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**Old Concepts Revisited: Are Cooperatives the
Way Forward for Smallholder Farmers to Engage
in
International Trade?**

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I certify that I have read and understood the rules and regulations of the LSE regarding assessment procedures and formally declare that all work contained within this document, with the exception of attributed references, is my own.

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I. INTRODUCTION

1.1 Background and rationale

Globalization has left smallholder farmers, potentially the engines of rural economic growth, in a precarious position. Smallholder farmers depend largely on family labour to cultivate a mix of subsistence and commercial crops on small to medium sized farms. In many countries, increasing the incomes, output, and productivity of small-farms is the cornerstone of rural development strategies. Of late however, volatile commodity prices, market liberalization and unfair trade policies threaten their already fragile livelihoods. Further, smallholder farmers' ability to tap into more lucrative regional and international markets is hindered by poor access to markets, high transaction and transport costs and unreliable market information. Despite these obstacles, the International Fund for Agricultural Development (IFAD) 2001 poverty report shows that absolute value of donor aid invested in the agriculture sector decreased by two thirds from 1987- 1998.

Undoubtedly, smallholder farmers play a lead role in any rural development strategy. By widening access to profitable markets for the 75 percent of people in Africa and Latin America engaged in farming, governments can enhance sustainable livelihoods and earn valuable foreign exchange for national development. Smallholders make a contribution not only to agricultural productivity but also to overall economic growth, by providing labour, capital, food, foreign exchange, and a consumer good market (Ellis and Biggs 2001). In an effort to overcome these issues, in the past ten years,

donors and governments have revived cooperatives as a strategy to promote collective action to strengthen smallholders' livelihoods by linking them to international markets. Cooperatives are jointly owned, registered enterprises by people who unite voluntarily to meet a common need. Grounded in theories of social cohesion and social capital, farmers' cooperatives provide smallholder farmers with economies of scale by facilitating cheaper and more efficient access to inputs, production technologies, market information and markets. They also reduce the transaction costs incurred by traders from working with individual farmers. Through cooperatives planners can supply smallholder farmers with appropriate technologies, access to credit, and build capacity to engage in international trade and improve business and agricultural marketing. This paper argues that there has been a revival of cooperatives as a model to strengthen smallholder farmers' livelihoods. Despite their dismal performance in the 60s, 70s and 80s cooperatives are an emerging strategy to facilitate smallholder farmers' engagement in international trade.

Cooperatives of the past were heavily criticized for being inefficient, discriminatory against the poor and women and institutions rife with corruption. Their record of success and sustainability varies across countries and sectors. As late as 1993, a World Bank (WB) review of cooperatives concluded they were not viable organizations due to inappropriate policy frameworks, excessive government interference and insufficient farmer capacity building (Rondot 2004). However, the end of the Cold War, Structural Adjustment Programmes (SAPs) and a dramatically altered political economy have had significant impact on the structure and organization of cooperatives. Moreover, evidence suggests that group projects are increasingly relied upon by national

governments, bi- and multi-laterals and non-governmental agencies (NGOs) as the preferred model for rural development project implementation and poverty alleviation (Grootaert 1998; Harris 1997; World Bank 1997). Thus despite their meagre performance, the WB claims that they remain 'the preferred form of organization, and perhaps the only organization with which rural people are familiar' (Hussi 1993:12).

There has clearly been a renaissance of cooperatives and since the early 1990s cooperatives have been promoted by national governments and donor organizations as institutions through which to implement development and poverty alleviation strategies. Donors have now pledged their full support to cooperative development:

- World Bank (WB) expenditure on agriculture projects with a rural organization capacity building element increased from 26% in 1997 to 62 % in 2001. The WB sees strategic value in these organizations as a means to increase food security, promote participatory policymaking and sustain natural resources. (World Bank 2004)
- In 1995, the United Nations (UN) declared the first Saturday in July 'International Day of Cooperatives' in 'recognition of the indispensable role cooperatives play in economic and social development'. (COPAC 2004)
- IFAD asserts that, 'group formation both fosters participation and enables the poor themselves to own their own development efforts', which improves targeting, sustainability, rural economic growth and revitalization. (IFAD 2004).

- The United States Agency for International Development (USAID) is fostering the development of business and producer organizations to: ‘encourage rural household and private firm involvement in local, regional, and international governancecooperation can increase technology use, speed market penetration, attract investment, facilitate contract enforcement, and achieve more favorable policies’ (USAID 2004).
- The International Labour Organization (ILO) emphasizes the role of cooperatives in freedom of association, democracy, and provision of services to the socially excluded and in areas neglected by the state and private sector (ILO 2004).

The expectations of cooperatives are numerous and varied, yet several common themes embodied in the concept of social capital emerge: participation, empowerment, poverty alleviation and collective action. The return to cooperatives as instruments of rural development can in part be attributed to the recently popularized concept of social capital.

Social capital has quickly risen as a mainstream concept in development project and policy design. The theory captures the importance of social bonds and networks in shaping livelihood outcomes. The desire to build social capital has been used as one rationale for promoting farmers’ cooperatives as a means to improve livelihoods by empowering smallholder farmers to work collectively through a business and social enterprise. Social capital facilitates collective action to address problems and barriers

which smallholder farmers individually might not have the influence or capacity to overcome. Social capital, however, is regarded as only one asset which must complement other capitals - financial, natural, physical and human - to be of real value (Grootaert 1998).

1.2 Purpose and Objectives

Using Ethiopian coffee cooperatives as a case study, this dissertation study seeks to explore whether cooperatives strengthen smallholder farmers' livelihoods by facilitating their engagement in international trade. Strengthened livelihoods are measured using the sustainable livelihoods framework (SLF), which is reviewed in detail in Chapter 2. Recognizing that the overall success of cooperatives is influenced by internal and external dynamics such as context, policy and the world market this dissertation will establish:

- The extent to which cooperative have facilitated international trade;
- The benefits they bring to farmers and their impact on livelihoods; and
- Strengthens and weaknesses of the cooperative model.

1.3 Methodology and Organization

To explore whether farmers cooperatives strengthen smallholder farmers livelihoods by facilitating their engagement in international trade this essay will first review literature on cooperatives in Africa to understand their decline and subsequent revival as rural development models. This background information will be examined through the social capital and UK Department for International Development (DFID) sustainable livelihoods frameworks to understand the concept of sustainable

livelihoods and how social capital aids in explaining the revival of cooperatives and their challenges as institutions of the rural poor. Data in Chapter 2 is drawn from a range of secondary literature on social capital and cooperative performance in Africa.

In Chapter 3 the revival of cooperatives in Ethiopia will be analyzed focusing specifically on the Oromiya Coffee Cooperative Union. This case study is intended to assess whether cooperatives have been revived in Ethiopia, their impact on smallholder farmers and how the concept of social capital can help explain this trend. Data has been extracted from NGO project reports and publications, Ethiopian government documents, Ministry websites and other select studies on cooperatives¹.

Finally, Chapter 4 presents concluding remarks on the potential of cooperatives as models for rural development to enable smallholder farmers to engage in trade. It revisits the social capital and sustainable livelihoods frameworks and critiques their value as conceptual frameworks through which to examine cooperatives. Drawing on lessons learned from the case study example, policy recommendations are presented.

¹ The conclusions are those of the author's and do not reflect or represent the agencies mentioned.

II. CHAPTER TWO: LITERATURE REVIEW

Before reviewing the history, benefits and challenges of the cooperative model, a brief introduction to the UK Department for International Development (DFID) sustainable livelihoods framework (SLF) and select perspectives on the concept of social capital will bring to the fore linkages between social capital theory and practice. It is through the social capital lens that the critiques and shortcomings of cooperatives of the past and potential pitfalls in the future are best elucidated. The literature review draws on the World Bank and select institutions and planners' experience with cooperatives in the past. Key publications on social capital including articles by Bourdieu, Putnam and Coleman, will also be reviewed.

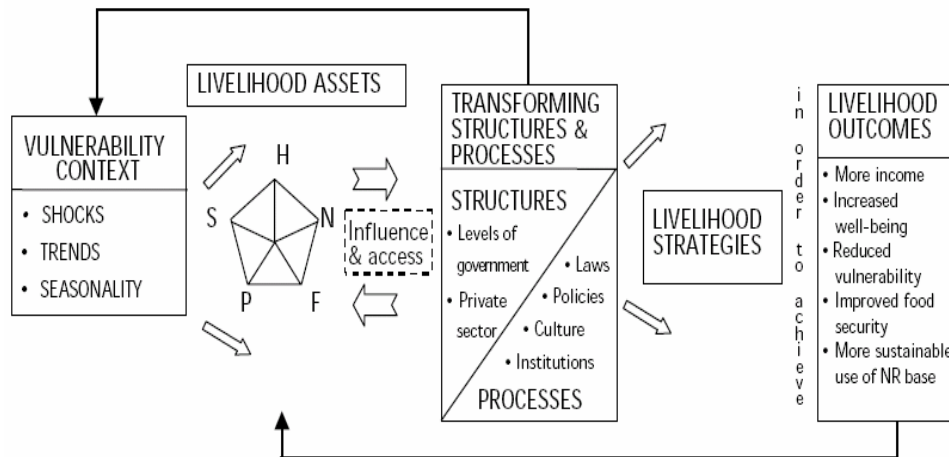
2.1 Sustainable Livelihoods Framework

A useful tool to analyze micro and macro dynamics affecting smallholders in cooperatives, and rural livelihoods in general, is the DFID designed sustainable livelihoods framework (see Figure 2.1). As producer cooperatives are closely linked to markets and impacted by national and international trade policies, this framework is practical because it allows systematic analysis of the synergy among livelihoods, while accounting for the wider policy and institutional environment.

Figure 2.1: The DFID sustainable livelihoods framework

Key

- H = Human Capital
- N = Natural Capital
- F = Financial Capital
- S = Social Capital
- P = Physical Capital



The SLF is a holistic framework that places people at the centre of development interventions. In order to better understand causes and impacts of poverty it examines the multiple influences - local, regional, national or international – on livelihoods over time. Note from the diagram that the livelihood outcomes extend beyond increased income to include other essential conditions for a sustainable livelihood.

The 'livelihood asset pentagon' represents the capitals that people draw upon in their everyday lives. Social capital is featured as one of a total of five forms of capital including: human, financial, natural and physical. It is argued that social capital can minimize the impact of shocks and stresses on vulnerable households through networks such as kinship support. Other examples of rural farmers' capitals are the skills, knowledge and good health for productive labour; access to credit and financial resources; arable land and water resources; and physical infrastructure and production

equipment. Drought, poor pricing policies, and fluctuating market prices are shocks and stresses that can disrupt livelihoods. Rural people have different stocks of these capitals at their disposal, and cooperatives, a particular configuration of social capital, can assist smallholder farmers to access and strengthen all five capitals. In sum, a livelihood is strengthened when it can cope with and recover from stresses and shocks while maintaining and enhancing its assets and capabilities (Chambers and Conway 1992, cited by DFID 1999). The next section will focus specifically on social capital, which serves as one rationale for reviving cooperatives and promoting other group activities among the rural poor.

2.2 Theories of Social Capital

The role of social capital in livelihoods originated from the work of Pierre Bourdieu (1986), who is commonly cited as one of the early academics to recognize the value and shape the concept of social capital. He critiques the persistent disregard for social analyses and structures in economic theory and proposes the inclusion of social capital. Social capital describes the network of relationships built on obligations or institutional rights which result in solidarity between people. In his view, these networks among the powerful and wealthy – and their ensuing privileges – perpetuate class construction, inequality and social domination. This notion of social exclusion will be examined in the context of cooperatives later in this chapter.

Coleman (1986) and Putnam's (1993, 1995) social capital theoretical frameworks are perhaps more useful conceptualizations for analysing the potential benefits of farmers' cooperatives. Putnam (1993, 1995) looks at social capital and social connectedness as a

group or national asset reflected in the level of civic engagement. He regards this form of social capital as a prerequisite for effective government and economic development. Coleman (1986), on the other hand, uses the economic rational actor theory as a starting point to explain that social capital, a function of person's social relations between and among actors, is an asset whose value enables individuals to achieve their interest. Coleman describes three dimensions of social capital: obligation and expectations, information sharing channels and social norms, that when combined facilitate collective action, trust and sustainability. These concepts are of particular relevance to farming cooperative membership and yield both economic and social value, ideas which will be explored in Ethiopian cooperatives.

Both governments and donors are recognizing the important role social capital plays in poverty alleviation. The landmark 'Voices of the Poor' study commissioned by the World Bank, references the work of Narayan and Pritchett (1997, 1999) in Tanzania that confirms the strong correlation between higher income and high social capital - membership in groups. Though a key factor in poverty reduction, alone social capital is insufficient to raise people out of poverty - an argument supported by the SLF. The general consensus is that high social capital in a community also leads to better organization for collective action, improved bargaining power and confidence (Narayan 2000). Two forms of social capital are distinguished as cognitive - norms, values and beliefs and structural - roles, rules and procedures (Uphoff 2000). Farmers' cooperatives facilitate collective action and decision making on the basis of trust and shared interest and are thus a manifestation of structural and cognitive social capital in

rural communities. Having introduced the concepts of social capital and the SLF analytical framework, the next section will review cooperative trends in Africa.

2.3 Defining Cooperatives

There are a number of terms used in literature and by planners for collective action among farmers. These organizations: farmers groups, farmers associations, farmer-controlled enterprises, economic interests group, and producers' organizations, to name a few, are not cooperatives in the legal sense. The International Cooperative Alliance (ICA), the apex organisation of the international cooperative movement, sets forth a commonly accepted definition of modern cooperatives: *A co-operative 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. Figure 2.2 above lists the seven driving principles of a cooperative which guide their formation, organization and activities. Cooperatives are a very specific type of organization that must meet the above mentioned criteria and be formally registered. Uphoff (1985) identifies the most critical distinction between cooperatives and other local development associations as the benefits accrued to cooperative members are 'private' versus the 'public goods' available to all in other associations (1985: 67). According to the ICA, a cooperative is meant to: *'embody the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for other'* (ICA 2004).

Figure 2.2: Cooperative Principles

- 
- The seven driving principles of a cooperative**
- 1. Voluntary and open membership**
 - 2. Democratic member control**
 - 3. Member economic participation**
 - 4. Autonomy and independence**
 - 5. Education, training and information**
 - 6. Cooperation among Co-operatives**
 - 7. Concern for Community**
- (ICA 2004)

This statement on cooperative identity was adopted by the ICA in 1995 and guides cooperatives internationally.

2.4 History of cooperatives

The international cooperative movement has its roots in Europe, Japan and the United States. Formed in the nineteenth century, rural cooperatives provided credit, sale of inputs, marketing insurance and education services to their members. In many countries they also engaged in shaping public policy to meet members' needs; however, their core objective was economic rather than social (Uphoff 1985). Their growth was rapid: by 1937, Europe registered 25,000 rural cooperatives of 25 million farm families (Uphoff 1985). Factors that contributed to their resounding success were a conducive policy environment, effective management, common social norms and flourishing agricultural markets (Braverman 1991).

European governments and commercial trading companies transplanted agricultural cooperatives in Africa primarily for political and economic motives during colonial rule. Unlike traditional rural organizations in Africa established by communities to manage production labour, input and credit needs, the chief function of these cooperatives was to accelerate rural economic development through cash crop production. As the cooperative movement grew in Africa, they evolved into top-down, profit-orientated administrative bodies used by governments to fuel economic development and industrialization.

In contrast with traditional institutions, the imported European cooperative model encouraged formal, permanent groups with registered legal status. Membership in these cooperatives was usually restricted to large-scale or expatriate commercial farmers. In many countries top-down structures fostered a negative perception and eventual rejection of the concept of formalized cooperation, despite the tradition of both formal and informal collective action and community institutions (Mayoux 1988). Cooperatives exploited an existing culture and tradition of collective action for commercial expansion and gain. As cooperatives in developing countries evolved, they overwhelmingly did not espouse the concept of voluntary cooperation embraced by their forbearers in industrialized countries.

Cooperatives in the post-colonial era were managed and financed by governments and companies for economic, political and administrative objectives. Their functions contrasted with the community led social and economic cooperatives in industrialized countries. In Mali, for example, cotton companies supplied inputs to cooperative and were assured a timely supply of cotton for sale on the world market. In other countries, such as Ethiopia, governments used cooperatives as administrative institutions through which agrarian reform programmes and cooperative production systems were implemented and inputs, credit and social services delivered. (Braverman 1991; Hussi 1993). Established and managed by civil servants, membership was generally compulsory and the objectives political. As a result, farmers failed to see value in these institutions and joined because their access to inputs, productive land or basic services was contingent upon membership. Ultimately cooperatives were captured by the elite, urban middle-class bureaucracy,

and rapidly developed into unwieldy monopolistic parastatals heavily dependent on government subsidies (Hedlund 1988; Mayoux 1988). They were forced to dismantle under International Monetary Fund (IMF)/World Bank (WB) neoclassical Structural Adjustment reforms in the 1980s which required privatization of public institutions and less government intervention and spending on rural development.

A number of incidents in the world political economy precipitated change in cooperative governance and management: globalization, structural adjustment programs, processes of democratization, agricultural modernization and transitions from centrally planned to market-oriented economies (UN 1998). In the context of this rapidly changing political economy, cooperatives were forced to re-evaluate and establish their relevance as rural institutions. They were contending with new challenges such as competition from the private sector, declining government support, and an overall unsupportive domestic and international policy environment (Nippierd 2004). Emerging awareness in the donor community on the value of transparency, participation, accountability and social equity also forced internal reorganization. No longer was it acceptable to exist as corrupt, inefficient organizations that contributed minimally to the betterment of the poor. The 'modern' cooperative was encouraged to improve accountability through democratic, transparent structures and reinvent themselves into market-oriented private sector organizations (Lyon 2003; Bingen 2003; Nippierd 2004). Thus by the early 1990s significant changes were made to the legislative and administrative framework governing cooperatives (UN 1998).

A case of too much too soon threatened fragile structures, leading to the collapse of many cooperatives. Others restructured, but were still faced with a lack of financial and human resources, political instability and unfavourable external policies driven by organization such as the International Monetary Fund (IMF). Only a few were resilient enough to weather the transition. This formidable task of restructuring was in most instances heavily influenced and undertaken with support from NGOs and other donors.

2.5 The Role of External Agents

External agents such as NGOs, donors, and international organizations have assumed an important role in cooperative revival. Donors' disenchantment with heavy handed, interventionist governments led them to seek alternative rural development partners. Producer organizations were adopted by NGOs and donors as viable partners, and as such have been used as vehicles of technical, economic and institutional change in rural areas (Mercoiret 1999). At the international level, bodies such as the Committee for the Promotion and Advancement of Cooperatives (COPAC) - comprised of UN organizations and international non-governmental organizations (INGOs) - works to promote cooperative development initiatives through policy coordination, information exchange, advocacy and other services. The International Cooperative Alliance (ICA) is an INGO that provides technical assistance to governments and cooperatives and unites, represents and serves co-operatives around the world (ICA 2004). These and other agencies sought to ensure the autonomy and efficiency of cooperatives, incorporate cooperative principles, and build self-sustaining, self-reliant, self-managed

and commercially viable cooperatives that could make a more meaningful contribution to rural development (UN 1998).

2.6 The Revival of Cooperatives

2.6.1 Benefits of Cooperatives

Evidence shows that cooperatives enable farmers to achieve economies of scale, bargaining power and capacity to invest in more advanced stages of the value chain including storage, processing, marketing and distribution. As transaction costs are reduced, relationships with commercial enterprises can be built through contract farming or other mutually beneficial arrangements. In addition, as community institutions, cooperatives devolve decision making to the community level, build social capital, community spirit and pride (Reynolds 1998). The shared spirit of cooperation and empowerment may lead to engagement in larger projects such as reconstruction of schools or health facilities. Moreover, by pooling productive resources, members may have more time to allocate to other activities in their household or community. Higher incomes can lead to improved health and enable farmers to send their children to school.

In addition to more conventional functions of marketing and production, cooperatives increasingly serve as agents of social and economic change, and are vibrant civil society actors. As they grow in strength and capacity, social capital linkages are often broadened from horizontal - within the members of the cooperative, or between cooperatives, to vertical linkages between the cooperative and local government and institutions. These linkages facilitate collective action and increase bargaining power,

enabling farmers to affect larger policy decisions (Pretty 2002). As a result, today, governments and donors alike look to cooperatives to inform policy making and engage in advocacy while cooperatives themselves seek a more pronounced, active and permanent role in decision-making (Mercoiret 1999). Cooperatives are thus unique institutions that balance and negotiate relationships between their members, communities, traders, the state and international commercial traders: social capital facilitates these relationships.

2.6.2 Challenges and pitfalls of the cooperative model

The literature and discourse on social capital heralds its value, but is replete with critiques of the definition and broader concept. For one, practioners such as Lyon (2003) caution against undue reliance on collective action. For him, 'groups are not a panacea and are unlikely to prosper if they are merely a requirement for projects' (Lyon 2003:330). Lyon (2003) argues that groups such as cooperatives should be one of a number of complementary strategies designed after careful assessment of the existing institutions and social, economic and political climate in a country. Papers by Fine (1999, 2003), Woolcock (1998), Harriss (1997) and Portes and Landholt (1996) provide an extensive synthesis of other debates and weaknesses of the social capital concept. Below are three shortcomings of the social capital paradigm- participation, power and politics - that lend insight into earlier shortcomings of cooperatives and potential challenges in their revival.

Exclusion of the poor and women: A long standing critique of cooperatives is that they 'are more likely to disadvantage poorer sectors of the community than to help them' (Uphoff 1984). Hendlund (1988) made this observation of a large Kenyan cooperative where he discovered that the landless, women, and poor households in the surrounding community were not cooperative members, and were thus culturally and economically marginalized from the community. The poor are excluded when they are not landowners, are unable to pay membership fees, or cannot fulfil obligations of cooperative membership due limited time, financial or material resources. Women have historically been among those marginalized by cooperatives even though the social network and developmental aspects of cooperatives are of potential value to women (Mayoux 1988). Historically cooperative membership was for one member of the household, the head or registered landowner – typically the male. In addition, time constraints and lack of productive assets for women – and the poor - precluded them from cooperative participation (Nippierd 2004).

The concept of social capital addresses this potential for social exclusion. Both Coleman (1988) and Bourdieu (1986) address the inherently exclusionary nature of social capital. According to Coleman, in order for a true 'network' to exist, it must be 'closed' to maintain order, build trustworthiness and 'monitor and guide behaviour' (1988: 14). To Bourdieu (1986), on the other hand, the elite use social capital to exclude the less privileged. Membership in a cooperative is closely linked with land ownership, an important determinant of wealth and status. Consequently, the same bonds that unite people – such as class, religion, caste, land tenure - must by default exclude others (Portes and Landolt 1996). Ultimately, as Coleman (1988: S98) importantly suggests,

the same social capital that might be beneficial to one may be 'useless' or 'harmful' to another. This issue presents a very real dilemma in rural communities where people have different access to productive capitals and are diverse in age, class, religion and ethnicity.

Mismanagement, Power and Politics: Corruption, mismanagement and elite capture have been cited in the literature as intrinsic barriers to the success and efficiency of cooperatives. As a result, increased emphasis has been placed on building transparent, accountable structures in modern cooperatives. The social capital paradigm (Fine 1999; Harriss 1997) predicts the propensity for corruption in collective activities. Coleman (1988) suggests that imbalanced power relations and owed 'obligations' can result in rent-seeking behaviour. In addition, unequal distribution of benefits and hierarchical structures in a cooperative often mirror socially embedded problems existing in society at large. Cooperative reforms have not always been successful in overcoming these problems. Perceiving a community as one homogeneous unit with shared problems, goals and priorities toppled cooperatives in the past when farmers did not see value in collective action. This risk of not accounting for the 'political variable' by assuming groups share equal power and influence and resources is a flawed romanitization of communities (Harriss 1997; Bingen 2003). Furthermore, overlooking social structures embedded in a community in the establishment of a group-managed enterprise can lead to its failure. Therefore social capital should not only be examined as quantity but also as quality, as higher social capital does not mean more equity in a society or quality networks (Portes and Landolt 1996; Grootaert 1998).

Sustainability: Under-capitalization and poor financial, accounting and management skills in cooperatives remain a challenge. In some countries, the government still maintains a paternalistic relationship with cooperatives. In others, cooperatives are heavily dependent on NGOs for credit, training and other technical support. The inherent contradiction between cooperatives' social and economic objectives is a problem (Jiggins 1993, Lele 1981, Braverman 1991) for which the literature does not propose a clear solution. The dilemma is managing the balance between poverty-alleviation, promotion of social welfare, and equity - while building competitive, profit-oriented private sector institutions. As will be revealed in Chapter 3, cooperative revitalization programs in countries such as Ethiopia heavily stress sustainability and provide business skill training for the leadership and management.

2.7 The New Operating Environment

The success of cooperatives is in essence a function of three overlapping factors: its internal activities and operations; the wider policy environment; and local, national and international markets (Hedlund 1988). Internal organization and structures can be sound; but the wider policy environment can encourage or discourage organization and provide incentives or disincentives for people to work collectively (Grootaert 1998; Harriss 1997). National governments play an important role in formulating policies that encourage the growth and restructuring of cooperatives.

The unpredictable nature of markets in which commodities are traded have enormous impact on the success of cooperatives. Hedlund (1988) insightfully illustrates this point in his historical review of a coffee cooperative in Kenya, when he describes

cooperatives as 'two opposing organizational factors' (32). One is local participation, 'which allows for members' influence and thus facilitates order and continuity'. The second is 'the world market with its uncontrollable development, representing disorder and discontinuity' (1988:32). For example, though a cooperative can be instrumental in negotiating higher prices for coffee and increasing production, higher exports do not translated into higher incomes for smallholder farmers because of depressed world market prices. This is not a shortcoming of the cooperative, but an outcome of structural issues in the macro environment. Thus it is the precarious balance and management of these two pressures which shape and can ultimately determine the performance of the cooperative.

The legacy of past problems and more recent challenges including conflict, HIV/AIDS, rural poverty, underdevelopment, and unfair trade policies plague modern-day cooperatives in developing countries, threatening their ability to survive as viable commercial enterprises. Newly revived cooperatives are operating in an environment characterized by declining terms of trade, lack of market access, and unjust agricultural trade policies. For example, subsidized commodities from industrialized countries are displacing producers in many countries, affecting farmers' competitive advantage and ability to serve local or national markets. The new food system is disproportionately, and negatively, affecting the livelihoods of many smallholder farmers. Economically, cooperatives are looked upon to facilitate the integration of small-scale farmers into local, regional and even international markets: they are a link between rural societies and the larger economy. Many restructured cooperatives are still in the nascent stage, thus it is difficult to predict their capacity to overcome these tremendous problems.

III. CASE STUDY: ETHIOPIAN COFFEE COOPERATIVES

Chapter 3 is a case study looking at the revival of cooperatives in Ethiopia. The intention of this chapter is to investigate how smallholder farmers' livelihoods are strengthened through linkages to export markets facilitated by cooperatives. To aid in this investigation this chapter is organized into three sections. The first section provides the socio-economic background of Ethiopia including a review of the agriculture sector and rural livelihoods. The second section examines the state of cooperatives in the country, with a specific focus on the Oromiya Coffee Farmers Cooperative Union (OCFCU) and its accomplishments. The final section reviews and analyzes the impact of the cooperative's performance on smallholder farmers' livelihoods.

Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ADCI/VOCA), a Washington, D.C. based INGO, has been supporting cooperative restructuring in Ethiopia since 1997. Information on the Oromiya Coffee Farmer Union Cooperative has been extracted from their annual reports, work plans and consultant reports and studies. In addition the case study is informed by reports from Oxfam International and Global Exchange, INGOs supporting the OCFCU and Fair Trade campaign. Data taken from the Government of Ethiopia's (GOE) poverty reduction strategy paper (PRSP), the 'Sustainable Development and Poverty Reduction Program', the Ethiopia Coffee and Tea Authority as well as the Government's policy on cooperatives will be critically analysed in the case study presentation.

3.1 Socio-Economic Background on Ethiopia

Ethiopia is a country rich in culture and tradition but struggling under the burden of chronic poverty. Home to 67 million people, the per annum capita income adjusted for purchasing power parity is USD 628 (Human Development Index 1999). Poverty is most concentrated in the rural areas where 44 percent of the population is reported to be living under the national poverty line (GOE 2002). Since the transition from a centrally planned economy to a market oriented economy in 1992 there has been an overall annual gross domestic product (GDP) growth of 5 percent with an average 2.5 percent growth in the agriculture sector, reversing years of underdevelopment.

Agriculture contributes to 45 percent of GDP and thus features prominently in Ethiopia's PRSP. Despite the importance of agriculture to the national economy and rural development, it is characterized by low growth and subsistence productivity. Barriers to growth include lack of training and access to inputs and credit, inefficient production practices, poorly developed irrigation systems, declining soil fertility, land tenure, poor access to agricultural markets, and policy constraints (GOE 2002).

Agriculture is a critical source of livelihood for majority of the population and is also believed to be an important engine for industrial development. In addition to increasing production of exportable crops, the government's poverty reduction strategy is to invest in agricultural marketing and distribution (GOE 2002).

Cooperative restructuring, development and strengthening are the basis of this strategy.

3.1.1 The Coffee Sector

A review of the agriculture sector would be incomplete without mentioning Ethiopia's largest export crop, coffee. Ethiopia is argued to be the very birthplace of coffee, and production of this crop is culturally, politically and economically vital to the country. Ethiopia is Africa's third largest producer of coffee after Uganda and Ivory Coast - yet supplies only 2.3 per cent of the global coffee market (Ethiopian Coffee and Tea Authority 2004). Coffee alone accounts for 60 percent of export earnings and between 40-45 percent is cultivated for domestic consumption (Ethiopian Coffee and Tea Authority 2004). Ethiopia is world renown for production of nine unique varieties of high quality Arabica coffee and 34 percent of this coffee is grown on 'garden' or smallholder plots that requires little fertilizer and inputs, an advantage for smallholder farmers. Coffee is a link that ties rural Ethiopian farmers with epicures and coffee connoisseurs throughout the world.

The recent volatility of coffee prices in the international market, where coffee prices have dropped to a 35-year low, has had a devastating impact on Ethiopia's foreign exchange earnings and the incomes of its smallholder producers. Five years ago, farmers were receiving about USD 1 per kilogramme of coffee, now some are receiving as little as approximately 10 cents -1 Birr (USAID 2004). World supply exceeds demand by 8 percent, largely due to cheap production by Brazil and Vietnam. Figure 3.1 illustrates the dramatic fall in the export of coffee in Ethiopia from 1995 to 2003.

Figure 3.1: Ethiopia Economic and Financial Indicators 1995 – 2005: Exports of Coffee in Millions of USD

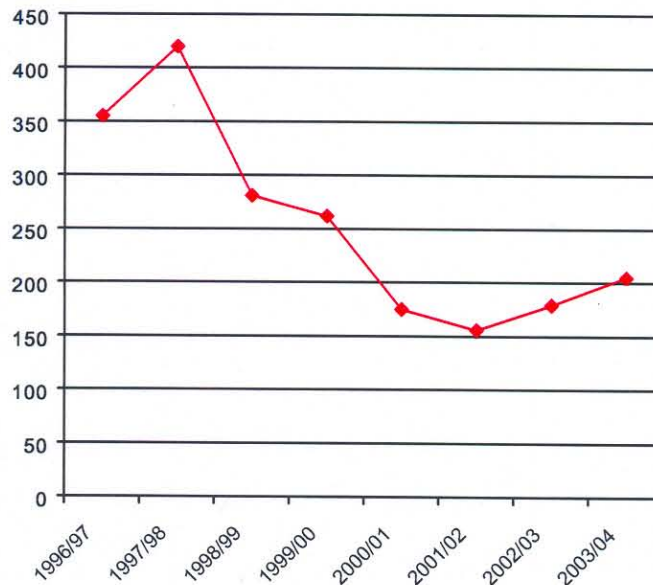


Table 3.1 illustrates that in spite of low returns, production has remained fairly stable and even increased. Many farmers seeking other livelihood options have opted to cultivate the more profitable and weather resistant chat, a mild narcotic, rather than struggle to earn meagre returns on coffee (Global Exchange 2004). The steadily declining world market prices of coffee have incited an international Fair Trade movement of which the plight of coffee farmers is the focus.

Table 3.1: Total Production by 60 kilo bag 1998- 2003

Crop year commencing	1998	1999	2000	2001	2002	2003
	2 745	3 505	2 768	3 756	3 693	4 333

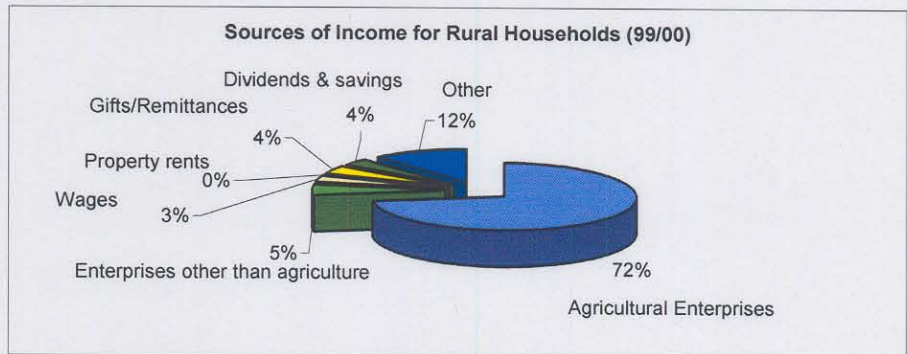
International Coffee Organization 2004

3.1.2 Rural Livelihoods

The fragile livelihoods of rural Ethiopians are predominantly dependent on crop and livestock farming. Farming families cultivate a combination of subsistence and export

crops including teff, coffee, enset (a staple food crop) and increasingly chat. Thus coffee is not only a principal source of export income for the country, but also brings vital income to rural families as illustrated in Figure 3.2. Studies carried out in 1999 - 2000 for the GOE Household Income Consumption and Expenditure survey reveal that the cultivation of coffee reduces probability of poverty in rural families by 6 percent, second only to teff, a local grain. Cultural significance and a strong tradition of coffee cultivation explains why few farmers interviewed by Oxfam seem interested in farming alternative crops (Oxfam 2002).

Figure 3.2: Income sources for rural families



Smallholder farmers grow 95 percent of coffee and the government estimates that 1.2 million families are engaged in coffee farming (Ethiopian Export Promotion Agency 2004). Close to 15 million households - 25 percent of the population - are either directly or indirectly involved in coffee production, distribution and marketing (International Coffee Organization 2004), an indication of the scale of livelihoods affected from the slightest change in coffee prices on the world market.

Most coffee production takes place on plots of less than one hectare, the average landholding size of 64 percent of households (GOE 2002). This severe land fragmentation is a legacy of both the feudalist system under Haile Selassie and the subsequent military Derg government. Under the 1975 socialist agrarian transformation all land was confiscated by the government and redistributed based on family size or allocated to producer cooperatives.

For reasons mentioned above, farming communities in Ethiopia have long pursued collective action as a means of overcoming reoccurring livelihood shocks and stresses. Farming organizations have a history in Ethiopia of empowering communities to cope with natural disasters, policy induced changes and market fluctuations. 'Jigie' and 'wonfel' are two types of existing traditional self-help groups in which members support each other to carry out farming activities. Revolving credit/savings groups called 'iqub' or 'idir' have helped farmers build financial capital (Sida 2003). Capitalizing on these social capital traditions, and cooperative structures from the past regime, the government has recently returned to the idea of formal producer cooperatives to empower rural residents to play a greater role in rural revitalization.

3.2 Cooperatives in Ethiopia

Similar to other African countries, the socialist cooperative system in Ethiopia collapsed in 1991 with the fall of the Derg government and communism. Under this government cooperatives were organised into service and producer cooperatives. Producer cooperatives' objectives were to promote the use of modern agriculture technology, contribute to national development and safeguard socialism. They had

varying success based on overall quality of land appropriated, education and skills of management, productive resources and enthusiasm of members (Alemneh 1987).

Most were not successfully able to increase yields and were thus very dependent on government support.

Service cooperatives were responsible for crop procurement expansion services, marketing, loan disbursement, sale of consumer goods and political education. Though they struggled with storage, transportation, cash flow, and management they achieved success in efficiently providing other economic and social benefits to smallholder farmers. Resources raised by the cooperatives were invested in building schools, clinics and roads. Yet the government heavily subsidized these producer cooperatives and farmers joined in order to access oxen, tractors, subsidized inputs and government extension services. Overall the policy was considered flawed because it did not encourage sharing of resources, equitable distribution of capital to members, and maintained price controls, requiring farmers to sell a specific quota at a fixed price to the Agricultural Marketing Board (Alemneh 1987).

Contrary to what one might expect given the history of cooperatives, their growth has recently exploded. It can be argued that the benefits observed from this form of social capital have enticed farmers to join. ACIDI/VOCA (2003) has reported, for example, that cooperatives in their target areas (four of nine regions in Ethiopia) have increased in 2003 by 19 percent from 363 to 432. In 2002 growth was measured at 61 percent. For example, statistics on this growth in the Oromiya region are displayed below in Table 3.2. One can see that both male and female membership is on the rise in primary

unions: in 2003 male membership grew by 19 percent, female by 25 percent. These figures demonstrate that these modern cooperatives are more inclusive of women. Furthermore, the number of members and cooperatives overall is increasing as illustrated in Table 4. To date, over 4.5 million Ethiopian farmers are registered members of 4, 052 cooperatives (ACDI/VOCA 2004).

Table: 3.2 Number of Unions and Members in Primary Cooperatives

Region	Total Number of Unions					Total Member Primary Coops				
	2000	2001	2002	2003*	%	2000	2001	2002	2003	%
Oromiya	7	10	12	12	71	87	131	176	202	132

ACDI/VOCA Annual Report 2003

Table 3.3: Trend in Cooperative Members: 2000-2003

Region	2000	2001	2002	2003
Oromiya	56,105	105,439	146,019	185,367

ACDI/VOCA Annual Report 2003

Since 1991 the government has been implementing a progressive, market-oriented cooperative revival plan with assistance from donor organizations. The official 1998 cooperative policy and the PRSP clearly outline regulations for cooperative formation, operations and strategies for facilitating agricultural marketing, poverty reduction, rural development and financial services (GOE 1998, 2002). However, the government's proposed four tier cooperative system is yet to be fully realized.

Primary cooperatives are the closest to communities and are organized on a shareholder basis formed by individual farmers voluntarily working in a specific geographic area. Primary level coffee cooperatives provide a collection point for the farmers' cherry, maintain quality control, undertake pulping and washing of the coffee, provide transportation services to the union and disseminate information from the Ethiopia Coffee & Tea Authority on policy, planting and processing. In addition, they offer services such as consumer goods shops, telephone and postal services (ACDI/VOCA 2003).

Primary cooperatives join together to form unions, which are two or more primary cooperatives undertaking similar activities at the meso-level. These are managed by a general assembly elected by members who delegate tasks and power to committees. Secondary unions are formed to warehouse, sell and ship coffee overseas directly on behalf of members (ACDI/VOCA 2003, 2004). Higher-level unions employ staff and managers for day-to-day administration tasks.

Currently there are 31 secondary cooperatives in Ethiopia (Sida 2003). Yet to exist are national, macro-level cooperative federations, formed of two or more unions. The highest body, the apex body cooperative league, is intended to engage in international and policy issues. Restructured cooperatives secure funding from shares purchased by members based on by-laws, entrance fees - an initial non-refundable fee, profits earned from services and bank credit.

Working through existing structures, the newly restructured cooperatives enable farmers to build commercial relationships with exporters and enter into higher profit international markets. Further, the establishment of cooperative unions provides farmers with even greater economies of scale to manage processing and marketing of coffee, returning higher profits to farmers and strengthening vertical social capital linkages. This year, according to an USAID article (2004), direct export sales by cooperatives they are supporting to international markets reached close to 5,500 metric tons (MT), worth close to USD10 million. This is a significant increase from a few tons five years ago.

3.3 The Oromiya Coffee Farmer Cooperative Union

The OCFCU, founded in 1999, is located in the Oromiya region, one of nine administrative regions in Ethiopia. After the dramatic fall in coffee prices in 1998/99 its initial aim was to assist 100,000 farmers weather the coffee crisis. As a result of the fall in the price of coffee, farmers interviewed by Oxfam shared that they were struggling to send their children to school, pay medical expenses and buy clothes (2002). Furthermore, some cooperatives were devastated by falling prices and went bankrupt or were unable to purchase coffee from farmers (Oxfam 2002).

As a second-order cooperative, its main objective is to increase its 34 member cooperatives' competitiveness and responsiveness to the market (ACDI/VOCA 1999). The union serves community needs while also liaising between members, the state and international markets. It assists with the export of their coffee and providing services such as warehousing, market information, processing, transport, inputs, credit and

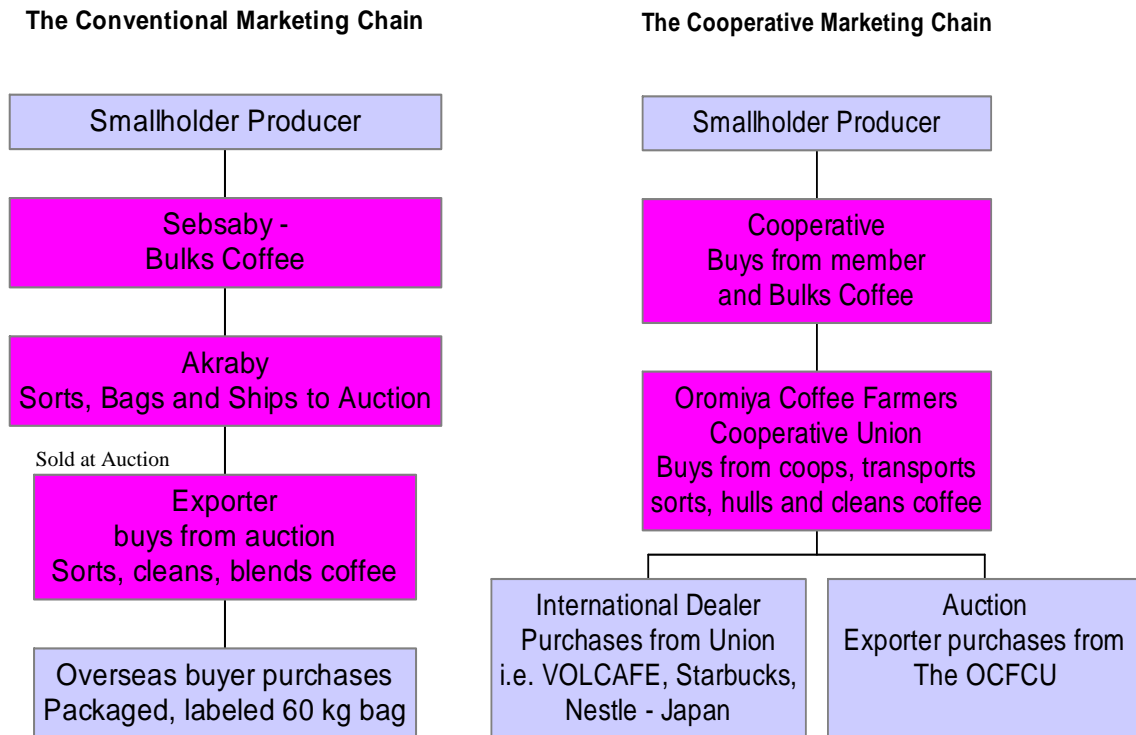
export of coffee to international markets and representation of members (ACDI/VOCA 1999). By-laws govern the operations of the union and start-up capital was raised through the sale of shares. The OCFCU has an office in Addis Ababa, the capital of Ethiopia.

In addition to support during the coffee crisis, primary cooperatives expressed the need to consolidate marketing services. Systemic issues in the marketing chain such as identifying buyers, accessing market information, exporting to international markets, national representation, and storage grew beyond the capacity of primary cooperatives to handle efficiently. One of a number of constraints to higher returns on coffee production for smallholder farmers is the complex coffee marketing chain. A larger body operating at the meso/maco-levels would be able to build strategic linkages, social relationships, negotiate and represent the interests of smallholders with government authorities, overseas buyers.

A major accomplishment of the OCFCU is its central role in the coffee marketing chain, which is reviewed in brief below (Figure 3.3). The government has historically closely regulated coffee marketing. Recently, the process was simplified to allow for greater participation from cooperatives such as the OCFCU. Previously by law, farmers were required to channel all coffee sale through local traders, known as 'akrabis' and 'sebsabis'. In addition, until recently, exporters and international buyers were prohibited from buying from farmers directly. All coffee had to pass through the one of two auction centres in Addis Ababa or Dire Dawa, a major town. Cooperatives were only recently granted permission to bypass the local traders and the coffee auction to sell directly to international buyers, eliminating the middlemen. The new cooperative

marketing chain is depicted in Figure 3.3. The streamlined marketing chain empowers farmers with far more control over coffee processing and distribution than previously.

Figure 3.3: Changes in the coffee marketing chain



Overall, inefficient marketing structures (transport, storage and taxes) and a long marketing chain involving many people are cited by Oxfam (2002) as being reasons why some farmers received between 27 percent to 54 percent of the coffee export price. OCFCU has increased the amount paid to members from export sales to about 70 percent through Fair trade and organic certification and directly managing coffee sales (Oxfam 2002).

At present, members of primary cooperatives receive dividends based on the volume of coffee they sell. Oxfam interviews with farmers report that dividends are used for short-term credit, health, food, and agricultural inputs (2002). For example, the Ferro

coffee cooperative paid USD 146 in dividends to members in 2001 (ACDI/VOCA 2004). Profits are also used to build schools, and improve infrastructure such as roads and electricity. The cooperative also offer savings and credit facilities to farmers during the growing season when their income is low.

The OCFCU is an active participant in the international Fair Trade social movement. In addition to forging relationship with overseas buyers such as Starbucks, the General Manager Tadesse Meskela conducts interviews with the press and travels internationally to raise awareness about the plight of coffee farmers in Ethiopia. International advocacy and raising awareness about of smallholder farmers in Ethiopia is extremely valuable and vital in changing institutional and structural issues at the macro level. OCFCU representatives have also attended numerous coffee exhibits to advertise and market Ethiopia's unique speciality coffees. In its five-year history, the OCFCU has achieved considerable gains in a rapidly changing political and economic landscape. Capacity building support from the Regional Cooperative Bureau, NGOs, such as ACDI/VOCA and Oxfam, and changes in government policy are important ingredients of their success.

ACDI/VOCA is building the capacity of cooperatives to function as rural businesses that are 'profit-oriented, professionally managed' cooperatives through organizational, management and business skills training to enable them to be institutionally and financially self- sustaining (ACDI/VOCA 2004). Oxfam assists with identifying international markets and raising awareness on Fair Trade coffee issues around the

world. Following is summary of the cumulative achievements of the OCFCU over the past four years.

Summary OCFUC Achievements 2000 - present

- 2000 exported 54 tons of coffee valued at \$120,000 to the US and France.
- 2001 acquired a \$650,000 line of credit from the Bank of Abyssinia. This was the first ever line of credit extended to agricultural cooperatives by a private bank and was facilitated by Washington managed Loan Portfolio Guarantee Program (LGF).
- 2001 secured Fair Trade certification for eight cooperatives. Fair Trade certified farmers are guaranteed \$1.26/lb versus the conventional market price of \$0.50-70/lb.
- 2003 total dividends distributed to 23 primary cooperatives equalled Birr 4,073,232 (USD 479,203.00)
- 2003 sold a total of 22,824 qt of coffee valued at Birr 46,797,004.00 (USD 5,506,000.00)
- In 2004 credit line increased to 1.2 million USD due to 100% loan repayment rate.
- Granted permission by the GOE to become a direct exporter of coffee to roasters and importers.
- Sells the only organically certified Arabica coffee in Africa.
- Representatives attended the Specialty Coffee Association of America annual exhibition, the largest gathering of specialty coffee buyers in the world.

Established business relationships with international companies like VOLCAFE based in Switzerland, Allois Dallamayr in Germany, Nestle-Japan, Nestle Espressos (Capsule Coffee) in Europe and Starbucks.

- General Manager Tadesse Meskela conducted numerous press interviews and represented the OCFCU at coffee exhibits and Fair Trade awareness raising tours.

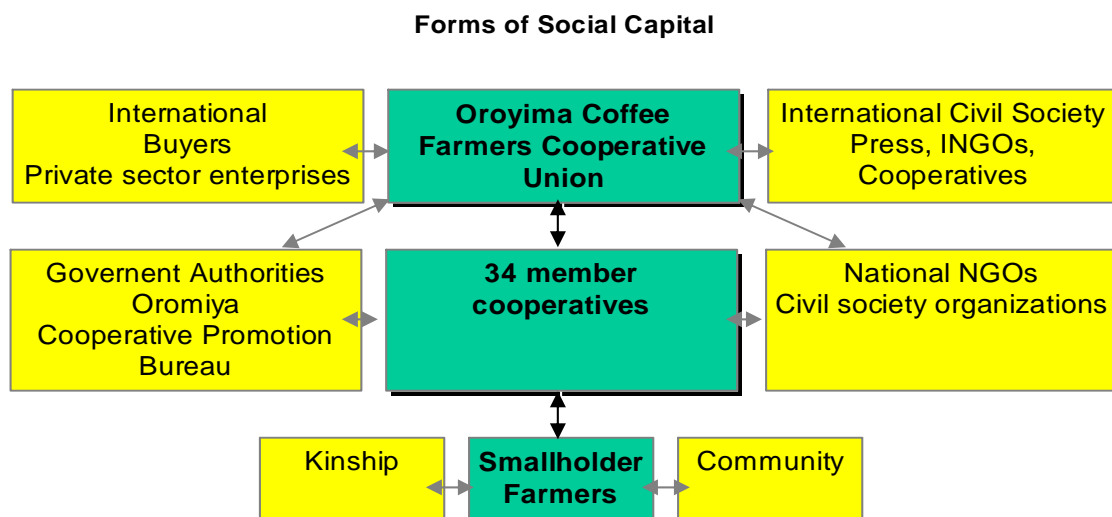
It is clear from the above listed accomplishments that in its five-year existence, the Oromiya Coffee Farmers Cooperative has achieved remarkable success in facilitating smallholder farmers' *direct* engagement in international trade. The cooperative has built a closer link between farmers and international markets. Building local, national and international relationships with roasters and importers has paved the way to niche and speciality marketing opportunities for farmers, providing them with a living wage to improve their quality of life. As a result of policy changes regulating the marketing chain and the cooperative's engagement in the international arena, farmers now receive increased profits from elimination of middlemen and Fair trade and organic certification. The economies of scale created by the union and social capital linkages at the local, national and international levels have enable the OCFCU to build and manage external relations beyond the scope of individual smallholder farmers, while still representing their interests and priorities. The OCFCU offers an example of the potential gains coffee cooperatives can achieve locally, nationally and internationally with significant investment and training.

3.4. Analysis

3.4.1 Forms of Social Capital

Networks and relationships are fundamental to the concept of social capital. Trust, social norms and information sharing all impact upon the extent to which social capital is created, sustained and expanded (Coleman 1988). Examining the forms of capital produced by the OCFCU will help illustrate the direct and indirect impact it has on farmers' livelihoods. The diagram below in Figure 3.4 is a pictorial representation of the scale, scope and reach of OCFCU's relationships give voice to its members at the grassroots level.

Figure 3.4: Forms of Social Capital within the OCFCU



The OCFCU operates at the local, national and international levels engaging in economic, political and social issues. At the international level, it negotiates the sale of coffee with international buyers and campaigns for equitable and just trade policies for the Fair Trade social movement. On the national level it liaises with the government on services, policy and development issues on behalf of its member organizations. It also collaborates with NGOs and other civil society actors. Finally, its 34 member cooperatives and their members have linkages among each other and to the

surrounding community. The concepts of 'bonding', 'bridging' and 'linking' (Bebbington 2000):6) are reflected in these multi-layered horizontal and vertical linkages. It is the value in these dense networks of support and cooperation that have accelerated the revival of cooperatives by governments and donors and prompted small farmers to join them. Ultimately, what the OCFCU can achieve as a formal institution, 15 millions smallholder farmers could not manage individually.

Thus in the Ethiopian context, the analysis indicates that the OCFCU has successfully united smallholder farmers and facilitated their engagement in trade. Unlike the cooperatives of the past, they have full support from the government to seek the best possible price for coffee. As demonstrated by the OCFCU, cooperatives benefit members by creating an institution where households can pool productive resources and exchange knowledge and information to achieve a desired outcome.

Accountability, transparency, and empowerment through management and decision-making decentralization are key principles of OCFCU's operations. Yet two issues remain unanswered. The question of *how* cooperatives impact – non-financially- on strengthening livelihoods and *for whom* will be addressed below. In addition, the potential pitfalls mentioned in Chapter 2 - exclusion, participation, power and politics - should be closely monitored.

3.4.2 Livelihood Impact

While the case study of the OCFCU proves that cooperatives can effectively link smallholder farmers to international markets, the broader impact cooperatives make on livelihoods is not as easily established. For one, the available case study data is limited

as it was not collected for the purpose of measuring livelihood impact. However, this is perhaps also an indication that there is less emphasis placed by governments and planners overall on evaluating the non-economic impact of cooperatives on farmers. This finding is consistent with the literature on cooperatives that, while appreciative of the social capital linkages and networks built through collective action, focuses more on the performance and role of cooperatives in rural economic development. The financial capital accrued to smallholder farmers is tangible and measurable, what is less documented, or perhaps absent from systemic evaluation and analysis, are the non-economic impacts of cooperatives on smallholder livelihoods. Farmers indicated that the profits they receive are invested in some livelihood enhancing activities; however, according to the SLF, a strengthened livelihood extends beyond just financial capital to include natural, physical, human and social capitals. In theory the impact of cooperatives on strengthening livelihoods should be more holistic, including all five capitals.

In practice, cooperative achievements are principally assessed by increased household incomes and the extent of local economic and business development. Success is measured by efficiency and performance indicators such as training and membership growth, profit and dividend payments, services provided to members, and sale and purchase of products. How primary cooperatives form and engage socially within their communities (Zeuli 2004) and their short and longer term impacts on health, education and food security of participating members is less understood by the case study data and research on cooperatives in general. In addition, of the farmers who are trained, how they subsequently apply management and leadership skills to strengthen their livelihoods is also an important question. The non-economic impact of

cooperative membership on livelihoods requires further documentation and deeper analysis. This is an important, yet overlooked evaluation of cooperatives that warrants more research. The SLF is a conceptual framework that can more comprehensively analyze the role of cooperatives on all livelihood capitals by examining: 1) the impact of cooperative on members and non- members in a community over time; and 2) the social and economic impact of cooperatives on communities with a cooperative versus without a cooperative.

3.4.3 Future Challenges

The equitable participation of cooperative members should be monitored, particularly if numeracy and or literacy are requirements for training or leadership positions.

ACDI/VOCA (2004) concludes that low literacy levels result in a limited understanding of cooperative concepts and principles. In addition within the OCFCU, ACDI/VOCA (2004) notes that training in the past has been focused on managers, accountants, board members and cooperative promoters, building the human capital of only a select number of members. The implication of this imbalance is that hierarchical structures can develop or be reinforced in the cooperative, marginalizing the uneducated - who are often the poor. In order to minimize this imbalance ACDI/VOCA plans to expand training to all cooperative farmer members (2004).

Growth in the number of women joining cooperatives in Ethiopia suggests that this cooperative movement both attracts women and encourages their participation.

ACDI/VOCA (2003) attributes the growth in female membership to gender training conducted with members. What the growth in membership does not reveal is the

extent of women's *active* participation, a gender issue that modern cooperatives struggle with according to Nippierd (2004). A closer look at the number of women in leadership and decision-making roles might provide this answer.

Another point of caution, informed by the historical performance of top-down cooperatives, is the hierarchical structures that can emerge from vertical integration of cooperatives. Scale-economies and the resulting concentration and consolidation of power can diminish social cohesion (Hussain 1997). Therefore, it is critical that democratic voting, representation and meaningful channels of consultation are ensured. ACDI/VOCA's emphasis on building management and business skills training and transparent and democratic structures are intended to ensure sound management and financial and institutional sustainability.

It is perhaps too early to measure the OCFCU's sustainability prospects, particularly since its financial success rests on coffee prices increasing in the world market. Nonetheless, the Oromiya Coffee Farmers Cooperative Union is an encouraging example of how the cooperative model, previously abandoned by farmers and planners, may be a way forward to empower smallholder farmers to engage in international trade. Its resounding success has been achieved in a supportive national policy environment, and with capacity building assistance from INGOs and from the lobbying and advocacy efforts -related to coffee prices - of the international community. Though country contexts vary tremendously, Ethiopia's experience with 'modern' cooperatives can inform the restructuring of cooperatives in other countries.

IV. CONCLUSION

Using Ethiopia as a case study, this paper analysed the revival of cooperatives as a strategy to enable smallholder farmers engage in international trade. Encouraged by the discourse on social capital, donors and governments have embraced the cooperative model and have been instrumental in their reorganization as democratic civil society organizations representing the interests of the poor. Government policy documents and NGO reports on cooperative capacity building in Ethiopia were used to confirm how collective action – nationally and internationally - can empower rural communities to generate solutions to overcome barriers to international trade ranging from poor market information, to processing and international sale. Social capital was introduced as a concept to broaden the scope of analysis beyond individual economic rationale and gains to wider societal influences and advantages of cooperation to achieve a goal. Understanding the downsides, debates and value of social capital in collective action lends insight into the opportunities and challenges faced by community owned institutions, such as cooperatives, in representing and responding to the needs of the rural poor. Through a historical review of cooperatives and a present day example, this paper raised important issues that should be considered by governments and donors establishing and reviving cooperatives as a livelihood strengthening strategy.

The cooperative model offers new opportunities to involve communities in economic and social development. While cooperatives can facilitate smallholder farmers' linkages to export markets, the full potential to strengthen all five livelihood capitals has not been as closely evaluated. Further, as both social and economic institutions,

cooperatives' success should be measured in economic, political and social terms (Mayoux 1988). By equally weighing economic, political and social aspects planners can better account for and analyse the impact cooperatives have on strengthening farmers' livelihoods. For such analyses, the SLF is a useful framework that considers the interplay between livelihood capitals, the larger policy environment and vulnerability context.

Though cooperatives have been proven to efficiently link farmers to international markets, cooperatives' success is closely linked to and dependent upon external factors which should be carefully considered in cooperative development, capacity building and policy formulation. In particular, governments should design national policies that enable the voluntary formation of farmers' cooperatives. Equally as critical are national trade policies that facilitate local, regional and international trade, such as market liberalization, improved access to market information and linkages with international markets and the private sector (Hussain 1997). For cooperatives that are engaged in international trade, they must consider how changes in world prices will impact upon their operations, and incorporate alternative profit generating operations into sustainability strategies. The international community also has a role to play in promoting just trade policies through international organizations such as the International Coffee Organization (ICO) or Fair Trade campaign.

Finally, external support from NGOs or donors in capacity building through training, facilitating linkages with the private sector and markets and advocacy is important. However, planners must carefully assess a cooperatives' potential to engage in

activities based on their organization, management capacity, and financial and institutional sustainability (Hussain 1997). At present, governments and donors' high expectations that cooperatives will and can perform many functions are a concern, particularly since this problem affected their success and sustainability in the past. Though cooperatives have the potential to grow into or perform other non-agricultural service-orientated businesses in their communities, they should not be pressured to take on too many functions too soon (Hussain 1997).

As illustrated by the Oromiya Coffee Farmers Cooperative Union, as cooperatives mature in the 'awareness of independence' (Pretty 2001) phase, they can expand in their lobbying and advocacy roles; seek international partnerships to contribute to larger public policy discourses; and drive innovative rural development strategies that create sustainable solutions to poverty alleviation. Heeding lessons learned from cooperatives in the past can ensure that they are inclusive of the poor and women, and restructured to be democratic, sustainable institutions. Cooperatives are a livelihood-strengthening model that offers significant potential if planners 'focus on results in which cooperatives are a means, not an end in themselves and use cooperatives to promote strategies for social and economic change' (Center on Cooperative Excellence 2004).

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