

## **Agricultural Cooperatives in Ethiopia (ACE)**

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### **Context:**

Cooperation is an age-old tradition that runs through the fabric of Ethiopian society. For centuries, the spirit of self-help has been an integral part of farming communities. However, despite the existence of 4,052 agricultural cooperatives in Ethiopia, with a membership of 4.5 million, smallholder farmers continue to be under-served, exploited and marginalized. Since the coming to power of the present government in 1991, Ethiopia has been undergoing major political and economic changes. The authoritarian, centrally planned and controlled economy of



the previous two decades is being replaced by more democratic, decentralized and free-market economic development, with food security and self-sufficiency amongst the highest government priorities. In line with the government's plan to privatize business and industry, ACDI/VOCA<sup>1</sup> with USAID funding is helping to restructure these cooperatives to become farmer owned and controlled, democratic and transparent.

### **Activities and Impact:**

Since 1997, ACDI/VOCA has worked through existing structures to empower the smallholder farmers of Ethiopia to benefit from forming competitive, profit-oriented and professionally managed cooperatives. ACDI/VOCA began by working with the Lumme-Adama Farmers' Cooperative Union in East Shewa to provide advice on marketing and business management, procedural issues, accounting, and record keeping. The Union was encouraged to initiate a bidding process for inputs, which reduced the price of fertilizer to all cooperatives in the district and saved its member cooperatives approximately \$175,000. Cooperatives in other districts subsequently formed buying groups to follow the bidding process used in Lumme-Adama, and now four new district-level cereal cooperative unions have been established. As a direct result, the smallholder price of fertilizer has been reduced substantially, resulting in savings of almost \$4,000,000.



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<sup>1</sup> ACDI/VOCA is a private, non-profit international development organization which provides technical assistance, training and managerial support in emerging markets and developing countries. Owned and supported by the largest grower-owned supply and processing cooperatives and farm credit banks in the United States, ACDI/VOCA has 38 years experience in 127 countries around the world. ACDI/VOCA currently has programs in almost 40 countries.

The Lumme-Adama Union has also bought and stored grain from primary cooperative members, and has purchased tractors to provide mechanized plowing and hauling services for members. Extensive training in cooperative management has been given to union managers and staff, and to local cooperative members. All four unions, as well as 24 primary societies, have hired professional managers.

In January 2000 ACDI/VOCA, in collaboration with the Regional Cooperative Promotion Bureaus, launched a five-year extension of the on-going cooperative development effort to benefit small-scale farmers in the four major regions of Ethiopia: Oromia, Tigray, South and



Amhara. The Agricultural Cooperatives in Ethiopia (ACE) program is supporting the establishment of secondary level unions, allowing members to take advantage of economies of scale in purchasing and marketing. ACE, currently working with 85,800 farm families, focuses on training at all levels of the cooperative community from farmers, cooperative directors and managers to government and cooperative bureau staff. Cooperative managers are being trained in improved management practices, and personnel of the Regional Agricultural Cooperative Bureaus are acquiring the skills to extend improved management techniques to unions and cooperatives.

Until now, farmers have had little access to credit to fund crop marketing activities, but with support from USAID's Development Credit Authority, ACE supports a loan guarantee facility (LGF) for smallholder cooperatives. Using USAID funds to provide a guarantee of 50 percent of net losses, the Bank of Abyssinia (BoA), made \$625,000 in local currency available to cooperative unions to purchase grain from their member cooperatives to market for them when prices were more favorable. On-time repayment in the first year was 100 percent, prompting the BoA to double the crop finance facility to \$1,250,000, and the unions have recently announced their second season of 100 percent loan repayment. The LGF has enabled cooperative unions to pay regular annual dividends to their member cooperatives for the first time and is expected to engage other private commercial banks in the course of its five-year life span.

The Oromia Coffee Farmers' Cooperative Union, launched in June 1999, requested and received permission from the government to become a direct exporter of its members coffee bypassing the central auction and giving more control and market share to the producer. With ACDI/VOCA assistance, the union – representing 21,891 coffee growers – last year exported 181 tons of coffee directly to specialty buyers in Europe and the US. Having received organic certification and registration with the Fair Trade Labeling Organization – both of which attract significant price premiums – the union expects to export over 500 tons to specialty buyers this season. In July 2001, ACDI/VOCA assisted the Sidamo area of Southern Region to form the Sidama Coffee Farmers Cooperative Union comprised of 39 primary cooperatives with approximately 85,000 farmer members.



In addition to the promotion of member-owned and controlled cooperatives and unions, ACE is establishing rural savings and credit cooperatives, promoting value-added products, increasing women's participation in cooperatives, raising environmental awareness, and improving natural resource management at the farm level.

The program has also partnered with DKT to raise awareness concerning HIV/AIDS through a series of cooperative-based Health Days, which will include informational materials, song and drama to pass on simple health messages, and will have health workers available on site for consultations. Locally appropriate materials have been developed for training staff members and cooperative officers.

### **Sustainability:**



By promoting democracy, member accountability, and a market orientation within cooperatives, ACIDI/VOCA is helping them become financially and institutionally self-sustaining. By developing market linkage and internal training capacity at the union level, it ensures that cooperatives have the ability to continue to develop business skills and to propagate themselves without dependency on an external institution. In addition, by building the capacity of the Regional Government cooperative promotion offices, ACIDI/VOCA is contributing towards a supportive and consistent regulatory environment. The economic successes of restructured cooperatives, together with strong local unions and government facilitation, are encouraging other cooperatives to embrace the same democratic and free market principles.

### **Lessons Learned:**

- *Cooperatives must be farmer-owned and controlled.* In order to be successful, cooperatives must be supported by their members through direct investment and control. This direct support is the best measure of how well cooperatives are functioning as a rural institutions. Cooperatives that do not meet the needs of their farmer members do not receive support.
- *Cooperatives require the informed involvement and decision-making of members.* The need for informed member-participation in decision-making through voting and standing for election to the board and other committees is a spur to on-going education. As cooperatives become functional businesses, members become self-motivated in identifying areas of further education and technical assistance that they require.
- *Cooperatives can adapt to the changing needs of their membership.* As farmer-members gain access to information and increase their business skills and capacity, cooperatives are able to adapt their operations to meet farmers changing needs by expanding their product lines, developing value-added processing, or moving into entirely new types of business.
- *Cooperative Unions build scale.* In addition to delivering training and technical assistance to member cooperatives, unions provide the opportunity for increased integration of markets and increased empowerment of farmers in terms of regional and national influence.
- *Cooperatives can be restructured.* In a conducive enabling environment, with sufficient member awareness, training and support, even top down cooperatives can be restructured and reoriented so as to serve their members.

### **Field Responses:**

“The legislature thought cooperatives were communist, the farmers thought they were governmental entities, and the professionals were convinced that they just won’t work.”

- Tewodros Fesseha, ACIDI/VOCA’s Senior Program Officer.

“Cooperative members in the past were forced to sell their farm products at low prices on a quota system and give their sons and daughters for the war in the north. But today you are giving us a dividend for the product we sold to the cooperative. According to our tradition, we simply say to you, God bless you.”

- Member of Lumme-Adama Cooperative

“The Cooperative Promotion Bureau in Ethiopia, supported by ACIDI/VOCA with USAID funding, is revolutionizing the cooperative movement in Ethiopia. Cooperatives under the previous command economy regime were characterized by mismanagement, corruption and embezzlement. Farmers were exploited and marginalized from their efforts. The new model cooperatives currently being promoted by the government and ACIDI/VOCA are democratic, business-oriented and professionally managed with increased income to member farmers as the primary objective.”

- Zerihun Alemayehu, Head of the Cooperative Promotion Bureau in the Prime Minister’s Office