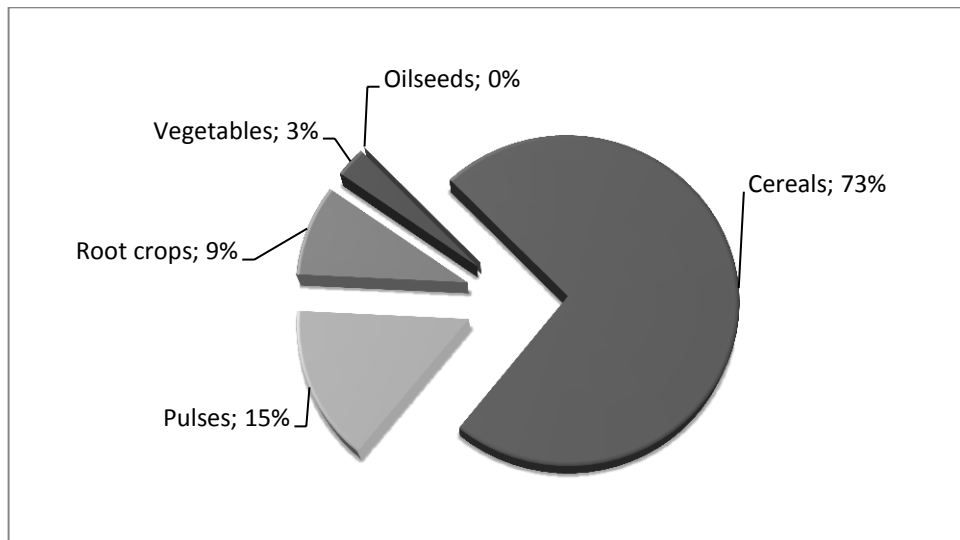


Figure 5: Area under temporary crops in SNNPR

(Source: CSA, 2003)

The dominant group of temporary crops, as well as countrywide, is cereals. Cereals are cultivated on 73 percent of area under temporary crops (see Figure 5) and account for 45 percent of total production of temporary crops in SNNPR. Pulses, vegetables, and root crops are cultivated in far lesser extent than cereals. These crops take 15, 9, and 3 percent of area under temporary crops respectively. The least cultivated group is oilseeds. It accounts for only 0.4 percent of area and 0.1 percent of total production of temporary crops in the region.

Table 5: Production of temporary crops in SNNPR

	Production (Million of quintals)	% from total temporary crops production
Cereals	9.4	45
Root crops	8.2	39
Vegetables	1.8	9
Pulses	1.4	7
Oilseeds	0.02	0.1

Source: CSA, 2003

According to CSA (2003) it was produced 9.4 million quintals of cereals in SNNPR, which is a little less than 50 percent from total permanent crops production. As well as countrywide, the leading cereal in the region is maize with 5 million quintals produced in 2001/2002. It accounts for more than 50 percent from total cereals production. Other major cereals are wheat, teff, sorghum, and barley.

Table 6: Production of main cereals in SNNPR

	Production (Million of quintals)	% from total cereals production
Maize	5.0	54
Wheat	1.4	15
Teff	1.1	11
Sorghum	1.0	10
Barley	0.8	9

Source: CSA, 2003

Among the main root crops are potatoes, sweet potatoes, taro, onion, and garlic. The most widespread vegetable is Ethiopian cabbage which accounts for almost 80 percent of total vegetables production. Other vegetables cultivated in the region are head cabbage, tomatoes, green peppers, and red peppers. The most produced pulses in the region include: haricot beans, horse beans, chick peas, and field peas.

Permanent crops

SNNP region is the second biggest producer of permanent crops in Ethiopia after Oromia region. According to statistical data by CSA (2003) the region is one of the leaders in producing fruit crops, stimulant crops, and sugar cane.

The majority of area under permanent crops in SNNPR is taken by stimulant crops – coffee and chat. However, stimulants account for only 32 percent of production. Top produced among permanent crops in the region are fruits accounting for almost 50 percent of production. The most widespread fruits are bananas – they stand for 65 percent of total fruit production. Other fruit crops are avocados, papayas, oranges, mangoes, guavas, and lemons.

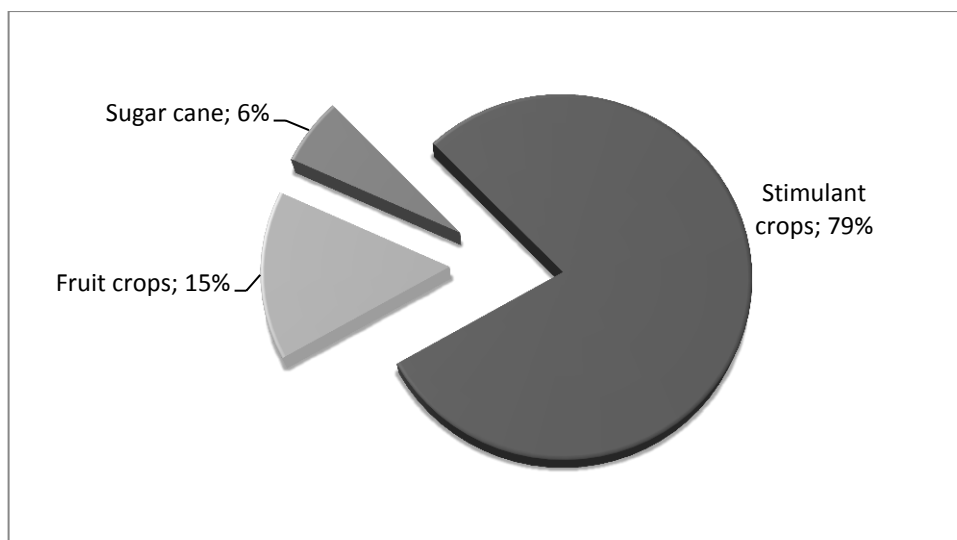


Figure 6: Area under permanent crops in SNNPR

(Source: CSA, 2003)

Table 7: Production of permanent crops in SNNPR

	Production (Million of quintals)	% from total permanent crops production
Fruit crops	1	47
Stimulant crops	0.7	32
Sugar cane	0.5	21

Source: CSA, 2003

2.3 Cooperative societies in Ethiopia

2.3.1 History of cooperatives in Ethiopia

History of cooperation in Ethiopia started centuries ago in the forms of “iqub” and “idir”. These were traditional cooperative associations which voluntarily involved communities with common objectives. “Iqub” was an association of people with the objective to mobilise resources, especially finance, and distribute it to members on rotating basis. Similar objectives had so called “jigie” and “wonfel” – traditional associations aimed on mobilising labour resources to overcome seasonal labour peaks. The “Idir” functioned as social and economic insurance for the members in case of death or accident (Bernard et al., 2010; Emanu, 2009).

The history of formal cooperative societies in Ethiopia dates back to imperial regime – they were introduced during the reign of Haile Selassie in 1960s. However, they were few in number and mainly established by coffee and sesame producers as well as SACCOs⁹ (Lemma, 2008). Emergence of a large number of cooperatives was observed after the socialist Derg regime came to power in Ethiopia in 1974. Proclamation No. 31/1975 called Public Ownership of Rural Lands abolished private ownership of lands and made “... all rural lands...the collective property of the Ethiopian people” (Teka, 1988). The Derg saw cooperatives as an instrument for planning and implementation of socialist policies and coops had to operate according to socialist principle where production and marketing were done collectively and farmers used their land resources under communal tenure. Coops were also established to mobilize community support for the ruling party (Emanu, 2009). According to Teka (1988) peasant associations in the second part of 1980s contained about 66 percent of the total rural Ethiopian population. However, associations of that time cannot be considered as cooperatives from modern point of view, because they did not fulfil almost any basic principles of modern cooperatives.

After fall of the Derg regime and liberalisation cooperatives could not maintain their objectives of supplying subsidized production. Due to this most of them were abolished by members. No attention was given to cooperative societies during the

⁹ Savings and credit cooperatives

transition period in 1991 – 1993, until in 1994 a new birth to cooperatives in Ethiopia was given. The Proclamation No. 85/1994 called the Agricultural Cooperative Society Proclamation was adopted and then amended by the Proclamation No. 147/1998. This legislation “*created a fertile ground for reorienting and strengthening all types of previously established cooperatives as well as for the formation of new cooperatives*” (Lemma, 2008).

2.3.2 Legislation on cooperatives in Ethiopia

The first legislative act on modern cooperatives based on internationally recognized democratic principles of cooperative societies was Agricultural Cooperative Society Proclamation adopted in 1994. The policy was adopted because:

“...it has become necessary to make conditions convenient so that an Ethiopian Peasant living in rural areas in scattered manner by being organized on free will may be able to solve jointly the economic and social problems facing him;

...it has become essential to make the societies play their roles properly in a free market system by getting rid of the governmental intervention in the internal affairs of the Agricultural Cooperative societies

...it has become imperative to issue a legislation by which agricultural cooperative societies be organized and administered in order to achieve the foregoing mentioned objectives” (FDRE, 1994).

The Proclamation No. 85 was divided into eight parts which set up guiding principles and organizational aspects of cooperative societies. These, for example, were: formation and registration of a society, rights and duties of a society, special privileges of a society, and so on. The policy was further replaced by the Proclamation No. 147 adopted in 1998. The new proclamation further developed principles of coops which conform to the now universal ICA cooperative principles. Furthermore, it clearly establishes rules for registration, legal status, rights and duties of members, governance, special privileges, assets and funds, audits and inspection, dissolution, and other (Emana, 2009; FDRE 1998).

In 2002 the Government of Ethiopia adopted Proclamation No. 274/2002 which established Cooperatives’ Commission under the Ministry of Rural Development. “*The*

objective of the Commission is to enable rural and urban working people to solve the economic and social problem they face by themselves and become self-reliant by being organized in cooperatives different in type and standard depending on the local resources” (FDRE, 2002a). The Commission’s objectives were set to be: 1) formulation of policies and draft laws concerning cooperatives and their development; 2) encouraging coops to function according democratic principles; 4) undertaking research and study for promotion of traditional associations to modern cooperatives; 5) making sure that organization, principles, and benefits are known by the society; 6) organizing, registering, and issuing licences; 7) auditing and inspecting accounts of cooperatives; 9) promotion of cooperatives’ products; and other.

In addition to proclamations the Government of Ethiopia puts a great emphasis on cooperative societies in its development strategies and programs. *“Farmer cooperatives represent one of the GoE’s key mechanisms through which it intends to promote the modernization and commercialization of smallholder agriculture. They also represent a preferred mechanism through which many donor and non-governmental organization (NGOs) are organizing their rural development and poverty reduction interventions”* (Bernard and Spielman, 2009). For example, the Sustainable Development and Poverty Reduction Program (FDRE, 2002b) states that one of its main aims is to *“Organize, strengthen and diversify autonomous cooperatives to provide better marketing services and serve as bridges between small farmers (peasants) and the non-peasant private sector”*. Another program called A Plan for Accelerated and Sustained Development to End Poverty (FDRE, 2005) also mentions cooperative societies as a way to *“strengthen the position of farmers on the market”*. It means that the federal and regional governments realise the contribution of cooperatives to economic and social development, food security and poverty reduction in Ethiopia (Emana, 2009).

2.3.3 Cooperative movement in Ethiopia nowadays

After the adoption of above mentioned policies on cooperative societies their number began to increase rapidly. According to estimation of Lemma (2008) there were over 7366, and by 2005 their number increased to 14423. Bernard et al. (2013) stated that during the period from 2007 to 2012 cooperative network enlarged even further – number

of coops increased by 87.4 percent. About 66 percent of all newly established cooperatives were established after the proclamation for the promotion of cooperatives in 1998.

Table 8: Number of registered primary cooperatives and members by region, 2012

Region	Total primary cooperatives	Growth rate over last five years ^a	Membership			Total capital ('000s Birr)	Number of agricultural cooperatives
			Male	Female	Total		
Tigray	3,746	180.6	441,600	171,000	612,600	204,311	1,927
Amhara	7,050	66.9	2,006,800	438,600	2,445,400	376,991	2,599
Oromia	11,321	282.9	1,414,400	304,400	1,718,800	1,021,528	4,734
SNNP	7,905	43.4	1,016,300	193,000	1,209,300	171,880	1,388
Benishangul-Gumuz	309	134.1	18,100	5,900	24,000	76,271	130
Harari	448	107.4	9,900	4,700	14,600	18,744	41
Gambela	238	193.8	4,800	4,000	8,800	14,188	124
Afar	365	80.7	10,600	5,900	16,500	14,345	180
Addis Ababa	9,482	30.6	183,200	253,900	437,000	786,029	-
Dire Dawa	1,060	48.3	23,300	14,000	37,300	9,299	64
Somali	1,332	196.7	24,200	18,100	42,300	24,889	265
National	43,256	87.4	5,153,300	1,413,400	6,566,700	2,718,476	11,452

Source: Bernard et al., 2013

Despite the dominant role of agriculture in Ethiopia's economy, the largest presence of cooperatives is in the service sector, which is dominated by housing, multipurpose, and savings and credit cooperatives (Lemma, 2008). As seen from Table 8, agricultural cooperatives account for about 25 percent of total primary cooperatives. They are mostly enacted in production of grain, coffee, vegetables, dairy, fish, and honey.

According to the latest data, 36 percent of small-holder farmers in Ethiopia are members of agricultural cooperatives. This number grew significantly from 2005 when only about 9 percent of small-holders were members. The highest growth rate of membership was in Amhara and Tigray regions, where this number increased from 14 to 59 percent and from 20 to 51 percent respectively. On the other hand, smallholders' participation in cooperatives is higher when there is a coop situated in their kebele. For example, in Tigray region this number is more 96 percent and in SNNP region – 61.5 percent. Nationally about 51 percent of smallholders with a cooperative in kebele are members of a coop (Bernard et al., 2013).

Table 9: Prevalence of cooperatives and participation of smallholder farmers

Region	<i>Kebeles</i> with cooperatives <i>kebeles</i> , %	Smallholders participating in cooperatives house-holds, %	Smallholders with cooperatives in <i>kebele</i> house-holds, %	Smallholders participating when have cooperative in <i>kebele</i> house-holds, %
Tigray	97.6	51.7	53.5	96.3
Amhara	36.2	59.5	64.1	37.3
Oromia	43.2	23.5	37.8	65.6
SNNP	46.2	11.4	15.4	61.5
Overall	45.1	36.1	43.2	51.5

Source: Bernard et al., 2013

Despite the critique and problems of cooperative societies in both developed and developing countries (Nilsson, 2001; Borgen, 2004), authors researching coops in Ethiopia agree that smallholder associations contribute overall in agriculture development, economic growth, and poverty reduction in the long run (Bernard et al., 2008). Getnet and Anullo (2012) summarized several evidences on positive impact of cooperatives in Ethiopia. For example, grain producers' associations played an important role in providing Ethiopian farmers with better prices by reducing price fluctuations and stabilizing local grain markets; or better performance of dairy farmers under cooperatives than those who were not; another author concluded that cooperatives helped Ethiopian smallholder coffee producers to successfully position in international market (Lemma, 2008; Francesconi and Ruben, 2007). Furthermore, according to estimates by Pollet (2009), cooperatives in Ethiopia created 81651 direct and 115079 indirect employment opportunities.

3 OBJECTIVES

The aim of the thesis is to contribute to the growing discussion whether membership in agricultural cooperatives enables small-scale farmers in developing world to improve their financial and social position. Based on comparison of different types of cooperatives, the thesis examines:

- 1) Whether small-scale farmers receive better incomes after entering a local cooperative society;
- 2) Whether small-scale farmers receive other benefits as members of cooperatives;
- 3) Differences in perception of basic organizational principles, structure, and functioning of cooperatives between members and management of cooperative societies.

4 METHODS

4.1 Location, Time

The survey was conducted in Angacha woreda, Kembata Tembaro zone, SNNPR, Ethiopia. Collection of primary data was conducted at the beginning of the dry season, during October and November 2013 because of bad condition of local dirt roads during the rainy season.

The research team included two specialists from local Woreda Agricultural Development Office (WADO) and the leader of the team. Participation of the specialists during the data collection was necessary because of their knowledge of local language, area, and location of kebeles and villages where selected respondents lived. Furthermore, the presents of specialists' involvement in the research was demanded by WADO.

4.2 Angacha woreda

Angacha woreda is an administrative unit situated in northern part of Kembata Tembaro zone, Southern Nations, Nationalities, and Peoples Region (SNNPR) which is located in southern part of Ethiopia. The region was chosen because of dominance of agriculture cooperatives, while nationally most of coops are engaged in services sector. According to the latest estimate for 2012 based on census carried out in 2007, population of Angacha woreda was 101,991 from which 51,029 were male and 50,962 female (CSA, 2011). Most of the population of the woreda is settled in rural areas (about 92 percent). According to Ethiopian CSA (2003) total area of Angacha woreda is 17754,31 hectares from which 14203,44 hectares (80 percent) are used for agricultural production.

A wide range of agricultural products is produced in the area. Major temporary crops are cereals, pulses, root crops, and vegetables, from which the most frequent are wheat, teff, barley, maize, sorghum, potatoes, and Ethiopian cabbage. Permanent crops – fruits, stimulants, and sugar cane – are also cultivated in the woreda. Mostly these are bananas, avocados, oranges, coffee, chat, and sugar cane.

Table 10: Production of temporary crops in Angacha woreda

	Number of households	Area (hectares)	Production (quintals)
Cereals	28115	8989.07	115073.7
Pulses	20729	2218.89	17748.89
Vegetables	25278	377.03	34592.79
Root crops	25673	2995.35	312857.6

Source: CSA, 2003

Table 11: Production of permanent crops in Angacha woreda

	Number of households	Area (hectares)	Production (quintals)
Fruit crops	12165	118.25	7394.32
Stimulant crops	14443	358.94	2583.78
Sugar cane	8702	250.94	17427.39

Source: CSA, 2003

4.3 Selection of cooperatives

As a first step general data about local cooperative societies were being collected at local agricultural office, using semi-structured interview method; these were, for example, total number of cooperatives in the area, their type, date of establishment, location, and number of members.

According to the interview there were 58 cooperative societies with total 8269 registered members (about 8% of total population of the region) in the woreda. Most of the cooperatives were aimed on agricultural production (30 coops with total 3044 registered members) such as honey, seeds, and vegetables, and others are credit and savings cooperatives (22 coops), and consumer cooperatives (6 coops). Average number of registered members in agricultural cooperatives was about 100.

Based on this information 6 cooperative societies were chosen by author for the survey. These cooperative were selected upon several criteria: type, main agricultural product, date of establishment, and number of members of a cooperative society. First of all, a cooperative had to be specialized on agricultural production. Secondly, it had to have been functioning at least for 2 years. Finally, a cooperative in order to be chosen had to have at least 40 members.

Product orientation was the main selection criteria. The final selection was therefore: seed production cooperative, two beekeeping cooperatives, two vegetable production cooperatives, and one animal husbandry cooperative. Cooperatives oriented on another type of agricultural production in the area were inactive or did not fill the requirements listed above.

Table 12: Cooperative societies included in the research

	Type	Location (Kebele)	Number of registered members	Date of establishment
Gulo honey production coop	Production	Shino Sunamura	n/a	2009/2010
Honey production coop	Production	Layegna Shino	45	2010/2011
Seeds production coop	Marketing	Aemobercho Wasera	51	2010/2011
Animal production coop	Marketing	Shino	213	2010/2011
Vegetable coop	Marketing	Aedancho Aibala	n/a	2010/2011
Wheat and vegetables production coop	Marketing	Bondena	56	2010/2011

4.4 Questionnaires and interviews for members and leaders

In order to collect primary data the researcher used questionnaires for members of the cooperatives and personal interviews for members of the board and managers.

Questionnaires prepared for members of the cooperatives consisted of 23 questions with both opened and closed endings which were divided into two sections. In first section a respondent provided basic personal and household characteristics, for example, age, size of household and farm, farmer's main production and its use, motivation to enter a cooperative society, and so on. Second section of the questionnaire contained questions related to interaction between cooperative and member. For example, percentage of income generated from activities in the cooperative, income growth after entering the cooperative (due to activities within the cooperative), presence on general meetings, satisfaction with management, benefits of being a member of the cooperative, etc..

For leaders of the selected cooperative societies questions for semi-structured interviews were prepared. There were 19 questions in each interview on leaders' qualifications, experience, and organization, specialization and other aspects of the cooperative society they are in charge of.

Before the beginning of the data collection questionnaires were tested on pilot testing. 10 respondents were chosen within members of one agricultural production cooperative for the pilot testing. Having finalized questions in questionnaires, respondents within members of each chosen cooperative were selected. Ten to twenty respondents (according to total number of members in the cooperative) were selected randomly and questioned personally using the corrected questionnaires. Specialists participated in questioning the respondents in order to translate questions and explain to the respondent if necessary.

After data collection from members, interview with leader of the particular cooperative was conducted in order to cross-check, clarify and triangulate the information from members. One leader from each selected cooperative was interviewed with assistance of local specialists.

4.5 Target population and sample size

The target population of the research were small-scale farmers who were registered members of agricultural cooperative societies in Angacha woreda. Total number of target population was 3044 farmers-members. For calculation of sample size Sample size calculator by Creative Research Systems (2013) was used. With confidence level of 95 percent and confidence interval 9 it was established that the representative sample size of farmers-members of cooperatives in Angacha woreda was 114 respondents. However, some of the questionnaires were no filled in the right way, so the final number of respondents was 100. After recalculation it was established that the confidence interval increased from 9 to 9.64.

4.6 Sample description

Out of 100 respondents, vast majority were male with total number of 90, and only 10 female members. Most farmers (72%) were aged within 36 – 55 years (Figure 8). In Figure 9 respondents’ farms size are displayed. Most of the farmers – 93 percent – cultivated less than 1 hectare. This fact can be explained by high population density in Angacha woreda (163 – 289 persons/sq. km. (CSA, 2012)) together with mountainous relief. It demonstrates that agriculture is mostly a “small holder phenomenon”.

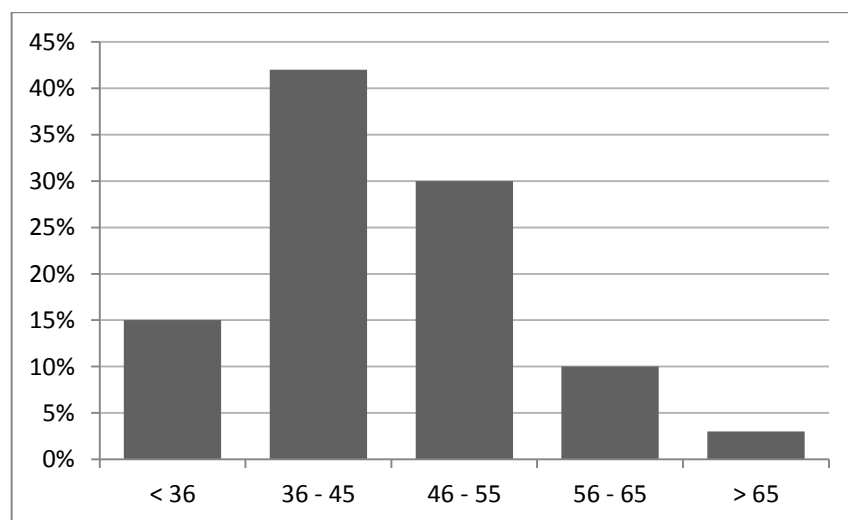


Figure 7: Age of the respondents

(N = 100)

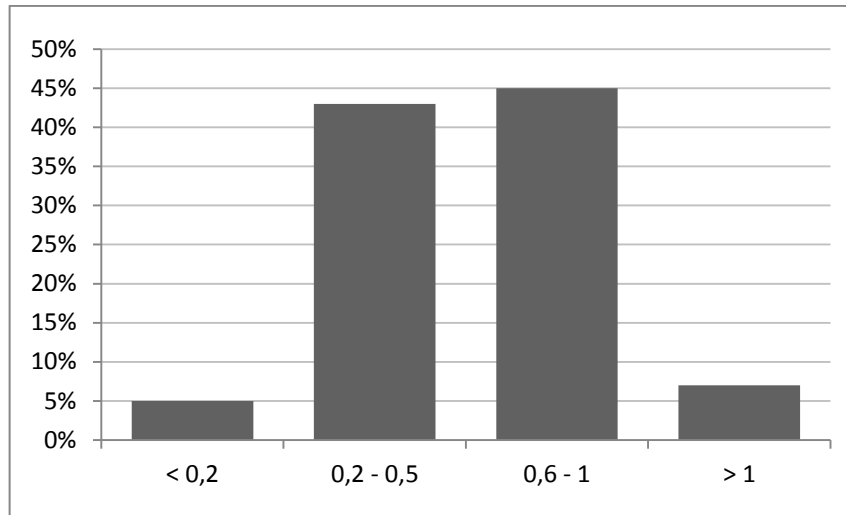


Figure 8: Respondents' farms size

(N = 100)

4.7 Processing of primary data

After had been collected primary data were classified and organized using Statistica 12 software. Most of them were processed using basic descriptive statistics and then visualized in graphs. Graphs were created using Microsoft Excel software.

The share of farmer' income generated by in-cooperative activities in different types of coops was tested using Shapiro-Wilk test of normality – normality was not confirmed. Afterwards, Kruscal-Wallis nonparametric test for comparison of independent samples was used. According to the Kruscal-Wallis test, there is statistically significant difference between the types of cooperatives.

4.8 Limitations

During the survey the authors have encountered several limitations. First of all, there were a number of bureaucratic obstacles due to the local state control over cooperatives and any research in the field. Therefore, the authors are aware that the presence of local assigned specialist might have influenced reliability of the data. Secondly, language barrier was a reason that some of the questions in the questionnaires and interviews were obviously misunderstood by the respondents which limited number of reliable answers for data processing.

5 RESULTS

5.1 “Production” vs. “Marketing” cooperatives

It was found that there is specific type of cooperative society which is slightly different than standard marketing cooperative, where farmers cultivate their own land and main service of the cooperative is to sell their production. The production cooperative is more aimed on joint production rather than selling, since the land they cultivate is provided and owned by the government. This arrangement is supposed to help farmers who suffer from the lack of farmland. One of the characteristics of production cooperative is that the cooperatives are very tied and dependent on the government which may interfere into its internal affairs. Among the 6 cooperative societies which were included in the research two were of production type, both aimed on production of honey.

5.2 Learning about cooperatives

The most important role in promotion of cooperative societies is played by local governmental institutions. Farmers were more likely to find out about a coop they entered from local government officials rather than their relatives or neighbours. As shown in Figure 10, majority of respondents claimed to find out about a cooperative they entered from WADO and kebele administrations. Significantly fewer farmers learned about cooperatives from their neighbours, FTC/DAs (farming training centre/development agent) or family members. It demonstrates that the government indeed puts an emphasis on popularizing cooperatives as stated in its development plans.

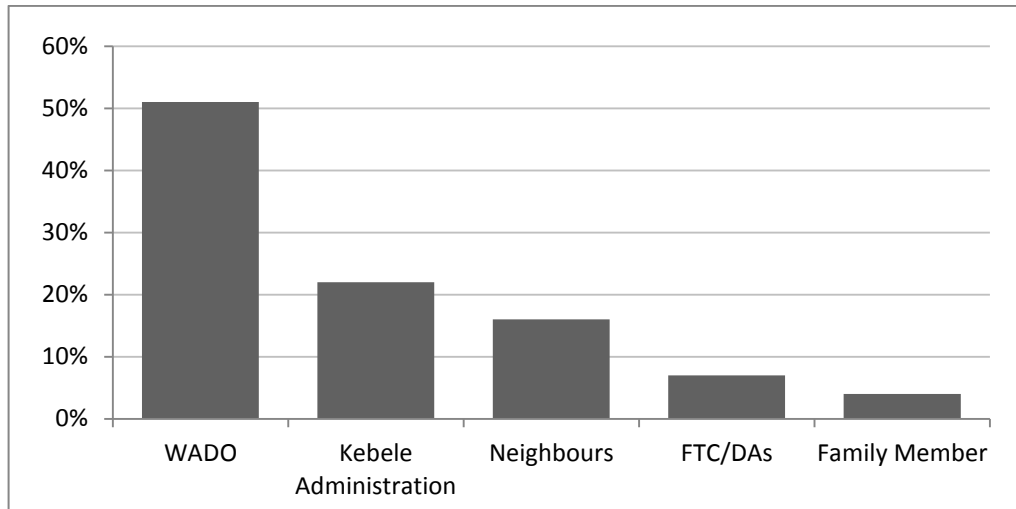


Figure 9: How farmers learned about the possibility of entering a cooperative

(N = 100)

5.3 Motivation to enter a cooperative

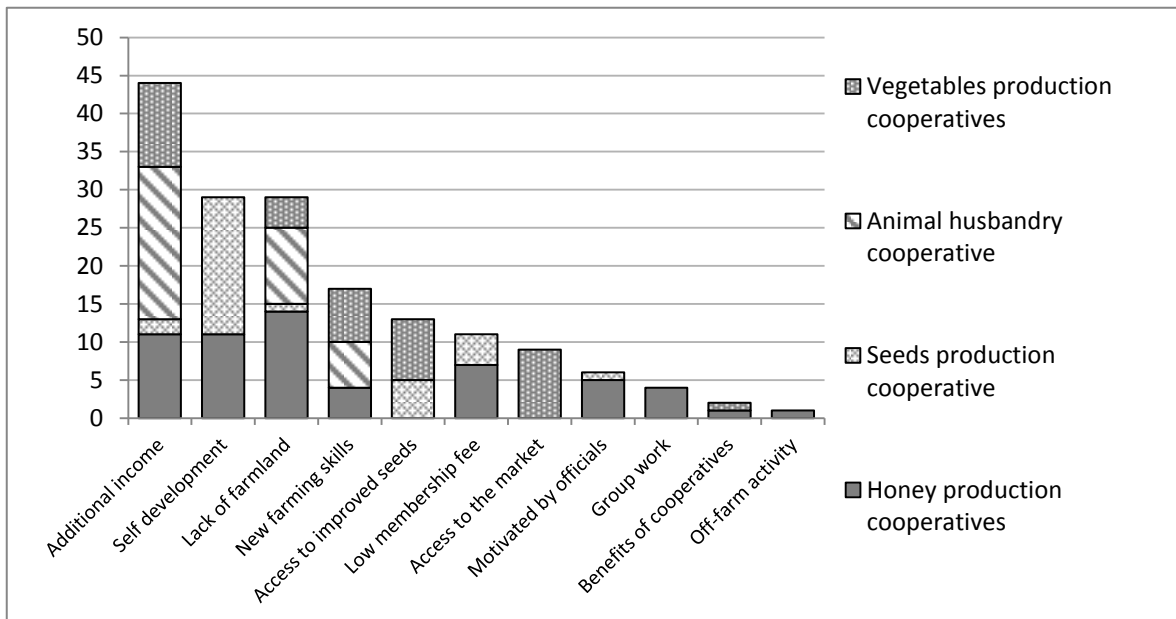


Figure 10: Number of answers why farmers entered a cooperative

(N = 100)

Respondents' motivation to enter a cooperative varies. However, the most frequent reason was farmers' expectation to improve their financial situation: almost a third of respondents claimed they entered a cooperative to gain additional income (see Figure 5). Others perceived coops as the way towards self-development (learning how to cultivate different types of crops, sharing of experiences between farmers, etc.) or the way out from

the land shortage problem. Among less common reasons why respondent joined a cooperative society were: new farming skills, low membership fee, access to improved seeds, and access to the market. The variations between different types of cooperatives are discussed further.

5.4 Honey production cooperatives

The main motivation for farmers to enter the honey production coops was lack of farmland together with generation of additional income and self-development (see Figure 10). It is understandable since this type of cooperative offers farmers to work on land provided by the government as well as additional off-farm activity for generation of additional income (beekeeping).

The average income generated by in-cooperative activities is 23% from the total farmer's income. In all cases farmers-members claim their income has grown after entering the cooperatives, mostly by 10% and 20% (Figure 11).

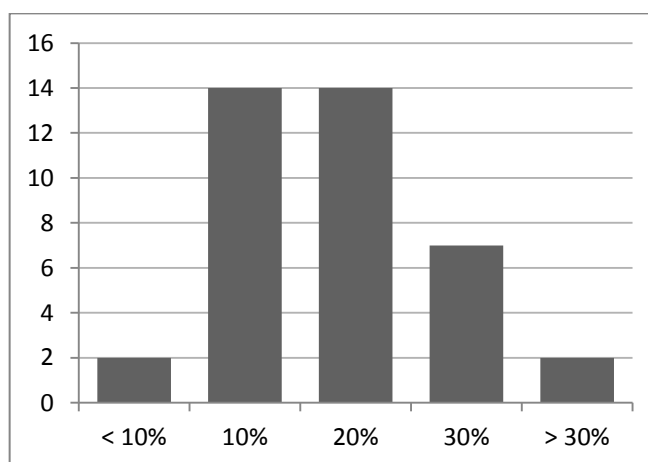


Figure 11: Farmers' income grew by % after they entered honey production cooperative

(N = 39)

5.5 Seeds production cooperative

Another agricultural marketing cooperative was focused on cultivation of wheat, barley, potatoes, and telva (oil seeds). This cooperative was a typical one where farmers cultivate the production on their own land and the cooperative took care of marketing of the production.

The main motivation for small scale farmers to enter the seeds production was self-development (18 of 20 respondents mentioned it). Among other reasons were: access to improved seeds, low membership fee, additional income, etc. (Figure 10).

The seeds production cooperative is the most efficient among the other cooperatives included in the research because of high income indicator. The average ratio of income generated by in-cooperative activities is about 55% from the total farmer's income, which is more than two times higher comparing to honey production cooperatives. Furthermore, most of the farmers-members claim their income grew for more than 30% after they entered the cooperative (Figure 12).

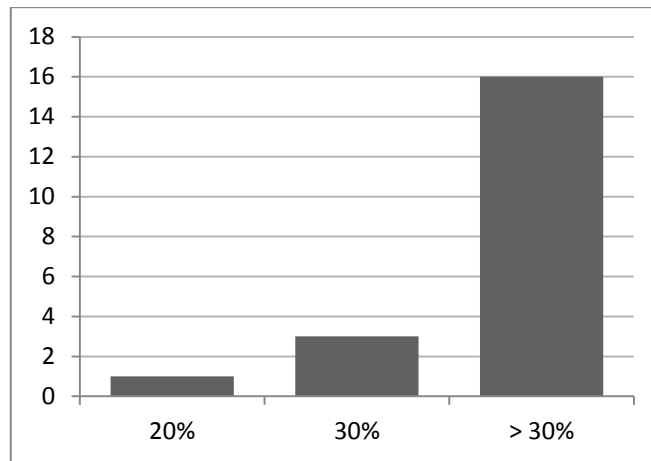


Figure 12: Farmers' income grew by % after they entered seeds production cooperative

(N = 19)

5.6 Animal husbandry cooperative

The cooperative was aimed on selling of small cattle bred by its members. The main product was goats and sheep. All of the respondents from this coop claimed their primary motivation to enter was gaining of additional income (Figure 10).

The average number of income generated by in-cooperative activities was 11% from the total farmer's income. The cooperative also shows the worst results of its members' income growth comparing to the other cooperatives in the research (Figure 13). One of reasons for this might be a system of surplus revenues division – both members and management claimed residues were divided according to the amount of membership fee farmers paid.

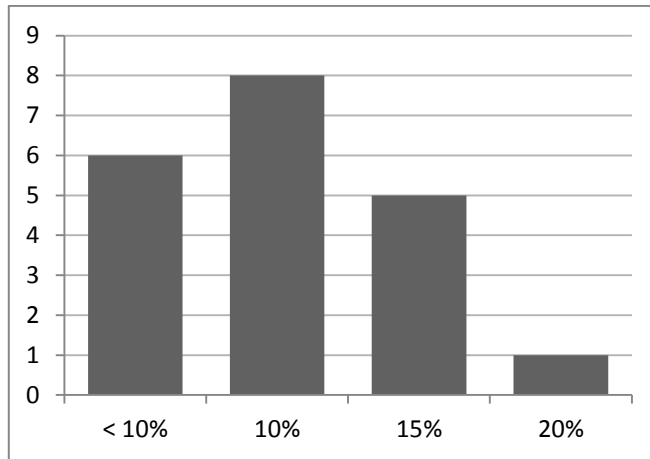


Figure 13: Farmers' income grew by % after they entered animal husbandry cooperative
(N =20)

5.7 Vegetables production cooperatives

The last two cooperatives which were surveyed were aimed on production of vegetables. Members of these cooperatives focused mainly on cultivation of potatoes, tomatoes, cabbage, and carrots.

The main reason for farmers to enter the coop was to gain more income, however, almost half of respondents wanted to get access to the market (Figure 10).

The average number of income generated by in-cooperative activities is about 20% from the total farmer's income. In most cases respondents claimed their income grew by 20% after they joined vegetables cooperative (Figure 14).

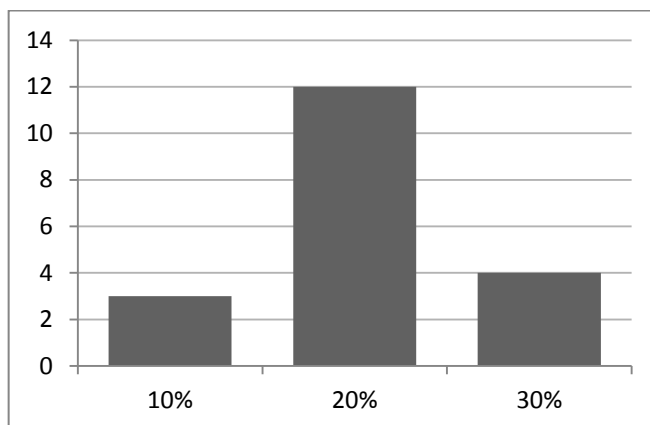


Figure 14: Farmers' income grew by % after they entered vegetables cooperative
(N = 19)

5.8 Other findings

5.8.1 Membership fees

In 95 percent of cases farmers-members of cooperatives claimed they paid standard membership fee upon joining it. It was also found out that in most cases farmers believed that surplus revenue generated by a cooperative was divided between members according to the amount of the entrance fee they paid. Even though it was not true and surplus revenue was divided according to use in their coop, farmers tended not to pay above standard entrance fee and invest into their improved income in the future despite the fact that most of them claim this is their main reason to join a coop.

Generally, membership fees are low, allowing poor farmers to enter a cooperative. Sometimes, respondents mentioned low entering fees as one of the reasons they entered a coop. In most coops fees were paid once upon entering; only one cooperative had a system of annual membership fees.

5.8.2 Surplus revenues division

As already mentioned, in almost 75 percent of cases respondents believed that surplus revenues in their cooperative was divided upon the amount of membership fee they had paid upon entrance. However, after interviews with leaders of cooperatives it was discovered that only one cooperative used this system of division – animal production coop. Other cooperatives divided surplus income between farmers according to use of the cooperative (e.g. how much product did members sale or how many hours they worked in production coop).

The only exception was seeds production cooperative – 17 out of 20 respondents from it answered that the income is divided according to use and then it was confirmed by the interview with the manager.

5.8.3 General meetings

In case of surveyed cooperatives, most of the respondents claimed that general meetings were held two times in a month or even once in a week (Figure 15). Only 20

farmers – all of them were members of seeds production cooperative – responded that general meetings in their cooperative were held two times in a year.

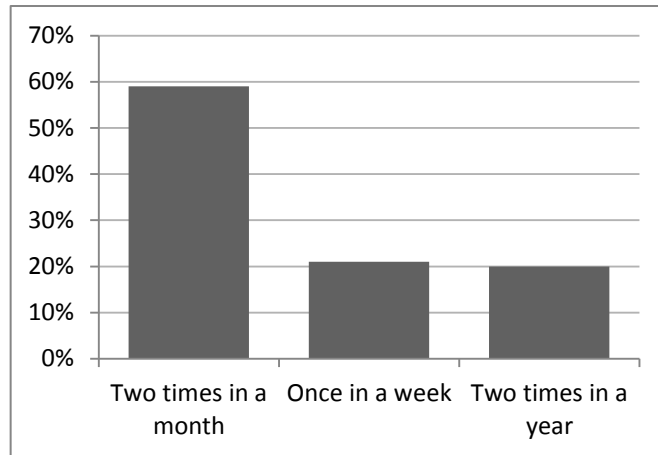


Figure 15: Members' answer on how often are general meetings held in their cooperative

(N = 99)

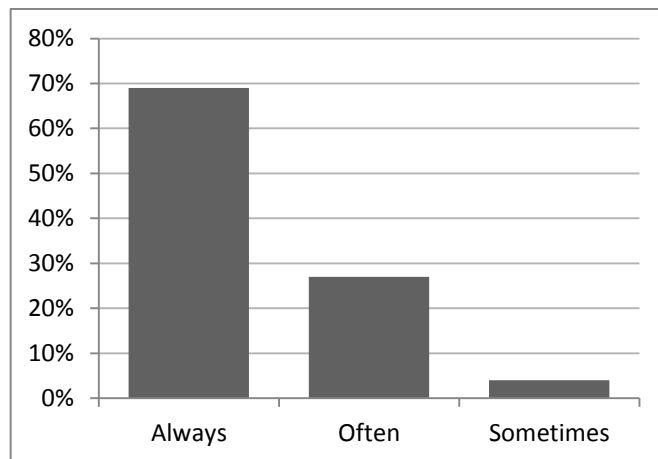


Figure 16: Farmers' participation in general meetings

(N = 97)

On the other hand, managers of some cooperatives answered the same question in a different way. For example, managers from one honey production coop and one vegetable production coop claimed that general meetings were held once in three and two months while farmers-members answered two times in a month. However, in other cooperatives answers by both members and managers were the same. Based on answers of farmers on this and previous questions it can be summed up that in most cases members – and sometimes managers – of cooperatives do not know or not understand basic organizational principles of coops they participate in.

5.8.4 Benefits for cooperatives and their members

Except for surplus revenues generated by a cooperative, members of coops receive additional benefits – either provided by the government or by the cooperative they participate in. Among governmental benefits, which are determined by Proclamation No. 147/1998, are: 1) exemption of societies from income tax; 2) possibility for societies to acquire land; 3) receiving of other assistance from the Federal Government or Regional Government or City administration (FDRE, 1998).

Moreover, members of cooperative societies receive benefits in terms of their coops. Respondents claimed that except for additional income generated by cooperative's surplus revenue they received benefits such as information about market (prices, demand/supply, etc.), use of cooperative's infrastructure (transportation, storage, equipment, etc.), trainings and schoolings, and access to improved seeds. Almost all respondents claimed they received information and possibility to use cooperative's infrastructure; however, only half of them said they received trainings from the coop (Figure 17).

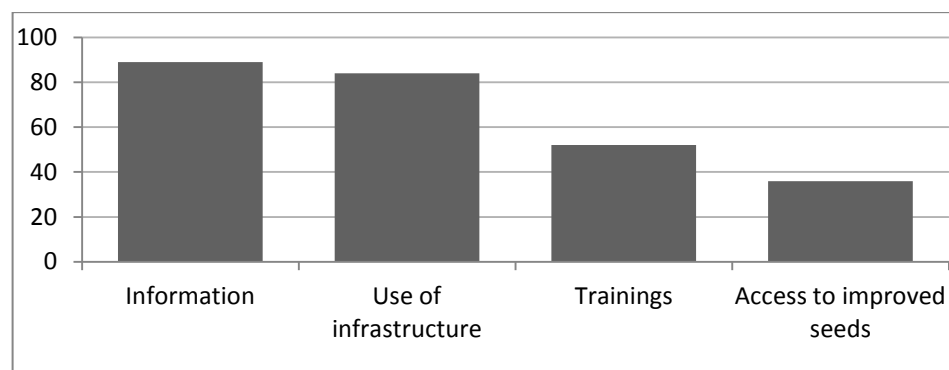


Figure 17: Number of answers on members' benefits except for surplus revenue

(N = 100)

5.8.5 Satisfaction with cooperatives

Regardless of a type of cooperative, 97 percent of respondents were very satisfied to be part of it and 99 percent wanted to stay in the coop for more than a year. Only three farmers said they were "satisfied" and one of them wanted to dismiss from membership. Majority of members, 75 percent, claimed they were very satisfied with the cooperative's management as well.

6 DISCUSSION

The research conducted on agricultural cooperative societies in Angacha woreda allowed the authors to gain information from the point of view of cooperatives' members and leaders. The data gained directly from farmers helped to investigate and compare agricultural coops depending on type of product they were aimed on. Furthermore, it was assessed how small-scale farmers evaluate their income growth, access to other benefits, and cooperative functioning after becoming the member.

Based on the evidence in this paper it can be said that agricultural cooperatives in Angacha woreda do help their members – small-scale farmers – to improve their financial situation and achieve better incomes. Still, western type of coops implemented in developing countries as a “development model” has encountered much of scepticism since early 1970's (Pollet, 2009). Many accuse cooperative societies of failure to help the poorest farmers in getting from the poverty trap and their integration into the trade. For example, Bernard and Spielman (2009) conclude that *“the poorest of the poor tend to be excluded from membership in marketing cooperatives in Ethiopia. However, they do stand to benefit from the positive spillovers generated by some types of cooperative activities”*. That is why it can be said that agricultural marketing coops are not an efficient tool to help the poorest – farmers who join them have to have certain amount of input. In case of marketing cooperatives this input is farmland where members cultivate a product and the coop helps with its sales. That is why other development tools should be used to help the poorest; one of them can be production cooperative which will be discussed further.

Despite all of the problems and critique it was found out that cooperative societies in the region were popular among farmers – more than 8000 people (about 8 percent from total population) in Angacha woreda were registered members of coops. This popularity was mainly a credit of the government of Ethiopia and local governmental institutions, because cooperatives were put in front in the development plans and policies as a tool for small-holder commercialization and boost of small-scale farming. The main role of local authorities in promotion of agricultural cooperatives within farmers was confirmed by the respondents: majority of them claimed to find out about the cooperative they entered from WADO and kebele administrations. Significantly fewer farmers (about one fourth) found

out about possibility to participate in a coop from their family member, neighbour, or DA. Therefore, the survey confirms the huge role of the Government of Ethiopia in promotion of cooperative movement. On the other hand, lack of farmer to farmer sharing may indicate negative past experience of cooperation between its former/current members. For example, Pollet (2009) states that in sub-Saharan Africa *“past efforts by governments to promote efficient and sustainable rural organizations have been constrained by inappropriate policies. Extensive government intervention had tended to reduce member participation and cooperative self-sufficiency”*.

Likewise, respondents’ motivation to enter agricultural cooperative was evaluated. It was found out, that before entering the cooperative most of the farmers expected to: 1) reach better incomes; 2) develop their knowledge; 3) get access to additional farmland; 4) improve their farming skills; 5) get access to improved seeds. Along with these, respondents named several other reasons why they joined the coop – for example, low membership fees, access to additional markets, motivation by officials, group work, etc.

Another finding during the research was a new type of cooperative. It was discovered that there were so called production cooperatives functioning in Angacha woreda. The main difference between marketing and production cooperatives was the land farmers worked on. While participants of marketing coops cultivated products on their own land and the cooperative’s main task was to help with selling of it, production cooperative’s members worked on a land provided by the government. This type of coop can be perceived as a way out for the poorest farmers who have not enough farmland to gain benefits from marketing coops or for those who have none. This type of cooperatives provides members with governmental land to work on and the only input farmers need is membership fee and time. Nevertheless, such cooperatives need certain amount of investment at the beginning stage, for example, for buying seeds or beehives. Therefore, without support of the government or non-governmental sector production coops can hardly be successful. Another disadvantage of production coops is that they are too tied to the government which may contradict one of the basic principles of democratic cooperative societies – autonomy and independence – stated by ICA. Since the land is provided by the government, some may interfere into a cooperative’s internal affairs and decision-making process while, for example, choosing a client to sell the product to. This in turn, will affect

the final price and, obviously, farmers' income. Secondly, members of production coops may suffer from political pressure, for example, during votes.

Furthermore, farmers seemed not to understand basic organizational principles of their cooperatives. First of all, it was revealed in their answers on how surplus revenues were divided in the cooperative they participated in. Respondents from most surveyed cooperatives claimed revenues were divided on principle of membership fee amount while managers said the principle of members' use of coop was implemented. Only in two cooperatives answers by farmers and managers were corresponding – in seeds production coop and animal production coop.

Secondly, respondents did not seem to know how often general meetings were held. In most surveyed coops respondents claimed that general meetings were held two times per month – some said even once per week – and almost 70 percent told that they always attended these meetings. On the other hand, Bernard et al. (2013) in their research on agricultural cooperatives in Ethiopia states that in SNNP region only 13 percent of farmers-members claimed to attend all meetings over the past 12 months while 56 percent told they attended none. Moreover, in several cases members' statements about general meetings did not correspond to the leaders' ones. Based on these responses it could be said that farmers – in several cases leaders also – did not fully understand what general meeting or general assembly meant and what were its main tasks and duties.

The authors suppose that the above mentioned bad knowledge of basic organizational principles of coops is the problem with management of cooperatives. Respondents' answers tended not to match with the management's ones (except seeds production coop), which points to the certain management's problem, because leaders were supposed to explain and provide teaching work to members on how a cooperative society works. Furthermore, during several interviews with leaders the author had a feeling that interviewees were confused while answering some questions about organization of their coop. The management problem was also pointed out by Getnet and Anullo (2012): "*Some of the most important challenges include lack of capacity for providing competent managerial services*". That is why more effort should be placed on extending managers' professional skills, trainings and schoolings on how to organize and work with members of

coops should be provided. Moreover, schoolings for members of cooperatives on organizational principles, structure, and good governance of coops are vital as well.

Finally, it was proven by the survey that all farmers improved their financial situation and achieved better incomes after entering a cooperative. It was established that the average income generated by in-cooperative activities out of total farmer's income varies from one cooperative to another. For example, members of animal husbandry coop claimed that the share of in-cooperative income was in average 11 percent from their total income, while members of seeds production coop said it was 55 percent. In case of honey production and vegetables production cooperatives shares of in-cooperative incomes in average were 23 and 20 percent respectively. In addition, members of seeds production coop experienced the highest income growth among surveyed cooperative societies – most of respondents claimed their income grew by more than 30 percent after they entered the cooperative. Comparing to seeds production, farmers from other surveyed cooperatives experienced lesser boost of earnings after they entered a coop: honey production coops – 10 and 20 percent; animal production coop – 10 percent and less; vegetables production coops – 20 percent. Therefore, the seeds production was the most successful cooperative among all that were surveyed in improvement of financial situation of its members.

Evidence shows that the most economically successful cooperative among surveyed was seeds production coop. Most farmers' income in this coop grew more than for 30 percent while members of other cooperatives said they had not experienced such an improvement. Besides the type of production choice (wheat, potatoes, etc.), there is also a difference in intensity of use (and dependency) of the cooperative by its members. It is seen in average income generated by in-cooperative activities number. While seeds production coop's members generate averagely 50 percent of their income, farmers from other coops had less than 25 percent share. Consequently, it can be said that farmers who used their cooperative more, experienced far better income boost after entering it. However, the question is why farmers-members from other coops did not use their organizations more if in most cases their primary motivation was to gain additional income? The answer may be again hidden in management and its incapability to provide explanatory work to farmers-members.

Furthermore, it was found out that farmers-members of cooperatives in Angacha woreda received other governmental and non-governmental support and benefits in addition to enhanced earnings. Besides special privileges provided by the government, farmers obtained additional benefits granted by the coop they participated in. For example, coops provided their members with information about situation on the market, arranged trainings and schooling, allowed to use its infrastructure, and gave granted access to improved seeds. However, later it was found out that benefits such as improved seeds or trainings and schoolings are mostly provided by non-governmental organizations.

Recommendations for further research

Based on this paper the authors can give several recommendations for further researchers aiming their studies on agricultural cooperatives in Ethiopia. First of all, more attention should be given to production cooperatives. Their structure, organizational principles, and especially ties to the government should be observed more in detail. Secondly, dependence of cooperatives on both governmental and non-governmental organizations should be surveyed in order to adjust their maintenance for coops on one side and do not let them be too tied or dependent. Finally, deep research on smallholder cooperatives' governance and management should be conducted in order to create adequate training programs for leaders and schoolings on basic organizational principles of cooperative societies for members.

7 CONCLUSION

Despite the critique and problems agricultural cooperative societies in Ethiopia play an important role as a tool for development as well as small-scale farmers' commercialization and enabling in the market. This fact is well realized by Ethiopian authorities who play crucial role in promoting of coops by putting a great effort in development programs and strategic plans, and in increasing of their number throughout the country.

The evidence presented by the research in this thesis shows that agricultural cooperatives do help small-scale farmers to improve their financial and social position. However, not all cooperatives function on the same level of efficiency. It was established that the more cooperative is used the greater growth of income its members experience. Seeds production cooperative, which showed the best economic results, is a great example – its members preferred to market most of their production through the coop and experienced the highest income boost comparing to members of other cooperative societies. Although the use factor is important, it is not the only one which influences farmers' income.

Except for increased incomes and government privileges small-scale farmers get access to other benefits upon entering an agricultural cooperative. First of all, coops provide their members with information about local markets, prices and amounts of products sold. Further, farmers receive a possibility to use cooperative's infrastructure (agricultural tools, storing facilities, transport, etc.) after becoming a member. Trainings and schoolings are also arranged, and in some cases members get access to improved seeds.

Regardless of all the mentioned above advantages, several important problems have been detected as well. One of the most important is that most farmers-members, as well as several leaders, of coops seem not to possess enough knowledge on basic organizational principles and functioning of their cooperative. It reveals lack of managerial capacity to provide quality governance in cooperative societies.

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