



# Co-operative approach to community livelihood improvement: The case of Ada'a district, Oromia regional state, Ethiopia

Hailu Adugna <sup>1,2\*</sup>

<sup>1</sup> Former Lecturer, College of Business and Economic, Haramaya University, P.O. Box 138, Dire Dawa, Ethiopia

<sup>2</sup> Institute of Leadership and Good Governance, Ethiopian Civil Service University, P.O. Box 5648, Addis Ababa, Ethiopia

## Abstract

The study was conducted with the main objectives of assessing the role of co-operatives in improving communities' livelihood and in stimulating local economic development. More specifically, it assessed the performance of co-operatives in resource mobilization and capital formation, in employment creation/ livelihood diversification, and in linkage creation; and also identified the challenges thereof. Hence, both primary and secondary data were collected from nineteen primary co-operatives using in-depth interview, focus group discussion (FGD), observation and document review; and analyzed using simple descriptive statistics. The result of the study shows that the sample co-operatives are performing somewhat fine in mobilizing resource, in promoting self employment and livelihood diversification, and in linking local community with other development actors. However, their performance in capital formation (investment) and in direct employment creation is very meager. Overall, their potential in the aforementioned areas is far under fetched. This is because of various internal and external constraints like resource shortage (human, financial, technology, infrastructure, and information), lack of awareness and commitment of leaders and members, operational inefficiency, limited market network and stiff competition, inadequate government support, and the like. Hence, to unleash and sustain their development potential, proper and timely attention should be given to these constraints.

**Keywords:** Cooperatives; Linkage Creation; Resource Mobilization; Capital Formation; Livelihood Improvement; Local Development

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**Cite this paper as:** Adugna, H. (2013), "Co-operative approach to community livelihood improvement: The case of Ada'a district, Oromia regional state, Ethiopia", *International Journal of Development and Sustainability*, Vol. 2 No. 3, pp. 2124-2145.

## 1. Introduction

Ethiopia is characterized by high population size and population growth rate. According to Central Statistical Agency /CSA/projection, the population of the country is about 83 million as of 2012, with a growth rate of 1.51% (CSA, 2012). And, poverty is still widespread as around 29.6% of the population is still below poverty line. There is high level of unemployment (with urban area figure of 18% as of 2012), inadequate provision of various socio-economic services, and infrastructures (MoFED, 2013). The Economy of the country is predominantly based on agriculture, which accounts for more than 40% of Gross Domestic Product (GDP), 80% of exports, and 83% of total employment of the country. The agricultural practice is predominantly subsistence oriented which is undertaken by traditional mode of production. Though fast economic growth has been registered over the past couple of years, many are yet to be lifted out of absolute poverty.

In the past, the excessively centralized policy of the country had denied any participatory local development opportunities. Hence, by and large, the importance of local institutions such as co-operatives in lifting the poor out of the protracted poverty trap had been ignored. Nevertheless, such centralized approach had long failed to bear adequate and sustainable fruit (Tegenge, 2001). As a result, the government of Ethiopia has recognized the inevitable role of community associations like cooperatives in a range of local development endeavors since recently. Thus, the Federal Democratic Republic of Ethiopia (FDRE) has legally provided proclamation No. 147/1998 for the [re]establishment of co-operatives, which was later on amended by proclamation No.402/2004. Besides, the Councils of Ministers Regulation No. 104/2004 provides for the implementation of co-operative societies proclamation No.147/1998 (Federal Negarit Gazeta; 5th year, No 27, 1998; 10th year No. 43 and No.47/2004). Consequently, more than 43,000 primary co-operatives and about 280 co-operative unions are established since 1998. These co-operatives have engaged in over fifty (50) different types of activities, and have more than 6.5 million members and a capital of 2.9 billion Birr in total (FCA, 2012).

## 2. Statement of the problem and objectives

Many scholars have indicated that co-operatives could play crucial development roles in a range of socio-economic, political, environmental, and cultural arenas, if they are formed voluntarily, and managed democratically. For instance, Singh (1999) and Alan (1984) indicated that co-operative link is important for several reasons such as developing high social capital, reducing labor mobility, and in utilizing indigenous resources such as local capital for local development. Moreover, Birchall (2003) also explained that co-operative organizations have a lot of opportunities in lifting the poor out of poverty and all other forms of deprivations. According to him, they can create opportunities both on the supply and demand sides. On the supply side, they can create opportunities for the poor through stimulating economic growth and making markets work for the poor. On the demand side, they help the poor people to take advantage of opportunities by building their confidence through education, training, and self-organization for various common interests. Likewise, Keabaw (1978) also noted that co-operative movements have a paramount importance in developing countries like Ethiopia, which is predominantly characterized by agrarian economy. As he noted,

they can protect the interest of farming communities by pooling meager resources, and also by displacing middle men who want to prosper at the expense of local communities. Generally, co-operatives are believed to play a far-reaching role in stimulating local economic development and in improving the livelihood of local community.

In spite of such potential roles of co-operatives, the long time during which they were controlled and manipulated by the state has resulted in misunderstanding of their roles and functions. As Counture et al. (2002) noted, this led to lack of trust/lack of positive attitude/ towards such institutions by the society in general, and their members in particular. The consequence was gradual deterioration of support for co-operative development. This has resulted in a huge challenge even for those genuine, members-controlled, and democratically managed co-operatives in many countries for many years. To reverse such desperate status quo of co-operatives, and to unleash their potential role in development, considerable efforts have been made by many countries over the last couple of decades. Accordingly, co-operatives are re-established in many countries (including Ethiopia) based on the universal pillar principles and values of voluntary & open membership; democratic member control; members economic participation; autonomy & independence; education, training and information; co-operation among cooperatives; and concern for community (FCA, 2012).

Even though many co-operatives have been [re]established in new forms in Ethiopia since 1998 following the initiatives taken by the government, there is still a widespread skepticism about their ability to adequately support communities' livelihood improvement and local economic development. And, being one of the areas highly neglected by researchers and policy advocates, evidence is so scant in this regard, especially in the context of developing countries like Ethiopia. Hence, this study is aimed at assessing the performance of co-operatives in improving the livelihood of local community in particular, and in promoting local economic development in general; and thereby supports policy making and action taking efforts in this connection. To this end, it addressed the following objectives:

- ▶ Assessed and described the performance of co-operatives in resource mobilization and capital formation, in employment creation and communities' livelihood diversification, and in partnering with each other and in linking local community with various development actors,
- ▶ Investigated and discussed the challenges that constrained co-operatives in undertaking the aforementioned roles,
- ▶ Analyzed the implications of co-operative performance in the aforementioned areas for local economic development.

### **3. Methodology**

The study was conducted using a descriptive research design taking Ada'a District as study area. The district was selected purposively since it was one of the pilot areas for re-establishment of co-operatives in Ethiopia,

and hence has active co-operative movement. Then, nineteen (19) primary level co-operatives (rural and semi rural), were taken as a case and studied, as presented under the following sub-sections.

### 3.1. Types of data, and methods of data collection and analysis

Both primary and secondary data was used in this study. The primary data was gathered by triangulating techniques such as in-depth interview, focus group discussions(FGDs), and field observations. In-depth interview was held with twenty five (25) key informants (i.e.19 from sample co-operatives; and 6-from other relevant organizations such as district, regional, and federal co-operatives bodies, agricultural bureaus, research centers, and NGOs). Besides, twelve (12) FGDs were organized with carefully selected co-operative members, with each group comprising 8-12 people. Comprehensive semi-structured interview questionnaire was used for in-depth interview with key informants; while unstructured check list was used for FGD and field observation. To complement primary data, secondary data was collected by reviewing documents such as audit and other performance reports, operational records of the study co-operatives, relevant documents of local, regional and federal co-operative organs, library documents, and other pertinent sources. Finally, the collected data was summarized using tables and graphs; and analyzed using Statistical Package for Social Sciences (SPSS) software.

### 3.2. Population and sampling methods

The study population was the legally registered rural and semi-rural co-operatives with more than 1-year operational life, while the units of analysis were the primary co-operative societies. Using list of legally registered co-operatives as a sampling frame, the existing rural and semi-rural co-operatives were first stratified in to five categories/Strata/ based on the similarities of their activity, and samples were taken using combination of Simple Random Sampling (SRS) and Purposive Sampling (PS) techniques (see Table 1).

While a proportionate simple random sampling was used to select sample co-operatives from the first three strata, the last two co-operatives i.e. Debre-Zeit Dairy Co-operative (DDC), and Alpha-Goa Irrigations Users Co-operatives (AGIUC) were purposively included to better address the objectives of the study as these are the only co-operatives in their category. Besides, the 115 co-operative members who participated in FGD were systematically and purposively selected from the five co-operative categories so as to maintain reasonable homogeneity within each group (see Table 1).

### 3.3. Profile of sample co-operatives

#### 3.3.1. Business activities of study co-operatives

The nineteen (19) primary level co-operatives taken for this study are classified in to five major types as: Multipurpose Co-operatives (MPC), saving and Credit Co-operatives (SCC), Mineral Producers Co-operatives (MC), Dairy Co-operative (i.e. Debre-Zeit Dairy Co-operative /DDC/), and Irrigation Users Co-operatives (i.e. Alph-Goa Irrigation Users Co-operative/AGIUC/). The MPC are primarily engaged in agricultural input and

output marketing services, consumer goods retailing and other similar service. Likewise, AGIUC engaged in marketing of vegetables and grains, and also in distributing fertilizers to members. And, the SCC provide saving and credit services to its members, while DDC is primarily aimed at collection and distribution of milk products, and supply of concentrated animal feeds to the members. Similarly, MC are engaged in the collective production and selling of different types of minerals (like gravels and sands).

**Table 1.** Summary of Co-operative Types by Business Category, Sample Size & Sampling Method, and No. of Key Informants and FGDs Taken from Each Stratum/Category

<i>Category /Strata/of Co-operatives Chosen</i>	<i>No. of primary Level Co-operatives Selected</i>	<i>Sampling Method</i>	<i>No. of Key Informants Selected for in-depth interview from each stratum</i>	<i>Key Informant Selection Method</i>	<i>No. of FGD held with Members of each Co-operative Category</i>	<i>No. of Co-operative members involved in FGDs from each category</i>
Multipurpose Coop.	(38 % x19) = 7	SRS	7 (i.e.1- from each)	Purposive	3- FGD	29
Saving & Credit Coop.	(38% x13) = 5	SRS	5 (i.e. 1- from each)	"	3- FGD	30
Mineral Producers' Coop	(38 %x13) = 5	SRS	5 (i.e. 1- from each)	"	2- FGD	21
Dairy Coop.	1	PS	1	"	2- FGD	18
Irrigation Users' Coop.	1	PS	1	"	2-FGD	17
<b>Total</b>	<b>19</b>	<b>-</b>	<b>19</b>	<b>-</b>	<b>12-FGDs</b>	<b>115</b>

Source: District Co-operative Bureau (2007)

### 3.3.2. Membership status of study co-operatives

There is high variation in the membership size of the sample co-operatives. For instance, out of the total membership size of 9,554 people of the sample co-operatives altogether, 8,098 (or 84.76%) belongs to the sample MPC, followed by DDC with 816 (or 8.54%), and the SCC with 330 (or 3.45%) respectively. The sample MC have 250 (or 2.2%), followed by AGIUC with 60 (or 0.63%). Besides, there is high gender disparity almost in all cases of the study co-operatives, where the overall proportion is 84% males and 15% female. The major membership criteria are: ability to make initial payments (i.e. registration fee, and purchase price of at least one share), willingness to make some periodic contribution, and also periodic saving requirement especially in the case of SCC.

## 4. Results and discussions

### 4.1. Resource mobilization and capital formation by the sample co-operatives

Under this section, the performance of co-operatives in promoting resource mobilization and capital formation (investment), and its implication for local economic development is presented along with the challenges that constrain their performance in this regard.

#### 4.1.1. Resource mobilization and capital formation by the sample co-operatives

Resource mobilization and capital formation are very crucial issues for local economic development. Theoretically, co-operatives can achieve this (i) by saving and investing themselves as economic entity, and (ii) by supporting the saving and asset acquisition efforts of local people (especially the members) through different mechanism such as improving their access to various services (like saving and credit, input and output market), and creating employment/livelihood diversification opportunities among others. And, such resource mobilization and investment process could promote efficient utilization of local resources, attract more resources from elsewhere to the locality; and thereby trigger local economic development.

In line with this argument, Table 2 shows that the capital balance (i.e. financial wealth) of almost all of the surveyed co-operatives has increased except in the case of Hiddi and Udie multipurpose co-operatives. Some co-operatives have undergone remarkable change in their capital balance. For instance, DDC and AGIUC can be taken as good example with respect to the amount of increase in their capital (i.e. 1,757,905 birr for DDC; and 698,000 birr for AGIUC respectively). Moreover, Dirre and Dukem from MPC; Udee and Babogaya from SCC; and Gichee, Babogaya and Hiddi from MC, are among the co-operatives that have attained better increase in their capital balance from their respective category.

It is understood that these co-operatives have accumulated their capital from different sources. For instance, the primary source of capital in the case of MPC, DDC, and AGIUC is the surplus from their operations; while members' periodic saving is more important in the case of SCC and MC. Moreover, sale of additional shares is also another source, though it is not important as such in almost all cases due to limited dividend incentives.

#### 4.1.2. Types of investment made by the sample co-operatives

Resource mobilization would have far reaching effect on local economic development and communities' livelihood improvement if it is efficiently reinvested in productive areas/assets. In this regard, about 17 (89.5%) of the sample co-operatives have made one or another type of investment, though the amount varies from purchase of few office equipments with some few hundred birr (as in the case of many SCC), to millions of birr investment in assets such as factory establishment (as in the case of DDC). Summary of different types of investment made by the sample co-operatives is given in Table 3.

**Table 2.** Summary of the Establishment Capital<sup>1</sup> of Sample Co-operatives and their Capital Balance as of 2006  
Source: Bureau of the Respective Co-operatives, and District Co-operative Promotion Bureau (2007)

No.	Type & Name of Co-operatives Selected	Years of Establishment and /or reorganization/ in G.C	Beginning Capital (in Birr)	Capital balance (in Birr) as of end of 2006	Chang in Capital (in Birr)*
<b>1</b>	<b>Multipurpose Cooperatives</b>				
1.1	Hiddi	2000	55000.49	47394.45	-7606.04
1.2	Dirre	1999	157072.47	365376.61	208304.14
1.3	Kajima	1998	106976.58	139929.72	32953.14
1.4	Dukem	2004	229677.31	318970.03	89292.72
1.5	Godino	1999	14344.44	27792.00	13447.56
1.6	Dankaka	2004	120374.23	45566.23	-74808
1.7	Udie	1998	478,099.05	257590.93	-220508.12
<b>2</b>	<b>Saving and Credit Co-operatives</b>				
2.1	Hiddi	2003	NA	60678.50	NA
2.2	Udie	2002	1400	7669.69	6269.69
2.3	Dankaka	2003	3000	5667.13	2667.13
2.4	Babogaya	2001	800	7,118.80	6318.8
2.5	Godino	2006	NA	4864.23	NA
<b>3</b>	<b>Mineral Producers' Co-operatives</b>				
3.1	Hiddi	2005	1000	50,000.00	49000
3.2	Gichee	2005	2800	120,000.00	117200
3.3	Babogaya	2005	440	69,000.00	68560
3.4	Dankaka	2005	NA	15,000	NA
3.5	Dirre	2004	2160	2,500	340
<b>4</b>	<b>Dairy Co-operative(DDC)</b>	1997	3400	1,761,305.00	1757905
<b>5</b>	<b>Irrigation users' Co-operative(AGIUC)</b>	2003	2000	700,000.00	698000

<sup>1</sup> Establishment Capital refers to the capital amount owned by a co-operative at the time of its establishment

NA-Means Not Available



**Tablev 3.** Summary of Different Types of Investments Made by the Sample Co-operatives

<i>No.</i>	<i>Type of Investment</i>	<i>No. of Cases who said 'Yes' out of the 19-co-operatives</i>	<i>Percentage form the total</i>
<b>1</b>	Construction of Office	10	52.6
<b>2</b>	Purchase of Office Equipment	14	73.7
<b>3</b>	Investment on Tractor	2	10.5
<b>4</b>	Investment on Grain Mills	3	15.79
<b>5</b>	Investment on Supper Market and /or Retail Shops	2	10.5
<b>6</b>	Investment on Processing Machineries	3	15.79
<b>7</b>	Investment on Factory Establishment	1	5.26
<b>8</b>	Investment on Vehicles and Other Transport Means	2	10.53
<b>9</b>	Investment on Shares	15	78.95
<b>10</b>	Investment on Warehouse	9	47.37
<b>11</b>	Investment on Recreational Centers/Restaurants/	1	5.26
<b>12</b>	Contribution for Investment on School Construction	6	31.6
<b>13</b>	Contribution for Investment on Health Center Construction	6	31.6
<b>14</b>	Contribution for Investment on Roads	5	26.3
<b>15</b>	Investment on Other Activities	11	57.9

Source: Own Survey (2007)

As it is shown in Table 3, about 14 (or 73.7%) and 10 (or 52.6%) of the total study co-operatives have made investment in purchase of office equipments (such as tables, chairs, shelf, drawers and the like), and in office construction respectively. Such investments are very necessary (though not sufficient) for efficient and effective undertaking of the business activities of the co-operatives. The co-operatives which made significant investment with this regard are DDC, AGIUC and all the study MPC. But, almost all of the investments made in office construction by the surveyed MPC are made long before many years. Hence, the offices being currently used by these co-operatives are inadequate and too old in most cases, which need expansion, intensive maintenance and/or even replacement in some cases. Moreover, about 15 (or 78.95%) of the co-operatives have made investment in share of their respective union and/or in share of Co-operative Bank of Oromia. Besides, investment in tractor and grain mill is made by 2 (or 10.5%), and 3 (or 15.79%) co-



operatives respectively, all of which belongs to the MPC. But, it is only in one case that both the grain mill and the tractor are giving service presently (i.e. in the case of Udee MPC), while the tractor of Godino MPC, and the grain mills of Dankaka and Dirre MPC are not operating currently due to lack of the necessary maintenance and inefficiency problem as the respective key informants indicated.

Besides, two co-operatives i.e. DDC and AGIUC have made investment in retail shops and supper market respectively. These two co-operatives have also made investment in vehicles i.e. (2- Isuzu cars by DDC, and 1- 'Bajag' vehicle by AGIUC). They currently use these vehicles to transport the products they purchase for resale such as milk and animal feeds in the case of DDC; and vegetables and grains in the case of AGIUC. Investment in warehouse is made by 9 (or 47.37%) of the study co-operatives (i.e. by all MPC, DDC and AGIUC). Additionally, DDC has also made relatively high investment in milk processing factory and other processing machineries. As it is understood from the respondent, DDC has made about 6.8 million birr investment so far (with about 25% own source of finance) including the investment made on the factory. Similarly, AGIUC has made investment in constructing and running restaurants in Bishoftu town, and in other different machineries such as coffee machine, refrigerator, and others facilities used in the restaurants. Moreover, AGIUC has made investment in farm demonstration area for their members, of course with the financial and technical support from OXFAM. Similarly, Gichee MC has made investment in two crusher machines with the financial credit it has got from government. On the other hand, some sample co-operatives have contributed for building various socio-economic infrastructures. For instance, 6 (or 31.58%) of them have given financial support for construction of school and health centers, while 5 (or 26.3%) of them made financial contribution for road construction. Besides some few co-operatives have contributed for investment in other activities such as rural electrification activities, and also supported District Sport Association.

Yet, it is understood from the response of the leaders and field observations that most of the sample co-operatives have not made significant investment. Even if there is investment, it is either construction of offices and warehouses, and purchase of office equipments that are made long before many years as in the case of the sample MPC; and/or purchase of one or very few share/s/ from union or co-operative bank. It is also known from key informants and FGD that there is a practice of keeping money in bank over longer periods instead of making investment in productive activities in some cases. Such practices may result in leakage of local resources to other areas and could adversely affect the locality, instead of contributing for its development.

As it is realized from responses of key informants, FGD, and personal observations, the investment capacity of the study co-operatives is undermined by multitudes of problems such as limited capital base; lack of qualified, visionary, committed, and experienced leader; limited awareness and commitment of members; and absence of adequate government support in providing investment land, credit facilities and other necessary technical supports. Besides, other constraints such as practice of prohibiting some co-operatives from making collective investment in some areas; serious technology constraint; and operational inefficiency are among the problems that have limited their investment capacity.

## 4.2. Employment Creation and Livelihood Diversification by Sample Co-operatives

According to ILO (2001), co-operatives can effectively create and maintain employment both direct/salaried employment, and self employment. They can do this both in urban and rural areas of the world by stimulating various economic activities such as productions, processing, marketing and others. Under this section, the performance of sample co-operatives in employment creation and livelihood diversification is assessed in light of this argument.

### 4.2.1. Direct Employment Creation

Empirical evidence from cross-country experiences shows that co-operatives can create a huge direct employment opportunities. For instance, ILO (2001) has noted that co-operatives are the second largest employer in many African countries and some countries around the world, being surpassed only by the government. However, the role being played by the study co-operatives seems far less than adequate when seen in light of such empirical evidences. As it is shown in Table 4, only a total of 106 direct employments (i.e. 60 males and 46 females) have been created by the sample co-operatives altogether, all of which are contractual employees.

**Table 4.** Summary of Direct Employments Created by the Study Co-operatives

No.	Type of Co-operative	Direct Employee			Origin of the peoples employed	Economic status of employed peoples as been perceived by the key informants
		Male	Female	Total		
1.	MPC	28	1	29	Local	Low income groups
2.	SCC	-	-	-		-
3	MC	5	-	5	Local	Low income groups
4	DDC	17	39	56	Local	Low & middle income groups
5	AGIUC	10	6	16	Local	Low income groups
	<b>Grand Total</b>	<b>60</b>	<b>46</b>	<b>106</b>	-	-

Source: Bureaus of the Respective Co-operative (2007)

Most of the direct employment opportunities are created by two of the sample co-operatives i.e. 56 (or 52.83%) by DDC; and 16 (or 15.09%) by AGIUC; while the seven sample MPC altogether have created direct employment of 29 (27.34%) only, out of which 28 are males. Of the 29 people employed by the sample MPC, seven (7) are employed for accountancy work, four (4) are flourmill operators, and two (2) are tractor operator, while the remaining sixteen (16) are guards. Besides, only one mineral producer co-operative (Gichee mineral producer co-operative) has created direct employment for 5 people (i.e. 4.72%) of the total, all of which are male employed for guarding. But, there is no direct employment at all in four of the five MC

and in all cases of the SCC studied. Hence, there is also variation among the co-operatives in creating direct employment opportunities.

On the other hand, it is understood from key informants that, all of the people who have got direct employment opportunity are local people. About 95.33% of them are people from low-income groups, while the rest are from middle-income groups. The employed person constitutes both members and non-members of the employer co-operatives. Except the case of DDC, very high gender disparity is observed with respect to employment in all other cases, especially in the cases of MPC and mineral producer co-operatives. Even in the case of DDC, majority of employed females (i.e. about 57%) are engaged in collection of milk from members at the collection centers, while the most of the office bearers are males. Moreover, there is stagnant trend in the number of employment opportunities created in almost all cases of the study co-operatives. Besides, most of the job opportunities created by these co-operatives are low salary earning (see Table 5). For instance, about 57.55% of the workers are earning a monthly salary amount which is less or equal to birr 200, while about 96.22% are earning an amount which is less or equal to 500 birr.

**Table 5.** Summary of Compensation/ Salary/ Amount Being Paid by the Study Co-operatives

No.	Salary Range (in Birr)	No. of Cases						
		Male	%	Female	%	Total	%	Cumulative %
1	≤ 200	26	24.53	35	33.02	61	57.55	57.55
2	201 - 300	15	14.15	5	4.71	20	18.86	76.41
3	301 - 400	13	12.26	5	4.72	18	16.98	93.39
4	401 - 500	2	1.89	1	.94	3	2.83	96.22
5	501 - 600	1	.94	-	-	1	.94	97.16
6	601 - 750	2	1.89	-	-	2	1.89	99.05
7	Above 750	1	.94	-	-	1	.95	100
8	Total	60	56.6	46	43.4	106	100	-
9	Mean	290.33	-	143.70	-	-	-	-
10	Minimum	150	31.13%	140	30%	-	-	-
11	Maximum	3000	.95%	500	.95%	-	-	-

Source: Bureau of the respective co-operative (2007)

Moreover, about 99% of the workers are earning a monthly wage, which is less or equal to 750 Birr per month, while only 1 (or.95%) earn an amount higher than 750 birr. The minimum salary is 140 birr for females (paid for 30 % of the cases), and the corresponding figure is 150 birr for males (paid for 31.13% of the cases); while the maximum salary is 500 birr and 3,000 birr for females and males respectively. The

mean salary is 143.70 birr for females, and 290.33 birr for males. Likewise, though the overall proportion of female workers is about 43.4% of the total direct employment opportunity created, as much as 35 (or 76.1%) of females are within the lowest wage interval, while their relative proportion is very low or none in the case of higher wage intervals. This implies the prevalence of gender gap with respect to the possibility of accessing better earning jobs. The variation is due to difference in their work area and level of skill among other things. Overall, the majority of the employees fall in the category of unskilled individual with low salary. This shows that the study co-operatives could not create high earning employment opportunities due to their limited business activities. Hence, they could not use skilled/professional workers as they cannot afford to pay high salary requirements.

Generally, though the direct employment opportunity created by the study co-operatives can be taken as a good start, it is, however, very low by any standard. As realized from the leaders' response and field observation, hosts of problems such as limited financial capacity and lack of access to credit facilities; low operational capacity/business scale/, operational inefficiency and inadequate profit from operation; lack experiences on co-operative businesses and inability to expand and/or diversify areas of activities; inadequate market accessibility and intensive market competition; limited commitment by leaders and members, and absence of grass root level training on co-operative business are the major constraining factors in this regard. Likewise, technology bottlenecks, inadequate government support, restrictive government policy (which prohibit collective investment in some areas), and difficulty in getting land for investment are also among the problems mentioned with different degrees of severity. Thus, to enhance and sustain the role of co-operatives in this regards, priority based attention should be given to the aforementioned problems.

#### *4.2.2. Self-Employment and Income Diversification Roles of Sample Co-operatives*

Another important role co-operatives can play is promoting self-employment and income diversification efforts of people. As COPAC (2000) indicated, co-operative form of enterprises assures any group of individuals to effectively combine their resources, and create self-employment opportunities that can help them to create and/or diversify their income sources. In line with this, about 8,098 members of MPC gets agricultural inputs such as fertilizer, improved seeds, chemicals etc through their co-operatives to undertake their farming activities. Likewise, 330 members of SCC are getting financial services (saving and credit) from their co-operative to undertake various activities; while 81 members of DDC are accessing animal feeds supply and milk marketing service through their co-operative. Besides, 250 members of MC are collectively producing and selling minerals through their co-operatives, while 60 members of AGIUS are using irrigation facilities co-operatively to produce and sell various types of vegetables.

The FGDs mentioned that the services they get from their respective co-operatives helped them considerably to enhance and/or diversify their income means. About 12 (or 63.15%) of the key informants have indicated that their co-operative have created self-employment opportunities for unskilled low income people, while 9 (or 47.37%) said that self-employment opportunity is also created for unskilled middle income members. Moreover, 6 (or 31.6%), and 5 (or 26.3%) of the respondents have indicated that their co-

operatives have created self-employment opportunity for unskilled high income, and skilled low-income groups respectively. However, only 1- respondent said that self-employment is created for skilled middle and high-income people. This shows that most of the people who are engaged in self-employment opportunity created by these institutions are those from low-income group with no skill, followed by unskilled middle-income groups. Hence, this seem to confirm the vital role that co-operatives could play in opening self-employment opportunity especially for the marginalized poor section of the community, which either have no or limited employment opportunity elsewhere.

As far as the type of self-employment opportunities created is considered, it is understood from the response of the leaders and FGD that people engage in various types of activities depending on their personal interest, their prior experience and access to the necessary means such as finance. Accordingly, the various areas of self-employment engagement areas by the co-operative members are presented in Table 6, based on information from key informants/leaders, and personal observations. The response of the key informants shows that, in about 12 (or 63.2%) of the cases, co-operative members are engaged in self-employment activities such as animal rearing. Likewise, in about 12 (or 63.2%) of the case, the members are undertaking in traditional small scale poultry activities. And, in 8 (or 42.1%) of the cases, the co-operative members undertake activities such as petty trading (like preparation and sale of local drinks, and low volume grain trading); and vegetable production by using irrigations system (i.e. production of onion, tomato, potato, green pepper and the like). Besides, in 6 (or 31.58%) the members undertake activities such as buying farmland on contractual basis for ploughing, while in 5 (or 26.33%) the cases, the members are engaged in activities such as mineral productions (like sand and gravels), animal fattening, and consumer goods retail. Moreover, participation in transport service delivery by buying horse cart, production and sell of milk by buying cows, and acquisition of oxen for ploughing land are among the self-employment areas of activities mentioned by some respondents, and FGD.

**Table 6.** Summary of Self-Employment Engagements Areas by Members of the Sample Co-operatives

<i>No</i>	<i>Type of Self-employment activity indicated</i>	<i>No. of key informants who said 'Yes'</i>	<i>Percentage of response outof the total (i.e. 19 co-operatives)</i>
1	Animal fattening	5	26.34%
2	Retailing of consumer goods, mining of minerals such as sand & gravel	5	26.3%
3	Buying farm land on contract to plough	6	31.58%
2	Petty Trading such as preparing local drinks, grain retailing etc	8	42.1%
3	Production activities such as vegetables	8	42.1%
4	Animal raring such as goats, sheep etc	12	63.2%
6	Poultry	12	63.2%
7	Other types of self employment opportunities	12	63.2%

Source: Own Survey (2007)

However, there are more numbers of engagements in those areas of activities that need relatively lower amount of investment such as rearing of goats and sheep, small-scale poultry activities, petty trading (such as low volume grain retailing, and preparation and sale of local drinks), and contracting and ploughing of land. In contrast, few people are engaged in those activities that require relatively higher amount of investment such as animal fattening; consumer goods retail and the like (see Table 6). As it is recognized from the respondents and FGDs, this is because of lack of adequate money and experience/skill that enable them to venture more rewarding areas of activities.

**Table 7.** Summary of Supports Given/Role Played/ by the Study Co-operatives in Members Income Diversification Process/ Self Employment Efforts

No.	<i>The Role/Support/ of Co-operative in Members' Income Diversification Process</i>	<i>Degree of Importance of the Role played or Support Given (as perceived by the Respondent Leaders)</i>	<i>Absolute No. of Cases</i>	<i>Percentage</i>	<i>Cumulative Percentage</i>
1	<b>Creating Marketing Access for the Members' Produce</b>	Not important	5	26.3	26.3
		Slightly Important	2	10.5	38.8
		Moderately Important	4	21.1	57.9
		Highly Important	8	42.1	100
2	<b>Organizing Peoples</b>	Not Important	7	36.8	36.8
		Slightly Important	1	5.3	42.1
		Moderately Important	4	21.1	63.2
		Highly Important	7	36.9	100
3	<b>Provision of Loan Service</b>	Not important	6	31.6	31.6
		Slightly Important	6	31.6	63.2
		Moderately Important	2	10.5	73.7
		Highly Important	5	26.3	100
4	<b>Provision of Training</b>	Not Important	6	31.6	31.6
		Slightly Important	6	31.6	63.2
		Moderately Important	3	15.8	78.9
		Highly Important	4	11.1	100
5	<b>Other Supports</b>	Not Important	11	57.9	57.9
		Slightly Important	1	5.3	63.2
		Moderately Important	1	5.3	73.7
		Highly Important	6	31.6	100

Source: Own Survey (2007)

Generally, the leaders and FGD noted that the role of co-operatives in this case include: creation of marketing opportunities for the members product, organizing people for employment and resource mobilization through saving, providing credit facilities, and providing training among other things (see Table 7). For instance, 8 (or 42.1%), 7 (or 36.9) and 5 (or 26.3%) indicated creating marketing opportunity for members produce, organizing people, and provision of credit service respectively as highly important support given by their co-operatives. It is understood from the study that, the co-operatives which have



created marketing opportunity for members' produce include DDC, AGIUC, and MC. However, other co-operatives such as MPC are not performing remarkably in output marketing, though they are playing valuable role in agricultural input supplies (such as fertilizer, improved seeds, chemicals and the like).

On the other hand, all of the co-operatives that indicated loan provision as important support are from SCC. Furthermore, only 4 (or 21.1%) indicated provision of training as highly important support which implies that the performance of the study co-operatives in human resource development is very low. Moreover, in 6 (or 31.6%) of the cases, the leaders indicated other supports such as linking the members with different organizations such as NGOs and government bodies for various supports, providing inputs and the like as important. Similarly, provision of credit service, organizing people, and creating market for members' product are either not important or slightly important role played in members' income diversification process in 12 (or 63.2%), 8 (or 42.1%), and 7 (or 38.8%) of the cases respectively. This generally shows that co-operatives need to work more to better support members' self employment/livelihood diversification efforts among others.

### 4.3. Integration among Co-operatives & their Linkage Creation Roles

Under his section, the horizontal and vertical integration between co-operatives and their role in linking local community with various development actors is presented.

#### 4.3.1. Integration among Co-operatives

FDRE's Co-operative Societies Proc.No.147/98 article 5(6), which is adopted from International Co-operative Alliance (ICA) co-operative principles No.6 indicates that cooperation among co-operatives is essential in better serving their members and local communities at large. In line with this, Birchall (2004) noted that this principle equally applies both to the formation of secondary co-operatives such as unions and federations (vertical integration), and also to business clutter and network formations (horizontal integration). Likewise, Oktaviani (2004) also indicated that such co-operative cluster formation is beneficial for undertaking primary agro-processing, marketing local products, addressing financial needs, and in making joint investments etc with increased efficiency.

Despite the enormous benefits of integration among co-operatives, horizontal integration is virtually missing in all cases of the study co-operatives except minor investments made by very few multipurpose co-operatives in the share of some saving and credit co-operatives. Concerning vertical integration, 15 (or 78.9%) of the primary society surveyed are members of co-operative unions. This refers to all MPC and SCC, and three-MC. In four of the cases, there is no vertical integration of any sort at all. This applies to DDC, AGIUC, and Babogaya and Dirre MC. But, it is also understood that even the prevailing vertical integrations are not effective in promoting inter co-operative collaboration in providing the member co-operatives with adequate information and technical assistance, in carrying out various transactions with their members (except the one being carried out between MPC and their union in the area of input supply), and in promoting backward and forward linkage between the member co-operatives and other parties such as private sectors, NGOs, and the like. This is basically due to the human and material resource constraints the unions are facing,



which seem to deserve adequate, and proper attention if the co-operatives are meant to perform their level best in efficient and competitive manner.

#### 4.3.2. Linkage Creation Role by Sample Co-operatives

Co-operatives can play important role in linking the local community (the members) with different development actors. For instance, the study co-operatives (especially the MPC) have created some linkage between the local community /members/, and other stakeholders such as co-operative union (Errer union), District Agricultural Bureau, Debre-Zeit Agricultural Research Centers, NGOs (like IMPS-Ethiopia, OXFAM, VOCA), and other financial institutions such as Commercial Bank of Ethiopia, and Co-operative Bank of Oromia among others. Two sample cases are presented below to demonstrate the role of co-operatives in this regards.

##### **Sample Case-1: IPMS-Ethiopia**

One senior expert at IMPS-Ethiopia puts the importance of co-operatives in reaching out to local people as follows:

*“... to realize the basic objectives of our projects, which is Knowledge management, capacity building for private and government sectors, commodity development (such as improving inputs like grains, vegetables, animal fattening, dairy, apiculture, fruits, etc); and conducting action oriented research, we highly depend on organized people. Co-operatives are our most important local institutions through which we access local community in these regards. Currently, we are working with co-operatives in areas such as training, inputs supply and technology adoption. For instance, in the area of training, about 84 people have been selected from different co-operatives in this District and started training, which is initiated and sponsored by our project. We give them training on activities such as animal fattening, poultry, apiculture and the like. After training people, our project provides them with financial credit according to their interest. For instance, in the area of animal fattening, we provide up to 3,000 birr for purchase of two bulls, and 1,060 birr for the input to be used to fatten the animal per individual. Upto now, our project has provided a total of 119,050 birr for animal fattening to 42 people (17 females and 25 males), and the borrowers have bought about 82 bulls and fatten them. The money was given to Errer co-operative union which in turn has distributed it to the selected people through five primary level MPC. The primary co-operatives are now collecting the money from the borrowers after they sold their bulls.*

*Our project is also working with co-operatives in the area of introducing technology such as supply of improved varieties of grain seeds, vegetables, fruits; and also in creating market linkage between the community and different bodies such as government, non-government, and private sectors so as to help and ensure the improvement of productivity and marketing success of the farmers. For instance, we have organized 10 women as farmer groups and attached them with Melkasa Agricultural Research Center from where they obtained improved onion seeds through our project. The women produced onion on their own farm land, and sold their first round produce and each of them earned from 1,500 birr to 3,500 birr. Now, they have organized themselves into saving and credit co-operative to save their money, and also continued their operation for another round. Besides, we have organized some rural people and linked them with Debre-Zeit Dairy Co-operatives. They are now able to market their milk produce, which was impossible for them previously.*

*Furthermore, IPMS-Ethiopia is working with co-operatives in the area of promoting apiculture. After the necessary training is provided to the selected individuals, we provide upto five bee-keeping hives (the transitional one) to individual*

person. Currently, we have approved plan whereby 71 people from 3 honey co-operatives (i.e. Errer-sillasie, Godino, and Dankaka) are to be provided with 3-bee keeping hives each. The money will be extended after the necessary training is given to both the husband and the wife simultaneously so that they could apply it with equal understanding. The total amount of money allocated for one person is 1,407 birr, while the overall total amount of money budgeted for this purpose is about 90,316 Ethiopian birr.

For this all functions, we highly need organized people in associations like co-operatives as such associations are very essential in accessing the local community easily. Where there are no already organized co-operatives, we organize people in to co-operatives and/or other forms of associations. Otherwise, it would be very difficult for us to implement our project in the absence of such organized community. Hence, co-operatives are our important stakeholders in executing our project objectives in a way that could reach the grass-root beneficiaries”.

### **Sample Case-2: Debre-Zeit Agricultural Research Center**

The head of Agricultural Extension Department of Debre-Zeit Agricultural Research Center puts the importance of Co-operatives in reaching local community as follows:

“...Co-operatives are one of our important stakeholders with whom we work in the area of technology diffusion. We work with co-operative union and agricultural bureau in defusing technologies such as improved grain seeds. Currently, we are working with co-operatives in the area of replication of durum wheat seeds, chickpea seeds, and improved hybrids of chickens (poultry farming) activities. We work in these areas with co-operatives from the very beginning of designing stage to production and marketing activities.

For instance, in the area of improved seeds replication, co-operative union sign agreements with the District Agricultural Bureau, and take first generation seeds/basic seeds/ from our research center and distribute it through primary co-operatives to those farmers who are willing to replicate it on their farm land, and the District Agricultural Bureau make the necessary follow up and provide technical assistance during the replication process. Then, co-operative unions collect the replicated seeds from farmers, purify it, and redistribute it back to farmers through primary level co-operatives on partial credit basis. The co-operative unions finance the credit with the loan from commercial banks and co-operative banks. The primary co-operatives later on collect the remaining balance from individual farmers after harvest.

Hence, working with co-operatives is important in facilitating contact with farming community at the grass root level, in properly addressing their needs and in providing proper solution to their problems, and also in enhancing the participation of farmers in such development endeavors. However, the potential of co-operatives in the aforementioned technology diffusion activities is yet to be realized”.

## 5. The implications of co-operative performance for Local Economic Development (LED)

Under this section, the implication of co-operative performance for local economic development is briefly analyzed in connection with resource mobilization and capital formation, employment generation/communities' livelihood diversification, and linkage creation roles.

### 5.1. resource mobilization and capital formation by co-operatives: Implications for LED

Co-operative types of associations could play central role in mobilizing resources for local economic development, if they are democratically organized and managed. The study revealed that, though it is not adequate, the sample co-operatives mobilized some local resources such as human and financial by promoting the participation of [local] people in development, and by pulling their meager resources together for better use. Besides, they also have attracted resources from elsewhere outside the locality in the form of loan, donation and other means. If used productively, such resources would have far reaching multiplier effect on local economic development. It could encourage local business development both inside and outside agriculture, and thereby promote the diversification of economic activities at local level and generate more employment opportunities. Furthermore, it can promote investment in social infrastructures such as roads, health centers, schools, and other socio-economic institutions, that are basic in attracting more resources (investment) either locally and/or from elsewhere for local development.

### 5.2. Employment creation by co-operatives: Implications for LED

Employment creation is one of the most crucial issues in developing countries like Ethiopia, where unemployment rate is very high. It has multifaceted benefits such as improving the income and livelihood of local community, generate more revenue for government (through income tax), and thereby promote local economic development. Co-operatives can create employment by promoting local investment, by cultivating endogenous micro and small enterprises, and by attracting other business from elsewhere to the locality. The growth of such local enterprises is very essential in enhancing the forward and backward linkage between different sectors and actors, and also in better utilizing the local human and material resources for the sustainable development of a locality.

In this regard, the performance of the study co-operatives can be considered as a good start, but far from being adequate. As noted by key informants and FGD, some local communities (the members) are now enabled to acquire different assets of their own like residential house, and other livestock such as goat and sheep; while some of them have also engaged in activities such as farming by contracting farmland, and in micro and small scale business activities. Hence, enhancing and sustaining such roles of co-operatives is essential to unleash the enormous potential in this regards.

### 5.3. Linkage creation by co-operatives: Implications for LED

According to ICA (2005), co-operatives can work with each other, and with other development actors at all levels (local, national, regional and international) by forming functional cooperation and partnership. This

enables them to better serve their members, and the development of a given area. In this regard, the study reveals that the sample co-operatives are performing well in linking the rural local community with urban centers, and also with various other development actors such as research centers and financial institutes, and with government and NGOs both within and outside the locality. Through such linkage, local people are getting better opportunities for various input and output markets, access to improved technologies, and finance among others. Thus, if scaled-up and sustained, such forward and back ward linkage between various sectors and actors helps to initiate more business activities, generate more employment opportunities, improve the livelihood of local people, and thereby stimulate broad based local economic development.

## **6. Conclusion and policy recommendations**

The study was conducted with the main objectives of assessing the performance of co-operatives in stimulating local economic development in general, and in improving the livelihood of local community in particular. Accordingly, it assessed the roles being played by the sample co-operatives in mobilizing resources and making investment, in promoting employment and livelihood diversification, and in creating partnership and linkage between local community and other development actors among other things. Besides, attempt was made to investigate and analyze the challenges that faced co-operatives in these regards. To this end, a case study of nineteen (19) rural and semi rural co-operatives was made using primary and secondary data. The result of the study shows that, co-operatives are performing well in linking local community with other different development actors such as government, non government, research, and financial institutions among others; though the collaboration/integration between co-operatives themselves is not visible as such. Besides, their performance in mobilizing local resources, in promoting self employment and livelihood diversification sounds a good start. However, in terms of capital formation (investment) and direct employment creation, their achievement looks very meager.

Generally, the enormous potential of co-operatives in the aforementioned areas is being constrained by myriads of challenges. Some of the major constraints are resource shortage (such as human, financial, material, technology, and information), inadequate awareness and commitment of members together with high gender disparity, lack of qualified and visionary leadership and poor governance, and absence of continuous and relevant training. Besides, operational inefficiency due to lack of co-operative business experiences, stiff competitions from market, and inadequate technical support from government, and absence of appropriate apex organ such as co-operative federation are among the challenges that have continued to hinder the performance of co-operatives. To unleash and sustain the potential of co-operatives, addressing these hosts of problems seems requisite. Hence, in light of the findings, the following policy recommendations are forwarded

- ♦ Enhance the awareness and commitment of members and leaders through continuous and relevant training, advocacy works using different medias, and experience sharing opportunities; and promote equal participation of males and females in co-operatives,

- ◆ Support their resource mobilization and investment efforts by easing access to financial services, land, information, and other basic resource; and provide necessary technical and professional supports like audit and advisory services,
- ◆ Increase their business scale and operational efficiency along with improved market access/network,
- ◆ Address co-operative governance problems, establish essential higher co-operative organ such as co-operative federation, and strengthen the horizontal and vertical collaborations between co-operatives themselves; and also scale up and sustain their linkage with other development actors

## Acknowledgments

This research work would have not been successfully completed without the unreserved assistance and cooperation of resourceful persons and institutions. First and for most, I owe a special thanks to Institute of Regional and Local Development Studies (RLDS) of Addis Ababa University for financing this research work. Likewise, my sincere gratitude goes to Federal Co-operative Agency, Oromia Co-operative Promotion Bureau, Ada'a Woreda Co-operative Promotion Bureau, Ada'a Woreda Agricultural Bureau, Ada'a Woreda Administration Office, Debre-Zeit Agricultural Research Center, IPMS-Ethiopia, members and leaders of the study co-operatives, and key informants for providing me with the necessary support, information and cooperation. Last, but not least, my profound gratitude goes to my families and friends who have valuably contributed towards the successful accomplishment of this research.

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## Acronyms and Abbreviations

<b>AGIUC</b>	Alpha-Goa Irrigation Users Co-operatives
<b>COPAC</b>	Committee for the Promotion and Advancement of Co-operatives
<b>CSA</b>	Central Statistical Authority
<b>DDC</b>	Debre-Zeit Dairy Co-operatives
<b>FCA</b>	Federal Co-operative Agency
<b>FDRE</b>	Federal Democratic Republic of Ethiopia
<b>FGD</b>	Focus Group Discussion
<b>FGDs</b>	Focus Group Discussions
<b>GDP</b>	Growth Domestic Product
<b>ICA</b>	International Co-operative Alliance
<b>ILO</b>	International Labor Organization
<b>IMPS</b>	Improving Productivity and Marketing Success
<b>LED</b>	Local Economic Development
<b>MC</b>	Mineral Producers Co-operatives
<b>MoFED</b>	Ministry of Finance and Economic Development
<b>MPC</b>	Multi-Purpose Co-operatives

- NGOs** None Government Organizations
- OXFAM** Oxford Committee for Famine Relief
- PS** Purposive Sampling
- RLDS** Regional and Local Development Studies
- SCC** Saving and Credit Co-operatives
- SPSS** Statistical Package for Social Science
- SRS** Simple Random Sampling
- VOCA** Volunteers in Overseas Co-operative Assistance