



## Exploration of the Role of Ethiopia Cooperative Unions in Rural Development and their Challenges

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Abstract	Article Information
<p>The study is designed to investigate the role of Ethiopian cooperative in rural-urban development and exploring the challenges. The study used in-depth interview, extensive discussion and observation for data collection from sample cooperative unions. Secondary data also used for analysis of the contribution of cooperative in development. It is found that cooperative development instigated in 1960s in Ethiopia and progressed from time to time now reaching 71,249 primary cooperative with members of 12.8 million, cooperative unions initiated in 1990s and now attaining 353 and their capital has grown from 9.9 million to 12.3 billion Ethiopian birr. These flourished cooperative unions; second level of cooperative movement in Ethiopia are grown to serve members from both urban and predominantly rural community by establishing and running 499 industries and factories in different towns of the country that serving and maintain linkage among towns and rural communities. The result reveals those cooperatives creating 181,133 salaried and 621,619 self-employment opportunities for both for urban and rural citizen of the country. Cooperative mobilized 12.3 billion birr capital through promoting thrift, mobilize membership share capital and retained earnings from business which are re-invested in urban area for benefiting members which also contributing for urban development. Besides these cooperative promoting democratic management through application of international cooperative principles and accepted cooperative governance pillars; accountability, transparency, participation and integrity from which the urban development shared experiences. According to the study, absence of comprehensive cooperative policy, inadequate cooperative finance and member participation, capacity of cooperative leadership and management, low stakeholders awareness are found to be challenges of cooperatives in Ethiopia to discharge their effort in urban development. The study put setting of complete policy and strategies that provide roadmap for cooperative development; sensitizing urban stakeholders, sustainable capacity building, professionalize cooperative business particularly and collaborative research as a future direction to tackle the challenges and strengthening role of cooperative in urban development and enhance economy of the country as a whole.</p>	<p><b>Article History:</b></p> <p><b>Received</b> : 02-01-2017</p> <p><b>Revised</b> : 24-03-2017</p> <p><b>Accepted</b> : 26-04-2017</p> <p><b>Keywords:</b></p> <p>Cooperative</p> <p>Rural-urban linkage</p> <p>Development</p> <p>Ethiopia</p> <p><b>*Corresponding Author:</b></p> <p><b>Asfaw Temesgen</b></p> <p><b>E-mail:</b></p> <p><a href="mailto:asfaw.tembari@gmail.com">asfaw.tembari@gmail.com</a></p>

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### INTRODUCTION

Cooperation has been as long as human history. Indeed, people have undertaken activities in group rather than individual action for effectiveness and this way is more economic. This form of doing activities assumed to advocate for modern cooperative movement in the world which had given attention to formation of cooperative society to counteract exploitation by capitalists during mid 19<sup>th</sup> century. However the word "cooperative" is can be applied to many type of group activities, the term is refers to formal business model which has got its origin in 19<sup>th</sup> century however the earliest cooperatives associations were created in the different parts of the world since 17<sup>th</sup> century (Zeuli and Cropp, 2004).

In modern perspective, scholars have defined cooperative societies in different ways. It is legally incorporated organization with an enduring existence

based on the principle of working together. In the sense of business, it is defined as a business owned and democratically controlled by the member users. But the universally accepted definition of cooperative is the one given by International Cooperative Alliance as "cooperative is 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" (ICA, 1995). This indicates that cooperative is open for all regardless of social, cultural, religious and other difference among the people but living in the same area with similar socio-economic problems.

Cooperation among people and communities is an inherent element of many cultures and has existed for many decades in various urban and rural economies of

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Africa. Likewise the people of Ethiopia have got a very long social history of working together to fulfill their socio-economic needs (Bezabih, 2012). This working together in Ethiopia is in the form of traditional cooperation in urban and rural areas of the country that give rise for the development of modern cooperative movement in 1960s.

Cooperative society are service motive business associations organized by people voluntarily for solving socio-economic problems of the members and subsequently contributes for alleviating problems of the community in the area (Krishnaswami and Kulandaiswamy 2000 and Tchami, 2007). Cooperatives are also democratic organizations 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. Cooperatives members have equal voting rights for passing decision in every aspect of cooperative affairs (Smith, 2004). Thus; cooperative business model is intended to practice participatory decision making to maintain the core principle of good governance. This signifies that good governance is hallmark of cooperatives.

Cooperatives are community-based, rooted in democracy, flexible, and have participatory involvement, which makes them well suited for economic development. Thus people get organized in cooperative to capture different opportunities in addressing people's economic needs and aspirations by cooperative efforts (Chambo, 2009). Smith, (2006) pointed out that; cooperatives can be formed in any sector of the economy of a country especially in urban in the area of employment creation, finance mobilization, industries and service area.

### Statement of Problem

Cooperatives are a collective action to solve problems of members in urban and rural to facilitate members' access to resources, information, knowledge and extension services for improving productivity and product quality; markets for farm input and output. Cooperatives are working in capacity building of rural community through training, credit service, consumers' good services rural job opportunity and other initiatives (Koopmans, 2006 and Chambo, 2009). By the same token, according to Verakumera (2007) many social events are still taking place in rural and also urban Ethiopia through collective endeavor through cooperatives. Tiegist, (2008) and Bezabih, (2012) noted that in Ethiopia, overall, cooperatives have become increasingly important to individual members, the community, the business sector and the national economy. Nevertheless, most of the studies on African cooperatives up to the 1990s subsequently concluded that they were performing poorly partly due to this dependent relationship with the state that undermined their operation as business enterprises (Develtere et.al, 2008).

Nowadays, According to cooperative promotion recommendation number 193/2002 cooperatives can be organized in every sector all over the world (International Labor Organization, 2002) and 1 billion members in the world and half of world population benefited from cooperative directly or indirectly and there are more than 100 million payrolls 85% of private business enterprise jobs. Study by Bezabih (2012) and reports of Federal Cooperative Agency (2016) indicate contribution of

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cooperative in development however not indicating in relation to rural-urban linkage in development. Therefore, this paper intends to analyze the role of Ethiopian cooperative societies in development linkage through industrialization, job creation, finance mobilization, promoting good governance and rural-urban linkage in Ethiopia. The general objective of the paper is to investigate the significance of Ethiopian cooperatives in in urban development. The study is emphasizing on exploring the contribution of Ethiopian cooperative in rural-urban development focusing on industrialization, job creation, finance mobilization, promoting good governance and rural-urban linkage. Thus the study has significant implication for local governments and policy makers to promote and support cooperative development so as enhancing rural-urban linkage.

## MATERIALS AND METHODS

### Research Design

The research used explorative study to examine role of Ethiopian cooperative societies in urban rural-development and using mixed qualitative and quantitative research approach.

### Types and Source of Data

The study used both primary and secondary data which are qualitative and quantitative in their nature. Primary data were collected from sample cooperatives to explore role of cooperatives in rural-urban linkage development. The secondary data collected from sample cooperatives and federal cooperative agency to support the primary data.

### Data Collection Methods

Primary data were collected using through in-depth interview of the board of directors and managers of the sample cooperative and by intensive discussion with focus group discussion. Observation by exposure visit of sample cooperative unions also used to collect primary data. Secondary data were collected from sample cooperatives through thorough document review respective sample cooperatives.

### Sampling Method and Sample Size

The study used multistage sampling procedure. At first stage, three regions; Oromia, Amhara and South Nation, Nationality and People, were selected for their predominant (75%) in cooperative unions development. Secondly, agricultural and saving and credit cooperative unions were selected for this study for they are dominant cooperative unions in Ethiopia. Thirdly, specific cooperative unions were selected purposively for their overall performance in business.

From these three regions, ten cooperative unions which are established in urban and metropolitan area serving rural and urban community were proportionally selected for exposure visit and data collection. The sampled cooperative unions are:

- ✓ Oromia state: Oromia Coffee Farmers Cooperative Unions (FCU), Becho-woliso FCU, Lume-Adam FCU, Selale Dairy FCU and Abdi Gudina Saving And Credit Cooperative union
- ✓ Amhara state: Wadera FCU, Tsehay FCU and Lidet Saving and Credit Cooperative Union
- ✓ South Nation, Nationality and People state: Sidama FCU and Netsanat Fana Saving and Credit Cooperative Union.

The 10 Managers of the sample cooperatives were selected as key informants for interview during exposure visit. 10 Cooperative leaders (board chair persons) of the these sample cooperatives participating cooperative development conference organized by Federal Cooperative Agency at Adama in 2015 were selected as focus group discussion to explore contribution of cooperatives for development in Ethiopia and their challenges.

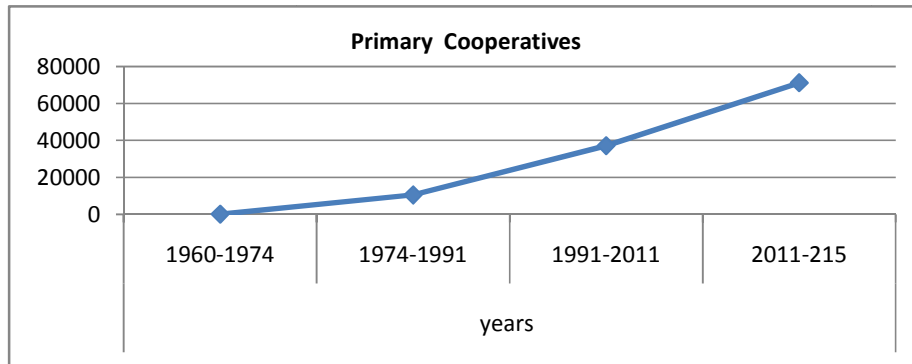
**Data Analysis**

The collected data were analyzed by using descriptive statistics and the results were presented by frequency, table and graphs. Qualitative data explored by observation, interview and discussion were interpreted to support the descriptive results. Inferential statistics also used to infer the results to the national perspective.

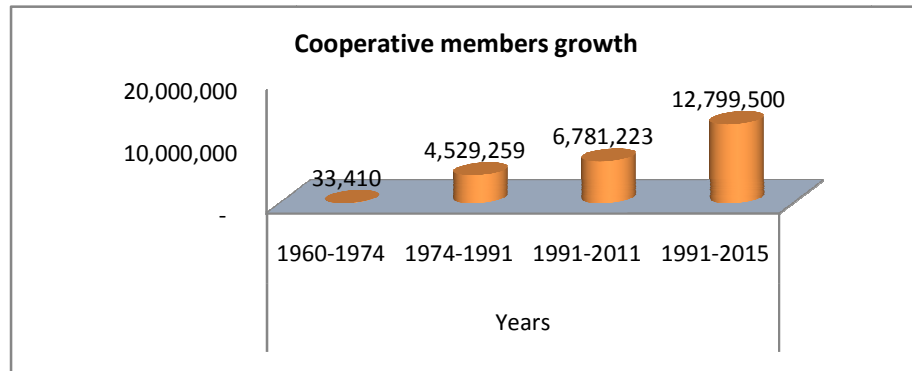
**RESULT AND DISCUSSION**

**Cooperative Development in Ethiopia**

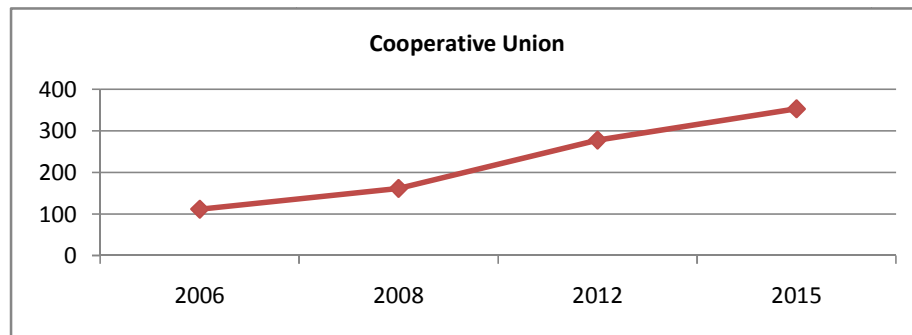
Concerning cooperative development, the modern seeds of cooperative in Ethiopia were germinated in 1960 when the first Cooperative Societies decree 44/1960 was enacted for establishing and promoting cooperative societies (Teigist, 2008 and Bezabih, 2012). Having this in mind, data from Federal Cooperative Agency (2015) were analyzed to provide cooperative development trends in Ethiopia. Accordingly, primary cooperative societies have been grown from 158 in 1960s to 71,249 in 2015. Cooperative unions initiated in 1998 and are grown to 333. Individual members of cooperative have been grown from 33,410 in 1960s to 12.8 million in 2015. Capital of the primary, secondary and tertiary cooperatives has grown from 9.9 million to 12.3 billion Ethiopian birr from 1960s to 2015 (Figure 1-3).



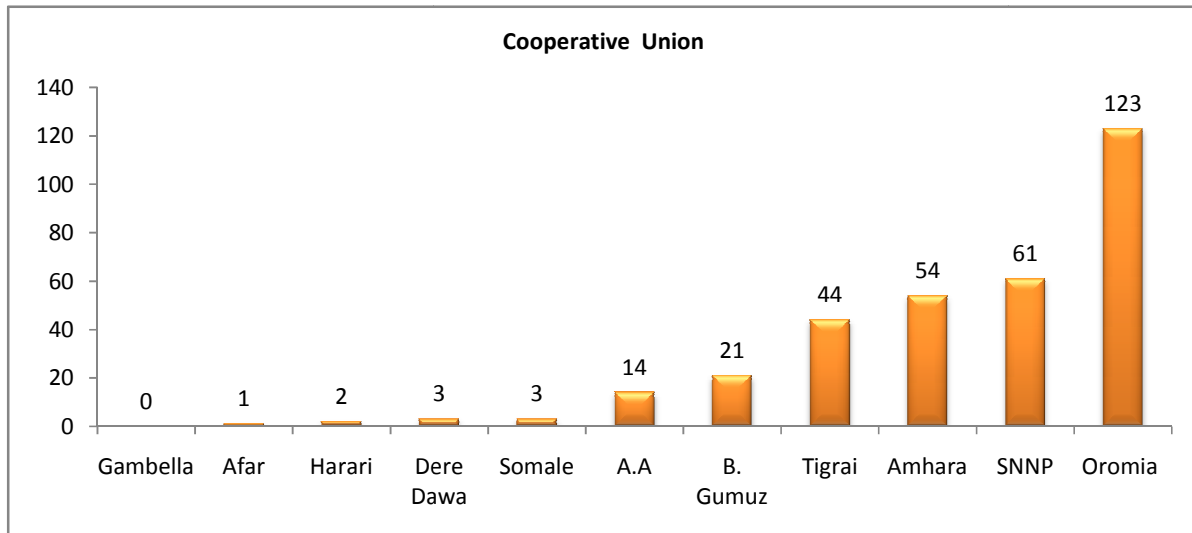
Sources compiled from (FCA, 2015)  
**Figure 1:** Primary cooperative development trends 1960-2015



Sources compiled from (FCA, 2015)  
**Figure 2:** Members of Primary Cooperative growth in number



Sources compiled from (FCA, 2015)  
**Figure 3:** Trends of development of cooperative unions



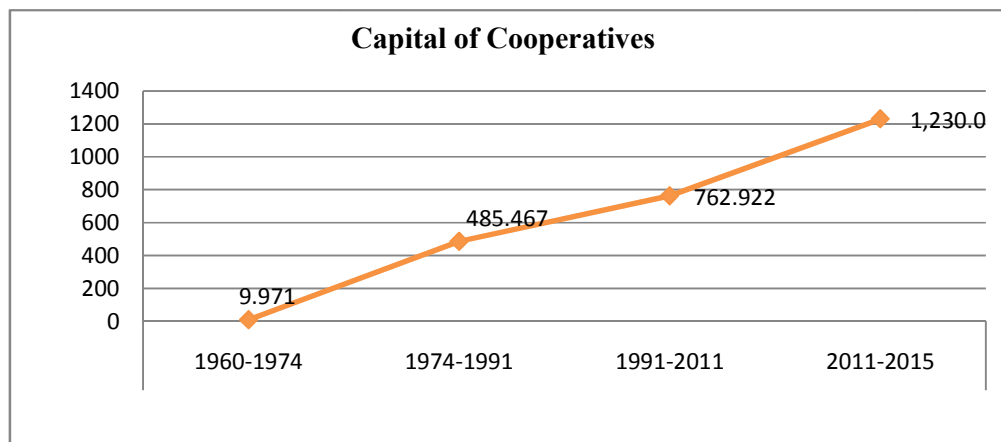
Sources compiled from (FCA, 2015)

**Figure 4:** Distributions of cooperatives over the regions of Ethiopia

As it can be seen from figure 4 majority of both primary cooperatives and cooperative unions found in Oromia region 30.6% and 37.7% respectively followed by Addis Ababa City administration in both forms of cooperative the least is Harari region for primary cooperative and Gambella region for cooperative union.

**Growth in Capital**

Capital mobilization is decisive for cooperative to adequate services for member. In the similar manner with the cooperative societies and the members' growth the capital of the cooperative also grown (Figure 3)



Source computed from Federal cooperative Agency (2015)

**Figure 5:** Capital growth of primary cooperative

The figure shows that the capital of cooperative societies of Ethiopian grown from 9.971 million birr during its first phase of development (imperial time) to 12.3 billion birr in 2015 used to expand business consequently contributed in development of the country (Figure 5).

**Role of Ethiopian Cooperative Societies in Rural-Urban Development**

**Contribution in Industrial Development**

Cooperatives are introducing agro-processing industries and farm machineries in 2005-2015 to serve the members and add value on products of the members. The cooperatives under study establishing varieties of industries in cities and small towns and metropolitan in their operational area (Table 1)

These are farmers cooperative unions, establishing diversified agriculture related industries and factories in urban and metropolitan areas contributing for industrializing towns as a result underlying urban development and pooling products for processing from rural area that links both in marketing and technology introductions.

Data from Federal cooperative Agency confirmed that, cooperative unions established 209 Small and medium food and feed processing industries; 259 Seed and grain processing and cleaning; 17 Factories and 14 other industries and total 499 industries/factories in different small town and urban areas of Ethiopia. The following table 2 summarizes the industries established and run by cooperatives in Ethiopia.

**Table 1:** Industries and factories established and run by sample cooperative unions.

Regional State	Sample Cooperative Unions	Town	Established Industries
Oromia	Oromia coffee FCU	Gelan (A.A.) and woreda towns	154 wet coffee pulping 29 dry coffee huller industries and 3 coffee processing and assembling factory
	Becho-woliso FCU	Tullu Bollo	1 fertilizer blend and 1 PP bag factories
	Lume-Adama FCU	Mojo	1 Flour mill factory and 1 grain cleaning)
	Selale Dairy FCU	Sululta (A.A)	1 dairy product processing factory and 1 livestock feed processing industry
Amhara	Tsehay FCU	Gonder	1 seed cleaning and assembling for export livestock feed processing, spices processing industries
	Wadera FCU	Debre Berhan	flour milling factory and livestock feed processing
SNNP	Sidama coffee FCU	Hawassa and woreda towns	5 Coffee cleaning and pulping industries

Source: researcher observation, 2015

**Table 2:** Farm machinery and industries owned by cooperatives

Categories	Industries/factories	Quantity	
<b>Small and medium Food and feed processing industries</b>	Edible oil pressing industries	4	
	Livestock feed processing	24	
	Fruit and vegetable processing	2	
	Milk processing	120	41.9%
	Honey canning	58	
	Spices processing	1	
	<b>Total</b>	<b>209</b>	
<b>Seed processing and cleaning</b>	Sesame cleaning	5	
	Dry coffee cleaning	140	51.9%
	Wet coffee pulping and washing	114	
	<b>Total</b>	<b>259</b>	
<b>Factories</b>	Coffee cleaning and processing	3	
	Flour factories	8	
	PP Bags factory	1	3.4%
	Fertilizer blending factories	5	
	<b>Total</b>	<b>17</b>	
<b>Other industries</b>		<b>14 (2.8%)</b>	<b>Cumulative 499</b>

Source FCA, 2015

These reveal that cooperatives in Ethiopia are contributing in establishing and running different industries and factories to improve services and benefits of members from mostly rural area. Consequently, for the fact that these industries are established in the urban and metropolitan areas of the country they are contributed urban industrialization and introduction of technology even have essential role in supporting the government program of structural change of the economy from agriculture to industrial led economy.

According to the results from key informant interview and focus group discussion, resource for theses established industries and factories in towns are mobilized from farmers and hence it strengthen linkage amongst rural and urban areas and absorb work forces in the development of the country. The following are some of the industries established by cooperative that the researcher observed during exposure visit organized by federal cooperative Agency for university cooperative lecturers in 2015.

#### Employment Opportunity

Cooperatives provide employment for its members and payroll employees. As it can be seen from table 3 below,

sample cooperative created job opportunities for 2,438 salaried employees and 13,913 casual employees.

The result reveals that cooperative unions are great opportunity in creating employment for the citizen mostly urban and improving their livelihood. The result from group discussion and interview indicate that most of these cooperative employees are from urban and metropolitan area.

This is also justified by the secondary data from Federal Cooperative Agency that Ethiopian Cooperatives provide self-employment opportunity for 621,619 citizens in both urban and rural areas in the field artisan, irrigation mining, and beekeeping etc cooperatives. Cooperative in Ethiopia also created 181,133 jobs across the country. This employment opportunity of cooperatives is contributing for reducing unemployment rate predominantly in urban and town. Again according to result from key informants and focus group discussion, resource mostly mobilized from rural community to run business for serving members that also serve as payroll job opportunity mostly from urban that enhance rural-urban linkage in the development.



Figure 6: Established industries and factories

Table 3: Employment opportunity by the cooperatives

Regional state	Sample coop unions	Salaried employees	Causal employees
<b>Oromia</b>	Oromia coffee FCU	1852	13200
	Becho-woliso FCU	302	277
	Lume-Adama FCU	35	76
	Selale Dairy FCU	70	30
	Abdi Gudina Saving and Credit Coop Union	32	0
<b>Amhara</b>	Tsehay FCU	34	65
	Wadera FCU	34	120
	Lidet Saving and Credit Coop	15	0
<b>SNNP</b>	Sidama coffee FCU	45	150
	Netanet Fana Saving and Credit Coop	59	0
	<b>Total</b>	<b>2,438</b>	<b>13,913</b>

Source sample cooperative unions, 2015

**Financial Mobilization**

In general speaking cooperative basically raise internal fund for running business. From this perspective, the sample cooperative unions created a capital of 690.8 million birr which has a role in national investment (see table 4).

According to the result the mean capital created by the cooperative union under study is 69.1 million and this

result also supported by data from federal Cooperative Agency that Ethiopian cooperative created overall capital of 12.3 billion Ethiopian birr. As per the view of key informants and focus group discussion, the capital mostly mobilized from rural are and most likely invested in the urban area to serve the member both in urban and rural area. Consequently, maintaining the linkage between urban and rural community contributing for national development. The result from key informant interview and

discussion indicate that cooperatives mobilized this capital by promoting thrift culture among members and community, mobilizing membership share capital and

accumulate earning from business which are re-investing in urban and small town contributing for urban development.

**Table 4:** Mobilized finance by the sample unions

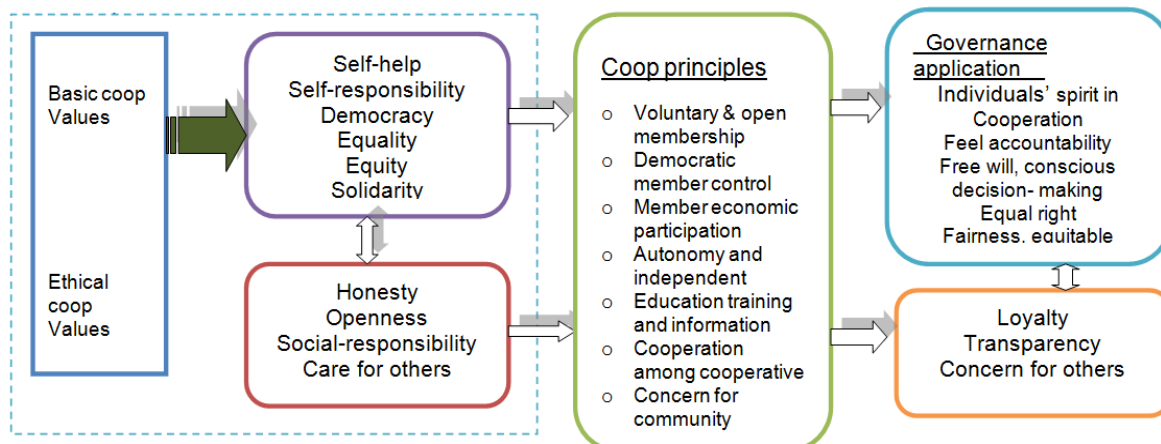
Regional state	Sample coop unions	Capital (million)	
Oromia	Oromia coffee FCU	286.7	62.0%
	Becho-woliso FCU	58.9	
	Lume-Adama FCU	32.0	
	Selale Dairy FCU	20	
	Abdi Gudina Saving and Credit Coop Union	30.4	
Amhara	Tsehay FCU	32	18.6%
	Wadera FCU	44.4	
	Lidet Saving and Credit Coop	52.3	
SNNP	Sidama coffee FCU	100	19.4%
	Netanet Fana Saving and Credit Coop	34.1	
Total		690.8	
Average		69.1	

Source sample Cooperative Union, 2015

**Promote Good Governance**

Cooperative societies are practicing good governance in management and business operations by applying internationally accepted cooperative principles and values. Because of this cooperative exercising good governance pillar such as transparency, accountability, integrity, participation, equity, loyalty respect law such as its bylaw and other laws. The results from key informants, focus group discussion and observation indicate that

sample cooperative unions are strengthening democracy through participatory and one member-one vote decision, empower member for that the cooperative are member owned and member controlled, practicing fairness through maintaining equity and equality, and fair price on services by applying balance marketing system the following figure provides the good governance indicators applied by cooperative and cooperative principles.



Source Author (2015) from literature review and study result

**Figure 7:** Cooperative good governance conceptual frameworks

Because of application of good governance in cooperative business and management cooperative contribute to create a citizen who respects good governance mostly in urban area to discharge ones responsibility in community affairs.

The overall contributions of cooperative for development are summarized as in the following figure 8.

**Challenges of Ethiopian Cooperatives**

By intensive in-depth interview, extensive discussion and review of federal cooperative agency and sample cooperative unions' reports, the following challenges of the cooperative are identified.

**Cooperative Policy:** There is no comprehensive cooperative policy of Ethiopia; the cooperative

proclamation was enacted preceding cooperative policy. Even the cooperative society proclamation No. 147/1998 is missing provisions to establish cooperative bank, cooperative insurance and cooperative fund management to promote and support cooperative management. In addition there is no consideration of cooperative proclamation when passing allied laws like trade policy (proclamation)

**Inadequate Finance:** Cooperatives in Ethiopia are established with small share capital and general small internal cash flow for the cooperative is not-for-profit. It is also challenge to obtain loan for business operation and investment since there is not expanded cooperative bank on one hand and on other hand commercial banks' lending policy is not convenient for cooperative

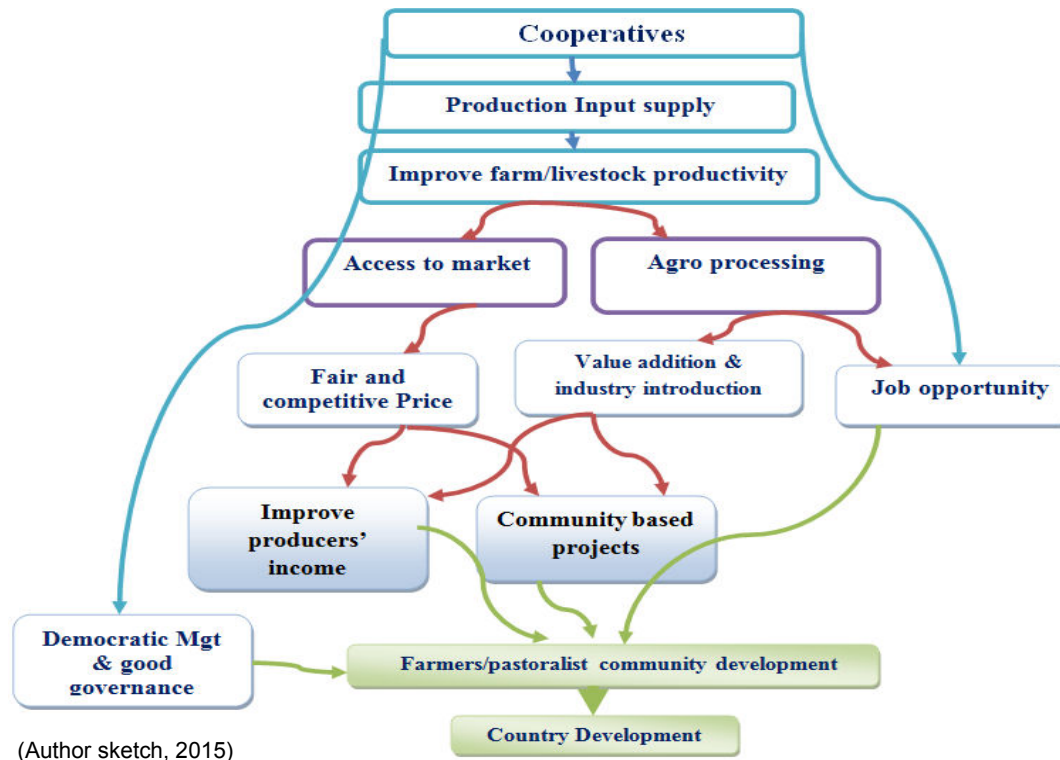


Figure 8: Illustration of role of cooperatives in development

**Member Participation:** However, member economic participation is there, it is visible that member participation in business use, in general assembly meeting and taking leadership responsibility is low however it vary from cooperative to cooperative.

**Capacity of Cooperative Leadership & Management:** Despite education, training and information cooperative principles, cooperatives provide inadequate training and even there is no comprehensive capacity building of leaders program especially for developing second line leaders. On top of this there is resistance of primary coops to professionalize the cooperative business management.

**Low Community Awareness:** It is observed that there is low general public awareness about cooperative benefit and governance. Still there is intention of black mailing of cooperatives based on the past governments' trends rather than analyzing the current situation of cooperative services and benefit.

## CONCLUSIONS

Ethiopian cooperatives have been grown from time to time tremendously in number, member and capital position. They mobilized resource from members and business for serving members. These resource are used to provide machinery service to mechanize rural production and establishing industries in the urban and metropolitan areas that linking rural to urban. Consequently, create job for number of citizens contributing for reduction of unemployment rate in the country.

The study put setting of complete policy and strategies that provide roadmap for cooperative development; sensitizing urban stakeholders about cooperative role the local and national economy, sustainable capacity building of cooperative leaders, professionalize cooperative business particularly and collaborative research as a future direction to tackle the challenges and strengthening role of cooperative in rural-urban development and enhance economy of the country as a whole.

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