

**MARKETING, SAVING & CREDIT SERVICES BY CO-OPERATIVES: CHALLENGES,  
PROSPECTS AND IMPLICATIONS FOR LOCAL ECONOMIC DEVELOPMENT  
(EVIDENCE FROM OROMIA REGIONAL STATE, ETHIOPIA)**

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**ABSTRACT**

The enormous potential of co-operatives in a range of local development arenas is a widely accepted fact. Yet, in the face of institutional and political hurdle of developing countries like Ethiopia, the adequacy and sustainability of their roles has remained blurry at large. Hence, this study has assessed the challenges and prospects of marketing, saving and credit services by co-operatives, and its implication for local economic development. It used both primary and secondary data collected from nineteen primarily level co-operatives using techniques such as in-depth interview, focus group discussions, observation and document review; and analyzed using descriptive statistics. The study shows that the performance of the sample co-operatives in the aforementioned areas is generally encouraging, but far from being adequate. And, myriads of problems such as shortage of resources, lack of qualified and committed leadership, limited awareness and participation of members, lack of market network and stiff competition, inadequate government support, and the like are constraining their performance. Hence, to unleash and sustain their immense local development potential, these constraints need to be addressed timely on priority basis.

**Keywords:** Co-operatives, Services, Challenges, Prospects, Local, Economy, Development

## INTRODUCTION

Historically, nations of the world have experienced different development paradigms. However, these development models can be grouped under two dominant development schools of thought: *development from-above*, and *development from-below* schools (Elias, 2005). According to Nelson (1993), '*development from-above*' school of thought is an exogenous development approach, which is rooted in traditional regional and neoclassical economic models. According to this school of thought, regional development would be realized via trickling down/diffusion of technology, innovation, and investment from the core (developed center) to the non-developed/less developed national and sub-national urban units and hinterlands. In contrast, the '*development from-below*' school is an endogenous development approach, which advocates that regions should take control of their own institutions and resources to create the life style they desire, and to plan and carry out their development in a way that could fit into their socio-economic, political and cultural settings.

In any case, development efforts in the past were characterized by excessive centralization of planning and management, whereby the majority of the stakeholders were virtually denied any sort of meaningful participation in any aspects of development issues. Initiation of development ideas, formulation of policies, and procedures for their execution were external to peoples who were supposed to implement it and/or benefited from such efforts. Hence, as Tewodros (2005) stated, decades of development experience were resulted in frequent failures particularly in bringing about any significant improvements in the livelihoods of the community, and in promoting sustainable development at grass root level. This condition has necessitated the nurturing and fostering of new development thinking and approaches that are essentially participatory and people-centered in their nature such as decentralized governance and Local Economic Development (LED) initiatives. In the context of this paper, and as indicated by Helmsing and Tegegne (2005), LED is a process of stimulating the economy of well-defined area, basically by utilizing existing human, material, and institutional resources with combined efforts of different actors such as local government, the private sectors, Non Government Organizations(NGOs) and and community based organizations (such as co-operatives); and can be achieved through three interrelated initiatives: community based economic development; business or enterprise development; and locality development initiatives.

In the past, Ethiopia was also characterized by an excessively centralized development planning and execution practice, which left virtually no room for decentralized and participatory local development approach. And, essential development actors such as co-operatives were meant to serve as a vehicle of political patronage regardless of their members' interest. As a result, they had been deprived off their identity as community organizations. Hence, they lost public trust, and finally collapsed upon demise of socialist regime around late 1980s. Thus, their enormous and genuine development potential had remained unleashed for many years since then. Nevertheless, the government of Ethiopia has eventually recognized that co-operatives, being community based associations, are indispensable in ensuring sustainable development at national, regional and local levels in a people-centered development approach. Thus, it has officially proclaimed for the [re]establishment of co-operatives with Proclamation No. 147/1998, which was later on amended by proclamation No.402/2004. Besides, the Councils of Ministers Regulation No. 104/2004 provides for the implementation of co-operative societies proclamation No.147/1998. According to Federal Co-operative Agency/FCA (2012), as a result of

such legal provisions, more than 43,000 primary co-operatives and about 280 co-operative unions have been established since 1998, and engaged in over fifty (50) different types of activities. These co-operatives have about 6.5 million members in total, and capital of about 2.9 billion Ethiopian Birr (FCA, 2012).

## **PROBLEM STATEMENT AND OBJECTIVES**

It has been widely argued that co-operatives, being entrenched in communities, are ideal actors to ensure broad based and sustainable development. For instance, Gertler (2001) noted that the unique characteristics of co-operatives such as their integrated socio-economic and environmental objectives, essence of mutual success and team work, desire for long term community wellbeing instead of short term profit, and value for equality, participation and democracy, their ability to link development actors and the like are essential in realizing sustainable development. Likewise, Department for International Development/DFID/ (2010) and Birchall (2003) indicated that co-operatives can play vital role in lifting the poor out of poverty and other forms of deprivations, and thereby contribute to sustainable economic growth and development. Co-operatives can make this happen by creating employment opportunities especially for the marginalized groups of people, by enhancing the bargaining power of the poor and making market work for them, nurturing and graduating small scale informal sectors to viable formal businesses, and by facilitating further processing of local resources and output. Besides, they can play effective role in helping the poor people to take advantage of opportunities by building their confidence through education, training, and self-organization for various common interests, and by facilitating access to finance, information, and to other resources (DFID, 2010; Birchall, 2003). Moreover, Kebabaw (1978) also noted that co-operative movements have a special importance in protecting the interest of farming communities, in pooling meager resources for efficient use, and in correcting market failures and exploitative act of middle men, especially in the case of developing countries where such problems are rampant.

However, needless to mention that co-operatives can play such instrumental roles adequately and sustainably, given that they are established and governed in accordance with their unique values and principles. Unfortunately, the long history of co-operative life had been full of hurdles, which at times had threatened their ideals, roles and functions; and eventually devoid them of public trust and support (Counture, Faber, Levin and Nippierd, 2002). And, restoring public confidence on co-operatives and winning support for their development has continued to be a serious challenge for revitalization of co-operative movements even presently in many countries especially in the case of developing ones. Yet, amidst such challenges, countries like Ethiopia have taken various measures since recently to once again ensure co-operative renaissance as viable development actors. For instance, in Ethiopia, policy frameworks are formulated and implemented to [re]established co-operatives based on their core values and universal pillar principles such as voluntary & open membership; democratic member control; members economic participation; autonomy & independence; education, training and information; co-operation among cooperatives; and concern for community (FCA-2012).

Yet, the viability and sustainability of co-operative forms of businesses has continued to be an issue of concern for many people in Ethiopia, partly because of awful past experiences, and also due to current wave of global business competition and economic dynamism. Unfortunately, evidences are so scant on the current performance of co-operatives in the country. Hence, this study is aimed at addressing the following objectives:

- ◆ Assess and describe the quality of services provided by co-operatives such as saving and credit, and agricultural input and output marketing services,
- ◆ Investigate and analyze the challenges encountered by co-operatives in providing these services, and their future prospect,
- ◆ Analyze the implications of the services provided by co-operatives for sustainable local economic development; and forward policy suggestion.

## DISCRIPTION OF STUDY AREA, AND PROFILE OF STUDY AREA CO-OPERATIVES

Under this section, a brief description of study area; the type of co-operatives operating in the study area, the nature of their business activities are presented briefly.

### Description of Study Area

The study area is Ada'a District/Woreda/, which is located in East Showa Zone of Oromia Regional State. There are 27-rural kebeles, and one city administration (Bishoftu City Administration with 9-urban kebeles) in this district. Bishoftu town is also the administrative seat of the district, which is located at about 47 kilometers to the South-East of Addis Ababa, the capital city of Ethiopia. Being on the major trade route of the country and closer to the capital city, the district is highly suitable for various socio-economic activities, and hosts many government and non government institutions and business establishments.

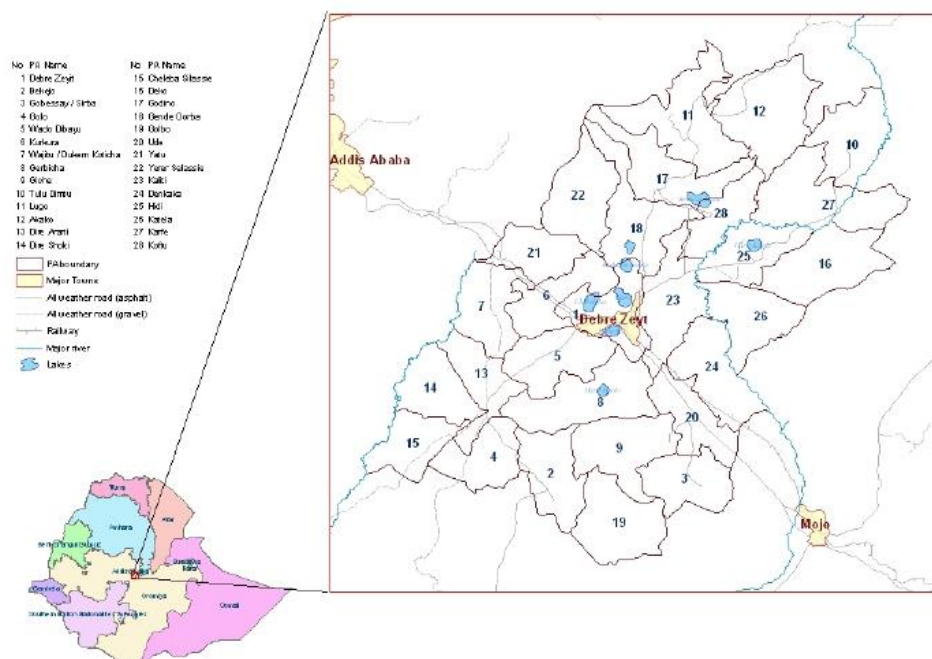


Fig 1: Map of Ada'a District

The climatic condition of the district is moderate with average annual temperature of 20<sup>0</sup>c; and minimum and maximum annual rainfall of 138 mm and 815 mm respectively. The district is among the surplus producing area of the country with a high potential for cereal and legume crops, livestock and dairy productions.

## Profile of Study Area Co-operatives

As it can be seen from table 1, the study area co-operatives are engaged in different types of activities. For instance, the Multipurpose Co-operatives (MPC) are primarily engaged in input and output marketing services, consumer goods retailing and other related service. Likewise, Irrigation Users Co-operatives (the only co-operative in this category being Alpha Goa Irrigation Users' Co-operatives/AGIUC/) is engaged in marketing of vegetables and grains, and distribution of fertilizers to members.

**Table 1: Type, Number & Activity Areas of Co-operatives in the Study Area, and their Membership Size**

Type of Co-operatives	Major Areas of Activities	Total No. of Co-operatives Currently Operating	Members		
			Female	Male	Total
Multipurpose Co-operatives (MPC)	Marketing agricultural output (Grain), and inputs( such as fertilizers, improved seeds, and agro-chemicals)	21 rural based (19 of which are legally registered)	2,921	16,828	19,749
Mineral Producers(MC)	Produce and sell sands and gravels	16 rural based (13 of which are legally registered)	16	792	808
Saving & Credit Co-operatives (SCC)	Mobilize saving from members and provide loan to members	30 (i.e. 18 rural and 12 urban based), and all legally registered).	823	1273	2096
Dairy Co-operatives (DC)	Collect, process and distribute milk and other dairy products	1 –Semi rural and legally registered	383	433	816
Irrigation Users(IUC)	Marketing of vegetables, and grains, and Agricultural input supply to irrigation users.	1- Rural based and legally registered	10	50	60
Housing Co-operatives (HC)	Undertake group based construction of residential houses for members	NA <sup>1</sup>	NA	NA	NA
Honey and Bee Keeping(HBC)	Produce and sale honey (Apiculture Farming)	3 – both rural and legally registered	4	57	61

Source: District Co-operative Promotion Bureau (2007)

The saving and Credit Co-operatives (SCC) provide saving and credit services to its members, while Dairy Co-operative (the only co-operative being Debre-zeit Dairy Co-operative/DDC/) primarily deals with collection and distribution of milk products, and also supply of concentrated animal feeds to the members. Similarly, Mineral Producers' Co-operatives (MC) are engaged in the collective production and selling of different types of minerals (like gravels and sands); while Honey and Bee Co-operatives work on honey production and marketing.

<sup>1</sup> NA-stands for 'Not Available' throughout this paper

From the co-operatives operating in the study area, nineteen (19) primary level co-operatives were considered for this study. The sample co-operatives were taken from five major co-operative types: Multipurpose Co-operatives (MPC), Saving and Credit Co-operatives (SCC), Mineral Producers Co-operatives (MC), Dairy Co-operative (i.e. Debre-Zeit Dairy Co-operative /DDC/), and Irrigation Users Co-operatives (i.e. Alph-Goa Irrigation Users Co-operative/AGIUC/). The sample co-operatives have a total membership size of 9,554 people all together. From this, 8, 098 (or 84.76%) belongs to the sample MPC, followed by DDC with 816(or 8.54%), and the SCC with 330(or 3.45%) respectively. The sample MC have 250 (or 2.2%), followed by AGIUC with 60 (or 0.63%). The overall composition of their members is 84% males and 16% females, indicating high gender disparity. The major membership criteria are: ability to make initial payments (i.e. registration fee, and purchase price of at least one share), willingness to make some periodic contribution, and also periodic saving requirement especially in the case of SCCs.

## METHODOLOGY

This study was conducted using descriptive survey design, and used both primary and secondary data. And, Ada'a District was taken purposively as a case since it was one of the pilot areas for [re]establishment of co-operatives.

### Study Population and Sampling Methods

The study population is legally registered rural and semi-rural co-operatives, while the units of analysis were the individual primary co-operative associations.

**Table-2: Summary of Target Co-operatives, Sampling Method Used, and No. of Co-operatives**

<b>Selected</b>	<b>from Each Stratum</b>			
<i>Type of Co-operatives selected</i>	<i>No. of primary Level Co-operatives Selected</i>	<i>Sampling Method</i>	<i>Number of Key Informants Selected</i>	<i>Key Informant Selection Method</i>
Multipurpose	(38 % x19) = 7	SRS	7 (i.e.1- from each)	Purposive
Saving & Credit	(38% x13) = 5	SRS	5 (i.e. 1- from each)	„
Mineral Producers	(38 %x13) = 5	SRS	5 (i.e. 1- from each)	„
Dairy Co-operative	1	PS	1	„
Irrigation users	1	PS	1	„
Total	19	-	19	-

After the sample co-operatives were stratified in to five major categories, list of legally registered co-operatives from the district was used to take the sample from each category/stratum/.To this end, a combination of Simple Random Sampling (SRS) and Purposive Sampling (PS) techniques were employed. While a proportionate simple random sampling was used to select sample co-operatives from the first three strata, the last two co-operatives i.e. Debre-Zeit Dairy Co-operative(DDC), and Alpha-Goa Irrigations Users Co-operatives(AGIUC) were purposively included to better address the objectives of the study as these are the only co-operatives in their respective category(see table 2).

## Methods of Data Collection and Analysis

The primary data were gathered by triangulating techniques such as in-depth interview with key informants (like co-operative leaders and committee members), focus group discussions (with co-operatives members), and through field observations. And, secondary data was collected by reviewing documents such as audit and other performance reports, operational records of the study co-operatives, relevant documents of local, regional and federal co-operative bureaus, library documents, and other pertinent sources. To summarize the collected data, tables and graphs were used. Moreover, Statistical Package for Social Sciences (SPSS) software was used to process and analyze the collected data.

## RESULTS AND DISCUSSIONS

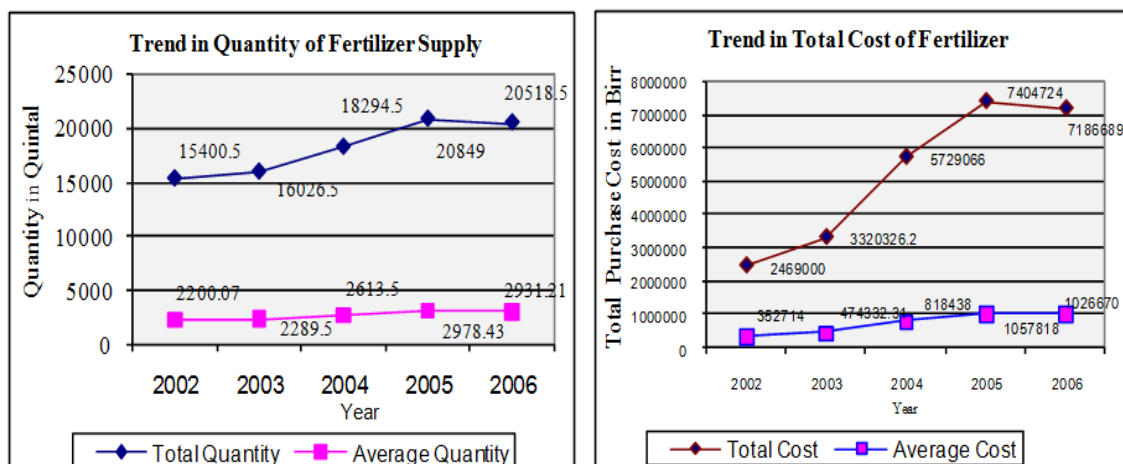
### Agricultural Inputs and Other Input Marketing Services

As indicated in many literatures, agricultural input marketing is one of the most important service co-operatives can efficiently provide. For instance, Oktaviani (2004) noted that co-operative societies can reduce the uncertainty of farm inputs supply such as quality of seeds, fertilizers, credit extensions services, and the like; and thereby promote better productivity. In line with this argument, the respondents indicated that they are getting various farm and non-farm inputs such as fertilizers, improved seeds, agro-chemicals, animal feeds and so on through co-operatives. Besides, they provide services like storage service, milling service and shopping service in some cases.

#### Fertilizer Marketing

One of the most important inputs supplied by MPC is fertilizer. As the study by Tesfaye (2005) indicates, co-operatives are taking the lion's share with this regard by supplying more than 85% of fertilizer input to the farming community in Ethiopia since recently. Likewise, as shown in Graph-1, the seven samples MPC altogether have distributed a total of 91,089 quintals of fertilizers (i.e. DAP and UREA), with a transaction cost of 26,109,805.1 Birr over the five years under study.

**Graph-1: Trend in Total Quantity and Cost of Fertilizer Distributed by the Study MPC (2002 -2006)**



Source: Bureaus of the Respective Co-operative (2007)

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Moreover, the total quantity marketed by the seven samples MPC altogether has increased from 15,400 quintals (in 2002) to 20,849 quintals (in 2005) with a percentage change of 35.38%, while the related total transaction cost has increased from around 2.5 million Birr (in 2002) to over 7 million Birr (in 2005) with a percentage change of about 200%. Similarly, the average<sup>2</sup> amount supplied by sample co-operative has increased from about 2,200 quintals (in 2002) to about 2,978.43 quintals (in 2005), while the related transaction cost has increased from around 0.35 million Birr (in 2002) to over 1 million Birr (in 2005). As the information obtained from respondents shows, such increase in the volume of transaction by the co-operatives is caused by increase in membership size and consumption level of the members (especially upto the year 2005). Likewise, the increase in total transaction cost of fertilizer is due to increased total volume of fertilizer supply on one hand, and also because of the ever increasing cost of fertilizer on the other hand. However, both quantity and cost figures have slightly declined between the years 2005 and 2006 in response to decreased demand, which was triggered by increase in cost of fertilizer and reduced credit facility according to District Agricultural Bureau Officials and FGD response.

As the responses gathered through questionnaire, key informant interview and FGD indicate, MPC are providing fertilizers with better service quality than other supplier. About 85.71% of respondents mentioned that, through co-operatives, the availability of fertilizer and accessibility (proximity) its distributions centers has improved. Besides, they provide better credit facilities (which ranges from 45% to 75% of the total cost, which is financed through bank loan), and can be paid in 3 to 4 installments over a period of 6 to 9 months. According to respondents, in the absence of such credit faculties, many farmers cannot buy and use fertilizers for cash, which ultimately could lead to reduced productivity and production level. It is also mentioned that co-operatives provide better quality fertilizers than private suppliers (which at times sell expired and mixed fertilizers).

According to District officials and FGD, the sample co-operatives are importing fertilizers directly from international suppliers through their union at better terms. Hence, they charge lower price than other suppliers because of their economies of scale advantage/cost efficiency/, and also due to their low profit margin requirement. In line with this, the study by Tesfaye (2005) shows that local communities (members) are enjoying a price reduction of 10-15% every year because of such competitive bidding and economies of scale advantages realized by co-operatives in purchasing and distributing inputs such as fertilizers. Yet, delay in supply and inadequacy of credit facilities by co-operatives are mentioned as issues of concern by majority of respondents.

### **Improved Seeds Marketing**

The other important service provided by sample co-operatives is supply of improved seeds. Different varieties of improved wheat, chickpea, teff, and lentils seeds are supplied by the sample MPC. The co-operatives buy the improved seeds from other organization and distribute it to the members. It is understood that co-operatives are playing encouraging role in linking the farmers with research centers, agricultural bureaus and other

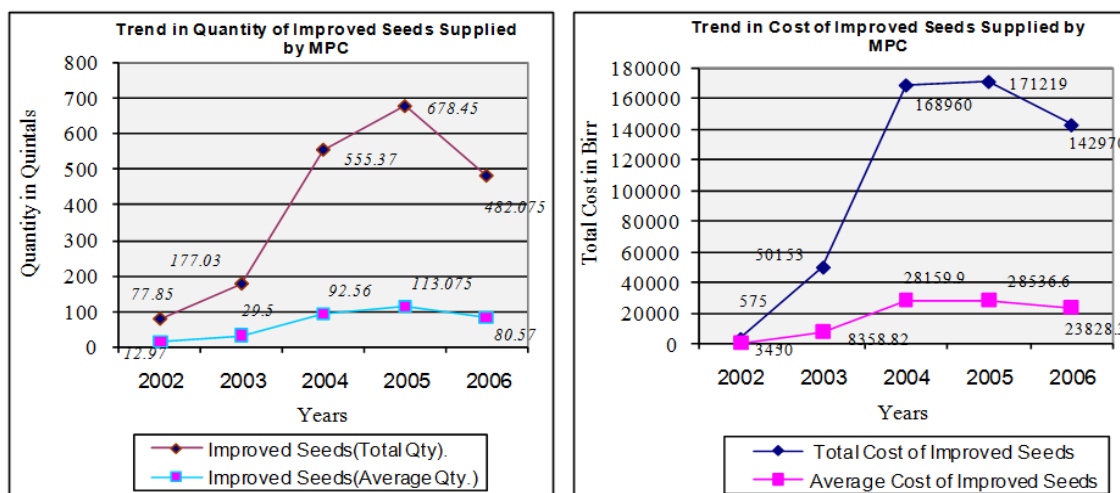
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<sup>2</sup> Average = Total quantity of Input Supplied ÷ No. of co-operatives, and shows the amount of input supplied by each co-operative on average during a given year; while average cost = Total Cost of input during a given year ÷ No. of Co-operatives, and shows the average cost incurred by each co-operative during that year to purchase and distribute the input/s/.And, this definition holds for all inputs (i.e. fertilizer, improved seeds, and agro-chemicals) discussed under this section.



stakeholders in this regard. For instance, in the process of replicating improved seeds, co-operative union and the District Agricultural Bureau inter into contract with research centers (such as Debre-Zeit Research Centers), take the basic improved seeds and get it replicated by voluntary farmers through primarily co-operatives. The district Agricultural Bureau makes the necessary technical/expertise/ assistance and follows up during replication process. When the replicated improved seeds are harvested, farmers sell it to co-operative union through primary co-operative. Unions then buy it; purify, and redistribute/sell/ it to the primary co-operatives. Finally, the primary co-operatives redistribute the improved seeds back to the members on partial credit basis. The quantity and cost of improved seeds distributed by the sample MPC over the last five years is depicted in graph -2.

**Graph-2: Trend in the Quantity and Cost of Improved Seeds Supplied by Sample MPC (2002-2006)<sup>3</sup>**



Source: Bureaus of the Respective Co-operative (2007)

As it can be seen from graph-2, most of the sample co-operatives had not started supplying improved seeds to their members during the year 2002 except two of them (i.e. Dankaka and Udee MPC). This was due to low willingness of farmers to take new varieties fearing risk of failure, and also because of high price of improved seeds. Besides, the supply of improved seeds was monopolized by parastatal organization such as Ethiopian Seeds Enterprise before that time. However, more co-operatives started the marketing of improved seeds since 2003 owing to the gradual growth in demand for the improved seeds and the inefficiency problems encountered in the distribution of the seeds by other bodies/institutions/. Consequently, the total amount of improved seeds supplied by the sample MPC has increased from 77.85 quintals (in 2002) to 678.45 quintals (in 2005), though it has declined to 482.075 quintals (in 2006) due to shortage of improved seeds supply encountered at national level during this year. Likewise, the related cost figure has increased from 3,450 Birr (in 2002) to 171,219 Birr (in 2005), though it has declined back to 14,297 Birr (in 2006) due to shortage of improved seeds. A similar trend is observed both for the average quantity and average cost figures during the periods under consideration.

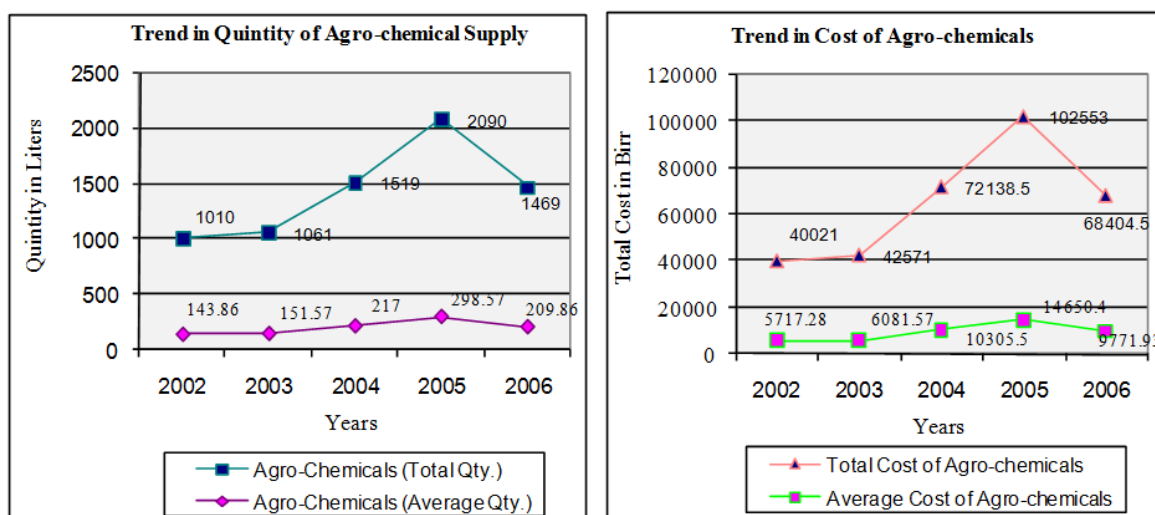
<sup>3</sup>The quantity figures on graph -2 show the aggregate sum of different improved seeds provided by six of the seven sample co-operatives and the related cost. The data for Dukem MPC could not be obtained, and hence not included.

As in the case of fertilizer marketing, the respondents indicated that co-operatives are doing well in supplying quality seeds at proximate centers, with credit facility and without any commission requirement. According to the respondents, such service has enabled them to improve their productivity. Yet, they underscored existing constraints such as high cost of improved seeds, and inadequate availability, which is due to few research centers, inadequate collaborations with essential actors, and lack of commitment on the part of some co-operative leaders. Hence, to scale up and sustain the service of co-operatives in this regards, these challenges need to be addressed.

### Agro-Chemicals Supply

Agro-chemicals are the other important agricultural input supplied by the entire sample MPC. They supply agro-chemicals such as herbicides, insecticides and the like. As it can be seen from graph-3, the total quantity and cost of agro-chemicals provided by the individual sample MPC has increased overtime especially between 2002 and 2005, eventhough it has declined in 2006 due to decline in the supply of improved seeds.

**Graph-3: Trend in the Quantity and Cost of Agro-chemicals Supplied by Sample MPC (2002-2006)**



Source: Bureaus of the Respective Co-operative (2007)

Moreover, the overall total quantity supplied by all the study MPC together has increased from about 1007 liters (in 2002) to 2090 liters (in 2005) with a percentage change of 107%, even though it has declined to 1469 liters during the year 2006 in relation with the decline in the supply of other inputs such as improved seeds. Similarly, the total transaction cost is increased from 40,021 Birr (in 2002) to 102,553 Birr (in 2005), with a percentage change of 156.25%, though it has declined down to 68,404.5 Birr (in 2006). The average figures for both quantity and cost items also have shown similar trend with that of the corresponding total figures. In any ways, it is understood that the increasing trend is due to increasing membership size, and increasing consumption of members over time, as in the case of other farm inputs.

Regarding the quality of chemicals supply service by the sample co-operatives, about 57.1% of the respondents have indicated that the availability of agro-chemicals is highly improved since co-operatives have overtaken the responsibility from the District Agricultural Bureau; while 42.9% said it is moderately or slightly improved. According to respondents, such improvements are realized in terms of adequacy of supply, quality/effectiveness/ of chemicals, proximity of distribution center, and cost. According to key informants and

FGD, the private dealers could not supply adequate amount of chemicals sometimes, and the chemical they provide is of inferior quality (which is mixed with other substances by some retailers at times). Hence, the supply of chemicals by co-operatives is more dependable than that of private supplier, though delay in supplying the chemicals is evident some times.

#### **Supply of Animal Feeds and Other Inputs by DDC**

Debre-Zeit -Dairy Co-operative (DDC) provides concentrated animal feed to those members who have cows, though the quantity being supplied is not adequate. The co-operative purchases the ingredients from different local and other domestic markets, and produce concentrated animal feeds by applying the necessary process. Then, the co-operative sells it to its members on full credit basis, which it later on collect from members' sale of milk. Both the leaders and the FGDs from this co-operative have said that such opportunity is not available elsewhere. The dairy co-operatives also provide artificial insemination services to their members so as to cross-breed their cow with more productive hybrids. As the leaders said, they have technical expert who provide the artificial insemination service by going to the members' home when ever requested.

#### **Input Supply by Co-operatives and Its implication for LED**

As it has been indicated by DFID (2010), and Gircheru (2012), co-operatives can perform valuable functions in various areas of production and service rendering activities such as agricultural inputs marketing. These services are very crucial in developing countries like Ethiopia, where there is rampant market inefficiency due to reasons such as geographic isolation, high information asymmetry, oligopoly market and their unfair profit motives among others. In line with this argument, key informants and FGD have underscored the importance of co-operatives in rendering different input marketing services, and also in introducing technologies such as improved varieties of seeds, vegetables, animals and the like. As they mentioned, such services have enhanced their input consumption level, and thereby enabled them to increase their productivity and income. Moreover, some FGD have noted that such benefits have created opportunity to diversifying their income sources and improve their livelihood.

Hence, it is important to note the far reaching implications of such services in boosting the development of local enterprises, in stimulating commercial agriculture and agro-processing etc. This could enable the locality to seize up on its comparative and competitive advantages, and thereby improve the overall socio-economic life of the people. Thus, taking proper action in areas such as strengthening linkage and cooperation between co-operatives and other development actors, enhancing effective participation of co-operatives in input supply and other technology diffusion efforts, and responding to the financial, technological and other logistic problems of these institutions is essential to maximize and sustain their enormous local development potential.

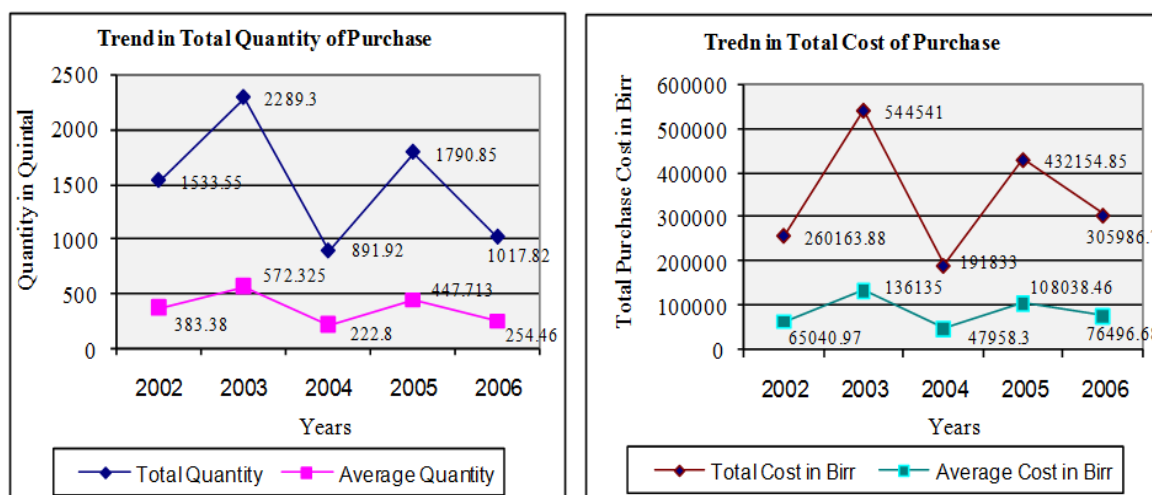
#### **Output/Product/ Marketing Services**

In this case, the performance of fourteen (14) of the nineteen (19) sample co-operatives has been assessed. The fourteen (14) co-operatives are categorized in to four types (i.e.7-multipurpose co-operatives, 5-mineral producers' co-operatives, 1- irrigation users, and 1-dairy co-operatives). The type of products being marketed by these different categories of co-operatives generally varies from grains, vegetables, and milk to mineral products.

### Grain Marketing Service

Grain marketing service is provided by the entire sample MPC, and also by AGIUC. These co-operatives market different types of grains such as wheat, teff, chickpea, lentils, peas and others. They purchase these products at competitive market price both from the members and non-members on cash basis at prevailing market price. However, it is understood from the study that the present grain marketing service of the sample co-operatives is not as such remarkable. For instance, all of the leaders from the sample co-operatives that deal with grain marketing have indicated that their marketing service is inadequate and unreliable. According to them, their co-operatives do not make regular purchase and sale of farmers' grain. It is realized from the study that the normal marketing strategy of the co-operatives is to buy the grain in October and November (i.e. immediately after harvest time), and retain a good portion of it until the lean periods (June, July and August) in anticipation of better price, as they do not have adequate market outlet during harvest time. This has resulted in high fluctuation of their grain marketing service as shown in Graph-4.

**Graph-4: Trend in Quantity and Purchase Cost of Grains by some of the Sample MPC<sup>4</sup>**



Source: Bureaus of the Respective Co-operatives (2007)

Even though the union (Erer Multipurpose Co-operatives Union) provides market information and some credit services to member co-operatives to facilitate competitive grain marketing, it could not however solve their lack of access to dependable domestic and/or international market in this regard. As a result, these co-operatives are forced to exclusively depend on local market to resell whatever grain they purchased from farmers to individual local traders (with and without public bid). They also retail to individual consumer (member and/or non-member) in some cases. Generally, the respondents said that, though co-operatives have somehow stabilized grain market, they however could not create rural-urban and domestic-international marketing network, which is essential for enhancing and sustaining their marketing service. Hence, their grain marketing service is unreliable. On top of their volatile marketing services, 7(87.5%) of the leaders and FGDs also indicated that their marketing centers are not suitable for many farmers. Unlike private individuals who go from village to

<sup>4</sup> This data in graph-4 refers only to four MPC as data for Hiddi and Dankaka MPC could not be obtained, while Dirre MPC did not make any purchase at all during the period under consideration. The purchase of 491.6 quintals made by AGIUC during the year 2006 is also excluded deliberately as the corresponding purchase price is not obtained, and as the co-operative did not make any purchase before 2006.

village to buy grains, co-operatives do not make any grain marketing outside of their premises. Moreover, they are more quality sensitive than individual buyers, while their price is virtually the same as that of individual buyers. As respondent leaders noted, such grain marketing problems of co-operatives is caused by factors such as lack of access to dependable market information and network, limited financial capacity, lack of qualified and committed leadership, and lack of members' commitment. Besides, other problems such lack of transport facilities and infrastructures like all whether roads, and absence of strong/functional/ apex organ such as co-operative federation/confederation etc have limited their marketing ability. Such unsatisfactory output marketing services of co-operatives could obviously hinder their future growth and sustainability, and thereby undermine their contributions for sustainable local economic development. Hence, to scale up and sustain their role in this regards, priority based measures need to be taken timely.

### **Mineral Production and Marketing Activities**

Mineral production and marketing is undertaken by mineral producers' co-operatives (MC), five of which are included in this study. Almost all of these co-operatives are established and started their operation in 2005. They are engaged in the production and selling of sands and different types of gravels. They sell what members collectively produce, by retailing in meter cube to the buyers on their production cite.

**Table-3: Summary of Annual Revenues, Savings and other Related Topics of MC**

No.	Name of Coop.	Years	Description of Items					
			Gross Annual Revenue from sales	Gross Annual Saving	Total Annual Distribution to Members	Payment for Union and Government (5%) of Gross Revenue	Amount of Loan given to members for Especial Reasons	No. of Peoples who took Loan
1	Dankaka MC	2005	13104	7863	5241.6	655.2	300	1
		2006	7727	3477	3863.5	386.4	-	-
		<b>Sub Total</b>	<b>20831</b>	<b>11340</b>	<b>9105.1</b>	<b>1042</b>	<b>300</b>	<b>1</b>
2	Gichee MC	2005	20000	9000	10000	1000	13000	NA
		2006	27000	12150	13500	1350	15000	NA
		<b>Sub Total</b>	<b>47000</b>	<b>21150</b>	<b>23500</b>	<b>2350</b>	<b>28000</b>	<b>NA</b>
3	Babogaya MC	2005	109025.4	52653	50907	5451	-	-
		2006	65563.55	34552	27733	278.2	-	-
		<b>Sub Total</b>	<b>174589</b>	<b>87206</b>	<b>78640</b>	<b>5729</b>	<b>0</b>	<b>0</b>
4	Hiddi MC	2005	51080	17878	30648	2584	8000	50
		2006	78920	33264	36960	3946	22000	56
		<b>Sub Total</b>	<b>130000</b>	<b>51142</b>	<b>67608</b>	<b>6530</b>	<b>30000</b>	<b>106</b>
5	Dirre MC	2005	6452	2903	3226	322.6	-	-
		2006	4036	1816	2018	201.8	-	-
		<b>Sub Total</b>	<b>10488</b>	<b>4719</b>	<b>5244</b>	<b>524.4</b>	<b>0</b>	<b>0</b>
<b>Overall Total (for 2-years)</b>			<b>382908</b>	<b>175557</b>	<b>178853.1</b>	<b>15975.4</b>	<b>58300</b>	

Source: From Records of the Individual Co-operatives (2007)

Usually, these co-operatives distribute about 50% of their revenue from sales to members every two weeks (whenever there is sales revenue). Moreover, in most of the cases, they save 45% of their revenue from sales (i.e. 25% saving for their co-operative which belongs to all members, and 20% saving for individual member). Besides, they pay 3% of their revenue for union and 2% for government). As it can be seen from table-3, the five co-operatives altogether have generated total sales revenue of 382,908 Birr during the two years period. Moreover, their total gross amount of saving was about 175,557 Birr, while the total amount of money distributed to the members by all of them together was 178,853.1 Birr.

Hence, this shows the contribution of these co-operatives towards members' livelihood improvement through creation of employment opportunity and marketing access, and in promoting their income generating capacity. The study MC altogether also contributed 9,585 Birr for union and 6,390.4 Birr for government during the period under consideration. Moreover, some of these co-operatives have given loan to their members under special occasions such as illness, loss of one's possession (such as livestock), and under other unprecedented shocks. For instance, a total of 58,300 Birr was given by three co-operatives altogether during the last two years (see table 3). This, in a sense, shows the role co-operatives could play in providing local safety net service to their members.

Yet, the absolute amount of revenue generated by these co-operatives during these two years period is low especially in some cases (e.g. Dankaka and Dirre mineral co-operatives). Besides, though Hiddi and Gichee co-operatives have shown favorable change in their total annual revenue over the two years period (i.e. 2005 to 2006), the corresponding figure for Babogaya, Dankaka, and Dirre co-operatives is volatile (see table 3). This shows that the members could not use the potential of their association yet to their best advantages in undertaking large-scale production and sales, and hence could not ensure the sustainability of their employment and income.

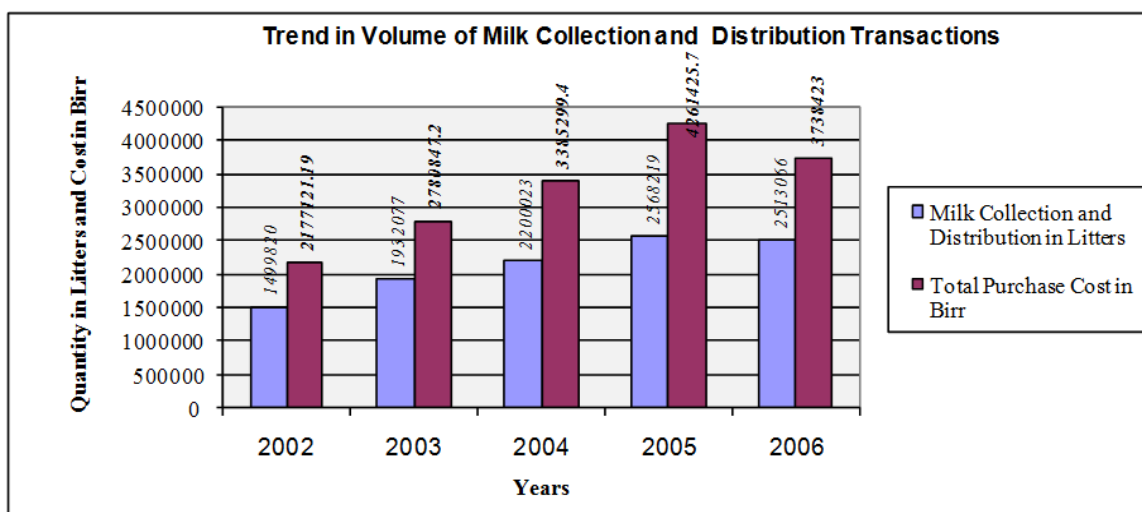
As the key informants and FGDs indicated, this is because of challenges such as internal friction between members, corruption by committee members (due to lack of adequate and timely audit), and intensive and antagonistic competitions from private producers and sellers. Besides, lack of mineral production skill and shortage of training, lack of communication network, inability to acquire better technology/machineries/ due to shortage of finance are the most important problems undermining the performance of these co-operatives. As understood from personal observation as well during field survey, the sustainability outlook of most of these mineral producers' co-operatives is somewhat dim unless necessary action is taken to address their challenges soon.

#### **Milk and Milk Product Marketing**

Milk and milk products marketing is done by Debre-Zeit Dairy Co-operatives (DDC). As it is understood from the response of the leader, DDC collects milk from members twice per day (in the morning and afternoon). Then, it resell 80% of the milk it collected to factories on whole sale basis by transporting to big cities like Addis Ababa; while it retail and/or process the remaining 20% to butter and cheese and sell to consumer. It has 12-collection centers (10 of which are within the town of Bishoftu, while the other 2 are found in rural vicinities).

It is understood from the FGD that, there was no dependable milk market for them earlier. The problem was even serious especially for members from rural areas, who did not have any such market access in the past. Hence, the co-operative has created a dependable market for the members by linking them with other companies and buyers, by safely collecting the small quantity of members' daily production and effectively distributing it to urban areas. As shown in graph-5, the volume of milk collection and distributions by the co-operative has significantly increased over the last five years (i.e. from about 1.5 million liters in 2002 to over 2.56 million liters (in 2005) with a percentage change of 71.24%, though it has slightly declined in 2006 due to reduced supply by members somehow. Besides, the average amount of collection has increased from 2867.72 liters per person per years (in 2002) to 3263.3 per person per year (liters in 2005), which implies increased production capacity of members, though it has slightly declined to 3079.73 liters per person per year (in 2006). Such increased productivity is also acknowledged by the FGDs, who have indicated that some members are getting remarkable amount of revenue from sale of milk, and are able to secure their livelihood.

**Graph-5: Trend in Volume of Milk Collected and Sold by DDC (2002 - 2006)**



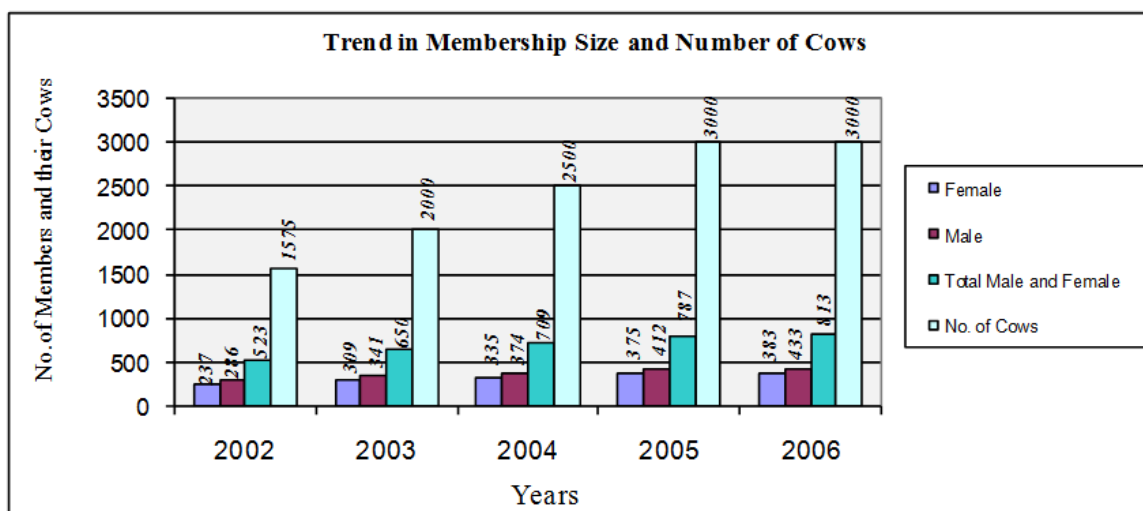
Source: Bureau of the Co-operative (2007)

Moreover, the transaction value is increased from about 2.07 million Birr (in 2002) to over 4.26 million Birr (in 2005), though it has reduced to around 3.74 million Birr in 2006 in relation with the reduced level of supply. This shows that the transaction capacity of the co-operative is getting increased overtime in relation with the increasing membership size and the increased level of members' production. The collection is made on credit basis where the payment is effected every two-weeks as per the amount of milk supplied by individual member. As some FGD have noted, this payment scheme has enabled them to save their money and use it properly. As far as the adequacy of market is concerned, the leaders and FGD indicated that the co-operative buy all what is supplied by the members (given the quality requirement), and the marketing service is given to the members on timely basis at a location which is more or less proximate to the majority. DDC buys the milk for fair price that is inline with the prevailing market price. Besides, the role being played by the co-operative in overcoming and regulating the market monopoly and exploitation by private dealers is also very essential.

As a result of dependable market opportunity created by this co-operative, its membership size and the number of their cows are increasing from time to time (see graph-6). One important thing to note here is that the growth in number of members' cows is higher than the growth in total membership size. The average number of cow

has increased from 3-cows per individual (in 2002) to nearly 3.7-cows per individual (in 2006). As it is realized from the FGD, many members have increased the number of their cows owing to the market opportunity created for them by this co-operative. This seems a typical example that exhibits the role co-operatives could play in enhancing asset-building and income generating capacity of their members. Another worth mentioning issue in connection with the information in graph-6 is that the gap between male and female members is narrow in the case of DDC, unlike the case of most other study co-operatives, where the males take the lion's share. If scaled up and sustained, such experience could help ensure the empowerment of women, and thereby enhance their participation and contributions towards sustainable local economic development and household livelihood improvement.

**Graph-6: Trend in Membership Size and Number of their Cows for DDC (2002-2006)**



Source: Bureau of the Co-operative (2007)

Yet, it is understood from the response of the leaders that there are some factors that have constrained optimal utilization of the existing potential, similar to other cases. Some of the major problems mentioned in this case are: limited financial capacity, limited access to modern technologies (especially those required for processing of dairy products), inadequate government support, inadequate members' participation, and hostile competition from the private dealers. Hence, prudent response to these problems is necessary so as to sustain and also expand the marketing access created by DDC to other potential areas where such opportunities are lacking presently. Doing so will promote the production and supply of milk (which is essential ingredient of people's daily diet), promote livelihood diversification and income generation ability of local peoples, and create more employment opportunity, which collectively feed to far reaching sustainable local economic development.

### **Vegetable Marketing Service**

Vegetable marketing service is provided by Alpha Goa Irrigation Users Co-operative (AGIUC), which is established by individuals who are engaged in vegetable production by using common irrigation facility. The co-operative collects different types of vegetable and fruits both from members and non-members on cash basis. For instance, it collects and sells vegetables such as onion, tomato, potato, cabbages, and carrots; and fruits such as papaya, avocado, banana, lemon and others. Accordingly, it has collected and marketed a total of 1323.64 quintals of different vegetables and fruits during the year 2006, when it started vegetable marketing for the first time. Out of this, 179.45 quintals (or 13.56%) is collected from the co-operative's own demonstration farmland,



while the rest is collected from individual members and non-members. Some of the vegetables and fruits are retailed to the consumers in the retail shop of the co-operative in Bishoftu town, while part of it is used in its own restaurant for preparation of foods, juices and others consumables for resale. According to FGD, the involvement of the co-operative in fruit and vegetable marketing highly reduced exploitation by middle men.

Yet, as in the case of other co-operatives, AGIUC is not operating to the best of its capacity due to host of constraining factors such as lack of qualified human power (such as managers and marketing professionals), lack of finance, lack of transport services, stiff competition from private traders, limited market network(exclusive dependence on local market), lack of access to technologies, internal conflict between members, and lack of adequate training and other necessary supports from government. Due to such constraints, the co-operative is in a dire condition in terms of expanding and sustaining its activities, and in enhancing its contribution for local economic development, as observed during field survey.

### **Product Marketing by Co-operatives and its Implications for LED**

The product marketing performance of study co-operatives is generally encouraging. Though it is volatile in some case (e.g. grain marketing by MPC), the performance in other cases seems promising. For instance, in the case of DDC, the FGD indicated that co-operatives have created imperative marketing access for their produce. Likewise, the performance of some MC seems a good start. The FGD have noted that such marketing service by co-operatives improved their ability to generate more income and increase their production, and build their own assets. These services by co-operatives benefit the local community at large through its spill-over effect, and thereby enhance their productivity and income level.

In line with this argument, the key informants and FGD have noted that co-operatives have enhanced the participation of local communities in varies socio-economic development activities of their area such as contributing for the development of various infrastructures (like schools, health centers, roads) both physically and financially, and also are promoting the undertaking of small scale business (by some members). The development of such socio-economic infrastructures is fundamental in producing healthy and qualified human resources at local level, in utilizing local resources to the best advantage of locality, and also in attracting other resources from elsewhere to the locality, which could have far reaching favorable impact on sustainable local economic development through its multiplier effect.

### **Saving Mobilization and Loan Provision by Co-operatives**

Under this section, the role of saving and credit co-operatives (SCC) in providing saving and credit facilities, and its implication for local economic development is presented, along with the challenges thereof.

#### **Resource Mobilization Through Saving**

One of the very important objectives of co-operatives (especially of SCC) is promoting members' saving culture and mobilizations of resources for loan services. According to the Committee for the Promotion and Advancement of Co-operatives/COPAC/ (2000) and McIntyre (2006), co-operative enterprise can better mobilize the meager resources of individuals and small firms for local development than other forms of financial arrangements such as country level macro programs. This is because, by their virtue of being locally rooted, SCCs can create indigenous saving and investment cycle that can better support sustainable local

economic development. As shown in table-4, the role being played by the sample SCC in this regard seems to support the preceding arguments. The maximum total saving amount over the five years period is 65,110 Birr made by Hiddi SCC, while the corresponding minimum saving is 13,025 Birr made by Babogaya SCC. Similarly, Hiddi SCC has the highest average annual saving (both compulsory and voluntary) of 13,022 Birr, followed by Dankaka SCC with corresponding figure of 7,947.5 Birr. Godino and Babogaya have the least average annual saving with Birr 3,826.25 and Birr 2,605 respectively. The variation in the amount of saving among the co-operatives is due to variations in their membership size, compulsory monthly saving and voluntary saving amounts.

**Table-4: Total Annual Saving of Members**

	<i>Name of Co-operatives</i>				
	Hiddi SCC	Dankaka SCC	Babogaya SCC	Udee SCC	Godino SCC
<i>Compulsory Monthly Saving</i>	<b>20 Birr</b>	<b>20 Birr</b>	<b>5 Birr</b>	<b>15 Birr</b>	<b>20 Birr</b>
<b>Year</b>					
<b>2002</b>	7,220	-	800	NA	-
<b>2003</b>	9,520	2540	872	NA	785
<b>2004</b>	12,800	4860	2662	16,188.91 <sup>5</sup>	2810
<b>2005</b>	17,480	11,620	3,684	9,161.15	4180
<b>2006</b>	18,090	12,770	5,007	11,718.94	7530
<b>Total</b>	65,110	31,790	13025	37069	15,305
<b>Average<sup>6</sup></b>	13,022	7947.5	2605	7413.8	3826.25

*Source: Compiled from Documents of Individual Co-operative Records (2007)*

It is understood from key informant interview and FGD that almost all members of SCC did not use to save money in the past, and access to loan was also a serious problem for them. Presently, SCC are playing encouraging role in mobilizing resource via saving by its members, and in converting members saving in to loan. The amount of their total annual saving (i.e. both compulsory and voluntary saving) is increasing from time to time (see table-4). As the leaders and FGD have noted, such an increase in the amount of saving is caused by increased membership size on the one hand, and also due to improved members' awareness about importance of saving(which has triggered voluntary saving in excess of compulsory saving in some cases).

Yet, it is understood from FGD that many members are not saving the amount of money they could save even presently. As they noted, this is partly because of lack of good governance, absence of adequate and relevant training and experience sharing opportunity, inadequate concern and follow up on the part of the government(especially in providing necessary technical support such as timely audit) among others. These bottlenecks have also undermined the ability of some SCCs to attract more members as required.

<sup>5</sup> Represent the cumulative saving upto end of year 2004

<sup>6</sup> The average figures are taken from the number of years since the co-operatives started operation.

### Provision of Loan Services

As Akpoghor (1993) noted, rural/local communities of developing countries have no access to credit services unlike their advanced counterparts, and hence are exposed to individual money lenders such as Usuries, who charges exorbitant interest rates. The local people in the study area were no exception in this regard. Key informants and FGD indicated that, until the recent emergence of microfinance institutions, virtually, individual money lenders (Usurers) were the sole provider of credit service to local communities at excessive interest rate (which ranges from 50% to 100% of the loan amount). However, as indicated by key informants and FGD, the role being played by SCC in creating local financial proper (such as loan service) seems a good start if sustained (see table 5). The amount of loan provided by the individual SCC has generally increased over the years under consideration.

**Table-5: Amount of Loan Provided by the Sample SCC and their Respective Interest Rate (I)**

<i>Interest rate(I)</i> <i>Years</i>	<i>Name of Cooperatives, their interest rate, and amount of loan they provided by year</i>					<i>Total Loan by the Sample SCC</i>	<i>No. of people who have got loan service from the sample SCC</i>			
	Hiddi SCC	Dankaka SCC	Babogaya SCC	Udee SCC	Godino SCC		Male	Female	Total	Female to male %
	<i>I = 20%</i>	<i>I = 12%</i>	<i>I = 18%</i>	<i>I = 15%</i>	<i>I = 10%</i>	-				
2002	8,590	-	-	-	-	8,590	11	5	16	31.25
2003	28,604	2,500	-	5430	-	36,534	20	8	28	28.57
2004	30790	6,450	-	28,918	-	66158	51	13	64	20.03
2005	32,400	8,750	3850	33,091	3300	81,391	48	28	76	36.84
2006	18,500	15,585	3850	49,300	9500	96,735	64	45	109	41.28
Total	118884	33,285	7700	116,739	12,800	289408	194	99	294	33.78
<b>Average<sup>7</sup></b>	<b>23,776.8</b>	<b>8321.25</b>	<b>3850</b>	<b>29184.75</b>	<b>6400</b>	<b>-</b>		<b>-</b>	<b>-</b>	<b>-</b>

*Source: District Co-operative Promotion Bureau Documentation, and Bureaus of the Respective Co-operatives (2007)*

Though the interest rate charged by co-operatives still tend to be high (which ranges from 10% to 20%), the total amount of loan provided by the sample SCC altogether has increased from Birr 8,590 (in 2002) to Birr 289,408 (in 2006). The total number of borrowers has also increased due to growth in membership size and loan provision capacity of the co-operatives (see table-5). This shows that borrowers are less responsive to the high interest rate since (i) they virtually have no better loan access, and (ii) the interest they pay accumulates towards the capital of their own co-operative. The major sources of money for SCC are members' saving, surplus from operation (like interest rate on loan), and credit from co-operative unions (in some cases).

Yet, the majority of loan takers are males, since female members are of relatively small in number, indicating the prevalence of gender gap. Besides, there is variation in the loan provision ability of the sample SCC. As the respondents indicated, only 2(40%) of the sample SCC (i.e. Hiddi and Dankaka SCC) can satisfy the loan request of their members, as they have many members and higher amount of monthly saving. In contrast, 3(or 60%) of the sample SCC (i.e. Udee, Babogaya, and Godino SCC) cannot fulfill the loan request of their

<sup>7</sup> The average is taken from the number of years since loan provision is started

members at times due to liquidity shortage. This is because of limited members' monthly saving, small membership size, lack of access to external loan, and very traditional and low business scale among others. As a result, the growth of their service (saving mobilization and loan provision), and their future sustainability seem to have been ensnared by the hosts of aforementioned challenges.

#### **Implication of Saving and Credit Services by Co-operative for Local Economic Development**

Generally, according to Nweze (1991) and McIntyre (2006), being genuine and flexible, financial services such as saving and credit by co-operatives can better promote sustainable local economic development by promoting indigenous saving - investment-cycle especially in rural/local areas. In line with this argument, the respondents indicated that SCC and other co-operatives are playing crucial role in developing their saving culture; linking them with other actors such as banks, Government and Non Government Organizations(NGOs); in providing loan facilities for various productive purposes; and in creating self employment and livelihood diversification opportunities. It is realized from the study that members take the loan from their co-operative for various productive purposes such as purchase of agricultural inputs (like fertilizers, improved seeds, agro-chemicals), for animal fattening, poultry, vegetables production by using irrigation system, contracting farm land for ploughing, to undertake petty trades such as preparation and sell of local drinks, to buy ox for ploughing, to buy horse cart, to overcome unexpected shocks, and so on. Such activities, if scaled-up and sustained, could eventually trigger the emergence of local enterprises and the development of local economy.

#### **CONCLUSION**

This study was aimed at assessing the challenges and prospects of marketing, saving and credit services by co-operatives, and its implication for local economic development. To this end, a case study of 19 rural and semi rural co-operatives was made using primary and secondary data. The result of the study shows that, the agricultural input marketing services by MPC is very encouraging. These co-operatives are supplying better quality agricultural inputs such as fertilizers, improved seeds and chemicals at proximate centers and for better price. Likewise, the milk marketing service by dairy co-operative, the saving and credit services by SCC, and the vegetable marketing service by AGIUC are all promising. In contrast, the mineral marketing service by Mineral Producers' Co-operatives is not adequate; while the grain marketing services by MPC is highly volatile and unreliable.

Overall, the marketing and financial services by co-operatives have far reaching implication for local economic development if scaled up and sustained. It is realized from the study that, through co-operatives, local communities are accessing better opportunities to improve their productivity, diversifying their income sources/livelihood, and builds assets. Besides, they are better participating in various local development activities such as construction of schools, health centers, roads, storage facilities among others. However, myriads of challenges are threatening the growth and sustainability of the co-operatives, and undermining their contributions for sustainable local economic development. These constraining factors include, but not limited to resource shortage (such as human, financial, material, technology, and information), inadequate awareness and limited commitment of members and leaders, absence of continues and relevant training, and poor governance. Besides, stiff competitions from market, and inadequate technical support from government, and lack of appropriate apex organ such as co-operative federation and confederation are among the constraints that deserve timely attention.

Hence, in light of these findings, the following policy recommendations are forwarded

- ◆ Enhance the awareness and commitment of members and leaders through continues and relevant training, advocacy works using different mass medias( such as Radio, Televisions, Newspapers, Magazines etc), and using various experience sharing opportunities such as organizing exposure visits to best performing co-operatives and/or countries, organizing national and international conferences and exhibitions on co-operative issues/performances among others ,
- ◆ Facilitate access to loan services from commercial banks and other sources so that they could fulfill the requisite materials and technologies for their operation,
- ◆ Provide timely technical supports like audit and inspection, professional advices; and address the problems of poor governance.
- ◆ Promote the competitiveness of their services, and create access to broader domestic and international markets,
- ◆ Establish requisite higher co-operative organ such as co-operative federation and confederation, and strengthen the horizontal and vertical linkage/collaborations within co-operatives themselves and with other relevant outside stakeholders both locally and internationally.

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