

The role of Agricultural cooperatives in accessing input and output markets

An overview of experiences of SRF CF, SNNPR, Ethiopia

By Yehulashet A.Argaw

Managing director, Southern Region Farmers Cooperative Federation

Your Excellency

Dear participants of this conference;

Ladies and gentle men

First of all may take this opportunity to express my deepest gratitude for being given an opportunity to represent my fellow farmers and deliver their voice on this valuable conference

Ladies and gentle men

Even though it is boldly known to all of you, for the simple reason that I am representing the farmers' cooperative society which is said to be contemporary innovative means for collective action towards the realization the benefits of small holder producers in the persistently failing agricultural and food market, I believed that, it would be proper if I begin by making brief reminder what and why cooperatives.

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. Over the years, cooperative enterprises have successfully operated locally owned people centered businesses while also serving as catalysts for social organization and cohesion. With their concern for their members and communities, they represent a model of economic enterprise that places high regard for democratic and human values and respect for the environment. As the world today faces unstable financial systems, increased insecurity of food supply, growing inequality worldwide, rapid climate change and increased environmental degradation, it is increasingly compelling to consider the model of economic enterprise that cooperatives offer. The cooperative sector, especially in developing countries like Ethiopia, also presents itself as an important element that can contribute to the realization of the Millennium Development Goals (MDGs) by 2015.

Cooperatives can contribute to the achievement of the MDGs by 2015 because of their inherent characteristics. Because cooperatives are economic associations, they provide the opportunity for poor people to raise their incomes. Because they are democracies with each member having one vote, they empower people to own their own solutions, and because they pool risks at the level of

the enterprise and offer micro-insurance they increase security. In addition, there is increasing evidence indicating that cooperatives also contribute directly and indirectly to meeting several of the other MDGs, such as primary education for children, gender equality and reducing child mortality. The cooperative enterprise also presents an important model as many of the world's poorest and disadvantaged face social exclusion, lack of access to opportunities and growing economic inequality.

Cooperatives are member-owned businesses. The simplest way to understand them is that they aggregate the market power of people who on their own could achieve little or nothing, and in so doing they provide ways out of poverty and powerlessness. The representative body for cooperatives, the International Cooperative Alliance (ICA), defines a cooperative as:

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

Traditional cooperatives associations existed in Ethiopian society centuries ago in the form of iqub and idir. Iqub is an association of people having common objectives of mobilizing resources, especially finance, and distributing it to members on rotating basis. Idir is an association of people that have the objective of providing social and economic insurance for the members in the events of death, accident, damages to property, among others. In the case of funeral, Idir serves as funeral insurance where community members elect their leaders, contribute resources either in kind or in cash and support the mourning member.

However, the history of formal cooperatives in Ethiopia dates back to 1960, when the first directive of cooperatives was enacted. Since the introduction of the cooperative directive, Ethiopia has enacted four new proclamations and an amendment act: Directive No.44/1960, Proclamation No.241/1966; Proclamation No.138/1978, Proclamation No. 85/1995, Proclamation No. 147/1998, and Amendment act No. 402/2004. The latest proclamation ensures that cooperative policy is fully consistent with the Universal Cooperative Principles and the ILO's Promotion of Cooperatives Recommendation 193 (2002).

Currently, cooperatives are recognized as an important instrument for socio-economic improvement of the community. This importance is recognized in their definition, which considers cooperatives to be:

An association of persons who have voluntarily joined together to a common end through the formation of a democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate (Federal cooperative Agency-FCA, 2007c: 1).

The Cooperative Proclamation No. 147/1998 identified clear goals and authorities, which supported a more conducive legal environment for the formation of Ethiopian cooperatives. The goals include social, economic and other motives that require joint actions for attaining a common target.

Aside from enacting cooperatives proclamations, Ethiopia has formulated a five year cooperative development program. This demonstrates that the federal and regional governments have realized the contribution of cooperatives to economic and social development, food security and poverty reduction in Ethiopia.

Today's, in Ethiopia cooperatives play crucial roles in economic and social development. Cooperatives created approximately 82,074 jobs and generated approximately half a billion Ethiopian Birr in wages during 2008. The participation of cooperatives in agro-processing, marketing and finance (saving, credit and banking) is increasing. The social role of cooperatives is promoted through voicing of common goals, enhanced participation in value chains, and protection of producers from unfair pricing. Cooperatives also create opportunity for networking and working in partnership with other agencies.

As an important instrument for the implementation of the national agricultural development policy and strategy as well as the recently launched growth and transformation (GTP) plan, Currently agricultural cooperatives in Ethiopia are assumed to play significant role of producers organization that are mainly able to insure the benefits of the member farming rural community through effective value chain development and market linkage with like we do with WFP through P4P program.

As per the federal national cooperative promotion directives, in Ethiopia, there are four tiers of cooperatives, namely primary cooperative, cooperative unions, cooperative federation and cooperative confederation. In Ethiopia, the apex in many regional states is the cooperative union. However, as a result of motivations from the regional government to establish Regional Cooperatives Federations, The Southern Nations, Nationalities and Peoples Region (SNNPR) established the first Regional Farmers' Cooperatives Federation in Ethiopia- Southern Region Farmers' Cooperative Federation, ltd (SRFCF) has been established and became functional in early 2009. The regional cooperative federation focuses on major economic and social services that individual unions cannot effectively accomplish.

The Southern Region Farmers' Cooperative Federation- SRFCF (plc) has established with 13 member unions and working capital of ETB 39.5 million farmers at village level. Currently, the Federation has the total membership of 18 coop unions, which in turn are having 474 affiliating primary cooperatives that are serving 311954 individual farmers (240205 male and 71749 female) membership with total 1,871,724 family members. SRFCF has been established with main objective of improving the livelihood of farmer members through improving income

by strengthening of the regional cooperative movement for self mobilized; sustainable empowerment and business making capacity of member societies. In realization of its objective, the federation is assumed mainly to perform the main tasks of coordination, facilitation and capacity building in agricultural products and technology input marketing functions of member unions and their primary cooperative societies. Moreover, the federation is responsible to undertake the value adding agro industry promotion, linking the regional small-holder farmers to export and import market for the betterment & the benefits of the member.

As a collective business making producers' organization, the primary aim of the federation in general is the betterment of the member farmers' access and role in the marketing of their produces and effective supply and distribution modern input technologies to enhance production and productivity. Accordingly, since its establishment the federation has been exerting its coordination efforts in linking unions to the market for better market price of grain and more importantly able to handle the importation of commercial fertilizers covering the entire annual regional demand. In line with this, the federation has performed the following input and output marketing operations during the past 3 years.

- Inputs marketing
 - Import and supply of chemical fertilizer raised from 28000 tons at year 2008 to 110,000 tons in 2010/11 production year
 - Supply of improved seed by member unions increase from 2800 tons at year 2008 to 95000 tons in 2010/11 production year
 - Supply of agro chemicals in year 2008 was 30% of total demand of the region covered by cooperative Unions raised to 70% in 2010/11 production year
- Output marketing
 - Grains, Pulses, coffee marketed raised from 1800 tons at year 2008 to 21000 tons in 2010

With regard to output marketing, WFP has been buying large volume of food in Ethiopia from local market. Having WFP-P4P program as committed buyer has been a greater opportunity in terms of improving the bargaining power position of members and thus guarantee their benefit from what they have produced. This has been mainly due to; firstly, the very nature of the program as it has preferred to work directly with producers organization so that able to cut the very long and inefficient chain and secondly the business volume made with the program has been quite significant finally and most importantly the program is designed in such a way that is motivating the market by realizing domestic purchase of grain that would have been imported as a relief or emergency support.

Along the market and value chain, processors and traders are constrained by low quality grain, inadequate supply and high cleaning costs whereas market intermediaries in the supply chain

face high assembly costs, high market risk and cash flow problems. These factors deprive farmers the underlying incentives to produce and supply quality and differentiated products with desirable market traits in addition to their inability to penetrate high value niche markets (Jones et al. 2002). This indicates that small-scale, dispersed and unorganized producers are unlikely to exploit market opportunities as they cannot attain the necessary economies of scale and lack bargaining power in negotiating prices. This reduces their ability to compete with well established large scale producers and farmers in more favored areas to harness available and emerging market opportunities (Johnson and Berdegue 2004). One viable strategy for such producers would be to evolve new collective forms of organization that would help them reduce transaction costs and benefit from better bargaining power in marketing their produce and procuring production inputs.

No doubt that, there is untapped potential that cooperatives as a producers' organization can form the basis for enhancing market access and entrepreneurial skills through collective action. However, collective action in marketing requires closer coordination of production and postharvest activities to ensure delivery of high quality and homogeneous products.

In practice, the functionality of cooperatives is constrained by shortages in skilled human resources (especially in cooperative business development). Moreover, the functionality of cooperatives is also constrained by shortage of capital and limited access to credit. An effective and sustainable cooperative movement requires overcoming major credit constraints and strengthening capacities of administrators and management.

If cooperatives are to be an innovative forms of organization and market institutions are going to help reduce transaction costs and enhance market opportunities for the poor, there is a need to understand how such collective action evolves and how it is sustained; the determinants of farmer participation; that enhance performance and effectiveness; and the government policy and complementary institutions support and supports from NG capacity building assistances are vital for the effectiveness of collective marketing action. However, such capacity building should aim at empowering cooperatives so that they can make key decisions and their operation with minimum or no external support.

Finally, in the name of my organization SRFCF, I am very much pleased with all business partnership and support we have received from WFP-P4P. Hoping that we will keep these partnership and to the possible higher-level and diversity so that we can achieve our common goal of making better livelihood of our member producer and thereby reducing the deep rooted rural poverty and food insecurity in the rural communities of Ethiopia.

I thank you.