Agricultural Cooperatives Sector Development Strategy 2012-2016

June 2012
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A note from the Minister’s desk

Agriculture is one of the pillars of the Ethiopian economy, and the overall economic growth of the country is highly correlated to the success of the agricultural sector. The Government of Ethiopia has demonstrated strong commitment to agriculture and rural development through the allocation of over 10% of the national budget to deliver enhanced production technologies and support services.

The Government of Ethiopia has identified cooperatives as a form of business organization which can facilitate strong socio-economic development. As such, the GoE has paved the way for improved cooperative development in the country through the creation of a legal platform and the expansion of human resource development at higher institution levels. The people of Ethiopia have a long social history of working together to fulfill their socio-economic needs. Many social events still take place in rural Ethiopia through collective community efforts, and these strong social bonds can be capitalized on when forming cooperatives. Agricultural cooperatives will help farmers increase their yields and incomes by pooling their resources in order to support collective service provision, leading to economic empowerment.

In responding to the changing needs of farmer-members within today’s dynamic business environment, a certain degree of strategic planning is required by all types of cooperatives as well as other stakeholders involved in their development. Without strategic planning, activities are always reactive rather than proactive. As such, the government of Ethiopia’s has worked with all key stakeholders to develop a strategy for the agricultural cooperative sector.

This strategy will assist all stakeholders involved in agricultural cooperative development to define short and long term goals and objectives, identify tasks and milestones, and outline a plan of action to accomplish specific tasks within an established schedule. The development of this strategy has required the collective effort of multiple stakeholders from the private and public sectors as well as the donor community.

On behalf of the Government of Ethiopia, I would like to thank all partners who were involved in the development of this document and encourage these and other partners to show a similar effort in the implementation of the interventions contained herein.

My hope is that together we will continue to create a highly effective cooperative sector in Ethiopia that fulfills the promise of sustainably improving the livelihoods of smallholder farmers while contributing to Ethiopia’s overall vision of achieving middle income status by 2025.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AACs</td>
<td>Advanced-certified Agricultural Cooperatives</td>
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<tr>
<td>ACDI-VOCA</td>
<td>Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance</td>
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<td>ACEs</td>
<td>Area Cooperative Enterprises</td>
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<td>ACSI</td>
<td>Amhara Credit and Saving Institution</td>
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<td>AGRA</td>
<td>Alliance for Green Revolution in Africa</td>
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<td>AISE</td>
<td>Agricultural Input Supply Enterprise</td>
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<td>ATA</td>
<td>Ethiopian Agricultural Transformation Agency</td>
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<td>ATVET</td>
<td>Agricultural Technical and Vocational Education Training</td>
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<td>BMGF</td>
<td>Bill and Melinda Gates Foundation</td>
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<td>CBE</td>
<td>Commercial Bank of Ethiopia</td>
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<td>CDA</td>
<td>Cooperative Development Advisor</td>
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<td>CSA</td>
<td>Central Statistical Agency</td>
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<td>DBE</td>
<td>Development Bank of Ethiopia</td>
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<tr>
<td>DECSI</td>
<td>Dedebit Credit and Saving Institution</td>
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<td>ECX</td>
<td>Ethiopian Commodity Exchange</td>
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<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
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<td>FCA</td>
<td>The Federal Cooperative Agency</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GTP</td>
<td>Growth and Transformation Plan</td>
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<td>ICA</td>
<td>International Cooperatives Alliance</td>
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<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
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<td>IFPRI</td>
<td>International Food Policy Research Institute</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>IPMS</td>
<td>Improving Productivity &amp; Market Success</td>
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<tr>
<td>KNFU</td>
<td>Kenya National Farmers Union</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MFI</td>
<td>Microfinance Institutions</td>
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<tr>
<td>MoA</td>
<td>Ministry of Agriculture</td>
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<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MoT</td>
<td>Ministry of Trade</td>
</tr>
<tr>
<td>NBE</td>
<td>National Bank of Ethiopia</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>PASDEP</td>
<td>The Plan for Accelerated and Sustained Development to End Poverty</td>
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<tr>
<td>PSCs</td>
<td>Project Steering Committees</td>
</tr>
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<td>RCPAs</td>
<td>Regional Cooperatives Promotion Agencies</td>
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<td>RUFIP</td>
<td>Rural Financial Intermediation Programme</td>
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<td>SACCOs</td>
<td>Savings and Credit Cooperatives</td>
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<tr>
<td>SDPRP</td>
<td>Sustainable Development and Poverty Reduction Program</td>
</tr>
<tr>
<td>SNNPR</td>
<td>Southern Nations, Nationalities, and People’s Region</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>VCA</td>
<td>Vietnam Cooperative Alliance</td>
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<td>WFP</td>
<td>World Food Programme</td>
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Executive Summary

Agricultural cooperatives can increase smallholder farmers’ yields and incomes, but are not living up to their potential in Ethiopia at present, thus a vision for a well-functioning agricultural coop sector that sustainably improves the livelihoods of agricultural cooperators is proposed.

The purpose of agricultural cooperatives is to help farmers increase their yields and incomes by pooling their resources to support collective service provisions and economic empowerment. In Ethiopia, the number of agricultural cooperatives has been increasing rapidly and they play a major role in providing farmers with inputs while ensuring members’ social cohesion and economic improvement. However, the situation can be improved further. The quality and quantity of services provided by many cooperatives fall short of the needs and expectations of their members and other farmers. Key strengths, weaknesses, opportunities and threats for the sector have been identified. This Strategy thus incorporates lessons from both the successes and failures of cooperatives across the world, in laying out the mechanism to strengthen Ethiopia’s cooperative sector and help its many farmers fulfill the potential of collective action.

Drawing from international and local best practices, a well-functioning cooperative sector that fulfills the promise of sustainably improving the livelihoods of smallholder farmers is envisioned in Ethiopia. The desired vision and mission of the Agricultural Cooperatives Development Sector is as follows:

**Vision:** To contribute to Ethiopia’s overall vision of achieving middle income status by 2025 through increased smallholder farmers’ productivity and income by leveraging the activities of agricultural cooperatives.

**Mission:** A well-functioning agricultural cooperative sector that helps many smallholder farmers increase their yields and incomes through a) autonomous and efficient cooperatives at all tiers that provide effective and sustainable services to members, and b) a robust enabling environment of policy and regulatory oversight as well as capable and reliable service providers that ensure cooperatives have the necessary support to succeed.

Realizing this vision and mission, however, requires addressing seven systemic bottlenecks through targeted interventions.

A series of systemic challenges constrain the country from realizing this vision and mission. Strategic interventions can address each key bottleneck as follows:
<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Corresponding Strategic Interventions</th>
</tr>
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<tbody>
<tr>
<td>A lack of <strong>clear indicators</strong> signaling which coops are well-functioning impairs coops’ full development in terms of incentives to excel, regulators’ and service providers’ focus; and farmers’ and value chain actors’ meaningful relationships with coops</td>
<td>• Develop an advanced certification process for well-functioning cooperatives, based on criteria that relate to effective and self-sustaining operations of their activities and the existence of a professional management and governance structure</td>
</tr>
<tr>
<td>Cooperatives lack the required <strong>capacity</strong> to become well-functioning, and capacity building services are not effective enough to help them get there</td>
<td>• Build cooperatives’ capacity through a well-structured and time bound advanced-certification support program, and by strengthening capacity building service provisions - eventually to reside in a Cooperative College center of excellence</td>
</tr>
<tr>
<td>The financing system for agricultural cooperatives does not sustainably enable their access to the variety of <strong>financial services</strong> required to become well-functioning</td>
<td>• Make the financing system for agricultural cooperatives sustainable: 1) by establishing a dedicated revolving fund and credit guarantees for coops working toward or possessing advanced certification; and 2) by strengthening existing MFIs/RUSACCOs and expanding the capacity of CBE/DBE to lend to agricultural coops</td>
</tr>
<tr>
<td>The marketing structure and infrastructure in which cooperatives operate, especially in output marketing, limits their effectiveness and efficiency in serving members</td>
<td>• Improve marketing structure and infrastructure: 1) by bringing gains from cooperative marketing more directly to farmers through more efficient value chain structuring and union marketing of primary coops’ outputs on commission; and 2) by improving market information systems, demand channels, and efficient supplier relationships</td>
</tr>
<tr>
<td>Other cooperative services are not effective enough to serve well-functioning cooperatives</td>
<td>• Strengthen public sector audit, legal and formation support services in the near term, and in the longer term, transition these services to the coop movement and/or other private providers</td>
</tr>
<tr>
<td>Structure, capacity and accountability for <strong>government oversight and regulation</strong> of the cooperative sector is not sufficiently robust to govern a well-functioning sector</td>
<td>• Improve the structure, capacity and accountability of public sector regulators at the federal and regional levels</td>
</tr>
<tr>
<td><strong>Policy and regulatory framework</strong> constrains the development of a well-functioning cooperative sector</td>
<td>• Develop a comprehensive coop development policy and guidelines.</td>
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Since a well-defined strategy by itself is not sufficient, a rigorous implementation plan with built in systemic monitoring and evaluation steps is required.

Implementing these strategic interventions will be an extensive undertaking, requiring a budget of approximately USD **32,202,693** excluding the cooperatives credit guarantee and revolving fund and coordinated activities from several key stakeholders. A variety of governmental and non-governmental
actors are well-positioned and motivated to contribute to the implementation of the integrated strategy. The key stakeholders of cooperatives from government organizations are the Federal Cooperative Agency and Cooperative Promotion Agencies/Offices in regions, zones, and woredas, as well as the Ministry of Agriculture, the Ministry of Trade, the Ministry of Finance and Economic Development, the Ethiopian Agricultural Transformation Agency, the Ethiopian Seed Enterprise, the Ethiopian Standard and Grading Agency, and universities. Moreover, there are many non-governmental organizations (NGOs) that provide support to cooperatives in various forms. These NGOs serve several functions, including as donors, implementers and researchers.

The success of this Strategy will be assessed against the cooperatives sector transformation impact of increasing yields and incomes of farmers in agricultural cooperatives due to their cooperative membership. This Strategy is predicated on producing a single outcome: efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to their member smallholder farmers. The achievement of this outcome will be measured closely through a series of indicators that will be measured at baseline levels in early 2012 and monitored periodically to track progress toward this outcome. These indicators will be refined by the end of 2012, and include key measures of effectiveness (e.g., membership levels, total turnover, gender impact) as well as efficiency and sustainability (e.g., financial performance).

The implementation of the seven strategic initiatives will be overseen by two sets of project steering committees at the federal and regional levels and coordinated at the ATA with the help of two secretariats at both the federal and regional levels. Furthermore, to support and coordinate the activities in other regions not represented in the AGP, an additional project coordinator will be assigned to oversee the interest and activities of the said regions.

To ensure successful implementation of this strategy, systematic, regular and objective monitoring and evaluation (M&E) of progress with the overall Strategy and its different components is critical. Through collaborative partnership from governmental, non-governmental and cooperative sectors, Ethiopian cooperatives can fulfill their great potential of benefiting smallholder farmers across the entire country. The Strategy laid out here will be monitored for effectiveness and efficiency throughout the implementation process and course corrections will be made accordingly.
CHAPTER ONE: INTRODUCTION AND BACKGROUND OF THE STRATEGY

1.1 Purpose

The Ethiopian Agricultural Transformation Agency (ATA) has been tasked by the Agricultural Transformation Council to develop an integrated strategy that will enhance the support of agricultural cooperatives to contribute towards increasing the yields and incomes of smallholder farmers. To achieve this task, the ATA has worked directly with key local stakeholders to identify and analyze systemic interventions to strengthen the sector.

The integrated Agricultural Cooperatives Sector Development Strategy presents the way forward for agricultural cooperative enterprise development in Ethiopia over the next five years (i.e., 2012 to 2016). It is the result of a thorough process of review, consultation, research and refinement, and takes into account the changing economic context.

This strategy is built upon the successes of the government in macro-economic development and applies the experiences and lessons of both the country and international best practices relating to cooperative enterprise promotion, while responding to perspectives raised by stakeholders within the cooperative movement itself, the government, the private sector, and civil society. In particular, the strategy aims to address government’s special development goals to improve smallholder farmers’ productivity and income by leveraging a cooperative enterprise.

1.2 Defining the scope

The internationally accepted definition of cooperatives developed by the International Cooperative Alliance and supported by the Government of Ethiopia and the Federal Cooperative Agency 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.”

This Strategy focuses solely on agricultural cooperatives, because a) given their primary remit to contribute to smallholder farmer production, agricultural cooperatives are seen as critical in achieving the government’s development targets in the Growth and Transformation Plan, and b) focusing on other types of cooperatives requires an alternative framework for analysis. It is worth noting that all Rural Savings and Credit Cooperatives (RUSACCOs) are owned by farmers and can help increase smallholder farmers’ yields and incomes. Strengthening of RUSACCOs is accordingly an important priority of the Government of Ethiopia. However, the primary focus of this particular Strategy is agricultural cooperatives and RUSACCOs are considered in their relation to agricultural cooperatives.
Agricultural cooperatives, for the purposes of this strategy document, are agricultural-producer-owned coops whose primary purpose is increasing member producers’ production and incomes by helping better link with finance, agricultural inputs, information, and output markets.¹

This integrated Strategy has been designed to address the needs and development of both existing and potential agricultural cooperatives at all tiers, which includes primary cooperatives, unions, and federations, as well as key support and regulatory actors.

1.3 Strategy development approach

The following sources have been utilized to develop the strategy document:

1. **Case studies of the Ethiopian cooperatives sector:** These include reviews of current Ethiopian policy and legal documents, including the Growth and Transformation Plan, Agriculture and Rural Development Policy, and Cooperative Proclamation; interviews and workshops with primary cooperatives and unions; commodity-level studies; findings from interventions led by ACDI-VOCA, TechnoServe, and the WFP; and studies of cooperatives’ successes and failures within the current Ethiopian cooperative sector developed by Bezabeh (2011) and Alemu, et al. (2010).

2. **Case studies of agricultural cooperative sectors in other countries:** A detailed review was conducted of the agricultural cooperative sectors in Kenya, Uganda, India, Taiwan, Vietnam, and the Netherlands. Further information was also collected on Tanzania, Malawi, Rwanda, Nigeria, South Africa, Egypt, Korea, China, Mexico, USA, and other countries.

3. **Subject matter expertise:** From interviews with experts in Ethiopia and secondary research. Experts were consulted at the World Bank, ACDI-VOCA, AGRA, IFPRI, IPMS, TechnoServe, IFAD, and others. Further research included work by Nobel Laureate Elinor Ostrom, IFPRI, and others.

4. **Stakeholder discussions in the Ethiopian cooperative system:** Including federal government officials (chiefly in the Ministry of Trade, Ministry of Agriculture, and Federal Cooperative Agency), regional government officials (chiefly in promotion agencies and regional Bureaus of Agriculture in Oromia, Amhara, SNNP, and Tigray), primary coops and cooperative unions from most of Ethiopia’s regions (including in two workshops and site visits), financing institutions (including NBE, CBE, DBE, Addis International Bank, Oromia Cooperative Bank, Wegagen Bank, and MFIs), and cooperative capacity building groups in Ethiopia (including consultants from Rochdale PLC and NGO groups).
1.4 Macro analysis of the Ethiopian economic environment

Economy

In recent years, Ethiopia has been one of the fastest growing economies in Africa. The Ethiopian economy has shifted to a higher growth trajectory since 2003/2004. The economy continued to grow rapidly for the eight consecutive years, registering in 2010/11 a real GDP growth rate of 11.4%. Between 2003/04-2010/11, the average growth rates in the value added agricultural, industrial and service sectors were 10.2%, 10.8% and 12.8%, respectively. Ethiopia has the vision of becoming a middle income country in the coming one and half decades after implementing three successive five-year development plans. The main development objective is to enhance growth. In the past decades, the Government of Ethiopia designed and implemented two development plans. The first three-year plan, called Sustainable Development and Poverty Reduction Program (SDPRP), was undertaken during the years 2002/03-2004/05. This plan was followed by the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which ran between 2005/06-2009/10.

The Government of Ethiopia’s current five-year plan (2010/11-2014/15), called the Growth and Transformation Plan (GTP), is geared toward fostering broad-based development in a sustainable manner to achieve the Millennium Development Goals (MDGs). Over the next five years, the GTP envisions a major leap, not only in terms of economic structure and income levels, but also in the level of social indicators.

Agriculture

Agriculture is the foundation for the Ethiopian economy, and the overall economic growth of the country is highly correlated to the success of the agriculture sector. Agriculture accounts for about 43% of the country’s Gross Domestic Product (GDP), 90% of exports, and 85% of employment. With a total area of about 1.13 million km² and about 51.3 million hectares of arable land, Ethiopia has tremendous potential for agricultural development. However, only about 11.7 million hectares of land, just over 20% of the total arable area, is currently being cultivated. Nearly 55% of all smallholder farmers operate on one hectare or less. Cereals dominate Ethiopian agriculture, accounting for about 70% of agricultural GDP. Livestock production accounts for about 32% of agricultural GDP and draught animal power is critical for all farming systems.

The Government of Ethiopia has demonstrated a strong commitment to agriculture and rural development through allocations of more than 10% of the total budget to enhance the delivery of improved production technologies and support services. Over the past decade, as a result of horizontal expansion and increased yields, cereal production has more than doubled to nearly 15 million tons.
**Cooperatives Sector**

Cooperatives, as economic enterprises and as self-help organizations, play a meaningful role in uplifting the socio-economic conditions of their members and their local communities. The people of Ethiopia have a very long social history of working together to fulfill their socio-economic needs. Many social events are still taking place in rural Ethiopia through collective effort. The Government of Ethiopia has identified the cooperative form of business organizations as instrumental to socio-economic development and has paved the way for better cooperative development in the country by creating the legal basis and expansion of human resource development at higher institution levels.

Cooperatives have played a considerable role in improving smallholders’ access to inputs, services, information and markets, yet the cooperative movement in Ethiopia has faced a number of problems in the past. The current free market economy of the country is conducive to cooperatives development, but their limited capacity has inhibited them from making full use of the existing opportunities.

**Agricultural Cooperatives Sector**

Cooperative development in many countries has shown that farmers who are effectively organized can benefit from aggregated links to markets and services, from accessing centralized services that can help them achieve higher yields and higher incomes, and from speaking with a collective voice to advocate for their needs. At a global level, countries with the highest share of cooperatives in marketed outputs (e.g., Taiwan, Korea, the Netherlands, France, etc.) also have high average yields for staple crops like rice and wheat, as well as substantial cash crop exports. In Ethiopia, farmers who are members of cooperatives tend to achieve higher yields, and staple crops that are marketed through cooperatives attain a price premium of around 7-8%. Indeed, the 2008 World Development Report reviewed the evidence and concluded that “Producer organizations are essential to achieve competitiveness for small-scale producers.”

The Federal Cooperative Agency (FCA) reports approximately 40,000 cooperatives in Ethiopia, of which approximately 10,000 are agricultural cooperatives: about 3,000 focus on a single agricultural commodity (e.g. coffee, dairy, livestock) or irrigation, and a majority of the 7,000 multipurpose cooperatives concentrate primarily on agriculture. By membership, about 70% of the 6.7 million cooperative members throughout Ethiopia are members of agricultural or multipurpose cooperatives. The analysis of international case studies that support and inform this strategy has also focused on agricultural cooperatives in other countries, often a distinct group whose name varies by country: Farmers Associations in Taiwan, Farmer Professional Cooperatives in China, Producer Organizations and Depot Committees in Uganda, and Agricultural and Horticultural Cooperatives in the Netherlands. Unless otherwise specified, the use of “cooperatives” in this Strategy document refers to agricultural cooperatives. Agricultural cooperatives help farmers solve a collective action problem, i.e. how to procure inputs most efficiently and market their outputs on more favorable terms than they could achieve by themselves. Accordingly, Ethiopia’s Growth and Transformation Plan foresees a central role
for agricultural cooperatives in increasing the productivity and household income of smallholder farmers.

However, the experience of agricultural cooperatives as a vehicle for development in Ethiopia, and to a great extent in Africa as a whole, has been mixed. The large-scale introduction of agricultural coops in the 1970s and 1980s, with compulsory membership, was associated with declining agricultural output per capita. In Ethiopia, when farmers were allowed to join or leave cooperatives at will in 1991, cooperative membership fell drastically and yields rose. Certainly, there have been cooperative success stories in the region: Markelova (2008) cites the dairy sector in Kenya, coffee in Ethiopia, and cotton in Mali, for example. The examples of Taiwan, India, and Vietnam also show that cooperatives can be instrumental in sector transformation. Unfortunately, to date, no African country has achieved a sustained and large scale increase in staple crop yields as a result of cooperative action and many cooperative development programs have failed to achieve their objectives or have even been counterproductive.

This Strategy thus incorporates lessons from both successes and failures across the world in crafting an approach to strengthen Ethiopia’s cooperatives sector and help its many farmers fulfill the potential of collective action.

1.5 SWOT analysis of the agricultural cooperatives sector in Ethiopia

The Strengths, Weaknesses, Opportunities, and Threats (SWOT) of the agricultural cooperatives sector in Ethiopia are outlined in Table 1.

Table 1: SWOT analysis of Ethiopian agricultural cooperatives sector

<table>
<thead>
<tr>
<th>Strengths</th>
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<tr>
<td>Cooperatives are the main means for delivering the vast majority of the seed and fertilizer that farmers purchase each year.</td>
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<tr>
<td>Several individual primary coops and unions provide high-value services for members. For example, in 2011, Oromia Coffee Farmers Cooperative Union’s total sales exceeded 41 million USD, and the Tigray Marketing Cooperative Federation exported over 13,000 tons of sesame.</td>
</tr>
<tr>
<td>Ethiopian cooperatives are generally able to buy cereals from farmers at a higher average price (by 7-9%) than their non-member counterparts, showing that many cooperatives succeed in increasing farmer members’ bargaining power.</td>
</tr>
<tr>
<td>Farmers have access to over 10,000 primary multi- and single-purpose agricultural coops that they can join to benefit from collective action in their communities, and this number continues to grow as government promoters help farmers form informal groups and formal cooperatives.</td>
</tr>
<tr>
<td>Many federal, regional and local regulators have helped curb the strong interference and mistrust that characterized most cooperatives in the Derg era, improving the image of cooperatives among some farmers and other stakeholders.</td>
</tr>
<tr>
<td>Many international experts consider Ethiopia’s cooperative Proclamation 147/98 and its amendment to be among the strongest cooperative laws in Africa.</td>
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</tbody>
</table>
Weaknesses

- **Most cooperatives do not sufficiently help members improve their yields and incomes.** While they are currently active in procuring and distributing inputs, many are neither effective nor efficient in providing this service, as well as other core services, such as output marketing and value addition, quality- and technology-related extension, and efficient allocation of surpluses. For coops that do provide output marketing services, transaction sizes are often small, and marketing revenues often do not sufficiently accrue to farmers. Many coops sell outputs at lower prices than could be achieved with better market information, storage, and processing. Quality has also been an issue. For example, only 18% of coops that had contracts with the World Food Programme in 2010 were able to fulfill them, while others delivered outputs of insufficient quality and quantity.

- **Cooperatives’ provision of services is often financially unsustainable.** No complete data exists, but many stakeholders assert that a subset of primary coops sustain losses in any given year.

- **Most cooperatives do not attract substantial membership.** Country-wide, only 17% of Ethiopian farmers are members of cooperatives though many relatively sucessful cooperatives attract higher numbers in the areas they cover.  

- **The number of cooperatives is increasing in order to ensure coverage to all farmers, yet the quality of coops’ service provision at all cooperative tiers is not keeping pace.** Many unions operate below the ideal scale and level of integration to market as effectively as possible, and their linkage with primary coops limits farmers’ gains from services.

- **Many cooperative leaders have low capacity to manage and govern a well-functioning enterprise.** Board members and managers especially are sometimes unprofessional, part-time, and/or unpaid. Some leaders also illegally misappropriate cooperative assets for personal gain.

- **Some cooperatives and other stakeholders cite that some local government officials have relatively low role clarity and capacity to implement and enforce policies/regulations.** This can contribute to cooperatives’ financial unsustainability, low membership, and occasional misappropriation of resources.

Opportunities

- **Strong government commitment to support and promote cooperatives.** The Government’s Growth and Transformation Plan (GTP) has highlighted the development of cooperatives as a key pathway by which the agriculture sector and the economy as a whole will develop over the next five years and beyond.

- **Existence of government oversight/regulation structures from federal down to woreda level.**

- **Several Ethiopian universities offer robust curricula for students training to be cooperative auditors or managers, with Ambo and Mekele universities offering post-graduate degrees.**

- **Establishment of good working relationships between the Government and development partners, and the Government’s bold ambitions and strong commitment to free its people from the poverty trap as fast as possible.**

- **Availability of reliable and systematic demand sinks eager to source agricultural products from agricultural cooperatives.**

Threats

- **Policies concerning cooperatives are currently spread across several policy documents, and the absence of a comprehensive cooperative development policy constrains the sector’s strategic development and well-regulated and understood roles and relationships among stakeholders.**

- **Cooperatives have limited access to high-quality services to help them become and remain well-functioning. Cooperatives assert that capacity building modules are often out-of-date, impractical, redundant, and not sufficiently comprehensive or available. Many cooperatives are unable to access key financing services. Audit and legal services are available to fewer than half of cooperatives in any given year.**

- **Collateral requirement at financial institutions is beyond the current capacity of most agricultural cooperatives in the country. Government and private banks, and micro finance institutions, are not well-positioned to lend to cooperatives due to the limited capacity of cooperatives to meet the requirements of these financial institutions.**
CHAPTER TWO: STRATEGIC VISION AND GUIDING PRINCIPLES

This section lays out the long-term vision, overall goals, guiding principles and specific objectives of this integrated Strategy. The overall purpose of this Strategy is to:

- Assist Ethiopia to apply proven successful models from around the world and develop a well-functioning cooperative sector in the country
- Define a strategic direction that allows stakeholders to focus their resources and actions
- Address key near-term gaps inherent in a long-term vision by proposing transitional intermediate steps as appropriate to realize the long-term vision

The overall goal is to coordinate stakeholders and facilitate the process in promoting an effective and efficient network of primary cooperatives, unions, and federations who work together to significantly improve the productivity and income of smallholder farmers by providing access to inputs, markets, and other resources.

2.1 Strategic vision and mission

Discussions with stakeholders in the Ethiopian cooperatives sector, and an analysis of international case studies, imply the following as the long term vision for Ethiopia’s agricultural cooperatives sector.

**Vision:** To contribute to Ethiopia’s overall vision of achieving middle income status by 2025 through increased smallholder farmers’ productivity and income by leveraging the activities of agricultural cooperatives.

**Mission:** A well-functioning agricultural cooperative sector that helps many smallholder farmers increase their yields and incomes through a) autonomous and efficient cooperatives at all tiers that provide effective and sustainable services to members, and b) a robust enabling environment of policy and regulatory oversight as well as capable and reliable service providers that ensure cooperatives have the necessary support to succeed.
2.2 Strategy development guiding principles

This vision and mission reflect a significant and transformative change from the current state of the cooperatives sector in Ethiopia. The strategy to achieve this mission has been informed by guiding principles that break down the mission into different components of the cooperatives sector. These guiding principles consider the cooperatives sector through a framework that considers: a) cooperative function, b) cooperative structure and governance, and c) the enabling environment. The framework further breaks these three broad areas into 13 separate components:

In the following sections a summary of each of these components is provided. Each sub-section begins with a discussion of the guiding principles which describe key features of each of these 13 components:

- **Description** of what the component entails
- Summary of the component’s **current state** in Ethiopia
- **Long-term strategic direction** for the component in Ethiopia
- Key **bottlenecks** constraining the strategic direction and **actions** to address those bottlenecks

Furthermore, each high level section (function, structure and governance, and enabling environment) begins with a set of **best-practice tenets** for a long-term strategic direction that are informed by international and Ethiopian best practices.
Cooperative function

A. Cooperative function: Best-practice tenets

Cooperative function considers the services that well-functioning primary cooperatives and unions provide to their members to help them increase their yields and incomes along two dimensions: identifying the specific services that cooperatives provide to members, and how coops provide those services. Apex cooperative services will be described in the section on Macro Institutional Structure.

Services provided by cooperatives

Well-functioning cooperatives tend to provide four core services to members. These are a) input procurement and distribution, b) specialized extension, c) output marketing, and d) efficient allocation of surpluses. Some experts highlight financing as an additional core service that cooperatives provide to members, but only production-related financing (i.e. selling inputs on credit and purchasing outputs with cash advances) should be considered a core service, and can be captured within input and output services. Other forms of finance (e.g., savings accounts, working capital lending, insurance, etc.) are sometimes provided, but are not a core service for agricultural cooperatives. Well-functioning cooperatives often offer all of these core services, as they complement each other: supplying inputs enables cooperatives to better control the quality of outputs, while output marketing makes it easier for cooperatives to collect input credit repayments.¹⁴

Figure 1: Services frequently provided by primary coops and unions (of 12 countries studied)¹⁵
Well-functioning cooperatives tend to offer a limited set of core services, especially in the early stages of their development. Studies of successful cooperatives in many countries show that many early-stage cooperatives provide a limited range of services. Once they have established their viability, many often also choose to provide additional ‘non-core’ services like non-production financing, sale of consumable goods, advocacy, and social services such as investments in schools and HIV awareness programs. Well-functioning cooperatives tend to add these services later in their development, if at all, since they add to the complexity of the organization’s operations and have less direct impact on their members’ agricultural productivity or incomes.

Well-functioning cooperatives often maintain a relatively simple business model by providing services around the production of one or few crops, especially at first. In Kenya for example, most cooperatives are organized around dairy, coffee, cotton, sugarcane, or fishery, among others. Farmers’ Associations in Taiwan support several crops, but groups (i.e. business units) within each Association manage crop-specific businesses. This focus can extend to multiple crops as long as the business model associated with supporting each of these crops is similar. Key factors behind success tend to include: a) shared interest among farmer members, often referred to as a common bond, with most members producing similar crops, b) similar production factors (inputs, technologies, etc.) across supported crops, and c) common business partners and markets. When successful coops do choose to expand their business, they often do so after beginning with a focus on one crop to establish viability under a relatively simple business model. This focus is especially relevant to output marketing services; whereas for inputs, members can use some inputs (i.e. fertilizers) that the coop does not market.

How cooperatives provide services

Well-functioning cooperatives generate surpluses in serving members, so that their service provision is self-sustaining. Case studies of cooperatives in Vietnam, Taiwan, Rwanda, Egypt, China, Ghana, the Netherlands, India, Uganda, and Tanzania all show that successful cooperatives operate as viable and self-sustaining enterprises. For example, in Taiwan, Farmers’ Associations were expected to operate as self-sustaining economic enterprises from the outset of their establishment. Furthermore, this focus may account in part for better early performance and smallholder production growth in Taiwan’s Farmers’ Associations relative to Korea’s farmer organizations. Studies show that cooperatives that succeed in increasing smallholder productivity and incomes are generally run as viable enterprises, whereas less successful ones are often run as providers of social services. New cooperatives often receive some support towards service provision, but those that continue to exist and serve farmers eventually generate surpluses from their operations. Financially sustainable cooperatives often base their existence on a market opportunity and operate at sufficient scale to generate a reliable surplus. Finally, while surpluses are a necessary condition for success, they are not sufficient. The surpluses must be earned and allocated transparently, according to the interest of the members. When surpluses are misappropriated by cooperative leaders or officials, the sustainability and effectiveness of the entire cooperative is undermined.
Well-functioning cooperatives provide services in a systematic manner. Successful cooperatives’ linkages with input and output markets are reliable, economically driven, and mutually beneficial. Studies of successful cooperatives across Africa highlight the importance of reliable marketing contracts with institutional buyers, which benefits the cooperative and its counterparty alike. One reason that successful African agricultural cooperatives tend to market cash crops is that they have fewer buyers, making it easier to form strong relationships with buyers over time. Evidence from Ethiopia and abroad also shows that cooperatives can fail because of relationships that are not mutually beneficial. For example, some Ethiopian cooperatives highlighted that they incur losses when they procure inputs from seed producers on non-commercial terms that are not demand driven. This may be explained by the fact that when a monopolistic supplier dictates terms and conditions to buyers, the terms may be favorable to the seller and not necessarily to the buyer.

Well-functioning cooperatives benefit members more than non-members. Case studies show that successful cooperatives benefit members more than non-members, and that many fail because they do not offer adequate services to attract members. For example, in a survey of 600 non-members of cooperatives in Ethiopia, 24% stated that they did not join a cooperative because they were able to get the same benefits as members.

Even if they do not have equal access to services, non-members can benefit from well-functioning cooperatives in their communities in one of three ways:

- Cooperatives sometimes provide non-members with direct services, like input supply and output marketing, when it is in the cooperative’s interest to do so.
- The simple presence of a cooperative in an area can reduce the price at which local traders sell to non-members and increase the price at which they buy farmers’ outputs.
- Cooperatives sometimes allocate some of their surpluses to non-economic services that benefit their entire community, including advocacy with government and others, and social services.

Well-functioning cooperatives’ members decide the modalities and beneficiaries of services offered by the cooperative, through a General Assembly. Well-functioning cooperatives must decide, through their General Assembly, the types of services they offer to both members and non-members. This decision is based on the interest of members and should not run counter to the financial sustainability of the cooperatives. When cooperatives market to non-members, they do so because it serves these interests. In countries with voluntary cooperative membership, alternative sales channels have been developed to offer non-members a choice and encourage coops to increase their capacity to become more efficient and serve their customers effectively.

Well-functioning cooperatives provide services that benefit both men and women farmers. Evidence suggests that smallholder households’ yields and incomes increase disproportionately when women are beneficiaries of coop services. Women farmers are underrepresented in agricultural coops in many countries. This reflects women’s lower ownership and control over assets, time constraints, and many cultural barriers. Recognizing the benefits, many countries have taken explicit effort to increase
women’s membership and leadership in farmer organizations, including in Kenya (26% of members) and Uganda (30%).

B. Cooperative function: Input procurement and distribution

Input procurement and distribution is a core service provided by most well-functioning cooperatives. Cooperatives procure agricultural inputs from suppliers and sell them to members, sometimes on credit, at prices and reliability enabled by collective action. Inputs include seed, fertilizer, crop-protection products, and sometimes tools, veterinary drugs and irrigation equipment.

Current state in Ethiopia

Agricultural cooperatives are the dominant distributors of seed and fertilizer to farmers. For the 2010 and 2011 cropping seasons the share of cooperatives in fertilizer marketing was 93% and 95%, respectively, with a similar proportion for improved seed.

Cooperatives generally obtain inputs from parastatals, such as the Agricultural Input Supply Enterprise (AISE), in most cases on behalf of cooperative unions, and seed producers such as the Ethiopian Seed Enterprise and regional seed enterprises. The Regional Bureaus of Agriculture often provide guidance on the price at which cooperatives sell both fertilizer and seed to all farmers (members and non-members). For example, for fertilizer, the net profit margins that cooperatives are advised to charge range from 75 cent/quintal in Oromia region to 3 ETB/quintal in SNNP region for unions and 5 ETB/quintal in Oromia to 7.5 ETB/quintal in SNNP for primary cooperatives. Only gross margin data of 17 ETB/quintal was available for Amhara, and thus net margins for cooperatives in this region vary based on their individual costs. This implies that the margin charged by unions and primary cooperatives totals less than 2.0% of the final price of fertilizer, less than 50% of the margins charged in India, Taiwan, and many other countries.

Based on demand assessment conducted by Development Agents, Regional Bureaus of Agriculture, in consultations with unions, also determine how much seed and fertilizer should be allocated to each cooperative and facilitate loans from the Commercial Bank of Ethiopia to fund the inputs purchases. Cooperatives are sometimes required to provide inputs to members and non-members, on the same credit terms, even though non-members often have limited collateral and low repayment rates. This credit sometimes sits on the cooperatives’ books, and undermines their economic viability.

Stakeholders from cooperative unions, primary cooperatives, and cooperative promotion agencies have highlighted both the pricing and credit issues as a critical reason for cooperatives’ poor financial performance and low membership rates.
Long-term strategic direction

Cooperatives are currently playing, and are expected to continue, a critical role in input procurement and distribution to all farmers. As such, they need to strengthen the efficiency of both seed and fertilizer distribution to both members and non-members in the near term. In the long term, in order to effectively compete and retain non-members as customers, cooperatives should improve their leadership capacity and service delivery, and increase membership. In the near term, three issues must be addressed to strengthen the financial viability of cooperatives in undertaking their function as primary input distributors to farmers at a reasonable and affordable price:

1. The margins that unions and coops add to fertilizer prices should create an incentive to undertake this activity. Currently the wholesale and retail margins that unions and primary coops are able to charge are well below the level coops in other countries charge. As such, the margins themselves might be disincentive to undertake this activity in the most aggressive and efficient manner. Wholesale and retail margins for coops in Ethiopia range from 1-2%. In Taiwan, cooperatives’ margins were about 5% (provided directly by the government before fertilizer distribution was privatized in 1999), and in India margins are around 5% for cooperative retailers and 12% for wholesalers, like the Indian Farmers Fertilizer Cooperative Limited. This would indicate that due consideration should be made to revisiting the margins that Ethiopian cooperatives are able to charge for input distribution to ensure that coops are incentivized to undertake this critical activity in a viable business manner. It is important to note that any surplus that cooperatives are able to realize from an increase in the margins they charge would benefit the farmers that are members through reinvestments in additional services or dividend payments. This can serve as an additional incentive for non-members to join cooperatives.

2. In order to afford inputs, especially seeds and fertilizer, irrespective of the possible increase in wholesale and retail margins by cooperatives, farmers need additional strategies and tools. This has been a constant issue mentioned by farmers in many of the studies and anecdotal field visits conducted. For example, Taiwanese Farmer Associations’ credit provision for members’ input procurement was a critical reason many farmers joined and benefitted from Farmer Associations. As an aspect of their strategies implementation, various types of tools will be explored to improve farmers’ ability to afford fertilizer in Ethiopia, including:
   a. Farmer savings groups: Assisting and providing incentives for farmers to form savings groups, including SACCOs that can assist them to store post-harvest income for input purchasing the following season. Such schemes can fill gaps in especially poor areas where there is limited access to financial institutions.
   b. Credit guarantee schemes: Partial or total credit guarantees may be provided to farmers based on meeting certain standards (e.g. Ethiopia’s current 50% credit guarantee for inputs to the very poor). The extent of such protections and enforcement mechanisms must be closely monitored as there are moral hazard risks.
   c. Output markets linked to input financing: In a number of different countries, smallholder farmers have been able to receive favorable financing terms by linking input procurement to the off-takers of their production. In Kenya, Taiwan, India and elsewhere, cooperatives are
key providers of this linkage by marketing outputs for member farmers to whom they also sell inputs.49

d. **Weather insurance:** Insurance policies to protect farmers (and creditors) against the risk of drought or excessive rain target the inherent risks that smallholders face when investing in inputs. In Ethiopia, Nyala Insurance Share Company introduced weather index-based insurance in 2009 specifically to protect smallholder farmers against weather risk. This weather index product was designed in collaboration with the World Food Programme around the rainfall requirements of haricot beans and was purchased by 137 haricot bean farmers in the Lume-Adama Farmers’ Cooperative Union. Similarly, 200 teff farmers in the Kola Tenben woreda, Tigray region, were insured with a weather index product that was designed around the rainfall requirements of teff, in cooperation with Oxfam-America, mainly using satellite data.

3. **Cooperatives should not be asked to take on additional risk, particularly credit provision for serving non-members.** Since non-members often have limited collateral, low repayment rates often characterize their borrowing, especially from cooperatives to which they have limited liability.50 This credit sometimes sits on the cooperatives’ books and undermines their economic viability.51 Bernard, et al. (2010) showed that non-members tended to be more costly to serve for cooperatives, as their credit repayment rates are lower and transaction costs for serving them are relatively higher than the norm.

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
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<tbody>
<tr>
<td>• Cooperatives have limited capacity and capability to improve the</td>
<td>• Improve cooperatives’ capacity and capability for effective and efficient input</td>
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<tr>
<td>effectiveness and efficiency of their input procurement and distribution</td>
<td>procurement and distribution, demand estimation, and credit provision as</td>
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<tr>
<td>services, increase membership, and retain non-member customers in the</td>
<td>appropriate [see enabling environment guiding principles]</td>
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<tr>
<td>long-run</td>
<td>• Explore strategies for a more systematic overhaul of the cooperative input</td>
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<td></td>
<td>distribution system to increase its effectiveness and efficiency</td>
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<tr>
<td>• Farmers find fertilizer prices prohibitively high, discouraging adoption</td>
<td>• Develop tools to incentivize savings and scale up innovative instruments such</td>
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<td></td>
<td>as weather insurance</td>
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<td></td>
<td>• Improve coops’ capacity to provide well-tailored products and increase output-</td>
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<td></td>
<td>market-linked input procurement to reduce risk and optimize investment by</td>
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<td></td>
<td>farmers [see enabling environment.]</td>
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<td></td>
<td>• Improve financing for coops and support them in developing better designed</td>
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<td></td>
<td>credit products for farmer purchasing [see enabling environment]</td>
</tr>
<tr>
<td>• The margins unions and coops are able to charge for inputs are not</td>
<td>• Gradually increase the margins charged by cooperatives to create an incentive for coops to be more effective in input distribution</td>
</tr>
<tr>
<td>economically viable</td>
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</tbody>
</table>
C. Cooperative function: Specialized extension

Well-functioning cooperatives provide a specialized extension service by employing extension agents or contracting with extension providers. Extension services mostly include providing members with detailed information to help them reach the quantity and quality targets required for collective marketing.

Current state in Ethiopia

Most cooperatives in Ethiopia do not systematically provide specialized extension services to members. Those that do provide extension often provide only limited services; indeed, poor performance in output marketing has in part been traced to limited extension for cooperative members. A few cooperatives, especially those involved in coffee export, do provide some basic extension services regarding quality, productivity, and organic and fair trade certification of members’ farms and products. These services complement a public extension system that includes nearly 60,000 Development Agents in Farmer Training Centers in every kebele in the country who provide free services to all farmers.

Long-term strategic direction

In line with international best practices, specialized extension should be among the core services well-functioning coops in Ethiopia provide to members. In other countries, cooperatives often employ extension agents directly, or contract with private third-party extension services. For example, most Taiwanese cooperatives provide extension through an extension business unit within the cooperative, and reinvest over 50% of their annual surpluses in strengthening their extension activities. Well-functioning Indian dairy cooperatives like AMUL also provide advice on cleanliness, sanitation, and other key quality issues. In Vietnam, cooperatives often bring in trainers to meet with members, with training costs and a fee to the trainers for their service paid by the cooperative.

In Ethiopia, if cooperatives choose to contract, they cannot do so with the public extension system, since its mandate is to serve all members of a community for free. To get around this problem, coops in other countries usually contract with private third-party extension providers or high-tier cooperatives. For example, Uganda’s apex cooperative facilitates fee-based private extension to cooperatives, ensuring “only services which are relevant to the movement are developed and delivered.” If cooperatives instead choose to hire and train agents directly, they could train agents by contracting with ATVETs or other training providers.

Cooperatives are best placed to provide specialized extension if it responds to the needs of the cooperative (e.g., in ensuring quality for marketing contracts) and member farmers (both men and women). Such services should therefore be decided in the cooperative’s annual business plan that its Board proposes and the General Assembly approves.
**Key bottlenecks and prioritized actions**

<table>
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<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
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<tbody>
<tr>
<td>Many cooperatives have limited business incentive to provide extension services to members</td>
<td>Improve coops’ output marketing functionality so that specialized extension for members has strong motivations and benefits [see below]</td>
</tr>
</tbody>
</table>

**D. Cooperative function: Output marketing**

A third core service that well-functioning cooperatives provide to members is output marketing. More specifically, this service includes:

- Buying outputs from farmers at prices enabled by scale/aggregation and robust market information
- Linking with reliable demand sources to reduce risk and perform related quality control
- Using storage (owned or rented) to get a better price for members’ output
- Facilitating value-added processing to maximize price, including owning processing facilities (especially for products like coffee, oilseeds, and dairy, in which rapid processing increases value)
- Providing cash advances to farmers to smooth their income

These services are especially critical in agricultural sectors for which a substantial share of production is commercialized. While Ethiopian farmers currently market about 20% of produced grain, this share, along with the need for farmers to access storage and market their crops, is likely to increase.61

**Current state in Ethiopia**

Cooperatives in Ethiopia have limited involvement in output marketing. Of the approximately 20% of smallholder grain output that is marketed each year, cooperative unions market 15% of commercialized maize, 20% of wheat, 15% of sorghum, and 10% of pulses.62 Cooperatives are especially active in marketing in the coffee and sesame sub-sectors. For instance, the Oromia Coffee Farmers Cooperative Union became the third-largest coffee exporter in 2011,63 with total sales exceeding 41 million USD. The Tigray Marketing Cooperative Federation exported over 13,000 tons of sesame in 2011, accounting for 6% of the national total, and plans to increase its exports to 30,000 Tons in 2012.64 There is also some evidence that cooperatives were able to buy cereals from farmers at a higher average price (by 7-9%) than their non-member counterparts.65

However, many cooperative members do not market through their cooperatives, and those that do often do not receive much of the gains from higher-tier cooperatives’ value addition and marketing. This is because primary cooperatives sell their output to unions and dividends trickling down from unions are often eroded by inefficiencies at higher tiers and dividend-related issues highlighted in the section on surplus allocation.
**Long-term strategic direction**

In the long term, in accordance with international and Ethiopian best practices, all agricultural cooperatives should at least provide the first two marketing services described above: selling output on behalf of farmers using robust market information, and having systematic marketing relationships with reliable demand sources. At the primary level, systematic marketing relationships should usually be with unions. As discussed in the section on Macro Institutional Structure, unions should provide this marketing service on commission, with primary coops maintaining ownership of the outputs to ensure farmers earn a greater share of the gains from cooperatives’ marketing of their outputs. For unions, reliable demand sources often include large-scale local and international buyers.66

Another key feature of these demand relationships is consistent branding and quality control. In India, for example, some well-functioning coops like AMUL dairy cooperative have unpaid farmer volunteers in each village serve as quality checkers with local knowledge of when other members might be cheating. They also brand products based on their origin, production process, and other features to give members a common identity and help gain premium pricing.67

Also in accordance with international and local best practices, well-functioning cooperatives above the primary level should provide post-harvest storage, post-harvest processing, and cash advances in purchasing to help members increase their incomes. For example, Licha Hidaya Union in Ethiopia has a flour mill in which it processes wheat produced by its members.68 In Kenya, the Githunguri Dairy Farmers Cooperative Society processes milk in chilling plants and sells a number of branded value-added products; this plant is the Society’s main source of surplus.69 The order and extent to which coops will develop each service will vary depending on the commodity marketed by members. For example, dairy-marketing cooperatives will likely prioritize developing chilling plants, while grain-marketing cooperatives will likely put storage first.70 The scale at which these facilities will be established also varies by commodity. Wheat milling, for example, often occurs at a large central facility. Coffee wet mills, on the other hand, must exist close to farmers as coffee must be milled quickly after picking. This fact has enabled many primary coffee cooperatives to provide processing services, though higher-tier coops can also provide this service through a series of local processing-facility branches. In Jimma zone, for example, Shegole Cooperative marketed 162,000 USD of coffee from its wet mill in 2009, including 147,000 USD in export sales. The cooperative earned 21,672 USD from these sales, of which it paid 77% to farmers in advance.71

**Output marketing is a key area in which the transformation of Ethiopia’s cooperative sector must occur.** Cooperatives at the primary and higher-tier levels should be strengthened in order to create more effective and profitable links between smallholder farmers and domestic and international markets. Similarly, those markets themselves should be strengthened through investments in the marketing infrastructure in which coops operate. Concerted effort in this area on both the cooperatives structure and infrastructure ends will shorten the value chain, create more value addition and enable smallholder farmers to capture a greater percentage of the ultimate price consumers pay for the commodities farmers produce. The specific division of roles among cooperative tiers (primary
cooperatives, unions, and federations) in enhancing the link to output markets is more thoroughly discussed in the section on Macro Institutional Structure.

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
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<tbody>
<tr>
<td>• Many coops have limited capacity to provide output marketing services</td>
<td>• Build coops’ capacity to provide output marketing services and contribute to a stronger marketing infrastructure [see enabling environment]</td>
</tr>
<tr>
<td>• Many coops have limited access to financing to invest in improving output marketing</td>
<td>• Strengthen the linkages between rural financers and coops [see enabling environment]</td>
</tr>
<tr>
<td>• The output marketing infrastructure within which coops operate is underdeveloped</td>
<td>• Strengthen demand channels, market information systems and storage and transportation infrastructure that cooperatives leverage in their output marketing activities</td>
</tr>
<tr>
<td>• Much of the gains from coops’ marketing does not accrue to farmer members</td>
<td>• Develop marketing relationships between primary coops and unions in which primary coops maintain ownership of outputs [see cooperative structure]</td>
</tr>
<tr>
<td>• Many coops that lack strong marketing capabilities are not incentivized to build/improve them</td>
<td>• Offer advanced certification to coops that provide service, plus other criteria [see coop structure]</td>
</tr>
<tr>
<td>• Many output buyers have limited trust in coops’ ability to deliver on contracts</td>
<td>• Provide coop reliability signal via advanced certification [see coop structure]</td>
</tr>
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<td></td>
<td>• Help identify and grow the interest of buyers for coop outputs and link them with capable coops</td>
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**E. Cooperative function: Surplus allocation**

The final core service well-functioning cooperatives provide to members is the efficient allocation of the cooperative’s annual surpluses. Members allocate surplus to five areas: a) investment in core capabilities, i.e., improving input procurement and distribution, extension, and output marketing, b) development of non-core surplus-generating activities, such as consumer finance and sale of consumable goods, c) social services, such as HIV awareness and school development, d) cooperative capitalization, i.e., increasing reserves, and e) payment of dividends. Smallholder farmers buy cooperative shares when they join and can add more based on the cooperative’s rules. Each share entitles the farmer to annual dividends and a share of the cooperative’s assets. Dividend is paid to members based on a combination of a) number of shares, and b) members’ utilization of the coops’ services, especially in output marketing.
**Current state in Ethiopia**

Most Ethiopian farmers cite dividend payment as the most influential reason for joining agricultural cooperatives. The Cooperative Proclamation mandates that 30% of cooperatives’ net surplus go to a reserve fund until that fund reaches 30% of the capital of the society. The allocation of the remaining 70% is decided by the General Assembly. The Proclamation used to also provide guidance for allocation (30% for reserve and the remaining 70% for dividend), expansion, social services, and others, by the General Assembly decision. However, General Assemblies often interpreted this guidance as mandatory, so an amendment to the Proclamation in 2004 removed the guidance and left allocation completely to the General Assembly. Total dividends paid out by coops have been increasing, growing nearly eight-fold (four-fold in dollar terms) from ETB 25 million in 2004 to ETB 191 million in 2010. However, these dividends come from relatively few coops (over 100 million ETB from two unions alone), and even fewer pay them on a timely basis. Coops can only pay dividends to members after a certified auditor has declared that the group made a net surplus, yet fewer than 35% of coops are audited each year.

**Long-term strategic direction**

As currently occurs in Ethiopia, cooperative surpluses should be allocated by members through the General Assembly. Many countries, including Kenya and Tanzania, have also included a reserve requirement until cooperatives achieve a certain level of capitalization, and Ethiopia’s decision to include this mandate can similarly help assure that cooperatives are lowering their risk, ensuring solvency and enabling collateral for borrowing. Additional guidelines are undesirable as they undermine the autonomy of the General Assembly.

In addition, as currently occurs in Ethiopia, there should also be a requirement that a cooperative’s surplus must be verified by auditors before they can pay a dividend. This implies that cooperatives, if they aim to pay annual dividends, must be audited annually and on time. Certified auditors with whom cooperatives can contract to provide annual audits must therefore be made more available.

**Key bottlenecks and prioritized actions**

<table>
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<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
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</table>
| • Many members/General Assemblies have limited awareness of surplus allocation best practices, and capacity to perform their surplus allocation role | • Build coop members’ capacity/awareness for allocating surpluses [see enabling environment]  
• Build coop leaders’ capacity to provide surplus allocation guidance to members [see enabling environment] |
| • Available audit capacity is insufficient for most cooperatives to receive an annual audit | • Build certified audit service providers’ capacity [see enabling environment] |
F. Cooperative function: Other services

As mentioned in the best-practice tenets, many well-functioning cooperatives choose to provide services beyond the core set described above. Such services can include consumer finance, sale of consumable goods, advocacy, social services, seed production, and many others. These services are usually not central to increasing farmers’ yields and incomes and therefore risk increasing complexity. If done well, however, they can strengthen the benefit of the cooperative to its members if done well.

Current state in Ethiopia

A number of agricultural coops currently provide consumer finance. Some cooperatives also distribute consumable goods. These two non-core services are a means of increasing cooperatives’ finances when done well and of responding to the seventh principle of cooperatives, which is concern for the community. Furthermore, 74% of cooperatives in Ethiopia provide some level of social service to members. The Cooperative Proclamation 147/98 used to suggest that 5% of cooperative surplus be allocated to social services, but that rule has been revoked. Common social services provided include construction of schools, health centers and roads, spreading awareness about HIV prevention and environmental protection, and improving clean water systems in the community. Some coops are forced to provide social services by local government officials. Cooperatives perform little systematic advocacy, though coop leaders sometimes actively participate on local issues.

Long-term strategic direction

In a well-functioning Ethiopian cooperative sector, agricultural coops should provide other services if members choose to do so, without undermining the cooperative’s financial viability. Cooperatives should thus offer mostly core services and only offer additional services once the core services have shown themselves to be sustainable. This core focus has been critical to the success of some new cooperatives in Ethiopia, especially in the coffee sector. Coops in India, Mozambique, Mexico, and elsewhere have a similar growth path, beginning with core services then expanding over time. Many of these well-functioning cooperatives certainly do add other services over time, after their viability has been established and in a way that sustains that viability. Consumer finance offerings in Mexican grain cooperatives and sale of consumable goods in Indian dairy cooperatives are two notable examples.

To preserve the autonomy of cooperatives, it is important that General Assemblies are free to allocate surpluses and budget their activities as they choose. Cooperatives that do aspire to expand their service provision and want help in doing so should be able to access budget guidance through capacity building programs that help them improve the effectiveness and sustainability of their core services before/as they expand to provide other services. These programs are discussed in more detail in the section on capacity building. For services like distribution of consumable goods that benefit cooperatives’ members and contribute to their own financial sustainability, such capacity building programs can help
cooperatives balance the tradeoff between intelligent diversification of surplus-generating services and over-complication of a developing cooperative’s operating model.

In addition, because agricultural cooperatives may find it difficult to reliably provide non-core services in the near term, government and others should find ways to create an enabling environment and strengthen other players to provide these services. SACCOs, NGOs, and other types of financing and social service providers can be strengthened, and advocacy can be increasingly provided by higher-tier cooperatives as they are formed over time.

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
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<tbody>
<tr>
<td>• Many members and leaders have limited best practices awareness to expand other services from core functionality over time</td>
<td>• Build members’ and leaders’ best practices awareness for trajectory of services [see enabling environment]</td>
</tr>
</tbody>
</table>
| • Some local government officials are not aware of the best ways to support cooperatives in providing services | • Create awareness among government officials of the role of coops and their relationship with local government  
• Strengthen the performance review process for local government officials related to cooperative relations [see cooperative structure]  
• Improve recourse mechanisms for coops in cases of inappropriate government interference |
| • Alternative providers of other services are not well-developed, often incentivizing government to turn to coops to provide them | • Strengthen the capacity of alternative providers of other services and improve the associated enabling environment |

### Cooperative structure and governance

**A. Cooperative structure and governance: Best-practice tenets**

This section considers how cooperatives are structured and governed to optimally fulfill their functions. It includes *how coops relate to each other* at a macro level, as well as *how each cooperative is managed and governed*. Finally, the government has an important role in governing cooperatives as well. International and local best practices suggest the following tenets:
How cooperatives relate to each other

Well-functioning cooperatives provide services for farmer members at three levels.

- At the local level, primary cooperatives often focus on agricultural production and farmer-level aggregation and distribution, often linking with higher-tier cooperatives for more advanced and centralized services.
- A second level of cooperatives operates at a higher scale, often at a regional or federal level with branches at the level of a district or zone as it may be the case. These entities are sometimes called cooperative unions, sometimes marketing federations, and sometimes other names. In some sectors, two tiers play this role (e.g. unions and federations), either because delivery infrastructure requires actors at three levels to reach farmers efficiently, as unions serve some commodities and federations serve others, or because unions and federations compete with each other (like some do in India). This secondary level of cooperatives often leads provision of many of the services discussed in Section 3.2.1, including procuring inputs from suppliers, facilitating quality-control extension for farmer members, linking with systematic output purchasers while providing value-added storage and processing, and expanding to other services over time, like seed production and sale of consumable goods. Primary cooperatives often form these second-level cooperatives around one commodity or a set of similar commodities, like coffee, dairy, or cereals. Examples include the Oromia Coffee Farmers Cooperative Union in Ethiopia (at region level) and the Gujarat Co-operative Milk Marketing Federation in India (at state level).
- A cooperative apex often provides marketing and advocacy at national and international levels and services like capacity building and financing for lower-tier cooperatives. Uganda’s UCA provides these functions for its coop sector.

Higher-tiered cooperatives form and grow over time, based on mergers and strategic alliances. In most countries, the cooperative sector grows as successful primary and secondary cooperatives grow, merge, and eventually choose to form higher level structures. Rwanda’s Federation of Rice Producers, Uganda’s Nucafe, and the Netherlands’ FrieslandCampina are examples. This process often occurs over decades, and reflects the decision of well-functioning lower-tier cooperatives to grow their scale and service provision to improve the benefits of the cooperative for members. Still, government does often play a supportive role in accelerating such growth and integration in many successful sectors, like India, Vietnam, and Uganda, which draws on beneficial features of Netherland’s autonomy and Taiwan’s rapid growth, while preserving a voluntary and member-based cooperative model.

Most well-functioning cooperative sectors’ secondary cooperatives provide services to primary cooperatives on a fee or commission basis, particularly in output marketing, so that ownership of products is maintained at primary cooperative level to increase the income to farmers. In Kenya, Uganda, and Israel, cooperative unions (or Area Cooperative Enterprises in Uganda’s case) add value to and market primary coops’ outputs, while the primary cooperatives maintain ownership of the outputs through their final sale. Unions receive commission for their activities, and a higher share of cooperative revenues tends to accrue to farmer members, since the ownership of the marketed product
remains theirs. In Israel, large potato and grape cooperatives use this scheme in marketing to domestic and international buyers, and they provide growers with ~50% of the final retail value compared with a global average of 12%. In Uganda, Area Cooperative Enterprises (ACEs) “bulk” primary cooperatives’ outputs, largely maize, beans, and coffee, and add value by sorting, grading, processing, and brokering sale with large institutional buyers. The early success of these ACEs over the past several years, including enabling greater value to accrue to smallholder farmers, has attracted significant attention from the international cooperative movement.

The extent to which cooperatives focus on a specific crop or business model depends on the maturity of the agricultural sector in which they operate. As the sector matures, farmers tend to specialize and the size of the agricultural sector as a percent of the actual economy begins to shrink. As a result, each cooperative tends to have greater scale and focus on fewer commodities. In developing sectors, most successful cooperatives are still focused around one commodity or business model, but some models feature a multiple-commodity focus in order to serve local farmers’ needs and to mitigate the risk factor of depending on solely one commodity. Both models can succeed, but in general a single commodity focus has been more effective. In Rwanda, for example, Nyamwasa (2008) highlights that “the Rwandan [cooperative] movement is characterized by...the disappearance of multifunctional cooperatives and joint cooperative bodies covering particular geographical areas and a tendency for cooperatives to be grouped on the basis of product categories.” However, the registration of cooperatives usually provides cooperatives with the flexibility to shift from one crop to another or to add crops as market opportunities present themselves.

Some countries with a mixed history of cooperative effectiveness have used a quality-based rebranding strategy to transform the effectiveness of their agricultural cooperatives sector. Countries like India, Vietnam, Rwanda, Uganda, and Mexico have executed such a strategy for several reasons:

- Re-branding (and/or re-formation) can help signal and differentiate a strengthened cooperative’s effectiveness and reliability to farmers and other stakeholders. In Uganda, Area Cooperative Enterprises have attracted significant funding from donors to fill the gap left by ineffective cooperative unions. In Mexico, financial cooperatives received one of four ratings indicating their quality, which affected the terms at which they could borrow.

- Having to achieve certain criteria before rebranding helps cooperatives align their institutional incentives with providing effective services to their members, as occurred when Vietnam required cooperatives to re-register as commercially oriented ‘new-style’ cooperatives. Incentives for cooperatives derive from the benefits of achieving and maintaining this advanced status, including priority access to capacity-building services.

- Rebranding can accompany a regulatory regime that gives cooperatives greater freedom from government interference. In India, cooperatives can register as Producer Companies and are regulated as businesses, while still retaining a cooperative ownership model, and are protected from state interference that tends to plague other cooperatives.
• Rebranding can help a country distance itself from a mixed history that inhibits some farmers from joining cooperatives. Rwanda for example renamed its agricultural cooperatives Farmer Associations for this reason.  

How each cooperative is managed and governed to execute its functions

Well-functioning cooperatives often structure their governance around four types of bodies. The system below is used by cooperative sectors in most countries, including Kenya, Uganda, Vietnam, Taiwan, the Netherlands, and Ethiopia.

• The General Assembly brings together all primary cooperative members and is elected by members to represent them at higher levels. This body meets at least once per year and appoints other governing bodies, reviews and approves the business plan, budget, proposed surplus allocation, proposed mergers or dissolution and audit results of the cooperative, revises bylaws and internal regulations as needed, and addresses escalated issues.

• The Board of Directors (or similarly-named organization) consists of 5-10 members elected by the General Assembly to hire and supervise the cooperative manager, direct General Assembly decisions to management and make recommendations to the General Assembly, set salaries for cooperative staff, and propose a business plan, budget, and surplus allocation for General Assembly review and approval. This body usually meets at least once every one to two months.

• The Control Committee (or similarly-named organization) is comprised of around three members elected by the General Assembly to ensure the Board and management follow the General Assembly’s decisions, bylaws, and internal regulations of the cooperative. They may perform occasional investigations and other duties given by the General Assembly.

• Other sub-committees are sometimes designated by the General Assembly for duties as needed.

These bodies ensure that leaders of the cooperative are responsive to farmer owners and effectively manage and govern the cooperative to perform the functions described earlier.

Well-functioning cooperatives often have professional, full-time managers. Evidence from around the world highlights strong management of cooperatives as among the most important determinants of the success of cooperative enterprises. International best practices consistently show that well-functioning cooperatives have professional, full-time managers, who are paid a competitive salary and are incentivized to perform well and remain for a long time if they do so. For example, in Taiwan, high-ranking staff at cooperatives tended to remain in the same position for 15 years or more. A joint review of successful cooperatives in several countries by the World Bank and ILO highlighted that “professional staff, if necessary coming from outside the members’ constituency, is hired and personnel retention policies are applied” in cases in which cooperatives are able to be financially sustainable. Part of the managers’ salaries are often tied to cooperatives’ surpluses and performance. Managers also face negative consequences for poor performance or abuse.

Well-functioning cooperatives have reliable internal management information systems such as financial and inventory-control systems. Such systems often become computerized and are increasingly important as the cooperative provides more sophisticated services, especially for output marketing.
Public sector governance

Over time, the government in a well-functioning cooperative sector focuses increasingly on oversight and regulation of the cooperative sector. This focus has been evident in all successful cooperative sectors, including those in Kenya, Tanzania, Uganda, Vietnam, Taiwan, Korea, and others. In most countries, the government also provided targeted support for the cooperative sector in its early stages. Over time, these services move to being provided by multiple private, public, NGO, and cooperative sector stakeholders. (These roles will be discussed in more detail in the section on the roles and responsibilities of the government).

Well-functioning cooperatives are autonomous from government interference, especially in two types of activities. Evidence in multiple countries suggests that government interference in two areas is especially detrimental to cooperatives’ service provision and financial sustainability:

- When government directs cooperatives’ decisions on what services to provide or how to provide them, cooperatives’ performance often suffers. For example, in India, many cooperatives have much lower productivity than their private sector counterparts because state officials often mandate them to prioritize social goals like overstaffing and price setting over economic ones. However, in Indian cooperatives where state interference has been absent, many cooperatives have productivity levels close to those of best-practice private enterprises.
- Government influence over the selection or removal of cooperatives’ leadership or staff is often detrimental. For example, when Zambian cooperatives allowed government officials to dismiss cooperative leaders as a check on management abuse, officials often made dismissals for other reasons such as power conflicts and personal priorities. Some cooperatives in Ethiopia have highlighted similar issues, despite such practices being against the law.

B. Cooperative structure and governance: Cooperative macro-institutional structure

The macro-institutional structure of cooperatives refers to the relations among all agricultural cooperatives in the country, at primary, secondary and apex tiers. Three main considerations that need to be made around a macro institutional structure are: how cooperatives are distributed across regions and value chains, how cooperatives interact with each other, and how cooperatives are distinguished among each other.

Current state in Ethiopia

Cooperative Proclamation 147/98 and regional regulations provide for four cooperative levels: primary cooperatives, unions, federations, and a national cooperative league to lead the cooperative movement for all types of cooperatives. Currently, there are 10,018 primary agricultural and multipurpose
cooperatives. 4500 (45%) of these cooperatives are members of one of 157 cooperative unions. There are also currently three agriculture-related federations at the regional level: an agriculture federation in SNNP, a multipurpose marketing federation in Tigray that focuses largely on sesame, and a grain federation in Oromia. The organization of primary cooperatives varies by region. In general, primary coops tend to serve one or several kebeles, while unions serve multiple woredas or an agricultural zone.

In addition, the marketing chain in the cooperative sector is lengthy with farmers receiving less revenue from their production than ideally possible. More specifically, as currently structured, farmers sell their outputs to primary cooperatives, which in turn sell to unions. In some instances, the unions process and sell the outputs to local or international markets. In regions where federations exist, the unions sometimes sell the outputs to regional federations which in turn sell to local or international markets. At each level of sale, prices are determined by market forces. This arrangement leaves little benefit to the farmers as all buyers strive to acquire goods at the cheapest price possible and then resell it to the highest bidder, adding overhead costs and margins. There are some that argue that farmers will eventually receive a benefit through this structure in the form of dividends, but in reality these rarely accrue to the farmer due to inefficiencies and high overhead costs in the higher-tier cooperatives.

Furthermore, the cooperative law currently stipulates that only multi-purpose cooperatives can provide services outside the remit with which they were funded. This limits single-purpose cooperatives’ ability to provide additional services when it makes commercial sense to do so and members want to do so. Finally, anecdotal evidence from local cooperatives experts suggests that fewer than half of the 10,000 registered agricultural cooperatives are fully providing services.

**Long-term strategic direction**

The strategic direction for coops outlined in this document includes cooperatives at the three levels described in the best-practice tenets:

Primary cooperatives at the level of one or a few kebeles should serve farmers locally as outlets for farmers to aggregate input purchases and output sales. At the local level, primary cooperatives should focus on agricultural production and farmer-level aggregation and distribution, linking with higher-tier cooperatives for more advanced and centralized services. In doing so, primary cooperatives should maintain ownership of outputs, with higher-tier cooperatives providing those additional services, as well as marketing to institutional buyers at the best market rate, on behalf of primary cooperatives and receiving a commission for this service. This model, employed in Kenya, Uganda and Israel, among others, can help a greater share of gains from these services to accrue to farmers. In Uganda, for example, Area Cooperative Enterprises (ACEs) bulk primary cooperatives’ outputs, and many add value through sorting, grading, agro-processing and disseminating market information. They also help link farmer members with input suppliers and extension services. Each ACE consists of about 5-20 cooperatives from a certain region, and markets/adds value to the primary coops’ outputs on commission while the primaries maintain ownership through final sale. As a result, more income accrues to the farmer. Farmers should also benefit from a streamlined marketing chain in which one main tier markets at a higher level (with the exception of some marketing by an apex).
This second level of cooperatives, operating often at a regional level with office branches at the level of a district or zone as necessary, should help primary cooperatives achieve economies of scale in service provision and value addition through agro processing and output marketing on behalf of their primary societies, again while primary coops maintain ownership of the outputs. Since these entities are sometimes called cooperative unions and sometimes marketing federations, it may create confusion. Having all the regions using the same terminology, such as unions, will help to create uniformity. The current unions and federations at the regional level are many and may be duplicating each other. Thus, current unions should be encouraged to join together through mergers and strategic alliances to consolidate their resources, enhance their performance and avoid unhealthy competition, resulting in an increasing of small farmers’ income.

At the third level, an apex body in the form of the national federation of agricultural cooperatives should provide marketing and advocacy at national and international levels and support services for lower-tier cooperatives. An apex represents the movement to stakeholders and helps facilitate key capacity building and other services for cooperatives in the country. The FCA and regional promotion agencies, in addition to other capable service providers, strongly encourage the eventual taking over of these services by the coop movement itself. Kenya’s KNFC, Uganda’s UCA, and Vietnam’s VCA each provide these functions for their respective coop sectors. A three-tier cooperative model in Ethiopia ensures that the system is streamlined and thus ensures that smallholder farmers or the public sector are not being asked to finance and support unnecessary bureaucracies. Kenya, Uganda and South Africa, among others, have three tier cooperative movements with value addition at each level. This implies repositioning current cooperatives as follows:

**Figure 2: Illustrative macro-institutional structure**
This strategic direction can also help resolve the current lack of clarity between the federal and regional cooperative agencies about whether or not to promote federations at the regional or national level. By delineating unions as secondary-level cooperatives that exist up to a regional level and a national federation as a tertiary-level apex, current region-level federations can be recast as secondary cooperatives with regional scope, maintaining their important functionality and indicating a three-tier national structure that encourages scale at the union level and efficiency of the sector overall.

The second important aspect of the strategic direction related to the macro institutional structure of cooperatives is the introduction of a certification mechanism that provides clear guidelines for what is required to be considered a well-functioning agricultural cooperative. The experience of India, Rwanda, Malawi and Vietnam suggests that introducing an advanced-certification and rebranding scheme creates a very transparent roadmap and incentives for cooperatives to become more effective. In addition, it provides to farmers and other services providers a strong mechanism to differentiate well-performing cooperatives from others who are cooperatives in name only. Federal and regional regulators should agree on criteria for advanced certification, which could include:

- **Effective service provision:**
  - Coop is providing each of the four core services (input procurement and distribution, specialized extension, output marketing, and surplus allocation)
  - Output marketing includes contract(s) with reliable end markets and at least one value-added activity (at union level)
  - Coop meets ‘good gender practices’

- **Capable and active management and governance:**
  - Each Board and Control Committee member meets capacity qualifications, and bodies meet at least quarterly (see next section)
  - Manager meets capacity qualifications, works full time (see next section)
  - Other key staff meet capacity qualifications

- **Bankable:**
  - Coop is financially sustainable, generating surpluses on net
  - Assets and cash flow enable autonomous financing of services

- **Controls in place:**
  - Annual audit and inspection uncover no breaches of laws, regulations, or bylaws
  - General Assembly meets at least annually, and meets capacity qualifications, demonstrating understanding of roles/mission
  - Cooperative fulfills the terms of all contractual obligations into which it has entered

In Vietnam, India, Uganda, Malawi, and Mexico, this type of advanced certification and rebranding has been highly effective. In Vietnam, rebranded cooperatives became known as ‘new-style’ cooperatives as opposed to the previous ‘old-style’ coops. In India, cooperatives can register as Producer Companies, which allows them to operate as sustainable commercial entities while retaining a cooperative ownership and management structure. These Producer Companies have succeeded in forming systematic contracts with companies like Reliance Fresh and ITC. In Malawi, cooperatives were
rebranded as Farmers Associations because many farmers had negative associations with the term cooperative. In Uganda, Area Cooperative Enterprises have supplanted cooperative unions as effective providers of marketing services. In Mexico, financial cooperatives were assigned one of four ratings to signal their functionality to potential customers and refiners.

A term for advanced certified/rebranded cooperatives in each local language that conveys to farmers these coops’ effectiveness and sustainability should be determined in a consultative manner with key federal and regional stakeholders. The term Advanced-certified Agricultural Cooperatives (AACs) is used as a placeholder for this concept in the remainder of this Strategy.

The advanced certification and rebranding of coops as AACs will achieve the following key objectives:

- Certification/rebranding serves as a signal of quality for farmers, service providers, and value chain actors, reducing transaction costs and making membership more attractive
- Certification/rebranding gives cooperatives clear guidelines to align the incentives of managers and members and are consistent with international best practices, without making those guidelines mandatory and undermining cooperatives’ autonomy
- Annual renewal gives cooperatives incentives to continue meeting the certification criteria
- Support service providers have clear targets to help cooperatives achieve, and stakeholders can use those targets to assess the service providers’ effectiveness

Cooperatives will only aspire to achieve advanced certification if it confers benefits that make obtaining and retaining it attractive. Key incentives could include:

- Lower transaction costs with service providers on issues such as financing terms and audit costs
- Access to a support pathway to achieve advanced certification and intensive support on a first failure to renew the certification (see section on capacity building)
- More robust protection from government interference, with performance reviews of coop agencies focusing especially on their upholding the autonomy of AACs; this has been a key incentive for cooperatives becoming Producer Companies in India, and their high level of performance attests to the value of such a benefit
- Social recognition for being a well-functioning cooperative; Regional Cooperative Promotion Agencies currently denote ‘model cooperatives’ each year to enable this social recognition, but it comes with few other benefits and coops switch out of this designation every year

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much of the gains from coops’ marketing does not accrue to farmer members</td>
<td>Develop marketing relationships between primary coops and unions in which primaries maintain ownership of outputs and unions receive commission for marketing services</td>
</tr>
<tr>
<td>Most cooperatives currently lack the capacity to meet criteria for advanced certification</td>
<td>Directly target and build the capacity of cooperatives that meet the minimum criteria to gain and retain advanced certification</td>
</tr>
</tbody>
</table>
- Many members and leaders have limited awareness of best practices regarding the roles of different coop tiers or capacity to make them a reality for their cooperatives
- Build members’ and leaders’ best practices awareness for coop functionality and growth
- Build the capacity of members and leaders at each tier to grow functionality over time
- Cooperative regulators are not currently aligned around the right criteria for signaling well-functioning coops or ways to mobilize a signaling certification
- Convene regulators to agree upon the criteria for advanced certification
- Build regulators’ capacity to mobilize coop applications for advanced certification
- Current cooperative policies do not align with the long-term macro institutional strategic direction
- Refine the policy around cooperative tiering to reflect three-tier focus and emphasis on organic mergers/strategic alliance to fill out tiers
- Ease policy barriers to moving from single-purpose to multi-purpose cooperatives, as they restrict mergers and strategic alliances and have been highlighted as overly restrictive by cooperatives and local and international experts
- Strengthen the policy framework to accommodate the advanced certification and rebranding process

C. Cooperative structure and governance: Internal cooperative management and governance

Internal management and governance includes, a) cooperative governance by elected members, and b) cooperative management and daily functioning by a hired manager and staff. Cooperative governance considers the activities and decisions of the General Assembly, Board of Directors, Control Committee, and other sub-committees. Management and daily functioning considers the activities and decisions of the manager and staff, as well as the operating systems and structures that exist within the cooperative to manage the enterprise and deliver services.

**Current state**

Currently, Ethiopian government agencies provide guidance as best practices to cooperatives via model bylaws which their General Assemblies can adopt or revise as they choose. These guidelines reflect international best practice, but there is much room for improvement in how the bylaws are applied and enforced by individual cooperatives. Boards of Directors and managers frequently fail to meet the standards of professionalism required of them by their bylaws. In many situations, cooperatives do not have a full-time manager, do not properly compensate managers, and/or their manager is often a local smallholder with little professional training. While Cooperative Proclamation 147/98 stipulates General Assemblies should meet at least annually, and most cooperative bylaws indicate Boards should meet weekly, they often do not do so. In primary cooperatives especially, many governing bodies either do not meet or meet at the behest of cooperative promotion offices, in which case General Assemblies often have limited decision-making power over the meeting agenda, and meetings are even held in the presence of non-members.
**Long-term strategic direction**

In the long term, all agricultural cooperatives should have active and capable management and governance, implying a well-designed cooperative bylaws and effective implementation. Ethiopia’s model bylaws are close to international best practice and just need some refining to be consistent with the rest of the long-term strategic direction.\(^{135}\) Bylaws should be capably implemented and upheld, as illustrated in the figure below, via four mechanisms: capacity requirements, capacity building, positive incentives (rewards), and negative incentives (penalties).

**Figure 3: Bylaw implementation assurance framework for internal management and governance**

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**Capacity prerequisites** include training certifications that members must obtain after their election but before beginning to serve in elected posts in the Board of Directors and Control Committees. Currently, the fact that any cooperative member can assume a leadership role even without any qualifications is undermining the quality of cooperative leadership. In a country in which many farmers have very low levels of literacy and formal education, training prerequisites can help ensure leaders begin with basic knowledge and skills to lead the cooperative effectively.\(^{136}\) The UK cooperative movement, for example, employs this strategy to ensure cooperative leaders begin with basic levels of capacity and understanding.\(^{137}\) Certification content would be different for each cooperative tier, since Boards (for example) at the primary level perform different functions than those at a higher tier. Similarly, cooperative managers in Ethiopia often have knowledge gaps in either cooperative principles or commercial management (depending on their background).\(^ {138}\) Thus, managers should be required to meet certified capability standards in both of these topics, either by being certified in these areas ahead of time or by passing a training course available to hired managers.
Capacity building includes targeted training modules and delivery schemes for each leadership and staff group at each cooperative tier, including modules to help leaders improve computerized financial and inventory control systems to reduce fraud and mismanagement in accordance with best practices. This type of capacity building complements the prerequisite training indicated above and is discussed in the section on enabling environment.

Positive incentives (rewards) include the benefits, at the organizational level, that come from advanced certification for capable management and active governance, as well as at the managerial level, related to the compensation guidance associated with that certification. This guidance should include compensating managers to attract professionals willing to stay a long time, and tying compensation to the cooperative’s performance so that the remuneration to coop managers increases with greater coop surplus and member satisfaction. For example, some well-functioning unions in Ethiopia pay managers about 2% of net surplus.

Negative incentives (penalties) also exist at the organizational as well as managerial level and include three key sources of negative consequences to ineffective management and governance. First, when AACs do not sustain capable management and active governance, their certification is removed, as are the associated benefits. Second, a more active Control Committee (strengthened through the mechanisms above) can better monitor mismanagement and corruption and escalate cases to the General Assembly as relevant, or as a last resort to the government through the courts system. Third, regular audits and inspections can increase members’ and regulators’ visibility into cooperative mismanagement or corruption that occurs. Improving the provision of these services is discussed in sections on the roles and responsibilities of the government (inspections) and auditing and legal services (audits). Research shows coops perform better when such repercussions exist.

Key bottlenecks and prioritized actions

<table>
<thead>
<tr>
<th>Bottleneck</th>
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<tbody>
<tr>
<td>Many members and leaders have limited capacity to implement bylaws and effectively run coop</td>
<td>Provide systemic capacity building at all levels including prerequisite training to effectively implement bylaws and run the cooperative effectively [see enabling environment]</td>
</tr>
<tr>
<td>Audit and legal capacity to help members hold leaders accountable is limited</td>
<td>Strengthen audit and legal capacity from a variety of service providers [see enabling environment]</td>
</tr>
<tr>
<td>Cooperative leaders currently face few incentives or requirements to be active and capable</td>
<td>Provide compulsory training for elected board and committee members before serving in their elected governing posts, and managers to gain certification before beginning their post</td>
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<tr>
<td></td>
<td>Offer advanced certification to coops with active and capable leaders, in accordance with the suggested long-term strategic direction</td>
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<td></td>
<td>Strengthen government’s inspection capacity to regulate coops</td>
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D. Cooperative structure and governance: Roles and responsibilities of the federal and regional government

This section explores the roles and responsibilities of public sector cooperative governance at all levels of government: from kebele, woreda, zone, region, and federal levels. In many countries, including Ethiopia, dedicated cooperative governance offices exist at many of these levels, largely to provide oversight and regulatory support. In many countries, government provides support or promotion services for recently-formed cooperatives, either through those same offices or often, as in Kenya and India, through others so that oversight and regulation are separated from promotion roles.

Oversight and regulation roles typically include:

- Registering/certifying cooperatives and supporting member-led dissolution as relevant
- Conducting inspections
- Monitoring cooperative performance (including audit results), maintaining performance indicators, and taking any ensuing action as stipulated by cooperative laws
- Enforcing policy rules and regulations, and helping refine these as relevant
- Regulating services for coops, including capacity building, financing, audit, legal, and formation
- Promoting the development of market-related infrastructure within which coops operate

Promotion/support activities for newly-formed cooperatives, when exercised, typically include:

- Helping farmers form new cooperatives
- Providing services to cooperatives, including capacity building, financing, audit, and legal services
- Developing coops’ enabling environment by investing in the capacity of non-government service providers and increasingly helping government services migrate to these providers
- Promoting the cooperative model to non-members and service providers, often through communications and public relations campaigns

Current state in Ethiopia

The primary government cooperative offices are the Federal Cooperative Agency (FCA) at the federal level and Regional Cooperative Promotion Agencies (RCPAs) at the regional level, the latter of which oversees zonal and woreda cooperative promotion offices. The reporting structures for the FCA and RPCAs have changed frequently. The FCA was established in 2004 by pulling type-specific cooperatives (e.g., agricultural, savings and credit, housing) together under the Prime Minister’s office. It then shifted to the Ministry of Rural Development, then the newly-constituted Ministry of Agriculture and Rural Development. However, government officials saw that non-agricultural cooperatives were somewhat
neglected under this structure, so the FCA moved to the Ministry of Trade in 2010.\textsuperscript{145} RCPAs vary in their reporting structure by region. Currently, the Amhara RCPA is accountable to the Regional Bureau of Trade, the RCPAs of Oromia and Tigray report to their respective Bureaus of Agriculture, and the Cooperative and Marketing Bureau of SNNP reports to the regional President’s office.

Agricultural cooperatives in Ethiopia are formally autonomous, but some stakeholders have reported anecdotal evidence of local government interference in cooperatives’ formation and in some cases their day-to-day activities. This interference is not necessarily uniform across the country or over time, but is sufficiently strong enough that in some communities farmers identify cooperatives directly with the government.\textsuperscript{146}

\textit{Long-term strategic direction}

The long-term strategic direction for the role of the government is that it primarily provides capable, effective and focused oversight and regulation of the cooperatives sector. Governments in Kenya, Uganda, Vietnam, and Taiwan have increasingly taken on this role over time, and in countries like the Netherlands, the government played this role from the beginning of the cooperative movement.\textsuperscript{147}

In the near term, cooperative support should be structurally separated from oversight and regulation within government offices. Separating support and regulation is the norm in Kenya and India, and is recommended by a World Bank international review.\textsuperscript{148} Subject matter experts in Ethiopia also recommend this separation to ensure regulation roles are unbiased by support and promotion responsibilities.\textsuperscript{149} Furthermore, oversight of AAC support providers, discussed in the section on capacity building, should occur in a separate department at regional and federal levels from the department that registers and certifies cooperatives.

The government will also address the inconsistent governance of cooperatives across regions and confusion over the roles and responsibilities of federal and regional authorities, including their nomenclature. In the long term, the government should explore having cooperative oversight agencies sit within a dedicated or semi-dedicated Ministry of Cooperatives. Such a Ministry exists in Kenya, India, Tanzania, Indonesia and Malaysia, mainly due to the fact that cooperatives are cross-sector enterprises. Cooperatives play a role in many sectors of the country’s economy, including agriculture (about 25\% of coops in Ethiopia), credit (about 18\%), housing (about 18\%), and others.\textsuperscript{150} They also have a dual orientation, with both economic and social goals and missions. Stemming from this cross-sector nature, when cooperative agencies in Ethiopia have been under specific Ministries in the past (e.g., Agriculture, Trade, etc.), their decision-making for non-Ministry coop issues has been somewhat overlooked.

However, this possible long-term direction would be difficult to undertake in the current GTP period, and a near-term governance structure must be put in place during this period. This near-term structure will address key issues with the current governance structure, including:

- Inconsistent reporting by FCA and various RCPAs to different Ministries/offices
- Unclear roles and responsibilities of FCA and RCPAs in relation to coops and each other
• Limited support and oversight from the Ministry of Trade due to the Ministry’s strong focus on import/export activity at the expense of other coop activities

To address this reporting issue, it is crucial to move cooperatives offices to report to the Ministry of Agriculture, at federal level, and Bureau of Agriculture, at regional level. The Ministry and Bureaus of Agriculture are well positioned, especially in the near term, to provide cooperative oversight agencies with the integrated support for agricultural and other issues that must be addressed to enable cooperatives’ growth and strengthening in the GTP period. Special care must be paid, however, to support of non-agricultural cooperatives, as such cooperatives may be relatively overlooked in the context of Ministry/Bureau of Agriculture oversight.

Furthermore, regarding the issue of unclear roles, the FCA and RCPAs roles and responsibilities should be clearly defined as follows:

• FCA: develop and enforce federal regulations and oversight criteria; regulate and oversee cooperatives; regulate and oversee enabling services for the cooperatives in the country; promote federal market infrastructure development; capacitate regional officials; and assist regions

• RCPAs: in adherence to federal rules and regulations, develop and enforce intra-region regulations and oversight criteria; regulate and oversee intra-region enabling services; regulate and oversee intra-region coops; promote regional market infrastructure development; and capacitate local officials

A similar system exists in India, where each of its 28 states regulate cooperatives and services within their state, and many have a parallel cooperative law that is consistent with the federal government’s Model Law. The federal government regulates cross-state cooperatives and services, while also ensuring these coops and services follow the regulatory regime of each state in which they operate.\(^{151}\)

**Key bottlenecks and prioritized actions**

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| Government’s oversight/regulation function is currently unclear to many officials, who also often have limited capacity to execute that function | • Strengthen policy to clarify and codify government roles [see enabling environment]  
• Build the capacity of federal and regional officials to understand and carry out their regulation/oversight function |
| Current government reporting structure requires strengthening in visibility, decision-making authority, and relationship clarity among coop regulating bodies | • Position the FCA under the Ministry of Agriculture and RCPAs under Regional Bureaus of Agriculture  
• Strengthen the capacity of Ministry of Agriculture and Regional Bureaus of Agriculture to provide greater support and guidance to the FCA and RCPAs, including to non-agricultural coops |
Enabling environment

A. Enabling environment: Best-practice tenets

The enabling environment of the cooperatives sector considers the policy and regulatory environment for the cooperatives sector, and the services available to cooperatives to support their organizational growth and service provision. Given the communal nature of cooperatives, the role of the government and supporting organizations is critical to ensure that the sector has the appropriate level of support and guidance, particularly in the early stages.

Policy and regulatory environment

Many well-functioning cooperatives sectors have a single comprehensive policy that conveys the strategic direction of the sector and defines the roles and relationships between various stakeholders within the sector. Most countries have a cooperative development policy, including Kenya, Tanzania, Ghana, South Africa, and Uganda. The ILO, ICA, UN Summit, and key stakeholders in Ethiopia recommend such a policy as an important contribution to cooperatives sector development. Such policies often:

- Delineate various kinds of cooperatives
- Clarify the country’s strategic direction to inform support programs and objectives, cooperative autonomy, and interaction with other key policies, like gender impact and agricultural finance
- Define the relationship between government and cooperatives, and coops and their members

Most well-functioning cooperatives sectors have documents that define their policy, laws, regulations, and model bylaws. Each of these documents serves a different purpose, namely:

- Policy: see above
- Laws: federal and regional laws regulate the cooperatives sector, enforceable from the federal level down through regions, counties, and villages
- Regulations: provide detailed rules that enforce the laws
- Model bylaws: suggest certain bylaws for the cooperatives which the General Assembly can choose to institute, refine, or reject

Government officials enforce this policy and regulatory environment by having the required capacity and being held accountable to doing so. In many countries, including Ethiopia, there are strong cooperative laws and regulations, but they are not always well enforced. To improve enforcement, two parallel strategies are often used: a) capacity building to improve officials’ ability to enforce rules and regulations, and b) accountability mechanisms to better incentivize officials to enforce rules and regulations. Accountability mechanisms can include performance reviews from capable superiors,
inspections by third party regulators, and empowered legal recourse for parties to take a violating official to court.¹⁵⁵

**Services available to cooperatives**

**Key services available to well-functioning cooperatives often include capacity building, financing, auditing, legal services, and formation support.** Cooperatives require access to:

- Training services to continually improve their capabilities
- Credit to provide working capital for input and output marketing and large capital expenditures
- Insurance to mitigate the risk of their enterprise (increasing as a country’s economy develops)
- Certified auditors to satisfy regulatory requirements and assure financial compliance
- Lawyers and legal advisors who they can hire to address legal issues within the enterprise

Unlike many other self-sustaining enterprises, cooperatives often also require support in their formation to overcome the collective action problems entailed by the cooperative model. The free rider problem and other market failures sometimes make it difficult for coops to form naturally, so many governments support cooperative formation. For example, the majority of coops in Andhra Pradesh in India were formed with government assistance.¹⁵⁶ In China, local officials supported the formation of 84% of coops.¹⁵⁷ In Ethiopia, government has supported the formation of 63% of coops, and NGOs an additional 11%.¹⁵⁸

In the long term, cooperatives access services on commercial terms from several service providers. For example, Kenya’s Cooperative College provides capacity building to cooperatives for a fee. Its Cooperative Bank also finances cooperatives at interest rates and terms negotiated by contract.¹⁵⁹ Legal and audit resources are increasingly provided by both private and public auditors as the cooperative sector develops, so that coops pay for this service in the long run.¹⁶⁰ Formation support is often provided by the cooperative movement for free or at a discount, but becomes less important as the number of coops increases and most farmers begin to join an existing coop at their will.¹⁶¹ Over time, coops bear an increasing proportion of the price of these services, for example through fee sharing for capacity building in Vietnam and India, and credit guarantee schemes in Taiwan and Kenya.

**B. Enabling environment: Enabling policy and regulatory environment**

The policy and regulatory environment consists of the basic documents (cooperative policy, proclamation, regulations, and model bylaws) by which cooperatives are registered, regulated, and held accountable to their members. It also includes less tangible agreements and conventions that enable policy and regulations to be consistently enforced.
Current state in Ethiopia

Ethiopia’s cooperative policy is currently spread across several documents, including the Agriculture and Rural Development Policy and Cooperative Proclamation 147/98, which is considered to be one of the strongest cooperative laws in Africa. However, the Proclamation could be further strengthened by defining the non-legal aspects of cooperative policy, such as the role of women and youth, the relationship of cooperatives with various stakeholders, and education and training. Unclear roles of stakeholders within the sector help explain the periodic inconsistent governance and cooperative performance in the country.

Beyond the regulatory framework, most regulatory bodies at federal and regional level have limited capacity to implement and enforce the existing rules; this problem is sometimes exacerbated by the mindsets of some government officials that are not conducive to upholding the letter or meaning of the laws.

Long-term strategic direction

The experience of countries like Kenya, Tanzania, Ghana, South Africa, and Uganda, and the recommendations of FCA, ILO, ICA, and stakeholders within Ethiopia suggest that the cooperatives sector in Ethiopia could benefit from bringing together all current policies related to cooperatives under a comprehensive and integrated national cooperative policy. The policy would clarify the roles and relationships of various stakeholders in the sector and help the government define a strategic direction for the sector in areas outside the scope of the Proclamation. It could also reflect the reforms suggested in this report. The Cooperative Proclamation and relevant regulations should then be revised as needed to be consistent with this policy. Evidence from India, Kenya, Uganda, and even the introduction of the Proclamation in Ethiopia show that the introduction of a policy had a significant positive effect on the performance of cooperatives and service providers.

A comprehensive policy should be developed in a participatory manner and should include the perspectives of cooperatives, government stakeholders, and others. All local government officials should then be trained in the comprehensive policy and associated rules and held accountable for its implementation. This accountability could be achieved through:

- Near-term performance reviews of implementing agencies (see section on government roles/responsibilities)
- After a period of awareness creation and training, providing legal recourse mechanisms to cooperative members and leaders to hold officials accountable for any activities contrary to the new policy (see section on auditing and legal resources)
Key bottlenecks and prioritized actions

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| • The cooperative policy in Ethiopia is currently spread across several documents | • Convene stakeholders to strengthen the policy framework via the development of a comprehensive and integrated cooperative development policy for the country  
• Translate any policy changes to related laws, regulations and model bylaws, as relevant |
| • Many members and leaders will have limited awareness of strengthened policy framework and limited capacity to operationalize it | • Build members’ and leaders’ awareness of the strengthened policy framework, and their capacity to operationalize it [see below] |
| • Officials charged with enforcing policy at all levels have insufficient capacity and accountability to properly implement policy guidelines | • Build oversight officials’ capacity to enforce the policy, rules, and regulations at all levels   
• Institute performance reviews of government cooperative offices |

C. Enabling environment: Capacity building for cooperatives

Capacity building is one of the most critical services provided to cooperatives, especially in the early stages of their development. Without a systematic, well-designed and periodically refreshed capacity building program, it is extremely difficult to manage or maintain a high level of operations for cooperatives at any level. In general, capacity building consists of two elements: capacity building content, and the institutions and process by which the content is delivered.

• Content includes the substance with which programs help cooperative members and leaders at all levels improve their knowledge and skills to strengthen the functionality of their cooperative. This substance is tied to how it is delivered; some capacity building programs include learning journeys to other countries; others include mentorship by former well-functioning managers.

• Institutions include public, private, NGO, and cooperatives sector actors that develop and deliver content to cooperative members and leaders, or to other cooperative trainers, through trainings at the level of specific cooperatives or available at a system level for many coops to access.

Capacity building services may be aimed at cooperative members; governing bodies like the General Assembly, Board of Directors, and Control Committee. In addition, they aim to address managers and cooperative staff, and other members of the community who are not members of the cooperative, particularly women and youth, through awareness creation programs.
Current state in Ethiopia

Government agencies, public universities, and NGOs currently provide most of the capacity building to the cooperatives sector in Ethiopia. Over the past five years, the FCA alone has trained a significant number of promoters, auditors, and legal advisors. It has also trained about 409 people from the cooperative movement, including union board members, managers, and hired coop staff. Universities (including Haramaya, Mekele and Ambo) produce about 200 to 300 cooperative graduates every year, and Ambo and Mekelle also offer secondary degrees in cooperative topics. The Ardaita Cooperative Institute was designed to train cooperative promoters and accountants, but now also offers more general training for extension agents. Cooperative unions and NGOs also provide capacity building services. For example, in 2010, TechnoServe trained Business Advisors that in turn helped capacitate 68 coffee coops in the Jimma and Ilu Ababor zones.

However, capacity building programs’ content is often out of date, impractical, redundant and not tailored to agricultural cooperatives’ needs. The limited capacity of cooperative members and leaders remains a critical constraint to the development of the sector. The member farmers who are elected to be the Board of Directors of their cooperatives often have a low level of education and limited knowledge of cooperatives principles and governance.

Long-term strategic direction

The long-term strategic direction first considers the content of capacity building programs, then the institutions that develop and deliver these programs at both the system and cooperative level.

Content should have four primary features:

- **Tailored:** content should be tailored to each level of cooperative membership and leadership at each cooperative tier. The skills and knowledge needs for managers at union level, for example, are often commercially-focused and would include how to contract with input and output markets, manage computerized accounting systems, and access investment financing. The skills and knowledge needs for members at primary cooperative level, on the other hand, are often focused on raising awareness of rights, responsibilities, and membership opportunities, linking with higher-tier coops, and capacity to perform key General Assembly functions (like deciding on cooperative bylaws, approving budgets, and holding leaders accountable).

- **Results-oriented:** content should be targeted to achieve specific results. While capacity building programs all aim to help cooperatives improve their functionality, perspectives often differ on what this entails. For example, some programs focus on helping coops improve social services, and others focus on helping primary coops increase their functionality to do what second-tier coops do in most well-functioning cases. Capacity building programs for agricultural cooperatives should align their results targets with the rest of the long-term strategic direction: helping coops build capacity to meet the conditions for advanced certification, and once certified, increasingly improving their member service over time.
• **Quality-controlled**: capacity building content should be regulated and certified to ensure it meets the standards of being practical, up-to-date, and effective in helping coops become AACs. Regulators apply such certifications in countries like Kenya, Tanzania and the UK.¹⁷⁵

• **Demand-driven**: capacity building programs around the world are most effective when driven by the demand of the leaders and members they serve.¹⁷⁶ One key way to ensure services are demand-driven is to have cooperatives pay a fee for capacity building services; this also helps ensure programs and cooperatives are sustainable. This fee is often paid at a discount in the near term as cooperatives build sustainability. In Vietnam, cooperative staff members are entitled to receive 50% of training expenses from the government whenever they participate in government training programs, and cooperative officers receive 50% of training expenses for training courses at universities, colleges, technical schools and vocational schools.¹⁷⁷

This content should also be of three types:

• **Prerequisite content**: trainings required for members to be eligible to run for governing positions, and required capacity certifications for cooperative managers (see section on internal management and governance)

• **AAC support program**: one-time, time-bound, partner-based capacity building program focused around whole cooperatives (vs. individual leaders) to which coops can apply, which helps them gain and retain advanced certification (see below)

• **Additional content for individuals and cooperatives**: trainings, courses, learning journeys, etc. available to interested cooperative members and leaders upon request

Institutions that should provide each of these types of content include the following:

**Prerequisite and additional content** should be provided in the long term by a dedicated Cooperative College ‘center of excellence’ and local branches, in addition to other certified service providers. A Cooperative College has been an effective medium for the development and delivery of coop-focused content in Kenya, Uganda, Tanzania, India, the Netherlands, and the UK.¹⁷⁸ These colleges provide capacity building services in three areas:

• Curricula, courses, and trainings that cooperative members and leaders access by attending programs at the College or through workshops/trainings in a given area

• Human capital development programs via courses and degrees for future coop leaders

• Research programs that study cooperative activities and impact, and provide consultancy to various stakeholders in the cooperative sector on associated data and analysis

Like such colleges elsewhere, Ethiopia’s Cooperative College should eventually be autonomous and supported by the cooperative movement, with near-term support from the government. The institution that should be developed to become a well-functioning Cooperative College is the Ardaita Institute. This institute currently has a relatively low capacity to execute this function, and its mandate has expanded beyond cooperatives in recent years, but in spite of that, the Ardaita Institute remains the best-positioned existing institution in Ethiopia to take on this role.¹⁷⁹ While the institute is not centrally
located, as would be ideal for a national center of excellence, it can establish local branches within regions and operate as a “college without walls” to ensure cooperative leaders and members can engage with capacity building content at a reasonable cost and timeliness, close to their enterprises. The current location should thus be used as a central point where all the activities are coordinated and as a training center for the nearby coops, while most training takes place in the regions so that relevant NGOs and private companies could provide the training as required.

An AAC support program, in the near term, should be implemented through two institutional formats:

- In some woredas, implement a government-driven program in which the government trains and pairs a Cooperative Development Advisor (CDA) with 3-5 cooperatives. The CDA should then support targeted cooperatives increasing their capacities over the next three years and gaining and retaining advanced certification. This model has met with some success in India with Cooperative Development Officers, and with some success in Ethiopia with cooperative-focused extension agents. Critical to the success of such a program is the deployment of well-trained Cooperative Development Advisors who have a clear/unambiguous mandate and well-defined measures of success.

- For other coops, implement a grassroots-service-provider program in which the government/development partners create a Request for Proposals (RFP) for public, private, NGO, and cooperative sector service providers to test their own capacity building models with a cohort of cooperatives. Parameters should include, a) the same objective (advanced certification), b) time-bound service (maximum of three years), as in the government-driven program, and c) additional content features as relevant. Government/development partners then select a set of service providers that apply, pair them with interested cooperatives, and fund their service.

After an initial validation period, an assessment can be made on which program works better in achieving its priorities (helping cooperatives gain and sustain advanced certification within the specified three-year period and at the most effective cost), and can increasingly scale that program to additional woredas. Five other important features of this program include the following:

- Cooperatives must meet basic guidelines (e.g., having a full-time manager, having an active General Assembly) to apply for AAC support
- A government Advanced-Support Office (within the Federal and regional government regulatory body) should accept coop applications for AAC support and match coops with partner programs for up to three years of support. As mentioned in the section on government roles and responsibilities, this role should be structurally separate (e.g., in different departments) from officials in charge of registration and certification
- Service providers providing AAC support perform a variety of services, including: a) directing capacity building services to improve the quality of the management and coops’ operations, b) helping coops link with value chain actors (e.g., input suppliers, sources of demand), and c) helping coops link with other service providers (e.g., financers, system-level capacity building as needed)
Given limited resources and the sheer extent of existing (10,000) and yet-to-be-formed primary and secondary cooperatives, the program should initially target a limited set of cooperative unions and their member primary cooperatives for the validation of each approach and then scale up based on success.

AAC Support Regulators should collectively agree on the parameters for focusing the initial support, which include:

- **Geographic focus**: on a targeted set of woredas for each program approach, likely in AGP and other government-prioritized high-potential and moisture-deficit woredas
- **Initial commodity focus**: beginning with government-prioritized crops
- **Previous and expected performance**: based on a track record of providing similar training

Finally, this program will evolve over time toward the longer-term strategic direction in three ways. First, content that proves effective can increasingly be institutionalized in Cooperative College programs. Second, AAC support programs will become increasingly less pervasive over time as more and more coops are already AACs. And third, coops that gain advanced certification and then fail to renew at an annual check should be able to access a second-chance pathway similar to this initial AAC support but shorter, so that instead of three-year support they receive one-year, for example. A second failure to renew would then trigger decertification, giving coops limited but effective support before needing to stand on their own.

The dual AAC support programs (one that is government driven and the second that is outsourced to external service providers but managed by the government’s Advanced-Support Office) is also an important design feature of the program.

**Key bottlenecks and prioritized actions**

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| High caliber Coop College does not currently exist in Ethiopia | Strengthen the Ardaita Institute’s mandate to begin developing into a world class Coop College  
Develop a prerequisite-content capacity building program, with near-term support as needed from experienced service providers |
| AAC support program does not currently exist in Ethiopia | Design and mobilize AAC support program through 1) structuring program elements, 2) identifying initial areas of focus, and plan for expanding, and 3) identifying service providers, coops, and linking them together  
Monitor the results of various partner programs, refine programs as needed, and increasingly scale the most successful ones |
| Government is not well-positioned to provide the needed oversight of AAC support and other capacity building programs | Federal and regional regulators create Advanced-Support Office that oversees the selection and financing of partners, and selects and matches coops for AAC support  
Federal/regional regulators develop standards for coop eligibility for AAC support, and for various capacity building content |
D. Enabling environment: Financing for cooperatives

Cooperatives need financing to fund ongoing operations in the context of seasonal revenue streams, to provide input and output marketing services on credit to members, to mitigate risk, and to invest in improving their capabilities and infrastructure over time. Agricultural cooperatives have a unique and challenging business model deriving from the riskiness of agricultural production. As such, tailored lending models are often required to serve them well. The most common sources of financing available to cooperatives include:

- Equity capital from members
- Savings from cooperative surpluses
- Discounted support from NGOs and others, either financial or in kind
- Input credit from input suppliers
- Pre-sale agreement credits and warehouse receipts from output purchasers
- Credit from rural financial institutions like banks, microfinance institutions (MFIs) and Savings and Credit Cooperatives (SACCOs)
- Insurance from insurance providers

Current state in Ethiopia

Cooperatives and other stakeholders have highlighted limited access to finance as a key constraint coops face to developing their capacities. An average multi-purpose cooperative only has approximately ETB 100,000 of its own capital and hence, financing is often necessary for cooperatives to improve services above what its own capital can provide. Most cooperatives have access to some financial products, but more sophisticated services like warehouse receipts and insurance are rare. Although significant progress has been made in recent years, many rural financial institutions generally have insufficient capital, reach, and capacity to provide agricultural cooperatives with services at the scale they need. The main rural financial institutions are currently SACCOs and MFIs, but their ability to serve agricultural cooperatives is limited. There are 7,233 SACCOs in the country, yet they provide less than one percent of the country’s total financing, and many struggle with low-capacity management and governance. MFIs are more pervasive, and some are quite strong. DECSI in Tigray and ACSI in Amhara are among the most effective MFIs in Africa. Yet most MFIs have been identified by cooperatives and other rural lenders as limited in their ability to robustly serve agricultural cooperatives because:

- Most MFIs’ financing mandate focuses largely on lending to individuals, with repayment assurance schemes targeting farmer-based rather than commercial- and/or coop-based financing (although this is changing – particularly with the larger MFIs in the north)
MFIs charge relatively high interest rates compared to other lenders, and international best practices in Taiwan, Mexico, Kenya, and elsewhere suggest cooperative development benefits from low-interest-rate financing. MFIs have limited reach in some parts of the country and there exists significant variability in terms of service quality, implying that not all Ethiopian agricultural cooperatives could transact with them to access financing. MFIs have traditionally lacked the financing capital that agricultural cooperatives require to improve their capabilities and finance ongoing operations as much as they need, though refinancing programs like RUFIP and Capital Link are helping to address this issue.

**Long-term strategic direction**

In the long term, cooperatives require three features of a financial system to ensure they have sufficient and sustainable access to financing:

- A dedicated source of financing capital
- Fully- or semi-dedicated commercially-focused financial institutions that have the mandate and capacity to access the dedicated capital to lend to agricultural cooperatives
- Financial products and services that effectively address agricultural coops’ key financing needs

A dedicated source of financing capital has been critical to the development of many countries’ agricultural cooperatives sectors. In some countries, including Taiwan, India, South Africa, and Mexico, this takes the form of a revolving ‘cooperative fund’ that provides low-interest lending to agricultural cooperatives. In other countries, including Kenya, Uganda, and India, Cooperative Banks are capitalized to provide financing specifically to agricultural coops and coops in other sectors. In all cases, this dedicated financing is often necessary to provide agricultural cooperatives with the types, extent and terms of financing they require. Agricultural cooperatives’ limited collateral and risky seasonal revenue streams limit their ability to access non-dedicated sources of financing to the extent they need to increase their capabilities and serve members well.

In Ethiopia, a dedicated revolving cooperative fund should be developed, especially since no Cooperative Bank exists with the national mandate or capacity to lend to cooperatives. Rather than developing these institutions from scratch, a dedicated Cooperative Fund should be capitalized in a national financial institution to make low-interest financing available to financial institutions that serve agricultural cooperatives quickly, systematically, and in accordance with international best practices.

Fully- or semi-dedicated financial institutions that lend capital to agricultural cooperatives often take the form of a Cooperative Bank, as mentioned above, or an Agricultural Bank, as existed in Taiwan (100% required toward agriculture) and Mexico (70% required toward agriculture). These institutions have sufficient reach, capitalization, and mandate to reliably serve most agricultural cooperatives, supplemented by capable competition from other commercial lenders that are also interested in lending to agricultural cooperatives.
In Ethiopia, no fully-dedicated institutions currently exist that could fill this role. However, MFIs and RUSACCOs should be strengthened, and their mandate expanded, to serve the role of a semi-dedicated financing institution for the cooperatives sector. In this way, MFIs and RUSACCOs can draw on the dedicated Cooperative Fund to lend to agricultural cooperatives at a relatively low interest. The growth and effectiveness of DECSI in Tigray and ACSI in Amhara illustrate that MFIs in Ethiopia could be a powerful source of financial services in rural communities, and could, over time, have the rural reach and focus required for agricultural-cooperative lending throughout the country.

While MFIs and RUSACCOs develop over time to fill this role, the Commercial Bank of Ethiopia should also be strengthened as a semi-dedicated lender to agricultural cooperatives so that even in the near term, cooperatives can access financing from a semi-dedicated institution with sufficient reach, capitalization, and mandate to reliably serve them. The CBE is the only financial institution currently positioned to do so, and its focus on commercial lending fits many of the agricultural cooperatives financing needs. The CBE’s mandate should thus be explicitly expanded to lend to agricultural cooperatives through an agricultural cooperative financing department within the CBE, similar to the agriculture-focused credit departments in Taiwan and Mexico.

However, a mandate from these institutions and a dedicated source of capital will likely be insufficient to catalyze substantial financing to agricultural cooperatives in the near term. The Development Bank of Ethiopia’s experience with RUFIP has shown that many cooperatives lack the collateral, finances, and management capacity to fulfill lending requirements, and as a result, the funds have been underutilized and/or redirected. To catalyze financing in the near term, credit guarantees could also be deployed to provide incentives for institutions to increase lending to agricultural cooperatives with low interest and manageable risk. These credit guarantees can be made available to the rural lenders that are best-positioned to lend to agricultural cooperatives, which can include the strengthened MFIs/RUSACCOs and CBE, as well as other interested lenders if they are better positioned to lend to a given agricultural coop. Credit guarantees have been successful in improving financial services to agricultural cooperatives in a multitude of local and international cases. For example, Taiwan has an institutional Credit Guarantee Fund, as do India and South Korea. Credit guarantees have also been used to support Ethiopian cooperative financing and have generally succeeded in increasing access and sustaining high repayment rates. To ensure these guarantees catalyze sustainable financing relationships, they should also incentivize cooperatives to improve their reliability as borrowers. Credit guarantees in the near term should thus primarily target coops that are working toward or possess advanced certification, since these cooperatives have developed, or are rapidly developing, their capabilities as reliable borrowers.

Finally, this institutional strengthening approach should be revisited in the medium term to ensure agricultural coops are indeed able to access the financing they need. Strengthening semi-dedicated lenders, in the form of MFIs/RUSACCOs and the CBE, is recommended as a prudent alternative to devoting considerable resources to create new institutions from scratch. However, since many countries have in fact required fully-dedicated lenders to achieve sufficient focus and specialization to mobilize financing to agricultural cooperatives, this approach will be revisited in the medium term. Other features of the recommended system, including the Cooperative Fund and credit guarantees, are
designed to mitigate the risks associated with a semi-dedicated institutional model and give this system the best opportunity for success.

**Financial products and services that effectively address agricultural coops’ key financing needs,** according to coops and financial institutions in Ethiopia and elsewhere, include:

- Ongoing working capital/commercial credit
- Investment/project financing
- Input credit
- Pre-sale agreements
- Insurance

Ongoing working capital/commercial credit and investment/project financing are often the main sources of financing that cooperatives require to meet their members’ needs and increase their capabilities over time. They also often require the greatest loan sizes. Accordingly, the capital and institutions described above are often the key sources of these types of services. In Ethiopia, MFIs/RUSACCOs, the CBE and other interested rural lenders should focus on providing these services to agricultural cooperatives.

Input credit is currently provided by the government, but in the long term should be provided by either rural financiers or input suppliers themselves when they choose to do so. Because the long-term strategic direction of cooperatives’ relationships with input suppliers includes transacting on mutually-beneficial and voluntary commercial terms, input suppliers should provide credit to coops when the two parties contract to do so, as occurs in Kenya, for example. Otherwise, cooperatives can access financing for input purchases through working capital, borrowing from MFIs, CBE, or other commercial banks. In the near term, the sheer extent of financing required to procure inputs will require the government to continue to provide credit, in accordance with the input procurement/distribution strategic direction described above.

Pre-sale agreements involve paying farmers for their output before the cooperative has sold it. Sources of financing for these agreements often include output purchasers (if agreed to in a commercial relationship), a warehouse receipt system (which is improving its functionality over time in Ethiopia), and sources of working capital financing, such as savings and credits services within agricultural cooperatives, and MFIs. In the long-term, these funding sources should be available to agricultural cooperatives. In the near term, cooperatives can integrate pre-sale agreements as needed with working capital borrowing, primarily from MFIs/RUSACCOs and CBE in conjunction with credit guarantees.

Insurance services should also be available to agricultural cooperatives in the long term. The process by which these services should be offered should be delineated over time, and can be based in part on the outcome of the micro-insurance diagnostic currently ongoing in Ethiopia. The success of insurance services for coops in countries like Kenya, which has a Cooperative Insurance Company, suggests a similar institution might eventually be desirable in Ethiopia.
Key bottlenecks and prioritized actions

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| Lack of dedicated capital and financing incentives to overcome the perceived credit worthiness issues of agricultural cooperatives | • Develop a revolving fund, similar to RUFIP for RUSACCOS, that provides capital for low-interest credit to agricultural cooperatives  
• Expand the availability of credit guarantees, particularly for coops that are working toward or possess advanced certification status |
| MFIs/RUSACCOS require strengthening to provide services for Ag coops with the low interest, high capital availability, and specialized product offerings consistent with international best practices | • Strengthen the human and financial capacity of MFIs/RUSACCOS  
• Facilitate capitalization programs like RUFIP II and Capital Link to especially capitalize MFIs/RUSACCOS improving their lending programs to agricultural cooperatives  
• Further strengthen RUSACCOS to play a strong complementary role in supplying agricultural cooperative members’ production financing needs |
| Other potential providers of financing for coops are not well-positioned to provide key services | • Strengthen input suppliers, warehouse receipt providers, and others to align around long-term coop financing strategic direction and improve their ability to contribute to it  
• Further explore best ways to make insurance services available to agricultural cooperatives |
| There is a lack of clear and dedicated financial institutions serving agricultural cooperatives | • Enhance MFIs’/RUSACCOS’ and CBE’s mandate to lend to agricultural cooperatives  
• Create agricultural cooperative lending structure within CBE, possibly through Ag Coop credit department  
• Revisit semi-dedicated model in the medium term and analyze if investing in fully-dedicated model is advisable |

E. Enabling environment: Auditing and legal services for cooperatives

An external audit from a certified auditor is an important feature of a well-functioning cooperatives sector and is required in many countries, including Kenya, Uganda, Tanzania, Zambia, South Africa, and Ethiopia. The audit should certify that a coop’s financial accounts are complete, transparent, and accurate, and verify the extent of any surplus earned.

Legal services to cooperatives serve two main purposes. First, they help ensure that the coop’s statutes and contracts are legally valid and effective. Second, they can be used to charge a violating member, leader, non-member, or government official with a breach of the law. Legal services are performed by government, private, or NGO sector lawyers and other members of a legal department or firm.

Current state in Ethiopia
Proclamation 147/98 and its amendment require that cooperative accounts be audited every year. However, only 37% of primary cooperatives and 25% of cooperative unions were audited in 2010.\textsuperscript{202} Similarly, 3% of primary cooperatives and 25% of cooperative unions made use of legal services in 2011.\textsuperscript{203} Auditing and legal services are almost exclusively provided by the government at present, but the supply of both services falls well short of demand. There is little incentive for private auditors to fill the gap, since cooperatives receive public auditing services for free and face few consequences if they do not conduct an annual audit.

**Long-term strategic direction**

In the near term, auditing services must be quickly expanded to be available to all cooperatives while also maintaining the quality of the services provided. Evidence from around the world suggests that an annual audit for all cooperatives is a critical element of a well-functioning cooperatives sector which enforces and incentivizes cooperatives’ transparent and responsible service to their members.\textsuperscript{204} Rapid expansion of audit capacity should be achieved by growing a public sector audit provision, including by designating an independent parastatal audit firm overseen by the FCA, as currently exists in Tanzania.\textsuperscript{205} This dedicated firm should manage audit availability and ensure consistent audit quality across coops.

Over time, once audit availability has been assured for all coops, the government should transition public audit provision over to the cooperative movement itself in a fee-based system, which has worked well, for example, in the German cooperatives sector.\textsuperscript{206} The introduction of a fee-based system will ensure financial sustainability of the system, as is beginning to occur in Kenya and Tanzania.\textsuperscript{207} Also, in accordance with these and many other countries, Ethiopia could encourage the entry of additional private sector auditors in the long term, so that capable auditing services are available from a variety of well-regulated service providers.

Legal services should also have a diverse set of providers in the long term. In the near term, public sector capacity should also be quickly strengthened for the same reasons as those described above for auditing.

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
</tr>
</thead>
</table>
| - Audit and legal capacity for coops is well below need and the standard | - Increase public sector audit capacity by strengthening the regulatory directorate of FCA and establishing and quickly growing a federal cooperative audit firm  
- Increase investments in public sector legal capacity  
- Over time, ensure financial sustainability by migrating services to cooperative movement, requiring coops to pay for such services and enabling the entry of additional private sector service providers |

F. Enabling environment: Support for cooperative formation and early existence
As discussed in the best-practice tenets, farmers often obtain support from government, NGOs, or the cooperative movement to overcome collective action constraints and form a viable cooperative. While farmers organized in some countries, like the Netherlands, without such support, many cooperatives in Taiwan, Korea, Kenya, Uganda, India, Vietnam, and others were formed with the support of government and NGOs. Formation support helps farmers to develop cooperative governance institutions, bylaws, and a viability plan. It may also include early-stage capacity building and financing.

**Current state in Ethiopia**

Cooperative formation is occurring rapidly in Ethiopia: the number of primary cooperatives rose by 45% between 2005 and 2011. Cooperative laws and regulations stipulate that cooperatives:

- Can be initiated by any group that wants to pool its resources to solve socio-economic problems
- Can be established at different levels from primary up to the federation level
- At the primary level, comprise at least ten people who live or work in a given area

The main organizers and registrars of cooperatives are Regional Cooperative Promotion Agencies, supplemented by registration at the zone and woreda levels. Stakeholders have identified several problems with the establishment of new cooperatives, including:

- Limited consideration of rules and regulations when the cooperative is being established
- Little awareness by members about the need and importance of cooperatives
- Limited consideration of the specific requirements of different cooperatives
- Issuance of temporary certificates.

In general, early-stage capacity building is largely provided by the government, thus it shares many of the features and limitations of public sector service provision.

**Long-term strategic direction**

In the long term, cooperative formation should reflect the initiative of farmers and be supported by higher-tier organizations in the cooperative movement. For example, the Uganda Cooperative Alliance works with donors to organize Area Cooperative Enterprises to help farmers market commodities like grains, coffee, fish, and sunflower. Vietnam’s VCA and Kenya’s KNFU play similar roles.

As discussed in the section on macro institutional structure, higher-tier bodies are likely to form gradually as cooperatives and unions join forces to create them. In the interim, there is much the government can do to support formation, provided that it focuses on the quality, quantity, and effectiveness of newly established cooperatives. The FCA and RCPAs are beginning to develop quality metrics that will accompany their targets to increase the number of cooperatives serving farmers in the
83 priority woredas of the Agricultural Growth Program (AGP). The criteria for advanced certification can be a useful starting point: at a minimum, timely meetings of governing bodies, having professional managers, sustained growth in membership, and a path to financial sustainability should be necessary. Aligning quality metrics with advanced certification criteria has the additional advantage of inculcating good practices in coops from the start as such practices are often harder to change later.

**Key bottlenecks and prioritized actions**

<table>
<thead>
<tr>
<th>Bottleneck</th>
<th>Prioritized actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative formation currently prioritizes quantitative growth with little focus on coop quality</td>
<td>Incorporate quality metrics into the federal and regional support performance targets and assessments, especially in AGP</td>
</tr>
</tbody>
</table>

### 2.3 Strategic interventions

The bottlenecks and corresponding interventions, as indicated in table 2 and outlined in the previous section on guiding principles, fall into seven broad groupings:

**Table 2: Bottlenecks and corresponding intervention objectives**

<table>
<thead>
<tr>
<th>Bottlenecks</th>
<th>Corresponding Strategic Interventions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A lack of clear indicators signaling which coops are well-functioning impairs coops’ full development in terms of incentives to excel, regulators’ and service providers’ focus; and farmers’ and value chain actors’ meaningful relationships with coops</td>
<td>Develop an advanced certification process for well-functioning cooperatives, based on criteria that relate to effective and self-sustaining operations of their activities and the existence of a professional management and governance structure</td>
</tr>
<tr>
<td>Cooperatives lack the required capacity to become well-functioning and capacity building services are not effective enough to help them get there</td>
<td>Build cooperatives’ capacity through a well-structured and time bound advanced-certification support program, and by strengthening capacity building service provision - eventually to reside in a Cooperative College ‘Center of Excellence’</td>
</tr>
<tr>
<td>The financing system for agricultural cooperatives does not sustainably enable their access to the variety of financial services required to become well-functioning</td>
<td>Make the financing system for agricultural cooperatives sustainable: 1) by establishing a dedicated revolving fund and credit guarantees for coops working toward or possessing advanced certification; and 2) by strengthening existing MFIs/RUSACCOs and expanding the capacity of CBE/DBE to lend to agricultural coops</td>
</tr>
<tr>
<td>The marketing structure and infrastructure in which cooperatives operate, especially in output marketing, limits their effectiveness</td>
<td>Improve marketing structure and infrastructure: 1) by bringing gains from cooperative marketing more directly to farmers through more efficient value</td>
</tr>
</tbody>
</table>

[58]
and efficiency in serving members  |  chain structuring and union marketing of primary coops’ outputs on commission, and 2) by improving market information systems, demand channels, and efficient supplier relationships

| • Other cooperative services are not effective enough to serve well-functioning cooperatives | • Strengthen public sector audit, legal, and formation support services in the near term, and in the longer term, transition these services to the coop movement and/or other private providers
| • Structure, capacity and accountability for government oversight and regulation of the cooperatives sector is not sufficiently robust to govern a well-functioning sector | • Improve the structure, capacity, and accountability of public sector regulators at the federal and regional levels
| • Policy and regulatory framework constrains the development of a well-functioning cooperatives sector | • Develop a comprehensive coop development policy and guidelines.

Each of these intervention objectives is set out below with high-level activities corresponding to each objective. The respective roles of government and other potential delivery partners vary across these areas; where the majority of instruments are outside the public sector’s direct control, government can nevertheless play some role to encourage greater interventions other role players are taking on.

**Strategic Intervention 1: Develop an advanced certification process for well-functioning cooperatives, based on criteria that relate to effective and self-sustaining operations of their activities and the existence of a professional management and governance structure**

**1a. Undertake a participatory process with FCA, RCPAs, and others to develop rebranded name and criteria for advanced certification, including:**

- Effective service provision:
  - Cooperative is providing each of the four core services to a basic standard
  - Output marketing includes contract(s) with reliable end markets and at least one value-added activity (at union level)
  - Coop meets ‘good gender practices’
- Capable and active management and governance:
  - Each Board and Control Committee member meets capacity qualifications
  - Board and Control Committee meet at least quarterly
  - Manager meets capacity qualifications, works full time
  - Other key staff meet capacity qualifications
- Bankable:
  - Cooperative is financially sustainable, generating surpluses on net
  - Assets and cash flow enable autonomous financing of services
- Controls in place:
  - Coop accounts enable complete audit; and coop is audited annually
  - Annual audit/inspection uncover no breach of laws/regulations/bylaws
- General Assembly meets at least annually, and meets capacity qualifications demonstrating understanding of roles/mission
- Cooperative fulfills the terms of all contractual obligations into which it has entered

1b. Set up structures/processing for advanced certification, and begin certifying
   - Set up advanced certification departments in each RCPA, and processes by which those departments receive and assess applications for certification
   - Develop certification incentives/benefits to ensure coops at all tiers are incentivized to gain and retain AAC status
   - Spread awareness of advanced certification/rebranding to incite applications from qualified coops and work toward criteria from those not yet qualified

1c. Medium term: refine criteria as needed based on performance vs. objectives

Strategic Intervention 2: Build cooperatives’ capacity through a well-structured and time bound advanced-certification support program, and by strengthening capacity building service provision, eventually to reside in a Cooperative College ‘Center of Excellence’

2a. Design and mobilize advanced-support capacity building program
   - Initiate advanced-support program for pioneer cooperative unions and their member primary cooperatives in priority value chains
   - Design longer-term program structure and elements for both government-driven and grassroots-service-provider approaches
   - Identify cooperatives to receive advanced-support, based on coop demand
   - Identify service providers for advanced-support
   - Mobilize donor resources to help fund service providers
   - Develop and mobilize advanced-support capacity building programs for coops, based on needs and opportunities

2b. Develop Cooperative College
   - Strengthen the mandate of the Ardaita Institute to be a dedicated Cooperative College
   - Develop Coop College to perform key training, human capital development, and research functions, including designing and mobilizing training prerequisites for cooperative leaders
   - Strengthen and institutionalize content that meets quality standards, for each coop tier/body, responding to capacity needs highlighted throughout the report

2c. Medium term: monitor the results of advanced-support, refine and scale
   - Measure service provider’s performance, vs. objectives and costs
   - Refine programs as needed
   - Continue mobilizing resources to increase available support
   - Assess best scaling mechanisms, including how to expand eligibility to coops over time
   - Scale, and continue monitoring and refining

2d. Medium term: institutionalize most effective advanced-support in Coop College content
Strategic Intervention 3: Make the financing system for agricultural cooperatives sustainable: by establishing a dedicated revolving fund and credit guarantees for coops working toward or possessing advanced certification, and by strengthening existing MFIs/SACCOs and expanding the capacity of CBE to be robust available lenders to agricultural coops

3a. Develop a revolving coops fund to finance low-interest lending to agricultural coops
   o Mobilize resources from government and donors to capitalize fund
   o Develop and mobilize structures/processes for fund lending through financial institutions to coops

3b. Institute credit guarantees for lending to advanced-certified coops
   o Mobilize resources from government and donors to fund guarantees
   o Develop and mobilize structures/processes for mobilization of guarantees to coops working toward or possessing advanced certification

3c. Mobilize Ag coop lending through Commercial Bank of Ethiopia
   o Strengthen the mandate of CBE to include lending to agricultural cooperatives
   o Create lending structure/processes within CBE, possibly in Ag Coop department

3d. Strengthen MFIs/SACCOs lending to Ag coops
   o Build MFIs'/SACCOs’ human and financial capacity to meet coops’ needs
   o Explore guidelines and incentive to ensure that a percentage of lending is dedicated towards agricultural cooperatives
   o Further strengthen RUSACCOs to fulfill their potential of a strong complementary role in serving agricultural cooperative members’ production financing needs

3e. Medium term: help other potential sources of financing align around long-term vision
   o Spread awareness with input suppliers, warehouse receipt providers, etc.
   o Help financers improve service, especially for current/developing AACs

3f. Medium term: further explore best ways to make insurance available to agricultural coops

3g. Medium term: analyze the performance of semi-dedicated institutions model and revisit fully dedicated option as appropriate

Strategic Intervention 4: Strengthen the marketing structure and infrastructure within which cooperatives operate, by bringing gains from cooperative marketing more directly to farmers through more efficient value chain structuring and union marketing of primary coops’ outputs on commission, and by improving market information systems, demand channels, and efficient supplier relationships

4a. Strengthen the linkage between coops and improved output marketing infrastructure
   o Identify and implement strategies to strengthen demand channels, market information systems and storage/transportation infrastructure
   o Help identify and grow the interest of buyers for cooperative outputs, and link them with capable cooperatives

4b. Restructure the relationships between primary coops and unions
Identify and implement strategies that enable primary coops to maintain ownership of outputs that unions add value to and market on commission

Help cooperative unions develop ‘smart value chains’ through effective mergers and strategic alliances

**4c. Strengthen the linkage between coops and improved input marketing infrastructure**
- Explore a refined level of wholesale and retail coop margins that could support their viability while not negatively affecting input adoption rates
- Invest in strategies that support smallholder farmers to have other avenues to afford fertilizer and other key inputs
- Explore strategies for a more systematic overhaul of the cooperative input distribution system to increase its effectiveness and efficiency

**4d. Improve specialized extension training systems**
- Strengthen specialized extension agent training programs for coop extension services, possibly including ATVETs

**4e. Medium term: help input suppliers position their operations to transact with coops on commercial terms**
- In parallel with coop strengthening, help input suppliers position their operations so they can exchange in the long term directly with cooperatives on commercial terms

**Strategic Intervention 5: Strengthen public sector audit, legal, and formation support services in the near term, and in the longer term transition these services to the coop movement and/or other private providers**

**5a. Increase public sector audit and legal capacity**
- Develop a strong public audit firm under the oversight of the FCA
- Increase investment in the quantity and quality of public auditors, including ensuring all developing/current AACs have access to auditing services
- Increase investment in public legal capacity, including ensuring all developing/current AACs have access to legal services

**5b. Strengthen public sector formation support capacity**
- Include quality and quantity metrics for formation support, so newly-formed cooperatives (and government promoters) are held accountable to quality

**5c. Medium term: migrate service provision to coop movement/other private sector**
- Support the migration of public services to the coop movement over time, with services provided for a fee
- Ensure policy/regulatory environment enables private entry as appropriate

**Strategic Intervention 6: Strengthen the government’s cooperatives sector oversight and regulation function by improving its structure, capacity, and accountability**
6a. Align around a near and long term reporting strategy for coop governance
   o Move reporting to MOA and BoAs based on policymaker guidance

6b. Strengthen government oversight/regulation structure
   o Create Advanced-support Oversight offices within the FCA/RCPAs, and develop standards for coop eligibility for advanced-support

6c. Strengthen the capacity of government oversight/regulation officials
   o Build the capacity of federal, regional and local officials to enforce policies, laws, and regulations (incl. inputs policies), certify AACs, oversee advanced-support, and generally understand and execute their oversight and regulation function

6d. Medium term: migrate support/promotion roles from government to capable service providers, including the coop movement itself

Strategic Intervention 7: Strengthen the policy and regulatory framework to include a comprehensive coop development policy and guidelines on key issues requiring policy strengthening

7a. Develop a comprehensive and integrated cooperative development policy
   o Initiate a participatory process to develop a comprehensive multi-sector cooperative policy
     ▪ Describes government policy and strategy direction
     ▪ Clarifies roles and relationships of all stakeholders
     ▪ Incorporates features of long-term strategic direction, including:
       • Input procurement and distribution policy
       • Core service focus, including specialized extension
       • Advanced certification, capacity building standards, training prerequisites
       • Envisioned three-tier long-term structure with associated functions and relationships between tiers
       • Lower barriers to move from single- to multi-purpose
       • Greater enforcement for coop autonomy
       • Developing Coop College, MFIs/SACCOs, and CBE coop financing mandate
       • Additional issues that apply to all types and forms of cooperatives, in all sectors of the economy

7b. Integrate policy guidelines into the Proclamation and other policies
   o Revise other policies on input procurement/distribution as relevant
   o Revise Proclamation, regulations, and model bylaws as relevant

7c. Medium term: continue to refine policy, laws, and regulations as relevant
   o Including helping input procurement/distribution policies migrate to long-term strategic direction
CHAPTER 3: IMPLEMENTATION AND MONITORING PLAN

3.1 Work Plan

Implementing these strategic interventions will be an extensive undertaking, requiring coordinated activities from several key stakeholders and a budget of approximately USD 32,202,693. In addition, up to USD 300,000,000 will be sought for the cooperatives credit guarantee and revolving fund to catalyze their access to finance, especially for output marketing and value addition (this fund will remain beyond the five-year plan and accrue to consolidate the financial supply market for agricultural coops). It will also require substantial prioritization and pacing to ensure all tasks are achieved with sufficient focus and resources, and are propelled by earlier activities on which they are dependent. The action plans below lay out the outputs that will result from realizing each strategic initiative and the key activities, and their relative timing, that will be undertaken to achieve each output. The outputs also collectively contribute to a single outcome: effective and efficient agricultural cooperatives at all tiers that provide effective and sustainable services to their member smallholder farmers. Additional activities and factors beyond the scope of the Strategy’s implementation will also contribute to this outcome. The milestones and targets described below for each output, outcome, and impact will serve as guide-posts, against which the management of the Strategy’s implementation can be assessed, with course corrections made as needed to ensure all activities are undertaken effectively to achieve the outputs, outcome, and impact targeted.

These action plans will be translated in substantial detail into annual and more granular work-plans, organized by the seven strategic objectives and their associated outputs. The implementation of these work-plans will be overseen by national and regional steering committees, as described in the following section.
<table>
<thead>
<tr>
<th>Impact</th>
<th>Impact indicator/target</th>
</tr>
</thead>
</table>
| Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership | • 20% increase in income of smallholder farmers by 2015  
• 50% increase in average yield of key staples and oil crops from smallholder farmers by 2015 |

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Outcome indicator/target</th>
</tr>
</thead>
</table>
| Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members | • 40% of farm households in the four largest regions are members of agricultural coops by 2015  
• Total turnover of agricultural cooperatives in the four largest regions has doubled by 2015  
• 50% reduction in the number of agricultural coops reporting losses each year in the four largest regions by 2015  
• 100% increase in total dividends paid to members by agricultural coops in the four largest regions by 2015  
• 20% increase in percentage of female members of agricultural coops in the four largest regions by 2015 |

<table>
<thead>
<tr>
<th>Output</th>
<th>Output indicator/target</th>
</tr>
</thead>
</table>
| 1. Operational advanced certification system in the four largest regions actively certifying and rebranding agricultural cooperatives | • Clear criteria for advanced certification established by 2015  
• Advanced certification offices set up and functioning in each of the four largest RCPAs by 2015 |
| 2. Agricultural cooperatives have improved management and governance capacity to gain and retain advanced certification, and a Cooperative College helps coops improve their capacity | • 20 cooperative unions and 100 primary cooperatives have obtained advanced certification by 2015  
• 300 cooperative leaders meet established capacity standard (determined by Coop College) by 2015  
• Operational Cooperative College by 2015 |
| 3. Dedicated financial resources are available to agricultural cooperatives | • 5 billion ETB in financing funds is earmarked for agricultural cooperatives by 2015  
• 7 billion ETB is lent to agricultural cooperatives each year by 2015 |
| 4. The marketing structure and infrastructure within which agricultural coops operate is stronger, including gains from cooperative marketing steering more directly to farmers | • 20 cooperative unions marketing outputs on commission by 2015  
• One merger or strategic alliance has occurred among unions in each of the sesame, coffee, chickpea, barley, and tef value chains by 2015  
• 5 cooperative unions estimate their own demand for seeds and fertilizer by 2015  
• The average margin that coops are permitted by policy to earn for input distribution doubles by 2015 |
| 5. Audit, legal, and formation support services are available to agricultural coops in sufficient quantity and quality to help them gain and retain advanced certification | • 50% of agricultural cooperative unions and 50% of agricultural primary cooperatives are properly audited each year by 2015  
• Availability of legal services to agricultural cooperatives has increased by 50% by 2015 |
| 6. Government’s cooperatives sector oversight and regulation helps and does not hinder cooperatives’ gaining and retaining advanced certification | • 75% of agricultural cooperatives report effective oversight by government (including non-hindrance and effective regulation) by 2015 |
| 7. Improved and enabling policy and regulatory framework for agricultural cooperatives | • Operational harmonized cooperative development policy in place by 2015 |
### Action plan for Output 1

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td>Output 1</td>
<td>Operational advanced certification system in the four largest regions actively certifying and rebranding agricultural cooperatives</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator/target</th>
<th>Key milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear criteria for advanced certification established by 2015</td>
<td>Initial criteria established (2012)</td>
</tr>
<tr>
<td>Advanced certification offices set up and functioning in each of the four largest RCPAs by 2015</td>
<td>4 operational offices (2012)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Action plan</th>
<th>Year</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete study on recommended criteria, incentives, law changes, and structures/processes for advanced certification and rebranding</td>
<td>2012</td>
<td>54,000</td>
</tr>
<tr>
<td>Prepare and hold workshop with key stakeholders to define rebranded names, advanced certification criteria, benefits/incentives, ways to monitor/refine, institutional arrangements for certifying, etc. based on the study</td>
<td>2012</td>
<td>10,000</td>
</tr>
<tr>
<td>Institute changes to cooperative laws as identified in the study</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Set up institutional arrangements and certification processes for advanced certification in RCPAs/ FCA</td>
<td>2012</td>
<td>15,000</td>
</tr>
<tr>
<td>Develop database to monitor basic data and performance of all Ag coops in Ethiopia</td>
<td>2012</td>
<td>4,000</td>
</tr>
<tr>
<td>Design and mobilize awareness creation campaign for cooperatives, re: certification/rebranding</td>
<td>2012-2013</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total budget</strong></td>
<td><strong>US$ 108,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
## Action plan for Output 2

<table>
<thead>
<tr>
<th><strong>Impact</strong></th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome</strong></td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td><strong>Output 2</strong></td>
<td>Agricultural cooperatives have improved management and governance capacity to gain and retain advanced certification, and a Cooperative College helps coops improve their capacity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Indicator/target</strong></th>
<th><strong>Key milestones</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>20 cooperative unions and 100 primary coops have obtained advanced certification by 2015</td>
<td>20 pioneer coop unions receiving Advanced-Support (2012)</td>
</tr>
<tr>
<td>300 coop leaders meet established capacity standard (determined by Coop College) by 2015</td>
<td>Capacity standards set/operationalized in Coop College (2013)</td>
</tr>
<tr>
<td>Operational Cooperative College by 2015</td>
<td>Coop College operational (2014)</td>
</tr>
</tbody>
</table>

### Action plan

<table>
<thead>
<tr>
<th><strong>Action plan</strong></th>
<th><strong>Year</strong></th>
<th><strong>Budget</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify Y1 pioneer cooperative unions (and related value chains)</td>
<td>2012</td>
<td>5,000</td>
</tr>
<tr>
<td>• Identify capacity building partners for each pioneer cooperative union and member primary</td>
<td>2012</td>
<td>183,261</td>
</tr>
<tr>
<td>• Perform audit/needs assessment of pioneer cooperative unions and their member primaries</td>
<td>2012</td>
<td>183,261</td>
</tr>
<tr>
<td>• Develop advanced-support program for pioneer unions and member primaries</td>
<td>2012-2015</td>
<td>4,170,970</td>
</tr>
<tr>
<td>• Deploy capacity building programs for pioneer unions and member primaries</td>
<td>2012-2015</td>
<td>4,170,970</td>
</tr>
<tr>
<td>• Monitor the effectiveness of capacity building programs and make course corrections as necessary</td>
<td>2012-2015</td>
<td>4,170,970</td>
</tr>
<tr>
<td>• Identify Y2 cooperative unions (and related value chains) to receive Advanced-Support</td>
<td>2012</td>
<td>5,000</td>
</tr>
<tr>
<td>• Identify capacity building partners for each Y2 cooperative union and member primary</td>
<td>2012</td>
<td>183,261</td>
</tr>
<tr>
<td>• Perform audit/needs assessment of Y2 cooperative unions and their member primaries</td>
<td>2013</td>
<td>183,261</td>
</tr>
<tr>
<td>• Develop Advanced-Support program for Y2 unions and member primaries</td>
<td>2013</td>
<td>183,261</td>
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<tr>
<td>• Deploy capacity building programs for Y2 unions and member primaries</td>
<td>2013-2015</td>
<td>4,170,970</td>
</tr>
<tr>
<td>• Monitor the effectiveness of capacity building programs and make course corrections as necessary</td>
<td>2013-2015</td>
<td>4,170,970</td>
</tr>
<tr>
<td>• Repeat Advanced-Support process for Y3</td>
<td>2013-2015</td>
<td>4,354,231</td>
</tr>
<tr>
<td>• Conduct Cooperative College feasibility study and business plan development</td>
<td>2012</td>
<td>54,000</td>
</tr>
<tr>
<td>• Develop Coop College institutional arrangements (incl. governance and local branches) and integration of initial curricula (incl. leadership capacity standards for advanced certification, marketing modules, etc.)</td>
<td>2012-2014</td>
<td>2,500,000</td>
</tr>
<tr>
<td>• Compile Advanced-Support best practices and integrate into the curriculum development</td>
<td>2012-2015</td>
<td>60,000</td>
</tr>
<tr>
<td>• Explore the possibility of establishing capacity building prerequisites for cooperative leaders, administered through Cooperative College</td>
<td>2015-2015</td>
<td>27,000</td>
</tr>
<tr>
<td>• Assess the effectiveness of Coop College and help College management continuously improve/refine</td>
<td>2014-2015</td>
<td>27,000</td>
</tr>
<tr>
<td><strong>Total budget</strong></td>
<td><strong>US$ 15,820,693</strong></td>
<td></td>
</tr>
</tbody>
</table>
### Action plan for Output 3

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td><strong>Output 3</strong></td>
<td>Dedicated financial resources are available to agricultural cooperatives</td>
</tr>
<tr>
<td><strong>Indicator/target</strong></td>
<td><strong>Key milestones</strong></td>
</tr>
<tr>
<td>5 billion ETB in financing funds is earmarked for agricultural cooperatives by 2015</td>
<td>At least 100M ETB (2012)</td>
</tr>
<tr>
<td>7 billion ETB is lent to agricultural cooperatives each year by 2015</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Action plan</strong></th>
<th><strong>Year</strong></th>
<th><strong>Budget</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify institution to house initial credit guarantees</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>• Identify funding sources for pioneer-lending credit guarantees</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>• Design and put in place structures and processes for pioneer-lending credit guarantees</td>
<td>2012</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>• Design and put in place longer-term Ag-coop-lending revolving fund and credit guarantees</td>
<td>2012-2013</td>
<td>$50,000,000</td>
</tr>
<tr>
<td>• Transition pioneer structures/processes to longer term structures/processes</td>
<td>2012-2013</td>
<td></td>
</tr>
<tr>
<td>• Further fund the longer-term revolving fund and credit guarantees</td>
<td>2012-2013</td>
<td>$200,000,000</td>
</tr>
<tr>
<td>• Spread awareness of fund and guarantees to relevant coops and financing institutions</td>
<td>2012-2014</td>
<td>$25,000</td>
</tr>
<tr>
<td>• Conduct needs assessments/gap analysis on Ag-coops financing system</td>
<td>2012</td>
<td>$18,000</td>
</tr>
<tr>
<td>• Make necessary changes to policy/mandates/guidelines/incentives, based on study, to enable increased Ag-coop lending through CBE, MFIs, and RUSACCOs</td>
<td>2012-2013</td>
<td>$108,000</td>
</tr>
<tr>
<td>• Strengthen the CBE’s Ag-coop lending, based on study, through tailored structures, processes, products, etc.</td>
<td>2013-2014</td>
<td>$81,000</td>
</tr>
<tr>
<td>• Strengthen the Ag-coop lending of four large MFIs, based on study, through tailored lending structures, processes, products, etc.</td>
<td>2013-2014</td>
<td>$81,000</td>
</tr>
<tr>
<td>• Strengthen the Ag-coop lending of key RUSACCOs, based on study, through tailored lending structures, processes, products, etc.</td>
<td>2013-2015</td>
<td>$81,000</td>
</tr>
<tr>
<td>• Further explore best ways to make insurance available to agricultural coops</td>
<td>2015</td>
<td>$28,000</td>
</tr>
<tr>
<td>• Analyze the performance of semi-dedicated institutions and revisit a fully dedicated option as needed</td>
<td>2015</td>
<td>$46,000</td>
</tr>
</tbody>
</table>

**Total budget (ex. revolving fund)** | **$US 468,000** |
**Revolving fund** | **$US 300,000,000**
Action plan for Output 4

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td>Output 4</td>
<td>Strong agricultural coops marketing structure and infrastructure resulting into direct gains to farmers</td>
</tr>
</tbody>
</table>

**Indicator/target**

- 20 cooperative unions marketing outputs on commission by 2015
- One merger or strategic alliance has occurred among unions in each of the sesame, coffee, chickpea, barley, and tef value chains by 2015
- 5 cooperative unions estimate their own demand for seeds and fertilizer by 2015
- The average margin that coops are permitted by policy to earn for input distribution doubles by 2015

**Key milestones**

- 5 unions (2012)

**Action plan**

- Identify/make the policy-level changes required to develop smart value chains with unions marketing outputs on commission
- Integrate commission-based output marketing into the operations of pioneer sesame unions
- Integrate commission-based output marketing into the operations of additional agricultural unions
- Help interested unions/federations form a national agricultural federation
- Conduct smart value chain analysis for Y1 priority value chains
- Conduct smart value chain analysis for other value chains
- Execute smart value chain recommendations for priority/other value chains
- Conduct smart value chain analysis for region-level federations
- Execute smart value chain recommendations for region-level federations
- Conduct a study on recommended input distribution margins for Ag coops
- Refine input pricing/policy for Ag coops based on study recommendations
- Conduct a study on improving the affordability of inputs for coops and coop members
- Integrate recommendations into policy-level, Coop College, and Advanced-Support programs
- Help pioneer sesame and coffee cooperatives investment in expanding their storage infrastructure
- Conduct a study on improving storage and warehouse receipts infrastructure for Ag coops
- Integrate recommendations into policy-level changes and Coop College/Advanced-Support programs
- Conduct study on additional marketing changes for pioneer coops and others, including agro-processing, commission-based marketing, logistics, market information, input demand estimation, specialized extension, and others (identified in the study)
- Explore strategies for a more systematic overhaul of the cooperative input distribution system to increase its effectiveness and efficiency
- Systems and infrastructure implementation support for policy-level changes and advanced certification support programs

**Year**

- 2012
- 2012-2015
- 2012-2013
- 2012-2014
- 2012-2013
- 2012-2013
- 2012-2013
- 2012-2015
- 2012-2013
- 2013-2014
- 2013-2014
- 2013-2014
- 2013-2014

**Budget**

- 27,000
- 10,000
- 40,000
- 30,000
- 36,000
- 100,000
- 18,000
- 15,000
- 18,000
- 9,000
- 36,000
- 2,530,000
- 36,000
- 54,000
- 54,000
- 5,000,000

**Total budget**

- $US 8,049,000
**Action plan for Output 5**

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td>Output 5</td>
<td>Audit, legal, and formation support services are available to agricultural coops in sufficient quantity and quality to help them gain and retain advanced certification</td>
</tr>
</tbody>
</table>

**Indicator/target**

50% of agricultural cooperative unions and 50% of agricultural primary cooperatives are properly audited each year by 2015

Availability of legal services to agricultural cooperatives has increased by 50% by 2015

**Key milestones**

- 40% primary, 35% unions (2014)

**Action plan**

<table>
<thead>
<tr>
<th>Action plan</th>
<th>Year</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Conduct a study on supply and demand of auditing for Ag coops, including recommendations for quantity and quality increases, reinforcement mechanisms, and auditor pipeline</td>
<td>2012</td>
<td>27,000</td>
</tr>
<tr>
<td>• Based on the study findings, deploy near-term strategies to increase the number of qualified auditors available to Ag coops</td>
<td>2012</td>
<td>450,000</td>
</tr>
<tr>
<td>• Based on the study findings, develop consolidated public auditing structure and consolidate auditors within it</td>
<td>2012-2014</td>
<td>81,000</td>
</tr>
<tr>
<td>• Based on the study findings, institute reinforcement mechanisms for coops to be audited</td>
<td>2012-2013</td>
<td>10,000</td>
</tr>
<tr>
<td>• Rapidly increase the number of qualified auditors within the consolidated structure</td>
<td>2013-2015</td>
<td>1,350,000</td>
</tr>
<tr>
<td>• Address constraints to auditor pipeline through policy and incentives, based on study</td>
<td>2013-2014</td>
<td>10,000</td>
</tr>
<tr>
<td>• Ensure all current/developing advanced-certified cooperatives are audited each year</td>
<td>2012-2013</td>
<td></td>
</tr>
<tr>
<td>• Conduct a feasibility study and planning to migrate auditing structure to coop movement, with services provided for a fee</td>
<td>2015</td>
<td>27,000</td>
</tr>
<tr>
<td>• Conduct a study on supply and demand of legal services for Ag coops, including recommendations for quality and quantity increases and legal service pipeline</td>
<td>2013</td>
<td>36,000</td>
</tr>
<tr>
<td>• Strengthen the capacity of public legal services per study recommendations</td>
<td>2014-2015</td>
<td>500,000</td>
</tr>
<tr>
<td>• Ensure current/developing advanced-certified coops have access to legal services each year</td>
<td>2012-2013</td>
<td>10,000</td>
</tr>
<tr>
<td>• Develop quality-related metrics for formation support based on advanced certification criteria</td>
<td>2013-2014</td>
<td></td>
</tr>
<tr>
<td>• Integrate quality-related metrics into formation support M&amp;E/targets</td>
<td>2013-2014</td>
<td></td>
</tr>
</tbody>
</table>

**Total budget**

US$ 2,501,000
### Action plan for Output 6

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td>Output 6</td>
<td>Government’s cooperatives sector oversight and regulation helps and does not hinder cooperatives’ gaining and retaining advanced certification</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator/target</th>
<th>Key milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>75% of agricultural cooperatives report effective oversight by government (including non-hindrance and effective regulation) by 2015</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Action plan</th>
<th>Year</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Align stakeholders around the change to oversight of the cooperatives sector by the Ministry/Bureaus of Agriculture in the GTP period</td>
<td>2012</td>
<td>30,000</td>
</tr>
<tr>
<td>- Develop near-term incubator structures and processes in Ministry and four regional Bureaus of Agriculture to oversee coop sector, including agricultural and non-agricultural cooperatives</td>
<td>2012-2013</td>
<td>50,000</td>
</tr>
<tr>
<td>- Shift the reporting of FCA to the Ministry of Agriculture, and of SNNP and Amhara RCPAs to their respective Bureaus of Agriculture</td>
<td>2012-2013</td>
<td></td>
</tr>
<tr>
<td>- Monitor the effectiveness of near-term incubator oversight and make course corrections as necessary</td>
<td>2012-2015</td>
<td>40,000</td>
</tr>
<tr>
<td>- Conduct a study on government oversight/regulation current state and needs</td>
<td>2013</td>
<td>36,000</td>
</tr>
<tr>
<td>- Based on the study findings, develop and deploy capacity building programs for federal, regional, and local officials</td>
<td>2013-2015</td>
<td>4,200,000</td>
</tr>
<tr>
<td>- Based on the study findings, develop and institute additional accountability mechanisms for government oversight/regulation at federal, regional, and local levels, as needed</td>
<td>2013-2015</td>
<td>30,000</td>
</tr>
<tr>
<td>- Assist FCA and RCPAs to migrate non-oversight/regulation activities to coop movement and other capable service providers, as able</td>
<td>2015-</td>
<td>30,000</td>
</tr>
<tr>
<td>Total budget</td>
<td></td>
<td>US$ 4,416,000</td>
</tr>
</tbody>
</table>
### Action plan for Output 7

<table>
<thead>
<tr>
<th>Impact</th>
<th>Increased yields and incomes of farmers in agricultural cooperatives due to their cooperative membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outcome</td>
<td>Efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to many members</td>
</tr>
<tr>
<td>Output 7</td>
<td>Improved and enabling policy and regulatory framework for agricultural cooperatives</td>
</tr>
<tr>
<td>Indicator/target</td>
<td>Operational, harmonized, cooperative development policy in place by 2015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Action plan</th>
<th>Year</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Conduct a study to recommend the policy/mandate/laws/regulations/manuals changes required to implement the Sector Strategy (including output marketing on commission, advanced certification, etc.)</td>
<td>2012</td>
<td>54,000</td>
</tr>
<tr>
<td>• Based on the study recommendations, realize the required changes to policies/mandates/laws, etc.</td>
<td>2012-2014</td>
<td>108,000</td>
</tr>
<tr>
<td>• Continue to refine policies, laws, etc. as needed to accord with the long-term strategic direction</td>
<td>2014-</td>
<td>108,000</td>
</tr>
<tr>
<td>• Conduct analysis recommending content and process for an integrated and comprehensive cooperative development policy</td>
<td>2012-2013</td>
<td>54,000</td>
</tr>
<tr>
<td>• Based on the analysis findings, develop an integrated and comprehensive cooperative development policy</td>
<td>2013-2015</td>
<td>108,000</td>
</tr>
<tr>
<td>• Help pass the cooperative development policy</td>
<td>2015</td>
<td>54,000</td>
</tr>
<tr>
<td>• Pass through relevant policy changes to laws, regulations, etc. as needed</td>
<td>2015-</td>
<td>54,000</td>
</tr>
<tr>
<td>• Raise awareness of policy changes among coops, officials, and other key stakeholders</td>
<td>2015-</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total budget</strong></td>
<td><strong>US$ 840,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

| Total Strategy budget (ex. revolving fund) | US$ 32,202,693 |
| Revolving fund | US$ 300,000,000 |
3.2 Institutional setting

Implementing these strategic interventions will be an extensive undertaking. A variety of governmental and non-governmental actors are well-positioned and willing to contribute to the implementation of the integrated strategy. This section reviews the diversity of actors, and outlines the approach to be taken by the ATA and government as a whole to strengthen and guide the needed coordination of actors’ activities in the years ahead. It concludes with an implementation framework through which the implementation of the Strategy will be managed and coordinated.

A. Cooperatives

Agricultural cooperatives are the primary stakeholders in the agricultural cooperative sector; it is these cooperatives, and the men and women farmers who are members of them, that will ultimately determine whether smallholder farmers can indeed increase their production and incomes through their membership in agricultural cooperatives. This critical constituency consists of about 10,000 primary agricultural cooperative, 157 unions, 3 federations, and millions of farming households.

All interventions should be demand-driven and responsive to the needs and perspectives of the cooperative members and leaders.

B. Government Organizations

The key internal stakeholders of cooperatives from government organizations are the Federal Cooperative Agency and Cooperative Promotion Agencies/offices at the regional, zonal, and woreda levels. The Federal Cooperative Agency (FCA) is responsible for developing the capacity of cooperatives, developing the human resources of the sector, and enforcing cooperative rules and regulations. The regional cooperative promotion agencies are responsible for establishing cooperatives, registering them, providing cooperatives with auditing services, and providing technical backstopping. Implementation will primarily be driven at a government level in the regions, zones, and woredas. The Agricultural Transformation Agency will support each implementing office to develop a detailed action plan and delivery framework through which its implementation activities will be undertaken.

The key external stakeholders of cooperatives from government organizations include the Ministry of Trade, Ministry of Agriculture, Ethiopian Seed Enterprise, Ethiopian Standard and Grading Agency, Ministry of Finance and Economic Development, and universities. To a lesser extent, the Ministry of Mining and Ministry of Culture and Tourism have some stakes in cooperatives.

C. Non-Governmental Organizations/Multilateral/Bilateral Organizations

There are many non-governmental organizations (NGOs) that provide support to cooperatives in various forms. These NGOs serve several functions, including as donors, implementers, and researchers. Some especially active NGOs of each of these types in the Ethiopian agricultural cooperative sector include:

- Donors: USAID, Embassy of the Netherlands, Bill & Melinda Gates Foundation, United Nations Development Programme, ILO
NGO support often includes capacity building through training and business development, and financial assistance in the form of revolving funds, seed money provision, etc. Key issues observed during the preparation of this strategy with the provision of support by NGOs include lack of coordination, limited duration and focus on short term problems.

### 3.3 Implementation framework

To coordinate and manage the implementation of the integrated Strategy, the key governmental and non-governmental actors in the cooperatives sector must be well consulted and coordinated. The following framework will be utilized to achieve the consultation and coordination at the federal and regional levels:

**Figure 5: Implementation framework for Agricultural Cooperatives Sector Development Strategy**

This framework consists of the following structures and roles:
National Project Steering Committee

A National Project Steering Committee (PSC) will oversee the implementation of the integrated Strategy at the national level and report progress to the Agricultural Transformation Council through the ATA. This PSC will manage annual and five-year implementation work-plans for the Strategy, holding implementing agencies and the National Secretariat accountable to elements of the plan for which they are responsible. The PSC will meet quarterly, beginning early 2012. At each meeting, key milestones and progresses will be monitored, escalated issues and bottlenecks discussed and addressed, and key upcoming activities prepared. The National PSC will consist of the following members:

- **Chair: Ministry of Agriculture (2)** – the PSC will be chaired by the Minister of Agriculture, who in his absence can delegate a fitting chair representative. The State Minister of Agriculture will also be a member of the NPSC, further representing the Ministry of Agriculture in the committee.
- **Secretary: Federal Cooperative Agency (2)** – the Secretary for the PSC will be the FCA who will also manage the day-to-day activities of the National Secretariat (see below). The Federal Cooperative Agency will have two members in the National Project Steering Committee: both the Agency’s Director and its Deputy Director.
- **Regional Cooperative Promotion Agencies (4)** – the heads of the Regional Cooperative Promotion Agencies of Amhara, Oromia, SNNP and Tigray will be members of the National PSC. They will also be Secretary of the Regional PSCs in each of their respective regions.
- **National Agricultural Cooperative Federation** – the cooperative movement will also be represented on the national PSC. Since no national-level agricultural cooperative exists at the inception of this Strategy, but one is planned to form in 2012, that cooperative (the National Agricultural Cooperative Federation) will become a member of the PSC when able to do so.
- **Regional Bureaus of Agriculture (4)** – the heads of the Bureaus of Agriculture in the four largest regions (Amhara, Oromia, SNNP, and Tigray) will be members of the National PSC. They will also chair the Regional PSCs in each of their respective regions.
- **The Agricultural Transformation Agency (2)** – Chief Executive Officer of the ATA and the ATA Cooperatives Program Director will also be members of the PSC. The ATA will provide Technical and logistical supports to the secretariat as required and within their means.
- **Other key partners may be co-opted as members of the PSC as the need arises.**

Furthermore, for the regions that do not have direct representatives in the current proposed National PSC, representations will be made, as required, whenever there are pertinent issues specific to such regions during the implementation of this Strategy.

Regional Project Steering Committee

Regional PSCs will manage the implementation of the integrated strategy in each of the four largest regions (Amhara, Oromia, SNNP, Tigray) and report progress to the National PSC. The Regional PSCs will hold local implementing agencies and the Regional Secretariats accountable to the elements of the
Strategy’s implementation for which they are responsible. The PSCs will also meet monthly, one to two weeks before the National PSC meetings so that the outcomes of the regional meetings can be escalated to the national meeting. Like at the national level, each meeting will include monitoring of key milestones and progress, addressing/escalation of issues and bottlenecks, and preparation for key upcoming activities.

The Regional PSCs will consist of the following members:

- **Chair: head of the regional Bureau of Agriculture** – each Regional PSC will be chaired by the region’s head of its Bureau of Agriculture, who is also the deputy President of the region. This chair reports to the region’s President, and is also a member of the Agricultural Transformation Council.

- **Secretary: head of the regional cooperative promotion agency** – the Secretary for each Regional PSC will be the head of the region’s RCPA. This leader will be responsible for several elements during the implementation of the strategy in each region, and will oversee the Regional Secretariat on a day-to-day basis.

- **Note**: for regions in which cooperative oversight exists in its own Bureau, members of the regional PSC may choose to select the head of that Bureau to be the chair of their RPSC.

- **Zone/special woreda cooperative promotion offices** – each regional coop promotion agency oversees coop promotion offices in each of its 6 (Tigray) to 18 (Oromia) agricultural zones. SNNP’s RCPA also oversees promotion offices in 4 special woredas, yielding 18 offices under the RCPA in that region. The heads of each of these offices will also be members of the regional PSCs and responsible for some aspects of the Strategy implementation in their respective zones/woredas.

- **Representative unions** – there are currently 25 (SNNP) to 67 (Oromia) agricultural and multipurpose unions in the four largest regions in the country. Thus, all unions cannot be represented in the regional PSCs, but it is critical that the cooperative movement be represented at the regional level. RCPAs, in coordination with other federal and regional leaders, will recommend unions to be members of the PSCs, likely on a rotational or temporary basis. Criteria for unions’ selection can include their level of association with current/future Strategy programs, and additional criteria as determined by the regions.

- **NGOs** – several non-governmental organizations play a significant role in strengthening the cooperatives sector in the regions, including through capacity building, financing, and supporting other elements of this integrated Strategy. RCPAs, in coordination with other federal and regional leaders, will recommend NGOs implementing in their regions to be members of the PSC, also likely on a rotational or temporary basis. These NGOs will have MOUs with the National PSC regarding their role in the implementation of the Strategy, and the Regional PSCs will monitor the progress of these implementation activities and help address issues as appropriate.

- **Non-coop private sector** – like NGOs, the non-coop private sector may also play roles in various elements of implementation and support of the integrated Strategy, especially with regard to investments in marketing infrastructure and supply and demand for cooperative activities.
RCPAs, in coordination with other federal and regional leaders, will recommend any relevant non-coop private sector actors to be members of the PSC, on a rotational or temporary basis.

**National Secretariat**

While the National PSC meets quarterly, a National Secretariat will coordinate implementation on a day-to-day basis and will be based at the FCA offices. This Secretariat will coordinate the implementation of various strategic objectives at national, regional and local levels, implementing the annual and more detailed work-plans overseen by the National PSC. As discussed in Chapter 4, these work-plans are organized by the strategic interventions of the integrated Strategy, and coordinators will be responsible for the implementation of one to two interventions. The National Secretariat will initially consist of four project coordinators who are accountable to the National PSC and report to the FCA on a day-to-day basis.

The four initial members of the National Secretariat will include:

- **Project coordinator for capacity building and marketing** – this member will coordinate all implementation activities associated with the capacity building (Intervention 2) and marketing (Intervention 4) strategic interventions of the Strategy. Since many of the interventions for marketing will eventually be integrated into system- and cooperative-level capacity building for unions and primary coops, the coordination of both of these strategic objectives by one person will best enable the needed coordination of these activities.

- **Project coordinator for agricultural cooperative financing** – this member will coordinate all implementation activities associated with the financing (Intervention 3) strategic intervention of the Strategy. The role requires knowledge and linkages with financial policy and institutions across the country. This coordinator can be supported by a part-time advisor from the National Bank of Ethiopia.

- **Project coordinator for advanced certification/rebranding and audit/other services** – this Secretariat member will coordinate all implementation activities associated with the advanced certification (Intervention 1) and audit/other services (Intervention 5) strategic interventions of the Strategy. Both of these objectives are associated with providing cooperatives the incentives they need to become self-standing and professional enterprises, and both will involve coordination largely among regional and federal cooperative offices, especially in the near term.

- **Project coordinator for policy and governance** – this member will coordinate all implementation activities associated with the government role (Intervention 6) and policy (Intervention 7) strategic interventions of the Strategy. Both of these objectives will require coordination at levels above the cooperative offices for some elements of the work-plan, as well as working closely with cooperative offices and other leaders at the federal and regional levels. **Regional Secretariat**

Regional Secretariats will exist in each of the four largest regions to coordinate the day-to-day implementation of all strategic interventions of the strategy in their regions. These coordinators will work closely with the National Secretariat, will be accountable to the Regional PSCs, and will report to
the heads of the RCPAs on a day-to-day basis. While much of the on-the-ground implementation will be executed by a variety of governmental and non-governmental partners, the Regional Secretariat will coordinate these activities and track progress toward milestones and deadlines. It will also escalate issues as needed to the National Secretariat (daily/implementation issues) and Regional PSC (issues requiring additional leadership/decision making). Each Regional Secretariat will consist of four project coordinators similar to the national secretariat who are fully dedicated to their roles.

In summary, the implementation arrangements for implementing the Sector Strategy involve a broad variety of key stakeholders, who will drive oversight, coordination, support, and implementation of the various activities required to realize the Strategy’s vision. These implementation arrangements are conveyed in Figure 6:

Figure 6: Implementation arrangements for Agricultural Cooperatives Development Sector Strategy
3.4 Monitoring the integrated Strategy

Experiences in countries as diverse as Taiwan, India, Kenya and Uganda illustrate that farmer organizations and collective action in the agricultural sector can play a significant role in increasing the productivity and incomes of smallholder farmers. In Ethiopia, the coffee sector has also witnessed some strong gains in aggregating farmers to provide additional services and link them effectively to markets, thus increasing their incomes.

This Strategy has closely taken into consideration the experiences of other countries and successes recorded locally to develop strategic objectives that will be applied in Ethiopia’s unique context to deliver similar benefits to smallholder farmers in all crops and across the entire country. It will do this by addressing the systemic bottlenecks that are constraining the cooperative sector to realize a promising vision for the sector: contributing to Ethiopia’s overall vision of achieving middle income status by 2025 by increasing small farmers’ productivity and income through agricultural cooperatives.

Systematic, regular and objective monitoring and evaluation (M&E) of progress with the overall Strategy and its different components is critical. Decades of support to cooperatives has a mixed record of success both in Ethiopia and around the world, and the Strategy laid out here must be monitored for effectiveness and efficiency throughout the implementation process and course corrections must be made accordingly.

The success of this Strategy will be assessed against the cooperative sector transformation impact of increasing yields and income of farmers in agricultural cooperatives due to their cooperative membership. This Strategy is predicated on producing a single outcome: efficient and effective agricultural cooperatives at all tiers that provide effective and sustainable services to their member smallholder farmers. The achievement of this outcome will be measured closely through a series of indicators that will be measured at baseline levels in early 2012 and monitored periodically to track progress toward this outcome. These indicators will be refined by end of 2012, and include key measures of effectiveness (e.g., membership levels, total turnover, gender impact) as well as efficiency and sustainability (e.g., financial performance).
Based on Indian definition of agricultural cooperatives recommended by FCA
MoFED, 2011
MoA, 2010; MoFED 2010
MoA, 2010
Bernard et al., 2010
World Bank, 2007
FCA, 2011
Bezabeh, 2011
Chirwa et al., 2005
Bernard et al., 2010
Bernard et al., 2010
MoFED, 2010
MoFED, 2010
Bernard et al., 2010
World Bank, 2007
FCA, 2011
Bezabeh, 2011
Chirwa et al., 2005
Bernard et al., 2010
MoFED, 2010
MoFED, 2010
Coulter, 2007; TechnoServe, 2011; Kaganzi et al., 2009; UK Cooperative College, 2011
Vietnam, Kenya, Uganda, Taiwan, Ghana, Netherlands, Korea, Rwanda, Andhra Pradesh, Mexico, China, and Ethiopia best practice; Source: Burmeister, Ranis, and Wang, 2001; Yen, 2011; Wanyama, 2008; Fock and Zachernuk, 2006; Teshome, 2010; Lemma, 2008; Tseko, 2008; Nyamwas, 2008; KIT, 2010; UK Coop College, 2011
Fock and Zachernuk, 2006; UK Cooperative College; Coulter, 2007; Chirwa et al., 2005
Quinones, 2010; Coulter, 2007; Chirwa et al., 2005; Bernard et al., 2010; UK Cooperative College, 2011; Nyamwas, 2008; Teshome, 2010
Develtere, Pollett, and Wanyama, 2008; UK Cooperative College, 2011
Sunshin Case Study, 2011
Nyamwas, 2008
Fock and Zachernuk, 2006
UK Cooperative College, 2011; Burmeister, Ranis, and Wang, 2001; Develtere, Pollett, and Wanyama (eds), 2008; Bibby, 2006; Fock and Zachernuk, 2006
Burmeister, Ranis, and Wang, 2001
Chirwa et al., 2005
UK Cooperative College, 2011
Fock and Zachernuk, 2006; Alemu et al., 2010; TechnoServe, 2011
Ortmann and King, 2007
Coulter, 2007; Develtere, Pollett, and Wanyama, 2008; Dorsey and Assefa, 2005
Coulter, 2007
Bezabeh, 2011
Chirwa et al., 2005; Develtere, Pollett, and Wanyama (eds), 2008; Bernard et al., 2010; Alemu et al., 2010
Alemu et al., 2010
UK Cooperative College, 2011; Alemu et al., 2010
Bernard et al., 2010
Teshome, 2010; Quinones, 2010; UK Cooperative College, 2011
Bernard et al., 2010
UK Cooperative College, 2011
Chicago Council of Global Affairs, 2011; Mehra and Rojas, 2008
OECD, 2006; Bezabeh, 2011; Dorsey and Assefa, 2005
KIT, 2010; Wanyama, 2008; UK Cooperative College, 2011)
Meherka, 2008
In Taiwan, cooperatives’ margins were about 5% (provided directly by the government before it privatized fertilizer distribution in 1999), and in India around 5% for coop retailers and 10% for wholesalers like Indian Farmers Fertilizer Cooperative Limited (Yen, 2011; IFFCL, 2011).
Alemu et al., 2010; Bernard et al., 2010
Substantial credit is often required to enable cooperatives to make such investments. For example, building a storage facility of 5000 metric tons likely costs around 8 to 10 million birr; the average grain union in Ethiopia has 2.1 million birr in own capital.

For example, WFP’s P4P program was only able to fulfill its contracts with 3 of 17 cooperative unions that it had agreements with in 2010 due to insufficient quality and quantity of output (WFP, 2011).
Based on interview with German apex cooperative DGRV

Develtere, Pollet, and Wanyama, 2008; Fock and Zachernuk, 2006; UK Cooperative College, 2011; Chirwa et al., 2005

Burmeister, Ranis, and Wang, 2001; Dorsey and Assefa, 2005; Technoserve, 2011; Develtere, Pollet, and Wanyama, 2008; Mrema, 2008; Develtere, Pollet, and Wanyama, 2008

Based on interview with German apex cooperative DGRV

Develtere, Pollet, and Wanyama, 2008; Fock and Zachernuk, 2006; UK Cooperative College, 2011; Chirwa et al., 2005

Burmeister, Ranis, and Wang, 2001

Develtere, Pollet, and Wanyama, 2008

TechnoServe, 2011

Dorsey and Assefa, 2005; Alemu et al., 2010; FCA, 2011

Alemayehu and Meherka, 2011; UK Cooperative College, 2011

MGI, 1999; Bernard et al., 2010; Quinones, 2010; Fock and Zachernuk, 2006; Chirwa et al., 2005; Burmeister, Ranis, and Wang, 2001

McKinsey Global Institute, 1999

World Bank, 2003; Quinones, 2010; Bezabeh, 2011; Chirwa et al., 2005; FAO, 2011

FAO, 1994

Bezabeh, 2011

FCA, 2011; This implies an average membership of 29 coops per union, although this varies by commodity. For example, coffee unions average 27 members, multipurpose unions 32 members, and dairy unions 12 members.

Oromia also has a federation for mining cooperatives. Alemu et al., 2010; Alemayehu and Meherka, 2011

Bezabeh, 2011; Quinones, 2011

Based on conversations with federal and regional government promoters, and other local experts

UK Cooperative College, 2011

Based on interviews with FCA and each region, 2011

‘Good gender practices’ would need to be agreed to, and could include the percentage of women in membership and leadership, and the provision of services and technologies that benefit both men and women

UK Cooperative College, 2011

UK Cooperative College, 2011

Dorsey and Assefa, 2005

UK Cooperative College, 2011

Based on interview with German apex cooperative DGRV

UK Cooperative College, 2011

FCA, 2011

Bezabeh, 2011

Bezabeh, 2011

Alemayehu and Meherka, 2011
Coupled with more reliable auditing, as will be discussed further in the section on auditing

- Dorsey and Assefa, 2011
- Alemayehu and Meherka, 2011
- TechnoServe, 2011
- TechnoServe, 2011
- UK Cooperative College, 2011
- Bezabeh, 2011
- Bezabeh, 2011
- UK Cooperative College
- UK Cooperative College, 2011; Fock and Zachernuk, 2006
- Fock and Zachernuk, 2006; FCA, 2011; Alemayehu and Meherka, 2011; Nair, 2011
- FCA, 2011
- UK Cooperative College, 2011
- Alemayehu and Meherka, 2011
- Alemayehu and Meherka, 2011
- Bezabeh, 2011; Alemayehu and Meherka, 2011
- Alemayehu and Meherka, 2011
- KIT, 2010
- Fock and Zachernuk, 2006
- Bernard et al., 2010
- UK Cooperative College, 2011; Wanyama, 2008
- Develtere, Pollet, and Wanyama, 2008
- UK Cooperative College, 2011
- Alemayehu and Meherka, 2011
- Bezabeh, 2011
- Bezabeh, 2011
- Alemayehu and Mekera, 2011; UK Cooperative College, 2011
- UK Cooperative College, 2011; Develtere, Pollet, and Wanyama, 2008; Alemu et al., 2010
- Alemayehu and Meherka, 2011; Quinones, 2001; Yen, 2011
- Capacity building for government addressed in the Roles and responsibilities of the government section
- FCA, 2011
- FCA, 2011; Interview with Dean of Ambo University coops program, December 2011
- TechnoServe, 2010
- Bezabeh, 2011; Alemu et al., 2010
- Bezabeh, 2011; Alemu et al., 2010; FCA, 2011
- Bezabeh, 2011
- Alemayehu and Meherka, 2011; Sifa, 2011
- UK Cooperative College, 2011
- UK Cooperative College, 2011
- Alemayehu and Meherka, 2011; UK Cooperative College, 2011
- Alemayehu and Meherka, 2011; FCA, 2011; interviews with RCPAs, 2011
- UK Cooperative College, 2011; Bezabeh, 2011
- Amha and Peck, 2010
- Bezabeh, 2011
- FCA, 2011
- FCA, 2011; Amha and Peck, 2010
- Oromia Cooperative Bank, 2011; Addis International Bank, 2011; EAMFI, 2011; DBE, 2011
Based on interviews with NBE, CBE, DBE, Oromia Cooperative Bank, Addis International Bank, Wegagen Bank, and EAMFI, 2011

IFAD, 2011

Dorsey and Assefa, 2005; UK Cooperative College, 2011; Wubuneh, 2011

Yen, 2011; XXX; IFLR, 2011


UK Cooperative College, 2011

UK Cooperative College, 2011; WFP, 2011; Amha and Peck, 2010

UK Cooperative College, 2011

Alemayehu and Mekerka, 2011

Bezabeh, 2011

UK Cooperative College, 2011; TechnoServe, 2011; DGRV, 2011

Alemayehu and Meherka, 2011

DGRV, 2011

Alemayehu and Mekerka, 2011

UK Cooperative College, 2011; Wanyama, 2008; Burmeister, Ranis, and Wang, 2001

FCA, 2011

Alemu et al., 2010

Alemu et al., 2010

UK Cooperative College, 2011

UK Cooperative College, 2011

Bezabeh, 2011

Process ongoing

TechnoServe, 2011; Bezabeh, 2011

FCA Strategy, 2011

Further detail on the roles of each of these organizations can be found in the FCA’s 5-year plan.