Revitalizing Market-Oriented Agricultural Cooperatives in Ethiopia

A Case Study

Conducted In Cooperation with

USAID's Cooperative Development Program

By

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Executive Summary

Since 1997, ACDI/VOCA has been assisting Ethiopian cooperatives with the transition from a socialist orientation under the repressive Derg regime, to a free market, business-driven approach. This case study compares the growth and progress of the Kolba Farmers' Multi-Purpose Primary Cooperative and the Lumme-Adama Farmers' Cooperative Union as a result of two ACDI/VOCA development assistance projects: 1) The Cooperative Union Project (CUP), a two-year program (1998-1999) with the goal of enhancing food security and rural income, and 2) Agricultural Cooperative Development in Ethiopia (ACE), an extension and expansion of CUP (2000-2004) with major additional components including expanding the participation of women, diversification of cooperative businesses, natural resources management, and an HIV/AIDS intervention. The study employs a participatory methodology, including interviews at national, regional and local levels with government officials, outside experts, farmer cooperative members, board members and management of the union and primary cooperatives.

<u>The Policy Environment</u>. This is a success story of democratization and policy change and the concurrent transformation of cooperatives. As the previous authoritarian, centrally-controlled economy of Ethiopia has been replaced by the present government (in power since 1991), decentralized free-market economic development has ensued. The government has placed a high priority on food security and self-sufficiency. Cooperatives have gained prominence in Ethiopia's rural and agricultural development strategy, within the national macro-economic policy framework of agricultural development-led industrialization.

A government policy and an accompanying strategy for cooperative development in Ethiopia, previously incomplete, have been developed and submitted to Parliament for approval. The new proclamation for the establishment of cooperatives satisfies the internationally accepted principles adopted by the International Cooperative Alliance (ICA). Within this context, ACDI/VOCA's technical assistance has helped carry out the government's plan to privatize business and industry by assisting agricultural cooperatives in becoming farmer-owned and -controlled, profitable and governed in a democratic fashion.

<u>Democratic Participation</u>. Farmer members at the grassroots level freely and democratically elect their leaders without government intervention. Cooperatives are no longer state instruments; they are demand-driven institutions owned, managed and controlled by members. Members interviewed during the course of the case study were generally satisfied with the democratic process. Government involvement in promotion and organization during the transitional period was regarded as positive and supportive. Democratic rights and economic benefits have inspired members and given them confidence in cooperatives. Members' perception of cooperatives has dramatically changed. Growth of membership and the corresponding unprecedented growth in equity capital provide substantiating evidence of this shift in attitude.

<u>Salience</u>. By giving ownership of the project to the cooperatives, the Cooperative Promotion Bureau (COPB) and ACDI/VOCA have promoted sustainability. The growth and profitability of cooperatives has removed the negative stigma of co-ops as an extension of the government's political machinery. Cooperatives are now valued as essential in a free market economy and democratic society. As business organizations, cooperatives are recognized as part of the private sector and given a level playing field on which to compete with other enterprises. Market-oriented multi-purpose primary agricultural cooperatives have been restructured and registered as private business organizations. Concurrently, cooperative

unions with greater economies of scale, bargaining power and influence at regional and national levels have been formed. To date, 1,587 primary cooperatives have been restructured and registered. Of these, 422 have been directly organized by ACDI/VOCA under the CUP and ACE programs. The total number of unions is over 30, and of these, 26 were directly organized by ACDI/VOCA under CUP and ACE.

Growing Professionalism. This case study illustrates the success of cooperatives in managing their businesses efficiently and effectively. Professionalism in cooperative management has become the hallmark of cooperative development in Ethiopia. Employment of non-member managers, especially at the union level, has become the norm rather than an exception. Board members and managers know their duties and responsibilities and controllers are no longer seen as "faultfinders" and "rumormongers." Governance of cooperatives is therefore no longer a vexing issue. Books of accounts are regularly audited and no embezzlements or financial irregularities have been reported since cooperatives have been restructured. Cooperatives had in the past invariably been victims of such problems, and accounting improvements are a major breakthrough.

Access to Credit. Through the Loan Guarantee Fund, which has been supported by USAID and the visionary Bank of Abyssinia, cooperatives have been able to access credit and have sufficiently demonstrated their creditworthiness (100% on-time repayment). This development has coaxed the largest parastatal commercial bank in the country to open its door to cooperatives. In addition, the rapid promotion, establishment and development of savings and credit cooperatives (SACCOs) has created a conducive environment for the provision of sustainable rural financial services to cooperatives and individual members.

Change Strategies. This case study shows that, with a conducive enabling environment, it is possible to restructure top-down cooperatives to serve members effectively and profitably. To change and revitalize cooperatives in Ethiopia, several interventions were critical: (1) organizational changes were required including hiring of professional managers to manage the unions, training board members and managers for their duties, and training controllers to conduct regular control; (2) cooperatives learned to operate as businesses in which membership is voluntary and based on profits and incentives such as patronage dividends (annual business plans are now required at both the union and primary cooperative levels); (3) cooperatives needed to become creditworthy as is now evidenced by the Commercial Bank of Ethiopia (CBE) providing working capital (in the past, cooperatives were isolated and none of their assets were acceptable as collateral); and (4) savings and credit services needed to be institutionalized through the establishment of rural SACCOs so that local savings could be mobilized, and primary cooperatives as members of SACCOs could borrow working capital for grain purchases -- a major breakthrough in rural finance.

Impact on the Rural Economy and Community. USAID support and ACDI/VOCA's intervention have had visible impacts on improving the rural economy through cooperative development. The progress made by cooperatives toward enhancing food security and rural income and reducing rural poverty in the areas served is attributable to such intervention. Cooperatives receive no subsidy and many cooperative members pay up to 60 percent of the down payment on inputs. This shows the declining dependency of cooperative members on government-guaranteed input loans. Through systematically linking training, capacity building and market linkages, the CUP and ACE projects have ensured sustainable economic results for cooperative members.

Cooperatives are becoming increasingly important to individual members, the community, the business sector, and the national economy in Ethiopia. More than 85 percent of the total inputs supplied to the rural community are distributed through cooperatives. Cooperatives are responsible for over 75 percent of coffee exports, the major foreign exchange earner of the country. Coffee unions are exporting high-quality, organic and Fair Trade coffee to the United States, Europe and Japan, fetching premium prices on behalf of smallholder coffee farmers. Through cooperative unions, primary cooperatives have unfettered access to inputs at competitive prices (with substantial price reductions) and have attained a strong bargaining position in marketing their outputs. In general, cooperatives are moving toward financial self-sustainability. Today, cooperatives as business organizations regularly pay patronage dividends to members, and such dividends have impacted household economies.

Work Remaining. There are still substantial differences between the primary cooperative and the cooperative union in the degree of business planning and management sophistication. Literacy levels are low among primary co-op members and, as a result, understanding of cooperative concepts and principles within primary cooperatives needs to be further developed. Training has focused on cooperative managers, accountants, board members and cooperative promoters, and now needs to expand to reach additional farmer members. The participation of women as members and leaders should be expanded. Promising HIV/AIDS intervention activities are just beginning and can be enhanced through the existing cooperative structure.

Input supply now constitutes the major activity of the cooperatives, which should be diversified into agro-processing (value-added products). Marketing needs additional attention: several cooperatives have cereals (teff) and pulses in storage, while the country is facing a famine. This is due primarily to low prices as a result of low demand in accessible target markets.

Additional challenges include: 1) addressing natural resource management through cooperatives; 2) expanding technology transfer (including, but not limited to, expanding the use of tractors); 3) forming additional business linkages of unions with the private sector; 4) developing short and long-term strategic plans; and 5) continuing to improve the auditing system, including building the capacity of the auditors.

Conclusion. Progress made to date in Ethiopia clearly demonstrates that the negative attitude toward cooperatives has been reversed. Ethiopia serves as an excellent example to other countries that socialist cooperative societies designed to serve solely the interests of the government can be successfully rehabilitated and revitalized as market-oriented private business organizations.

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Acronyms/Terms

ACDI/VOCA	Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance
ACE	Agriculture Cooperatives in Ethiopia
ADLI	Agricultural Development-Led Industrialization
AIDB	Agricultural and Industrial Development Bank
AISCO	Agricultural Inputs Supply Corporation
Birr	Ethiopian Currency -- $1 US=8.64 Birr in 2003; 8.62 in 2002; 8.61 in 2001; 8.36 in 2000; 8.17 in 1999 and 7.54 in 1998
BOA	Bank of Abyssinia
BSD	Business Services Development
CBAs	Cooperative Business Agents
CBE	Commercial Bank of Ethiopia
CPBs	Cooperative Promotion Bureaus
CUP	Cooperative Union Project
DBE	Development Bank of Ethiopia
FOAs	Farmer Outreach Agents
HA	Hectare
ICA	International Cooperative Alliance
INRM	Integrated Natural Resource Management
KFMPPC	Kolba Farmers' Multi-Purpose Primary Cooperative
LAFCU	Lumme-Adama Farmers' Cooperative Union
LGF	Loan Guarantee Fund
MIS	Market Information System
MOA	Ministry of Agriculture
OCFCU	Oromia Coffee Farmers Cooperative Union
OCPB	Oromia Cooperative Promotion Bureau
ODPPB	Oromia Disaster Prevention and Protection Bureau
PAs	Peasant Associations
Qtl	Quintal (100kg)
SACCOs	Savings and Credit Cooperatives
SCFCU	Sidamo Coffee Farmers Cooperative Union
TOTs	Training of Trainers
Woreda	District

Cooperative Development Program
Ethiopia Case Study

Structure of the Report

This report is structured in four major parts: Part I provides an overview of the goals, implementation process and performance of the Cooperative Union Project (CUP) and the Agricultural Cooperatives in Ethiopia project (ACE), from 1998-2002; Part II presents the case study of the selected primary cooperative and union; Part III discusses lessons learned, salience of cooperatives, major issues and recommendations for further action; and Part IV presents the results and interpretation of the financial analysis.

Part I: THE IMPLEMENTATION PROCESS

A. Project Description

1. Background and Overview

Food security in Ethiopia depends largely on smallholder agriculture. The sector has a very low capacity and is unable to meet the demand of agro-industries for food and raw materials. Productivity of smallholder agriculture lingers at the subsistence level, due primarily to the unreliable supply and unaffordable prices of farm inputs, and to poor rural marketing infrastructure. Consequently, rural income is low and poverty looms large. Cooperatives are indispensable institutions for addressing such a structural problem but, unfortunately, the Derg regime abused cooperatives in Ethiopia. Excessive government intervention and control, coupled with mismanagement, devastated the cooperative movement. As a result, prejudice against cooperatives persisted for some time after the change of government in 1991.

The incumbent government has made several constructive policy changes toward creating an enabling environment for the private sector. Market liberalization and currency devaluation are among the most pertinent policy measures. The emerging private sector encourages competitive markets, but individual farmers have weak bargaining power. In view of this, a new cooperative law was issued in 1994 (Proclamation no. 85/1994) to encourage smallholder farmers to organize into agricultural service cooperatives based on internationally accepted principles and a free-market economy. The proclamation encouraged the formation of voluntary, private, democratic and business-oriented cooperatives. However, the chronic need for training and capacity-building hampered the emergence of truly viable cooperatives. At the time, the cooperative sector had the following inherent problems:

- Lack of professional management and weak accounting systems;
- Inadequate supply of inputs;
- Lack of market information and limited access to markets;
- Limited bargaining power;
- Insufficient number of and poor management of storage facilities; and
- Inadequate banking services and weak savings mobilization.

Following the initial intervention of ACDI/VOCA in September of 1995, U.S. cooperative specialists conducted a four-week training of trainers (TOT) course on the basic elements of free-market cooperative management. The majority of the participants were drawn from the Oromia Region and a few attended from each of the other three major regions (Amhara, Tigrai and Southern regions). Subsequently, additional cooperative board members, managers, accountants and farmer members were trained in the management of modern business cooperatives.

The Oromia Cooperative Promotion Bureau (OCPB) was the first to show a keen interest in revitalizing the cooperative sector, stimulating ACDI/VOCA's committed involvement and the initiation of the pilot Cooperative Union Project (CUP). Oromia Region has major agricultural potential and a large number of agricultural cooperatives, making this region a good choice for launching the pilot project.

2. Goals and Objectives

The Cooperative Union Project was a two-year program (1998-1999) with the goal of enhancing food security and rural income. This was done by increasing the production levels of smallholder farmers and improving the capacity of cooperatives, in compliance with Ethiopia's agricultural development-led industrialization policy (ADLI), poverty reduction strategy, and rural and agricultural development policy. The purpose of CUP was to promote competitive, profit-oriented and professionally managed farm supply and marketing businesses, providing farmers with better access to inputs and output markets.

Specific project objectives were to enhance the efficiency and competitiveness of cereal and coffee production and marketing cooperatives in Oromia, and to establish cooperative unions through which member cooperatives could benefit from bulk-purchasing and marketing.
The scope of the project was to improve the management practices of cooperative businesses, and to form cereal and coffee cooperative unions on a pilot basis in Oromia covering the three cereal growing zones of Arsi, East Shoa and West Shoa, and coffee growing zones

including: Jimma, Bale, East and West Wollega, East Hararghe, Illu Aba Bora, and Borena. Thirty five primary cooperatives are affiliated with the Oromia Coffee Union.

Project components included training and study tours, capacity-building and infrastructure support, union formation, establishment of a mobile resource center, establishment of rural Savings and Credit Cooperatives (SACCOs), and facilitation of access to credit services.

The Agricultural Cooperatives in Ethiopia (ACE) project is an extension and expansion of CUP. The goals and objectives of ACE are similar to those of CUP. The difference is in scope (area coverage and project life) and project components. The proposed lifetime of the ACE project is 5 years (2000-2004) and the coverage includes four regions: Oromia, Amhara, Tigray and Southern (SNNPR). It includes nine zones in the Oromia region alone. The major additional components in the ACE project are promotion of women's participation, diversification of cooperative businesses, natural resource management, and an HIV/AIDS intervention.

The major intermediate impact indicators common to the two projects are: a) volume and value of agricultural inputs purchased and sold by the primary cooperatives and unions; b) volume and value of agricultural outputs purchased and sold by the primary cooperatives and unions; and c) the amount of patronage dividend paid to members.

B. Project Implementation

1. Management and Organization

For the purpose of this study, the implementation process reviewed is the period from January 1998 through December 2002, including the CUP period (1998-1999) and partial implementation of ACE project (2000-2002). Because the case study cooperatives are selected from the Oromia Region, which is under the supervision of the OCPB, close examination has also been made of the role of OCPB.

The organization, staffing and management of the project were set forth in the project documents. The two projects are based on a tripartite agreement involving the OCPB, ACDI/VOCA and the Oromia Disaster Prevention and Protection Bureau (ODPPB). ODPPB supervises the project on behalf of the government and facilitates movement of technical experts and duty-free goods. ACDI/VOCA provides financial, material and technical support, assists in identification and recruitment of technical advisors and volunteers, and implements the project in collaboration with OCPB. ACDI/VOCA deals directly with USAID, the funding agency.

CUP was successfully implemented as anticipated. The management and organization of CUP has continued for the ACE project. The head of the OCPB is the coordinator of the project. The deputy project coordinator, who has been seconded by the bureau, serves as liaison between the OCPB and ACDI/VOCA, and is actively involved in field operations. He is also the head of the ACDI/VOCA office in Oromia Region. Other staff members working within this office include a secretary-cashier, an accountant, one savings and credit officer, and a driver. The savings and credit officer is stationed outside Addis Ababa. The bureau pays all the staff of OCPB involved in the implementation of the project.

ACDI/VOCA maintains a few core staff including the country director, regional representative, a senior program officer (now deputy director) and a program officer who works closely with the deputy project coordinator. To date, three long-term technical advisors have been assigned to assist implementation of the two projects (one for CUP and two for ACE). They worked closely with and assisted ACDI/VOCA and the Cooperative Promotion Bureaus (CPBs). Two ACE and CUP advisors dealt with cooperative management, and the third was exclusively involved in developing the savings and credit scheme. All three left after accomplishing their missions.

ACDI/VOCA, in consultation with the OCPB, prepares projects and annual work plans and activities. Annual work plans are prepared based on a needs assessment conducted through unions and submitted to USAID for approval and financing. Subsequently, the same document is submitted to ODPPB for approval.

Through ACDI/VOCA, US volunteers, technical advisors, and/or local consultants conduct Training of Trainers (TOTs) at the regional level for the staff of OCPB and for selected union board members, managers, accountants and controllers. At the woreda level the staff of the OCPB, together with cooperative promoters, conduct training for primary cooperatives. The deputy project coordinator coordinates and follows up on the regional TOT, facilitates farmer member training at the woreda level, and provides technical advice in union formation and operation.

2. Reporting and Monitoring

ACDI/VOCA, in collaboration with the OCPB, closely monitors project implementation and tracks the impact of project activities. It prepares quarterly progress reports for USAID and ODPPB. ACDI/VOCA also carries out six-month and mid-term project reviews, as well as time-line evaluations of varying durations, measuring progress against the baseline surveys and intermediate impact indicators that were developed prior to project implementation.

The ACDI/VOCA regional representative provides technical support and monitoring. An advisory committee, composed of the four regional cooperative bureau heads, and representatives of USAID and ACDI/VOCA's Ethiopia office has been facilitating the implementation of the ACE project.

C. Project Outputs, Results and Impacts

1. CUP

As noted earlier, CUP was a two-year pilot project launched in the Oromia Region. Its accomplishments had broad implications for revitalization and development of the cooperative sector in Ethiopia. Although the life of the project was short, the outputs, results and impacts exceeded targets. Highlights included the following:

- The project created broad awareness of the concepts, principles and roles of cooperatives, and changed the negative attitude toward cooperatives in Ethiopia. Farmers, cooperative promoters and government officials developed a positive and supportive approach in favor of cooperatives. Members exercised their rights and obligations. As a result, over the project period, a total of 313 primary cooperatives were restructured and registered, according to internationally accepted principles.

- For the first time, primary cooperatives worked together to form unions. Five unions, consisting of over 60 primary cooperatives with a total of more than 47,000 farmer members, were established. Of these, four were cereal cooperative unions and one was a coffee farmers' cooperative union. The union was an additional achievement that was not envisioned in the original project concept.

- Diversified training was provided: 112 technical staff from OCPB participated in TOTs; and 363 board members, 86 cooperative managers or accountants, and 36,000 farmer members participated in various training sessions. In addition, three- to six-month training courses were given in Kenya to 18 OCPB staff. Study tours to Kenya, Tanzania and India were organized for 15 cooperative board members and 24 participants from various government organizations.

- Five unions and 58 primary cooperatives hired professional managers.

- The volume of inputs purchased through cooperative unions increased several fold. The unions bought over 130,000 quintals of fertilizer worth over Birr 13 million during the life of the project. In 1998 alone, the fertilizer bidding process saved primary cooperatives in Oromia Region Birr 28 million.

- Four unions provided loans amounting to Birr 1.3 million to members of primary cooperatives for the purchase of grain; and in 1998, two cereal cooperative unions alone handled 5,480 quintals of grain with a value of Birr 1.2 million.

- Union cooperatives made a net profit of over Birr 275,000 from which they paid 70 percent as dividends to member cooperatives.

- Unions began providing tractor rental services and assisting member farmers in the transportation of grain and straw from farm to market. One union managed to obtain a long-term loan from a private bank to buy a tractor and accessories.

- ACDI/VOCA facilitated a Loan Guarantee Fund for the unions with a partnership between USAID and Bank of Abyssinia (BOA). USAID agreed to cover 50 percent of the loan in case of default, and BOA the remaining 50 percent. The initial coverage of the LGF provision was Birr 5 million. This agreement was signed under CUP, but implemented under ACE.

- A manual for the organization and promotion of SACCOs was developed, and the establishment of three SACCOs at three primary cooperatives was initiated.

- Primary cooperatives strengthened their storage capacity and two unions made the necessary preparations to construct their own storage facilities.

- One audio-visual mobile resource center was established.

- All union member primary cooperatives closed their accounts on time and were audited.

- All unions amended their bylaws based on the new proclamation.

3 ACE

Following the successful implementation of CUP, OCPB requested that ACDI/VOCA broaden its scope. Together with OCPB, ACDI/VOCA proposed a five-year project (2000-2004) to further enhance the development of agricultural cooperatives in Ethiopia. This expansion of CUP, Agriculture Cooperatives in Ethiopia (ACE), is intended to address constraints that persist in the cooperative sector. The project provides direct assistance in the restructuring, formation and management of primary cooperatives and unions, including intensive classroom type and hands-on training of cooperative board members and staff. The ultimate objective is to upgrade the capacity of primary cooperatives through a series of linked interventions. The project is also strengthening the capacity of cooperative promotion bureaus.

ACE has been implemented as planned. To date, the project has had significant impacts on unions, primary cooperatives, and their members. Achievements gauged in terms of outputs, results and impacts by far exceed project targets. This has been accomplished despite low agricultural output prices including those for coffee in 2001 and part of 2002; low usage of fertilizer and improved seeds by farmers, due to depressed agricultural produce prices in 2001 and the first two quarters of 2002; late rains which caused the 2002 drought; and interruption of the civil restructuring program at the regional level in 2002.

Significant improvements in the cooperative policy environment gave additional impetus for the success of the project. Outputs include:

- A total of 1,274[1] primary cooperatives (in the four major regions) have been restructured and 25 unions -- comprising 399 primary cooperatives and 369,957 members (31,457 women) -- established. This includes two coffee farmers' cooperative unions (Sidama and Yirgafcheffe), two dairy unions (Selale and Debre Berhan) and one sugarcane producers' union. In addition, 42 SACCOs with a membership of 2,853 (16 percent women) have been established.

- Awareness training has been given to over 275,000 cooperative farmer members, and over 4,200 primary cooperative managers and board members have participated in additional training.

- Over 1,000 staff of the CPBs have participated in staff training.

- TOTs and training sessions on HIV/AIDS have been given to 90 participants.

- Training in business diversification, post-harvest loss minimization, savings and credit, cooperative accounting, cooperative auditing and internal control and participatory rural appraisal has been conducted for over 750 participants.

- 107 participants have attended training on natural resources management.

[1] Including the CUP period the total number is 1,587 cooperatives

- 73 participants have attended three-month courses in Kenya.

- Study tours to Kenya and the USA were organized for 121 and 16 participants, respectively.

- Three mobile resource centers were established in the Amhara, Tigrai and Southern regions.

- Eight unions received computers and motorcycles were provided to 20 unions.

- Women's participation has increased significantly. Over 325 women joined cooperatives. Close to 100 women have been hired as promoters, two women have attended study tours and short courses, and for the first time, women were elected as board members of primary cooperatives and unions; and

- Professional managers now run all unions and a growing number of primary cooperatives. The managers of three unions are paid and supervised by the unions.

In terms of project impacts, levels of input supply and output marketing through unions and primary cooperatives assisted through ACE have noticeably increased over those recorded during CUP. The aggregate volume of inputs recorded during the first three years of ACE was over 225,000 tons, with a value of approximately US $71.5 million. This is lower than had been anticipated since unfavorable agricultural output prices in 2001 discouraged farmers from using fertilizer and improved seeds.

During the same period, the aggregate output marketed through unions and primary cooperatives was close to 143,000 tons, or an average of about 48,000 tons per year. This is equivalent to over US $1.8 million. The volume of production in 2001 was a third of the production total for 2000, while production in 2002 was 60 percent higher compared to 2000. However, in value terms the picture is different. The difference in volume is masked due to the premium prices of high-value crops such as coffee, sesame and sugarcane. Because of the favorable prices for coffee as well as cereals, the value in 2000 by far exceeds that of 2002, despite the lesser volume.

The total dividend paid to member cooperatives was about US $2.1 million. Dividends in 2001 and 2002 were low compared to those of 2000 for the reasons explained above that were beyond control of the ACE project. In 2001 many cereal cooperative unions and primary cooperatives experienced declining profits or losses in their input supply and grain marketing activities. Overall, the situation would have been much worse without ACE.

During ACE, unions have specialized in different commodities. Coffee, sugarcane, sesame, dairy and dairy product unions have been formed. In aggregate terms, these high-value products have offset low cereal prices. With the assistance of ACDI/VOCA, the Ethiopian coffee sector, through the unions, has been able to penetrate niche markets for organic coffee for the first time. For example, ACDI/VOCA has made considerable effort in introducing the OCFCU to the Specialty Coffee Association of America (SCAA) that resulted in increased exports of Ethiopian coffee to the US and Europe. OCFCU-affiliated primary coffee cooperatives have also received organic certification.

The union has become a member of the Fair Trade Labeling Organization (FLO) and the Eastern African Fine Coffees Association (EAFCA), both entry points for accessing potential export markets. In July 2001, the Sidama Coffee Farmers Cooperative Union (SCFCU) was established by 39 primary cooperatives. OCFCU and SCFCU potentially control 75 percent of Ethiopia's coffee production. Therefore, the impact of ACE on the Ethiopian coffee sector is very significant.

In addition, ACE's interventions in organizing and establishing market contacts for dairy, sugarcane and sesame cooperative unions have shown tangible results. Selale Dairy Union, for example, has launched a business relationship with Sebeta Agro-Industry, the only private retailer of pasteurized milk and milk products. The union sells over 3,000 lts of whole milk per day at Birr 1.70 per liter, while dairy farmers can individually fetch only Birr 0.40/ltr in the local market. By the end of 2002, the Union had sold 260,936 liters for Birr 342,724. The second dairy Union (Debre Berhan Dairy Union) has also signed a contract with Sebeta.

Wonji Sugar Cane Union negotiated contracts with sugar processors to provide a regular supply at the higher price of Birr 8.30 per qtl instead of the local prevailing price of Birr 5.9 per qtl. In 2002, the union sold 72,317 tons of sugarcane to two local factories.

Because of the success of ACE, a three year business services development project was approved by USAID to assist the Meki Batu and Alemya vegetable unions. Business linkages were initiated between the Meki Batu vegetable union and Ethiopian vegetable exporters to Europe and between the Alemya vegetable union and Dire Dawa fresh vegetable exporters to Djibouti.

Another major breakthrough is the LGF effort to allow unions and primary cooperatives to access working capital for the purchase of grains. During 2000 and 2001, unions borrowed $584,235 to purchase more than 5,500 tons of grain. As a result, all participating unions made substantial profits from grain sales and were able to pay substantial dividends to member primary cooperatives. Moreover, the unions generated additional capital to construct their own warehouses.

To date the loan repayment rate has been 100 percent. USAID and the partner bank, BOA, have been pleased with the outcome and have agreed to extend the LGF coverage from Birr 5 million to up to Birr 10 million to finance co-ops on other regions of the country. Such recognition and positive steps by USAID and BOA have deepened the confidence and independence of cooperatives. CBE has learned from the results of the LGF and decided to relax its credit policy, hence agreeing to provide short-term loans for grain marketing with a guarantee of the regional government to cooperatives in the Oromia Region. Since 2000, the unions in Oromia Region participating in ACE have borrowed a total sum of Birr 42 million from CBE. This is an indicator of the success of ACE in establishing the creditworthiness of primary cooperatives and unions.

A final impact that merits mention is the promotion of rural SACCOs. Rural SACCOs have received attention for the first time in Ethiopia. To date, SACCOs established through the ACE project have mobilized savings amounting to Birr 265,729 and shareholdings of Birr 64,079. This is significant progress in rural finance.

D. Implementation Problems

There were no significant implementation problems. Coordination of activities and collaboration among OCPB, ACDI/VOCA and other collaborators has reportedly been excellent.

Unanticipated, however, was regional civil restructuring that caused a delay in the implementation of the 2002 work plan. Some of the core team members trained for redirection and refocusing of training and technical assistance have been transferred to other offices within or outside the Oromia Cooperative Promotion Bureau. This has disrupted scheduled activities and may necessitate training of new core team members.

E. Sustainability of Project Services

It is difficult to assess conditions at the end of the project because CUP has been overshadowed by ACE, and the latter is still being implemented. However, attempts will be made to indicate the direction of change and the sustainability of project services, based on observations made during the preparation of this study.

1. CPB Capacity

The capacity of Cooperative Promotion Bureaus in training, organization (facilitation), licensing and supervision (and to some extent in auditing) has greatly progressed over the last five years, through involvement with CUP and ACE. Staff of the CPBs have been trained and have developed from co-facilitators during the early stage of the project implementation to full-fledged facilitators in restructuring primary cooperatives and forming unions. They carry out these activities at their own cost.

2. Sustainable Cooperative Management

Union managers, board members and accountants, as well as the board members and accountants of primary cooperatives who participated in training and visits outside Ethiopia, now have the capacity to manage cooperatives in a professional manner. ACDI/VOCA's active involvement in primary cooperatives and unions established early in the project is diminishing, as is the involvement of CPB staff.

Input supplies are dependably available at competitive prices. This has a direct impact on extension activities and food security. Farmer members have stronger bargaining power in selling their production. Books of accounts are audited regularly, and no embezzlement or shortfalls have been reported. As a result, patronage dividends are paid regularly.

3. Credit Services

Credit services, the establishment of SACCOs, commodity diversification, and market connections facilitated through ACDI/VOCA have all become effective instruments for empowering cooperatives to enhance food security and rural income in a sustainable manner. In the remaining life of ACE there will be more focus on building the capacity of primary cooperatives and unions, as well as achieving sustainability of project services.

4. Recognition of the Role of Cooperatives in Rural Development

Cooperatives have a sustainable place as institutions dedicated to rural development in Ethiopia. The cooperative promotion and organization department within the Ministry of Agriculture (MOA) was elevated first to the level of bureau and recently to the level of commission. A more comprehensive proclamation (No.147/98), providing for the establishment of all types of cooperatives, was issued in 1998, and it is now being revised to create an improved environment for cooperative organization, management and regulation.

5. Policy

The policy and strategy for cooperative development in the country have been developed and are pending ratification by Parliament. Cooperatives are also gaining prominence in the rural and agricultural development policy within the macroeconomic policy framework of ADLI.

As business organizations, cooperatives are a recognized part of the private sector, and have started interacting with their partners on an equal footing. Primary cooperatives have a stronger voice through their unions. A federations of unions (the formation of which is underway) will provide them with even more clout.

In sum, ACDI/VOCA's training, advocacy and facilitative roles have been critical to the advancement of cooperative development in the country. Activities envisioned in the project documents, and carried out during CUP and ACE have contributed to the sustainability of cooperatives as an institution in Ethiopia.

PART II: THE PARTICIPATING COOPERATIVES

A. Case Study 1 – Kolba Farmers' Multi-Purpose Primary Cooperative

1.1 Background

Kolba Farmers' Multi-Purpose Primary Cooperative (KFMPPC) is located in East Shoa, Lumme woreda, about 75 kms south of Addis Ababa. The cooperative's office is located in a small village known as Kurmaa, 3 km east of Modjo, on the way to Nazareth (see Annex I). The locality is commonly known as Kolba, and it is considered the central location for most of the member peasant associations (PAs) in the area.

The cooperative was founded in 1977 with about 600 members drawn from 10 PAs[2], and registered in 1983 under Proclamation No.138/78, which provided for the establishment of cooperatives during the Derg regime. The cooperative, officially known as "Kolba Farmers' Service Cooperatives (KFSC)," was among the first of the agricultural service cooperatives established during the early euphoric period of the Derg regime. The MOA was in charge of organizing, licensing and supervising of all agricultural cooperatives at the time. Under the old directives, it was compulsory for PAs to be members of an agricultural service cooperative, and heads of households -- usually men -- became *de facto* members of the cooperative. The membership requirement was only Birr 12 (Birr 2 for registration and Birr 10 for membership).

The major activities of the cooperative were input supply, grain marketing, and the provision of consumer goods. Agricultural inputs (fertilizer in particular) were highly subsidized and made available through a joint arrangement involving the MOA, Agricultural Inputs Supply Corporation (AISCO) and Agricultural and Industrial Development Bank (AIDB, recently renamed the Development Bank of Ethiopia). Consumer goods were also made available to

[2] Normally a peasant association includes 800-100 households.

cooperative members at preferential prices. All members of the cooperative were, however, obliged to hand over their production on a quota basis at very low prices (probably much lower than the production costs) to the parastatal Grain Marketing Corporation. Failing to do so resulted in denial of input and credit services and exclusion of membership (undocumented, but often exercised actions). At times farmers had to fill their quota from other sources whenever they were short of supplies.

Two producer cooperatives were organized under the service cooperative. The service cooperative provided services to the producer cooperatives. For example, the service cooperative borrowed from AIDB on behalf of the producer cooperatives and supplied improved dairy breeds to the producer cooperatives. Apart from input loans and working capital loans for grain purchase, they made term loans for purposes of fattening cattle and purchasing oxen and dairy animals.

Despite the subsidies, the system was not favorable to the cooperative. The cooperative was subjected to poor service and treatment by the defunct government and it was not an independent member-driven, member-owned and member-managed institution. The leaders were closely affiliated with the regime, and served as mere conduits of directives from above. Transparency and accountability were unheard of.

Consequently, embezzlement, corruption and frequent unexplained financial shortfalls were the order of the day. Subsidized inputs, loans and consumer goods were entry points to make the cooperative subservient to the system, and to make it a channel of local administration. Furthermore, the cooperative was used for the recruitment of militia, and for the mobilization of resources for the civil war.

Approximately a decade after its formal establishment, the cooperative was engulfed in the political turmoil that toppled the Derg regime. While the producer cooperatives were instantly dissolved, Kolba somehow managed to survive until it was restructured in 1996. The members determinedly protected the cooperative assets in order to maintain the indispensable services of input supply and the provision of consumer goods. Members claim that they built the cooperative offices and the store themselves, and that it was a moral obligation for them to protect their property from the looting and vandalism that was rampant elsewhere.

Kolba Cooperative managed to survive the political turmoil and economic crisis in rural Ethiopia. It was restructured and registered in July 1996 under a new name, Kolba Farmers' Multi-Purpose Service Cooperative (KFMPPC). The legal framework for its restructuring and registration was Proclamation No.85/1994, which provides exclusively for agricultural cooperative societies. This proclamation is based on internationally-accepted cooperative principles of the International Cooperative Alliance (ICA), and it is identical in this respect to the subsequently issued Proclamation No. 147/98 which provided for the establishment of all kinds of cooperative societies.

In collaboration with the former cooperative promotion department of the Bureau of Agriculture, ACDI/VOCA played a key role in restructuring and registering this cooperative. At the time of registration, as shown in the bylaws, the cooperative had 809 members and a total equity capital of Birr 111,076. Of this total capital, Birr 48,540 was converted into share capital and allocated to each member, a par value of one share being Birr 60. The remaining Birr 62,536 was set aside as a reserve fund. With this arrangement, all old members voluntarily became members of the cooperative. They were not required to raise additional capital. New members are required to buy a minimum of one share (Birr 60). The maximum share that a member can have is 10 percent of the equity capital (total share stock). At present, the par value of a share has been raised to Birr 120.

According to the new proclamation, individuals who can fulfill the requirements stated in the bylaws of the cooperative can be members, and more than one person from a household can be a member of the same cooperative. Land ownership is not required for membership, however, all members have to be farmers residing in the area. Land redistribution has not been carried out in the area, and reportedly the same landholding of about 2-3 ha per household on average has been maintained ever since the cooperative was initially established. Because no more land is available, new members can be accepted under the condition that they acquire a parcel of farmland from their parents or buy, lease or rent from other farmers. This is a common phenomenon in the area.

At the time of registration, the physical area of the cooperative had been diminished due to the restructuring that took place during the Derg regime. Out of the 10 PAs, three had been made part of other cooperatives. Based on the recent restructuring of the physical area covered by the cooperative, the seven PAs remaining in July of 1996 have merged into four PAs. The population is roughly estimated at 10,000.

1.2 Objectives

The objectives of the Kolba Farmers' Multi-Purpose Primary Cooperative are:

- To improve the living conditions of members by increasing production and productivity;
- To promote self-reliance among members;
- To solve problems collectively which an individual farmer cannot solve alone;
- To help members obtain modern technologies at fair prices;

- To satisfy the needs of the community and to increase the income of individual members through value-added products (agro-processing) ; and
- To promote the cultures of members through training and education.

1.3 Organization, Governance and Management

1.3.1 Organization

In order to attain the above stated objectives the cooperative adopted a practical organizational structure (see Annex II).

As a major departure from old practices, the general assembly became the sole decision-making body. However, with the exception of sensitive and far reaching issues, the board members are fully mandated to act on behalf of the general assembly.

The board consists of seven members, all with modest formal education[3]. All board members are executive committee members (not shown on the organizational chart), from whom the chairman of the committee is elected. The control committee is elected by the general assembly and consists of three members, with a dynamic chairman who has completed 7th grade. At present, the cooperative does not have a hired manager. The employed staff includes the accountant (who is acting as a manager/accountant) and three guards.

The cooperative has an active credit committee, which manages and controls input loans, grain marketing loans, and loans extended to members. There is no independent grain purchasing committee in this case, contrary to the standardized organizational arrangement adopted by most primary multi-purpose cooperatives, but such a committee could be established if the need arises. At the present time the executive committee handles this, in addition to its other duties and responsibilities. The commodity purchasing committee is no longer active because the consumer goods shop has been closed.

The cooperative is one of the founding members of Lumme-Adama Farmers' Cooperative Union with a current share capital of Birr 65,000, ranking second in terms of shareholdings among the 21 member cooperatives.

[3] Their educational background is as follows: Chairman 3rd grade; Secretary 6th grade; Treasurer 3rd grade; and the other members have completed grade 7-12.

1.3.2 Governance

Under the former government, in the first round of the election process, two representatives from each PA were nominated by political cadres without the prior knowledge of the members, and it was from among these nominees that seven or nine board members with political affiliations were elected. There was neither transparency nor accountability, and as a result, nepotism and embezzlement were not uncommon. Board members used various coercive means to collect grain from members to fill the quota requirements of the government at fixed prices. Fulfilling the quota was one way of demonstrating allegiance to the government.

In contrast, today, elections of board members and the control committee are based on democratic principles. A minimum of half of the members directly participate in the election of board members. Nominations are made openly, and elections are conducted by a show of hands. Potential cooperative leaders are seen as individuals who: a) are responsible and are concerned about the needs and problems of the community; b) can properly mange their homes and businesses; c) are debt free; and d) are respected in the community.

Nominees' level of education is important, but education alone or active performance in public meetings (i.e., as explained by members,"talkative personalities") are given less weight. This is a sharp digression from the old practice whereby political cadres dominated proceedings in order to serve their own ends. A person can serve only two three year terms. Uniquely, in this cooperative a person cannot be elected for the same position twice. For example, the present treasurer was chairman of the cooperative during his first term of office. This is done with the intent of avoiding corruption and the abuse of power. These procedures are expressed in the bylaws. Membership requirements, and the rights and obligations of members are exercised according to the new proclamation (147/98) and the bylaws, which reflect the democratic principles of cooperatives.

Members believe that the present board members are true representatives and servants of the community. When asked about their perception of democracy, board members and ordinary farmer members replied in no uncertain terms that democracy meant the following: being free from politics and government interference; members participating of their own free will; a timely farm gate supply of fertilizer at reasonable prices; and selling grain to the cooperative for cash at prevailing prices and receiving back part of it on credit during winter for seed and consumption. In addition, they pointed out that the board members decide on the grain purchases and sales without any instruction from an external body; that the controlling system is very strict; and that balances of accounts are reported to the cooperative promotion office every week and accounts are closed every month. Finally, they affirmed: "This is, in short, the meaning of democracy to us."

1.3.3 Management

The management committee meets once a month, but most of the executive members go to the office frequently and work closely with the accountant and treasurer. This is unusual compared to other cooperatives.

On the whole, business activities are conducted in a transparent and accountable manner. The bylaws are strictly adhered to. The executive committee members and the accountant know their roles and responsibilities. Major decisions are forwarded to the general assembly. The accountant works on fulltime basis. The cashier works closely with the accountant. The secretary keeps records of all meetings. The controller closely supervises the movement of assets.

Members expressed satisfaction with input distributions, grain marketing, and dividend payments. They are free to talk to committee members and ask for what they need. There is no nepotism or embezzlement, and no discrepancies have appeared in the accounts, according to audit reports from the five years following restructuring.

In general, the members believe that they have strong and decent leadership that is committed to discharging its duties and responsibilities, and that their cooperative can be a role model for other cooperatives.

1.4 Membership

The cooperative is proactive in encouraging young men and women to join, despite the land constraint. As shown in Table 1, the membership and capital base have steadily grown.

Table 1: Members and Capital of the Cooperative

Year	Members			
	Male	Female	Total	Capital (Birr)
1977*	Na	Na	600	Na
1983**	Na	Na	650	Na
1988/1996***	745	64	809	110,076
1997	745	64	809	110,076
1998	745	64	809	173,471
1999	745	64	809	214,480
2000	785	64	849	255,209
2001	835	65	900	277,508
2002	850	65	915	342,031
2003	1000	168	1168	>378,000

* Initial formation; ** registered under the old proclamation; and *** restructured and registered under the new Proclamation 85/1994. Source: Kolba Farmers' Multi-Purpose Primary Cooperative

Today the membership has increased from 809 in 1996 to 1168: a growth of over 40 percent. Noticeably, the number of women members has tripled, representing over 14 percent of the total membership. This is remarkable progress by Ethiopian standards. The national average of women membership is seven percent. The corresponding equity capital has also grown considerably from Birr 110,000 in 1996 to over 378,000 today.

One observable shortcoming is that women members are not participating on the board or in the executive committee. The explanation given by board members is that to date, a nomination has not been made, and that it is difficult to choose women without the approval of the general assembly, but they feel that it is likely that women will actively participate in the future.

1.5 Training

ACDI/VOCA has made considerable impact through its training efforts, especially in changing the attitude of members towards cooperatives. A majority of members understand the general concepts and principles of cooperatives and the members' role. They understand that cooperatives are business organizations owned, managed and controlled by members without government intervention. This is the result of a one-day awareness-creating training session and discussions with member farmers repeated two or three times per year.

Frequent training in a wide variety of topics has been given to board members, executive committee members, and to the accountant. In primary cooperatives, accountants are being groomed to be managers, and they generally attend courses designed for managers. Thus the accountant and the board chairman have attended several courses designed for managers. The specific training offered through ACDI/VOCA over the last five years to participants from the cooperative is shown in Table 2. The first two years (1998-1999) were covered under CUP and the following three years (2000-2003) under the ACE project.

Table 2: Training Conducted through ACDI/VOCA for Kolba Farmers' Multi-Purpose Primary Cooperative

No.	**Title of Training**	**1998**	**1999**	**2000**	**2001**	**2002**
1	Training of Farmer Members	681	-	-	608	-
2	Board Training on Cooperative Development (3 Modules)	5	-	-	-	-
3	Training of Managers on Cooperative Development (4 Modules)	1	-	-	-	-
4	Board Training on Cooperative Development	-	3	-	5	-

	(3 Modules)					
5	BSD Training for Managers (3 Modules)	-	-	1	-	-
6	Training on Grain Marketing Analysis and Monitoring for Managers	-	-	1	-	-
7	BSD Training for Managers (5 Modules)	-	-	-	1	
8	BSD Training for Board Members (5 Modules)	-	-	-	1	
9	Training for Board Members (3 Modules)	-	-	-	7	-
10	Training on Internal Control System Installation for Managers	-	-	-	-	1
11	Training on Internal Control System Installation for Board Members	-	-	-	-	7
12	Training on Financial Planning and Credit Management for Managers	-	-	-	-	1
13	Grain Quality Control for Board Members			1		
14	Grain Quality Control for Managers			1		
15	Study Visit to Kenya for Manager and Board Members		1			
16	Study Visit to Kenya for Board Members		1			

Source: ACDI/VOCA ACE-Oromia Office

Many farmer members have had two one-day general awareness training sessions (1998 and 2001). The board members have been given training in general cooperative development, business management, marketing, savings and credit, storage management and grain quality control, as well as internal control systems.

The accountant and the board chairman have participated in a variety of training in topics such as cooperative management and accounting, business skill development, financial planning and credit management, savings and credit, grain quality control and post-harvest loss minimization, working capital and warehouse management, and internal control systems. In addition to the local training, the previous chairman and the accountant participated in a study tour of Kenya. This unique opportunity was given to KFMPPC from among all the member cooperatives of the Lumme-Adama Farmers' Cooperative Union in recognition of its outstanding performance and dedicated leadership. For example, the progress made in grain marketing and uninterrupted dividend payment are unique achievements. Even during 2001, when most cooperatives declared a loss due to the depressed agricultural commodity prices, this cooperative managed to pay dividends.

While training could have been more frequent and more intense, the impact of the training on improved cooperative management capacity has been impressive. Examples include:

- The training in post-harvest handling has helped the cooperative to control the quality of grain purchased. The cooperative has also been able to avoid considerable loss from grain spoilage through storage management training. The cooperative was among the first to have its storage facility inspected by CBE and to qualify to receive loans for grain marketing. To date, it has received working capital twice as discussed in a later section. Two facilities are now in use: one for grain purchasing (a provisional store), and the other for storage.

- Books of accounts are properly prepared and managed and, as a result, no financial irregularities have been reported since restructuring (1997-2002). Accounts have been audited every year with no reports of embezzlement or mismanagement. This represents a very significant improvement.

- ACDI/VOCA's training in permanent cash checking systems has helped the accountant, the cashier and the controller to interact professionally. Only a limited amount of cash is kept on hand and the rest is immediately deposited in the bank. Monthly bank statements are available for counter checking.

- Due to improved accountability and the reporting system, the board members, the accountant and the treasurer better understand their duties and responsibilities. No conflict of interest has been reported.

- The training in credit and finance has been instrumental in helping members to effectively manage input loans and personal loans, which are significant.

- Training related to marketing and price information has helped regarding decision making on when and how to buy and sell grains, and in assessing the competition.

- Prices are determined based on the full costs involved: for example, prices of grains take into account depreciation and interest expenses, per diem and transport expenses, etc. The cost accounting system has helped business planning, though more improvements are necessary. The annual plan essentially focuses on inputs supply and grain marketing (as opposed to other services such as credit services and tractor services). Other activities have also been considered. For example, "consumer goods services" has been discontinued because it was found to be unprofitable due to stiff competition with small private retailers.

- Dividend payments have been properly managed based on the training received. This cooperative is among the first in Lumme woreda to pay patronage dividends to its members.

In conclusion, the cooperative's young leadership is responsive to the training by ACDI/VOCA. Executive members are receptive to new ideas and working hard to make their cooperative dynamic and a role model within their community. They closely monitor the active participation of each member. For example, through the input loans and personal loans, all members are actively participating in the activities of the cooperative. They are exercising owner-user, owner-managed and owner-controlled principles of a primary cooperative learned through ACDI/VOCA's training.

1.6 Business Operations

The major business activities of the cooperative are input supply (fertilizer, improved seeds and agro-chemicals), grain marketing, and credit services. The cooperative needs a greater diversity of activities to enhance income and provide essential services such as flour milling, tractor services and a consumer goods shop. Providing these services at the co-op would mean higher quality of services, proximity and more reasonable prices than those charged by the private sector. Unfortunately, the level of diversification of cooperative services has been restrained due to a lack of funds and the non-viability of some activities, such as the consumer goods shop.

Annual plans are prepared for input supply and grain marketing activities, and approved by the cooperative's general assembly. Major activities are closely linked with the union, and the cooperative benefits significantly from such association. Most importantly, the cooperative is benefiting from a low priced timely supply of inputs, market information, and credit services for the purchase of grains.

1.6.1 Fertilizer Supply

Fertilizer supply involves complex planning and management. Full cooperation between the cooperative and the union is vital. First, the cooperative submits its members' request to the union. The union aggregates all the requests of member cooperatives and buys from the suppliers based on competitive bidding. The union distributes the required fertilizer to the cooperative, and the cooperative further distributes to member farmers. Members receive the fertilizer upon agreeing on a down payment, which may vary from 25 to 60 percent of the total cost. The balance is covered through input credit obtained from the CBE under the regional government's guarantee. The bank charges 7.5 percent interest and the cooperative charges an additional 3 percent, plus 7 Birr per quintal to cover its operational expenses. The credit is payable within 6-9 months; it may be extended up to 12 months. Improved seeds and agro-chemicals are also supplied through the union, either for cash or credit. The cooperative is responsible for the recovery of the credit.

1.6.2 Grain Marketing

The grain marketing process is less complex. The union and the cooperative assess the market situation and collect the relevant market information. Then the latter buys from farmers -- members and non-members -- at prevailing prices. The difference between members and non-members is that the former are entitled to dividends. The normal marketing strategy is for the cooperative to buy the grain in October and November, i.e., immediately after harvest, and retain a good portion of it until the lean periods (June, July and August) in anticipation of better prices. Wholesalers sometimes buy directly from the farmers at competitive prices, but farmers prefer to sell to the cooperative because of the reliability of the cooperative's weighing scale, and the expected dividend at the end of the process.

The cooperative is not obliged to sell all the grain to the union, despite the credit and other services it enjoys. It is free to sell to wholesalers or directly to consumers, although priority is always given to the union (at competitive prices) upon the union's request. As a result of ACDI/VOCA training, a free-market policy governs the cooperative grain marketing process.

The primary problem with grain marketing is that cooperatives buy from farmers at the prevailing market price, which is often high (e.g., Birr 260 for a quintal of teff), and plan to sell it at Birr 280, with a margin of only Birr 20. Since the area is a surplus producer, other cooperatives and wholesalers bring their grains to the market at the same time during the lean season. Traditionally, consumers buy sufficient quantity of grains for the year when the price is relatively low after harvest. Thus, supply and demand during the lean season do not match, and as a result prices tend to go down. Such a marketing strategy has proved to be less effective than selling the grain immediately after harvest in this part of the region where the secondary and terminal markets are within reasonable reach. Cooperatives are forced to keep their grain for a long time, even after the critical lean season, speculating for better prices. The union cannot resolve this problem because the primary cooperatives, wholesalers and the union share the same market. During the field visits, piles of teff and pulses were observed in the storage facilities of some cooperatives for lack of market. However, the situation was surprisingly different at Kolba because grains are extended to members on credit during the lean season, and only the leftovers are supplied to the outside market.

1.6.3 Credit Services

The cooperative is very popular for its valuable credit services to its members. Member farmers are allowed to take on credit 1-2 quintals of grain (teff and/or wheat) at the prevailing prices and repay in cash without any interest charge. The grain is for seed and home consumption. The progress of such credit services is shown in Table 3.

Table 3: Credit Provided to Cooperative Members

Year	Loan Amount (Birr)	Recovery (%)	No. of Borrowers
1996	25,300	100	248
1997	62,943	100	428
1998	59,866	100	506
1999	91,220	100	619
2000	149,349	100	790
2001	221,674	100	898
2002	Na	Na	Na

Source: Kolba Farmers' Multi-Purpose Primary Cooperative

Almost all the members use the credit facility. The facility started modestly with a loan amount equivalent to about Birr 25,000 for 248 members. It has been expanded since the onset of ACDI/VOCA's training, and the loan amount has now grown to over Birr 220,000. Such progress is attributable to the 100 percent loan recovery performance. A similar system has been initiated in other cooperatives too, but it has not been successful due to the low recovery rate.

In addition to its own sources (including reserves and member contributions) the cooperative obtains working capital for the purpose of grain marketing from the Lumme-Adama Farmers' Cooperative Union and from CBE, as shown in Table 4 below.

Table 4: Working Capital Sources

Year	Union	CBE
1998	110,000	
1999	50,000	
2000	70,000	
2001	50,000	200,000
2002	10,000	200,000
2003	250,000	
Total	540,000	400,000

Source: Lumme-Adama Farmers' Cooperative Union

To date, the union has on-lent to the cooperative working capital totaling Birr 540,000 from the credit it has obtained from the BOA under the LGF mechanism. Kolba is the leading beneficiary of the LGF. During 2001 and 2002, CBE directly provided to the cooperative a grain marketing loan amounting to Birr 400,000. All loans have been fully repaid. That the cooperative proved its creditworthiness through the LGF and has qualified for loans from other sources is a good indication of the sustainability of ACE project services.

An additional achievement of ACDI/VOCA, in collaboration with the OCPB, is the establishment of a SACCO. Kolba assisted in its establishment and provided office facilities. The SACCO was registered early this year and it is an independent legal entity. The SACCO provides savings and credit services to members and non-members of Kolba. The cooperative itself is contemplating joining the SACCO soon.

ACDI/VOCA, together with the cooperative promotion office, has played a leading role in organization of the SACCO, and provided initial support for the necessary accounting documents and passbooks for members. The SACCO members and executive committee members have received short-term training on savings and credit services.

1.7 Project Impacts

On the basis of the three major intermediate impact indicators, the performance of the cooperative over the last five years, covering the two years of CUP (1998-1999) and the first three years of ACE (2000-2001), are examined.

1.7.1 Fertilizer Supply

Table 5 shows the volume and value of fertilizer purchased and sold through the cooperative. For simplicity, the aggregate volume and value of fertilizer have been considered, instead of by type of fertilizer (i.e., DAP and urea).

Table 5: **Volume and Value of Fertilizer Purchased and Sold Through Kolba Farmers' Multi-Purpose Primary Cooperative**

Particulars	**Unit**	**1998**	**1999**	**2000**	**2001**	**2002**
Purchased Volume	Qtl	3,600	2,824	3,155	3,798	3,626
Value	Birr	705,095	574,092	732,373	901,552	716,320
Sold Volume	Qtl	3,600	2,824	3,155	3,798	3,597
Value	Birr	730,291	593,860	754,454	928,138	726,968

Source: Kolba Farmers' Multi-Purpose Primary Cooperative

The volumes of fertilizer purchased and sold each year are identical during the first four years (1998-2001), while the volume sold is slightly lower than that purchased in 2002. As an exception, the volume of fertilizer purchased and sold during 1999 was relatively low (2,824 qtls**)** because a sizable number of farmers obtained fertilizer through the Bureau of Agriculture under an extension package program which required lower down payments. During the rest of the period, the volume was reasonably high (3,200-3,800 quintals), with some erratic behavior. Low prices in 2001 and late and erratic rains affected the use of inputs (fertilizer and improved seeds) by the farmers in 2002.

The volume of fertilizer intake has not grown in proportion to membership size for the simple reason that the aggregate land supply is constant. However, as a whole the average intake per member with an average landholding of 2.5-3 ha over the four-year period (excluding 1999) was reasonably high (3.9 qtls) by the smallholder standard in Ethiopia. The average productivity for KFMPPC members is 12 and 15 quintal per ha for teff and wheat, respectively -- far better than the national average for small-scale farmers. Farmers in the Kolba area are familiar with fertilizer use; in fact, they don't grow teff and wheat without it.

The difference between purchase and selling prices is Birr 7 per quintal. As a consequence of ACDI/VOCA's training and support in establishing the union, farmers enjoy the two major advantages of lower prices and a timely supply.

1.7.2 Grain Marketing

The cooperative's grain marketing operation since ACDI/VOCA's intervention started has shown steady growth, except for 1999 due to the reason explained above and the resultant low supply to the cooperative. KFMPPC's performance in general has been much better than some of the bigger cooperatives with high agricultural potential and large membership such as Dibandiba. The volumes of grain purchased and sold are identical, showing no inventory due to a lack of market outlet or depressed prices as witnessed in other cooperatives. The volume of grain purchased in 2002 represents a 27 percent increase over 1998. Compared to the volume of grains marketed through the cooperative in earlier periods the cooperative's performance during the project period is strong.

The cooperative's grain marketing strategy is unique in that it holds the grain until the price picks up and sells most of it to member farmers at going prices on credit. That means that the co-op faces little to no competition with the outside market. The strategy provides member farmers with a dependable supply of grain during the lean season and an adequate dividend. This cooperative may be unique in generating profits and making dividend payments in 2001 when other cooperatives were on the verge of collapse due to the unprecedented low agricultural product prices. As pointed out by the members themselves during the interviewing process for this study, ACDI/VOCA's training in price information, marketing, and storage management helped them significantly.

In general, the grain marketing activity has exceeded any standard in the region. The cooperative has made a breakthrough in demonstrating that farmers have confidence to sell their produce through their own cooperative, given that the cooperative system under the command economy of the Derg regime discouraged farmers from selling their outputs through cooperatives.

Table 6: Grain Marketing Activity of Kolba Farmers' Multi-Purpose Primary Cooperative

Particulars	Unit	1998	1999	2000	2001	2002
Purchased Volume	Qtl	1,786	1,535	2,082	2,096	2,267
Value	Birr	379,739	325,563	496,106	488,255	459,763
Sold Volume	Qtl	1,786	1,535	2,082	2,096	2,267
Value	Birr	439,150	399,886	546,923	540,294	537,515
Margin		59,411	74,323	50,817	52,039	77,752

Source: Kolba Farmers' Multi-Purpose Primary Cooperative

1.7.3 Dividend Payment

Dividend payments were unheard of during the Derg regime. Based on the new proclamation that provided for the establishment of cooperatives, one of the incentive systems at the primary cooperative level is the patronage dividend. KFMPPC is one of the first cooperatives to pay patronage dividends in the history of cooperative development in the country. This is a clear demonstration of the effect of the new cooperative law and the influence of ACDI/VOCA's technical assistance. Since ACDI/VOCA's intervention began, the annual patronage dividend has exceeded Birr 20,000, averaging approximately Birr 25,000 per year, as shown in Table 7. It is a rare for a cooperative to pay dividends without interruption, especially when prices are extremely low and weather conditions unfavorable. KFMPPC's strength in grain marketing accounts for this strong performance.

The number of members involved in grain marketing through the cooperative was somewhat erratic over the period under study, ranging from 228 to 366. One noticeable trend during the ACE project, however, is the growth in women patrons as a proportion of the total. The main reason why most members are not participating in grain marketing is that the grain storage is far from some of the PAs and member farmers of these PAs sell their products to wholesalers or to neighboring cooperatives. Another reason is that the cooperative is quality conscious and very selective and, as a result, the grain supplied by some members is not acceptable.

The amount of dividend paid per patron is significant for a poor rural farmer. The maximum payout peaked at Birr 517 during CUP, and averaged almost Birr 400 over the five-year period. The maximum dividend paid to women during the ACE project was on average approximately Birr 270 per year, 23 percent lower than that paid to men over the same period. Although there are a few patrons who only received a token amount of dividend, half of the patrons got on average more than Birr 100. Dividends are used for purchase of oxen, hiring farm labor for harvesting, and partial settlement of input loans.

Table 7: Dividend Payments of Kolba Farmers' Multi-Purpose Primary Cooperative (Birr)

Particulars	1998	1999	2000	2001	2002
Patronage Dividend Paid	20,881	31,584	22,451	22,290	27,151
Member patrons	230	234	366	266	228
Male	NA	NA	310	217	226
Female	NA	NA	56	49	52
Max. Payment	375	517	306	348	386
Male	NA	NA	306	348	386
Female	NA	NA	266	238	302
Min.Payment	4	4	2	3	3
Male	NA	NA	3	4	5
Female	NA	NA	2	3	3
Median	NA	NA	100	100	100

Kolba Farmers' Multi-Purpose Primary Cooperative

1.7.4 Volume and Value of Improved Seeds Purchased and Sold

In addition to the above three impact indicators, the cooperative has been involved in the distribution of improved seeds and agro-chemicals. As shown in Table 8, since 2001 the cooperative has been distributing a fairly small quantity of improved seeds. Selected cooperative members have been involved in seed multiplication and the cooperative buys from them and sells to the union for further distribution to other farmers in the area.

Obviously, farmers who use improved seeds with fertilizer are more productive than farmers who do not, but due to the high prices, most farmers could not afford the purchase of such seeds. The cooperative was compelled, therefore, to sell at cost, as shown in the table. The cooperative may not continue this activity.

Table 8: Volume and Value of Improved Seeds

Particulars	Unit	1998	1999	2000	2001	2002
Purchased Volume	Qtl	-	-	-	15	17
Value	Birr	-	-	-	4,131	3,458
Sold Volume	Qtl	-	-	-	15	17
Value	Birr	-	-	-	4,131	3,458

Source: Kolba Farmers' Multi-Purpose Primary Cooperative

1.7.5 Volume and Value of Agricultural Chemicals

Since the commencement of the ACE project, the cooperative has been distributing agro-chemicals obtained through the union. All purchased chemicals were sold, as shown in Table 9. The supply during 2001 was relatively high because of the disease infestation level in the area.

The margins made by the cooperative on agro-chemical transactions were very modest, the main purpose being to cover its operating expenses.

Table 9: Volume and Value of Agricultural Chemicals

Particulars	Unit	1998	1999	2000	2001	2002
Volume purchased	Qtl	NA	NA	60	300	120
Value	Birr			3,120	12,300	4,800
Volume Sold	Qtl			60	300	120
Value				3,240	12,900	5,070

Kolba Farmers' Multi-Purpose Primary Cooperative

1.7.6 Tractor Services

Records are not available on tractor rental services. However, the union provides only limited services to members of this cooperative for several reasons: 1) members are far away from the union and inaccessible; 2) private tractor rental services provide the service; 3) three member farmers reportedly own their own tractor and meet their own demand and the demand of neighboring farmers in the area; and 4) the land terrain and the soils are not conducive to tractor operations. Mechanized plowing should be done before the rainy season, and this is not advisable because the time lag between plowing and planting exposes the soil to weeds.

In general, the union is not keen to provide the service due to high mobilization costs and limited economies of scale.

1.8 Individual Members: Illustrative Cases

1.8.1 Mr. Abo Melka is 41 years old and has been a member of the cooperative for over 17 years. He has four daughters and three sons. His eldest daughter is 15 years old and the rest are under 10. All of them attend school, which is very unusual by Ethiopian standards.

Abo's farm is 3.25 ha, with the usual cropping pattern of teff (2 ha), wheat (0.5 ha), barley, peas and lentil (each with 0.25 ha). He buys 8 qtl of fertilizer (4.5 qtl DAP and 3.5 qtl urea) through the cooperative, and applies it on all crops including pulses. He also buys improved seed (wheat) and agro-chemicals from the cooperative. Abo asserted that the productivity of his land is extremely low without fertilizer. Due to a lack of crop rotation or fallowing, even pulses need fertilizer. Abo secures his fertilizer with a 50 percent down payment and 50 percent in credit.

Abo sells 15 qtls of teff and one qtl of peas to the cooperative. He has received a patronage dividend of about Birr 300 on average (Birr 267- 355) over the last four years[4]. Abo uses his dividends to purchase sheep and goats for holidays; to buy stationery and clothes for his children; and most important of all to hire labor, which is desperately needed during the harvest. In addition to his dividend, Abo gets credit (in kind) from the cooperatives for seed and/or consumption.

Abo is considered to be among the most active members of the cooperative. He has confidence in his cooperative and appreciates all of the services. Although his wife is not a member, she is very supportive of all his activities and participation in the cooperative. Abo completed 3rd grade at school, and has attended only the awareness training offered by ACDI/VOCA. Abo is naturally intelligent and is likely to be a strong candidate for leadership in the next round of elections.

Abo made the following remarks: "I am happy that I am a member of the cooperative. It is good that I have survived so many problems and am still alive to see the changes. Today there is no quota system. I sell my produce for cash at market prices. I get all the inputs I need at reasonable prices from the cooperative. I get credit for seed and consumption during the lean season (rainy season). I also get a dividend at the end of the year. What else do I want? I am happy. I wish all the farmers in other cooperatives enjoyed the same thing. I hope this government will not change its present policy. We want ACDI/VOCA and the cooperative promoters to be by our side all of the time."

[4] 1999- Birr 355; 2000- Birr 320; 2001- Birr 277; and 2002- Birr 267

1.8.2 Mrs. Keshie Dere, who is 30 years old, has been a full member of the cooperative for five years since her husband's death. He was a member for over 15 years. Keshie has three children: one daughter (10 years old) and two sons (12 and seven years old). She is a very dynamic farmer cultivating 3.25 ha -- 0.75 ha is her own holding and 2.5 ha have been obtained through an informal rental arrangement with different farmers, including her father[5]. Keshie pays a total of Birr 200 per year in rent, and she can use the land for 4-5 years without being interrupted.

Keshie's major crops are white teff (1.25 ha), red teff (0.75 ha), wheat (0.5 ha), peas (0.25 ha), haricot beans (0.25 ha) and maize (0.25 ha). She buys 4 qtls of fertilizer (2.5 qtl DAP and 1.5 qtl urea), plus 0.75 kg of improved seed (wheat) and agro-chemicals. She pays 50 percent in cash. The balance is paid with credit from the CBE. Keshie pays for hired farm labor in kind (a kind of sharecropping system). The farm labor receives a total of 4 qtls of teff and 1 qtl of wheat worth approximately Birr 640, plus Birr 50 for clothing for services provided from land preparation through to harvesting and storage.

Keshie is self-sufficient and sells only 10 qtl of white teff through the cooperative. She has been receiving a dividend since 2000: Birr 88 on average, and steadily increasing over time[6]. Keshie uses the dividend for household needs during holidays, including the purchase of goats, stationery and clothes for her children and herself. She gets 1-2 qtls of grain on credit, and because she is self-sufficient, she uses part of it for seed and sells the remainder, generating a good profit.

In addition to farming, Keshie is involved in non-farming income-generating activities such as the production and sale of beverages, from which she makes over Birr 1,200 per year. She hires two women to assist her in making the beverages. Unfortunately, a large ox and a crossbred cow were stolen at the beginning of 2003, and the local police force has been unable to apprehend the burglar. The cooperative has not helped her to make up her loss, although individual members have assisted her.

Keshie is a dedicated supporter of the cooperative because of the valuable services it provides. She greatly appreciates the input supply system, the grain marketing, the dividend and the credit service. She gives recognition to the cooperative leaders who encourage member farmers to plant their crops on time, to repay their loans on time, and to join the SACCO. Keshie will join the SACCO quite soon. She has completed 5th grade at school, and has attended ACDI/VOCA's awareness training. Keshie stated that she needs more training, and has a strong desire to be elected as a board member one day.

[5] Farmers who rent out their land are either very old or cannot afford to buy fertilizer.
[6] 2000- Birr 50, 2001- Birr 65 and 2002- Birr 150

B. Case Study 2 - Lumme-Adama Farmers' Cooperative Union

2.1 Background

The office of Lumme-Adama Farmer's Cooperative Union is located in East Shoa, Lumme woreda, in an old town called Modjo, about 70 km South of Addis Ababa (see Annex III).

The union is the first of its kind in the history of the Ethiopian cooperative movement -- its creation was truly demand-driven. The farmers in the area reached a stage where they could not produce teff and wheat (the major crops in the area) without the application of fertilizer. The removal of fertilizer subsidies and the resultant unaffordable prices charged by wholesalers and retailers triggered the establishment of the union. Eight cooperatives in Lumme woreda took the initiative and asked AISCO for a wholesale license. It was, however, difficult for them to fulfill all the requirements, such as finding a warehouse and reliable management capacity.

In 1996, cooperative promoters from the Bureau of Agriculture and ACDI/VOCA began providing assistance. The decision to establish the union was not unanimous. While some farmers argued that cooperatives must be free from the grip of the government and that one way of achieving this would be the establishment of a union, others countered that the primary cooperatives were not strong enough to federate at a union level. Dynamic personalities including Haile Gebre[7], Hine Hasenu[8] and Demere Demisse[9] (all from the Bureau of Agriculture) and Worku Mekasha[10] (from ACDI/VOCA) were the leading supporters of union formation. With considerable efforts and lobbying, the union was finally officially established in July 1997 and registered four months later in November 1998 with four founding cooperatives and initial capital of Birr 150,000.

Subsequently, ACDI/VOCA and the Oromia Cooperative Promotion Bureau played a critical role in making the union operational by developing bylaws and business plans. The manager of the union admitted that without ACDI/VOCA's involvement it would have been unthinkable to establish operations because nobody had experience in running a cooperative union.

[7] At present Commissioner of the Cooperatives Commission
[8] Deputy Coordinator of the CUP and ACE project in Oromia
[9] Manger of Lumme-Adama Farmers' Cooperative Union (since establishment)
[10] ACDI/VOCA's Country Director for Ethiopia

2.2 Objectives

The objectives of the union are to:

- Improve the bargaining power of farmer members;
- Procure products and services at a lower cost;
- Improve market access;
- Increase the income of members through value-added products;
- Supply members with agricultural inputs;
- Promote agro-industry; and
- Provide cooperative education.

2.3 Organization, Governance and Management

2.3.1 Organization

The organizational structure of the union (see Annex IV) is simplified, involving no committees for the execution of its various functions like that of the primary cooperatives. The board members are accountable to the general assembly, and the manager is accountable to the board. The control committee, composed of three members, is directly accountable to the general assembly and is a mechanism for controlling the board members and the general manager. There are four sections under the direction and supervision of the manager, namely Accounts, Property Administration, Tractor Services and General Services.

2.3.2 Governance

The primary cooperatives are represented in the union by their chairman, secretary, treasurer and chairman of the control committee, plus one person representing each 100 members (either from within or outside the executive committee). This means that, for most cooperatives, there are 3-4 representatives in addition to the four executive members.

The general assembly is composed of 123 representatives of member primary cooperatives. The 23 union board members are elected from members of the general assembly. Each primary cooperative is represented by at least one person on the board. Because of the large number of board members, a standing committee of four members is elected from the board members (not shown on organizational chart). The four elected persons are assigned to different positions based on their capacity, not by the number of votes (chairperson, secretary, treasurer and a member).

Elections of the leadership are transparent and democratic. The term of office for elected members is three years, and members can be re-elected for a second term. Representatives of the cooperative promotion office assist and facilitate the election process.

2.3.3 Management

Standing committee members work closely with the manager and monitor the union's activity. They meet once a week, the board members meet once every two months, and the general assembly meets once a year. Emergency meetings can be called at any time at all levels.

The manager of the union is currently seconded by the Bureau of Agriculture and is in the process of having his employment transferred to the union. Other staff members are contractual employees whose contract is renewable every three months. Terms of employment will be improved in the foreseeable future in order to attract professionals.

The incentive system is defined in the bylaws and, accordingly, five percent of the net profit is set aside for bonuses, of which three percent is allocated to the manager and his staff, and two percent to the board members. Bonuses awarded to the standing committee members are usually higher than those given to the remainder of the board members. In addition to the bonus, the standing committee members and the other board members receive transportation and daily allowances when they are on duty. The union's bylaws delineate the functions and responsibilities of the general assembly, board members, controller and the manager; accountability, therefore, is not a problem.

In consultation with the board members (especially the standing committee), the manager prepares a detailed annual business plan showing the targets of each activity and the associated costs and expected returns. The business plan must be approved by the general assembly. The board members and the manager strictly adhere to the business plan and the bylaws in the business operations of the union and, as a result, transparency and accountability levels are high. The direct involvement of the controllers in supervising, guiding and directing the board members and the manager has furthered these goals. The annual report submitted to the general assembly explains how each business activity was undertaken and discusses the reasons for underachievement or overachievement.

The general assembly meets once a year to review the annual and audit reports, to approve the following year's budget, and to address other important issues. Representatives from the woreda administration council, kebele administration, and the OCPB attend the general assembly meeting.

2.4 Membership

Over the last 5.5 years, two additional woredas, namely Adama and Boset (see map) have joined the union, and the number of member cooperatives has grown from 4 to 21, as shown in Table 10, representing a growth of 525 percent (an average annual growth rate of approximately 35 percent). Individual membership has grown from 3,974 to 16,700, representing a 320 percent growth (an average annual growth rate of 30 percent). The corresponding equity capital has increased from Birr 150,000 to 485,000, representing a growth of 223 percent. So far, the maximum share stock is Birr 70,000 and the minimum is Birr 5,000, equivalent to one share. The number of family members in the union is 81,628, accounting for approximately 28 percent of the total population of the three woredas. Women comprise roughly 50 percent of the total population, but representation in the union is a mere 9 percent on average, with marked variations from cooperative to cooperative (5-9 percent). On the whole, progress made in increasing the membership and capital base is remarkable.

Table 10: Equity Capital of Lumme-Adama Farmers' Cooperative Union as of Mid-2003

Year	Member Coops	Farmer members			Equity Capital
		Male	Female	Total	(Share) Birr
1998	4	3,714	261	3,975	150,000
1999	7	6,206	380	6,586	199,000
2000	11	8,466	682	9,148	219,012
2001	15	10,795	1,072	11,493	305,555
2002	20	14,795	1,462	16,257	360,555
2003	21	15,175	1,494	16,670	485,000

Source: Lumme-Adama Farmers' Cooperative Union

2.5 Training

ACDI/VOCA has devoted considerable effort through training programs of both the CUP and ACE, to developing the role of the union and helping it to function as an independent business organization. Table 11 shows training conducted for all member cooperatives and the union. The board members, manager, accountant, and controller of the union have participated in various training programs, including cooperative management and structure, cooperative accounting, marketing analysis, grain quality control, strategic business planning, and inventory credit. They have also participated in training in post-harvest loss minimization, BSD, HIV/AIDS prevention, project planning and management, business diversification, technical feasibility assessment, financial planning and credit management, internal control system installation, mentoring and integrated natural resource management (INRM). In addition, three persons -- including the manager and the previous chairman of the board -- visited Kenya under CUP. The present board chairman has been to India for exposure visits under the ACE project, and the present treasurer has been to Kenya.

All participants have confirmed that they have benefited greatly from the training and are satisfied with the union's level of efficiency and effectiveness. All know their roles and responsibilities, and the manager and board members in particular work together harmoniously. The accounting system is effective: auditing is done regularly and no irregularities have been reported. The controller is pleased with the way the union is managed. The bylaws are religiously followed. In short, professionalism in the management of the union is deepening.

Members acknowledge that the competitive bidding in input purchasing and the resultant substantial cost reductions, the grain quality control and proper storage management, the credit services, tractor and storage services, improved seeds and agro-chemical supplies, and dividend payments based on patronage and capital are all the results of ACDI/VOCA's training. In fact, the chairman of the board confirmed that the success of the union manager is due to ACDI/VOCA's training and support. He further stressed that ACDI/VOCA's involvement created an opportunity for a dynamic person like the present manager to successfully run the first organization of its kind. As a result, he proudly asserted that the union has served as model for the rest of the country.

Table 11: ACDI/VOCA Training

No	Title of Training	1998	1999	2000	2001	2002
1	Farmer Members' Training	4198	-	1425	5307	5198
2	Accountants' Training in Cooperative Accounting	-	-	2	-	-
3	Managers' Training in Marketing Analysis	-	-	5(1)	-	-
4	Training of Managers and Accountants in 4 Modules	8(1)	1(1)	7(1)	-	-
5	BSD Training in 3 Modules	-	-	5(1)	-	-
6	BSD Training in 5 Modules for Mangers and Board Members	-	-	-	30(6)	-
7	Training in Grain Quality Control for Managers and Board Members	-	-	29(4)	-	-
8	Board Members Training in 3 Modules	47	19	4	-	-
9	Board Members Training in Savings and Credit	-	-	-	-	20
10	Pre-Union Awareness Workshop on Savings and Credit	-	-	-	-	15
11	Training in HIV/AIDS Preventive for Managers and Board Members	-	-	-	-	2(1)
12	Training in Financial Planning and Credit Management	-	-	-	-	2(2)
13	Training in Project Planning and Management	-	-	-	-	1(1)

14	Board of Directors Mentoring	-	-	-	-	2(2)
15	Training of Farmer Members in Savings and Credit	-	-	-	-	123
16	Training in INRM	-	-	-	-	3(1)
17	Training in Internal Control System Installation	-	-	-	-	99(23)
18	Audit Service for Cooperatives	-	-	-	-	4
19	Study Tour					
	Kenya	2(2)	3(1)	-	-	-
	India	-	-	-	-	1(1)
20	Training in Internal Control and Audit System Management	-	-	-	1(1)	-

The total figures show all participants from the union and member cooperatives, while the figures in brackets show the number of participants from the union only.
Source: Lumme-Adama Farmers' Cooperative Union

2.6 Business Operations

The union provides the following major services to member primary cooperatives:

- Input supply (fertilizer, improved seeds and agro-chemicals);
- Grain marketing;
- Tractor rental services;
- Storage services;
- Secretarial services; and
- Credit services.

2.6.1 Input Supply

The primary purpose of organizing multi-purpose primary cooperatives (agricultural service cooperatives) and of creating a union in grain producing areas is to facilitate a dependable supply of inputs, particularly fertilizer, without which production of cereal crops, especially teff, wheat and barley, is becoming increasingly unimaginable. With the objective of enhancing food security, inputs are made available to farmers on credit with the support of the regional governments. Private and parastatal companies supply the required amount of fertilizers, and the union plays a critical role in its timely supply to member farmers at reasonable prices.

The process of fertilizer supply is somewhat complex. Based on the demand of member cooperatives, the union floats a tender and the lowest bidder is accepted to supply the fertilizer (DAP and Urea). To obtain the fertilizer, farmers are required to deposit at least 25 percent of the total cost, and the rest is covered through input loans provided by the CBE, as explained earlier in the case study of the primary cooperative.

The union obtains fertilizer from suppliers through short-term credit (three months). Member cooperatives collect a 25-55 percent down payment and deposit it in the union's bank account, and the remaining 45-75 percent is collected from the CBE. Upon agreeing on a down payment, the woreda credit committee together with the cooperative promotion office notifies the CBE to allow the cooperative access to the input loans. After approval of the loan by the CBE, the union delivers the input to the cooperative. The cooperative advises the CBE to transfer the loan to the union's account, and then the union pays the suppliers. This process takes up to three months. As such, the union acts as an agent and does not directly deal with the CBE nor is it accountable for the recovery of the loan. The fertilizer selling price established by the union covers transportation costs plus Birr 3 per quintal on average, to cover operational expenses.

The union obtains improved seeds from the parastatal Seed Multiplication Agency and from farmers involved in seed multiplication. Agro-chemicals are purchased on the open market. The distribution process and financing arrangement is more or less the same as for fertilizer, discussed above.

2.6.2 Grain Marketing

The union provides market information and credit services to member cooperatives to facilitate competitive grain marketing. However, currently the proportion of grain marketed though the union is very low for several reasons, including: a) limited market outlet due to transportation constraints; b) low prices (experienced by all market actors); and c) the union's limited storage facility.

For these reasons, member cooperatives are free to sell their produce to anyone (union, wholesalers and consumers) at prevailing market prices. It is interesting to note that even though member cooperatives receive credit from the union for grain purchases, they are not obliged to sell the grain to the union: the union is more concerned with the timely recovery of the loans. However, cooperatives prefer to deal with the union just as farmers prefer to deal with cooperatives because of trust in the integrity of the institution.

Similarly, the union buys either from member or non-member cooperatives or wholesalers. Prices determine the deal. However, upon the request of the union, depending on its market outlet and storage facility, member cooperatives give priority to the union, and thus the linkage between member cooperatives and the union is maintained. The union buys from member cooperatives at competitive prices but farmers do not mind selling to the union at slightly lower prices due to the services it provides.

As explained earlier in the case of the primary cooperative, the strategy of producing surplus grain and storing it until the lean season in expectation of better prices does not work, simply because producers and wholesalers follow the same strategy. Most consumers also buy earlier in anticipation of higher prices later so the demand is low during the lean season and ironically prices go down. The present strategy in the area is to sell agricultural production as soon as possible after harvest with a reasonable margin (Birr 10-20 per quintal is considered sufficient). This option seems to have two positive implications from the farmers' perspective: first, storage is no longer an issue; and second, farmers need the money to pay back their input loans, due after harvest season. The fluid state of grain marketing deserves the special attention of ACDI/VOCA.

2.6.3 Tractor Services

The union provides tractor rental services directly to individual farmers (members and non-members). The charge for plowing is Birr 240/ha and for disking or harrowing Birr 120/ha. Farm landholdings less than 0.5 ha can not access tractor services because of the limited scale of operation. In addition, tractors are used for hauling grain and hay from farm to market. The union bought the first two tractors in 1998 with a loan obtained from a private bank (Wegagen Bank). At present, the union has seven tractors with accessories. The farm mechanization scheme has shown significant impact on productivity and production due to better cultural practices and timely planting. It also reduces livestock feed requirements.

2.6.4 Storage Services

Initially, the union rented a 1,600 qtls-capacity warehouse for storage of grain purchased from member cooperatives. It has recently constructed its own storage facility of about 13,000 qtls capacity and it is planning further expansion in the near future. The union provides free storage for some cooperatives that are inaccessible during the rainy season, and lack storage capacity and market opportunity.

2.6.5 Secretarial Services

The union provides member cooperatives with secretarial services including typing, photocopying, duplication and printing at competitive prices. This is a valuable service for members and a supplementary source of income for the union.

2.6.6 Credit Services

Primary cooperatives cannot obtain credit directly from banks because they do not have bankable assets to be used as collateral. This constraint has been resolved by working through the union. The union has pioneered a way to make working capital available to member cooperatives for the purchase of grain: member cooperatives have become beneficiaries of the loan obtained from the BOA through the LGF mechanism supported by USAID. In addition, the union has been accessing working capital loans to purchase grain from different sources, as discussed later.

2.7 Project Impacts

The impacts of CUP and ACE are measured primarily by the improvements made in volume and value of inputs and outputs transacted through the union and by the amount of dividends paid to member cooperatives.

2.7.1 Inputs Supplied to Member Cooperatives

The main activity is fertilizer distribution. As shown in Table 12 below, fertilizer distribution over the period 1998-2002 has grown by 91 percent. The distribution in 1999 was extremely low because only 60 percent of the demand was supplied through the union and the rest was distributed through the Bureau of Agriculture under an extension package program with low down payments. Volumes rose abruptly in 2001 because all input supplies (including the extension package program) were distributed through the union. The level of distribution in 2002 was lower than expected due to the influence of depressed agricultural output prices in 2001, and the drought in 2002.

In value terms the growth is clearly considerably more than double. The volume of fertilizer that the union is handling today is worth over Birr 17 million, unthinkable some five years ago when the union was in its formative stage. Farmers save on average 10-15 percent of their fertilizer cost every year through the union's competitive bidding. For example, at the start of its operation in 1998, the union managed to reduce the cost of fertilizer to member cooperatives by Birr 1.2 million. This is a significant savings. In addition, the modest profit generated from input transactions is distributed to member cooperatives in the form of dividends, an important motivating factor for members' participation.

Table 12: Fertilizer Supplied to Member Cooperatives through the Union

Particulars	Unit	1998	1999	2000	2001	2002	Average*
Volume	Qtl	34,898	25,925	46,236	72,747	66,594	55,119
Value	Birr	6,919,496	5,289,690	10,600,733	17,799,615	17,040,990	13,090,208

* Average for 4 years excluding 1999

Source: Lumme-Adama Farmers' Cooperative Union

2.7.2 Grain Marketing Specifics

As noted earlier, through its dependable input distribution at favorable prices and dividend payments, the union has been able to attract member cooperatives to sell their grain to it of their own free will. The input and grain marketing linkages are quite effective for creating the necessary trust between farmers and cooperatives and between cooperatives and the union. The union provides credit services and a flexible system that permits farmers or cooperatives to sell to whomever they want for cash at prevailing prices. This conducive environment has inspired the supply of enormous quantities of grain to the union. Indeed, had it not been for its storage capacity and market outlet limitations, the supply would have been greater by several fold.

As shown in Table 13, the union started with a modest purchase of about 3,500 quintals in 1998 at approximately Birr 759,000, and after four years the supply has increase by 6 times and reached close to 21,000 quintals. The value has also increased to over Birr 4 million. The growth has shown a steady increase and this is a reflection of the farmers' trust in their cooperatives and unions.

Table 13: Grain Purchased from Member Cooperatives

Particulars	Unit	1998	1999	2000	2001	2002
Volume	Qtl	3,468	6,300	8,648	9,348	20,945
Value	Birr	758,721	1,412,386	1,952,728	2,056,126	4,029,100

Source: Lumme-Adama Farmers' Cooperative Union

Depressed grain prices in 2001 did not seriously affect union members, due to the proximity of the union and other wholesalers to the major secondary and terminal markets of the country. As well, farmers in the Lumme-Adama woreda produce quality teff, which fetches better prices than anywhere else in the country. The grain price escalations in the third and fourth quarters of 2002 and availability of better market outlets have substantially increased the supply to the union, mainly from retained stock. Farmers elsewhere in the country have been greatly affected by low prices because of their limited access to markets.

2.7. 3 Dividend Payments

At the union level, dividend payment to member cooperatives is based on patronage and share capital. According to the bylaws of the union, 5 percent is deducted from the net income. The remainder is distributed as follows: 60 percent based on patronage, 10 percent based on share capital, 15 for expansion, 5 percent for social services, and 10 percent is held in reserve.

As shown in Table 14, the total dividend paid grew from approximately Birr 29,000 in 1998 to 94,500 in 2002, representing over three fold growth. Year 2000 shows a much better performance because it was the most favorable period for agricultural production. Year 2001 shows a minor decline due to low prices, but it was a good performance compared to unions and cooperatives in other areas. The growing trend of dividends paid based on share capital reflects the increase in number of member cooperatives and the corresponding growth of share capital (equity capital). The number of member cooperatives increased from 4 in 1998 to 20 in 2002. For this reason, when the patronage dividend increased by three fold, the dividend paid based on capital increased over four fold. For the same reason, the dividend paid to each cooperative has not grown proportionately to the total dividend paid.

The patronage dividend grew up to 2000 and shows a declining trend in the following two years because of low prices in 2001, and low production and consequent relatively low supply to the union in 2002.

The maximum patronage dividend to participating cooperatives was Birr 11,717 in 2000 while the minimum was Birr 8,525 in 2002, reflecting the reasons explained above. The corresponding values for dividends based on capital were 3,508 in 2002 and Birr 1,805 in 1998, consistent with the amount of share capital.

The minimum patronage dividend payments were reasonably high until 2000 and show a sharp decline in the following two years. The median patronage dividend was relatively low during the first two years, significantly higher in 2000 (Birr 8,700) and gradually declined thereafter, but dividends based on share capital gradually increased up to 2000 and sharply declined in the following two years.

In general, during the CUP period, the volume of activity was low and the low total dividend was acceptable. During the ACE project, the total dividends were much higher due to a higher volume of business. The maximum patronage dividends to member cooperatives are more or less the same during CUP and ACE with noticeably better performance in 2000. The maximum dividend based on share capital was low in 1998 and 2001, the former due to low capital base and the latter due to a decline in total dividend paid.

The minimum dividend payments both for patronage and share capital were markedly lower during the ACE project, reflecting the low level of participation of some cooperatives. The median values for patronage dividends were much better during the ACE project, especially in 2000, whereas the median values based on share capital were significantly lower during the last two years of ACE project, signifying the small differences of dividend income.

Table 14: Dividend Payments of Lumme-Adama Farmers' Cooperative Union (Birr)

Particulars	**1998**	**1999**	**2000**	**2001**	**2002**
Dividend Paid	29,012	47,722	96,237	89,328	94,557
Patronage Dividend	23,597	36,653	82,654	75,006	72,258
Dividend on Capital	5,415	11,069	13,584	14,323	22,298
Members Paid (No. cooperatives)	4	7	11	15	20
Patronage Dividend	4	7	11	15	20
Dividend on Capital	4	7	11	15	20
Max. Payment					
Patronage Dividend	8,880	9,122	11,717	9,457	8,525
Dividend on Capital	1,805	3,074	3,118	2,786	3,508
Min. Payment					
Patronage Dividend	4,472	3,270	3,241	215	97
Dividend on Capital	1,083	505	223	199	251
Median					
Patronage Dividend	4,718	4,703	8,701	6,932	6,418
Dividend on Capital	1,083	1,796	1,781	597	250

2.7.4 Supply of Improved Seed

The quantities of improved seed purchased and sold by the union are not available. However, one can observe from the audited income statements that a sizable quantity of improved seed has been distributed through the union since 1999. For example, farmer members sold up to 400-800 qtls of improved seed through the union per year.

The purchase value of improved seed has substantially increased from approximately Birr 30,000 in 1999 to Birr 500,000 in 2001, but a sharp decline in improved seed purchase is observed in 2002 due to the huge stock in 2001. In terms of sales, there were no sales in 1999 but a better performance was recorded in 2000 with a value over Birr 230,000. In 2001, only about 65 percent of available stock was sold leaving a substantial surplus in stock. In 2002, the union decided to sell this stock rather than buy additional quantities. The strategy was effective, and the major portion of the stock was sold. However, because of low demand, the union was forced to sell at cost.

The main reason for the low demand is not a lack of appreciation of improved seeds on the part of the farmers, but because of high prices and an unreliable market for the crop. Unless the market situation is improved in a sustainable way, it is likely that the present condition of high prices and low demand will prevail for a long time to come.

2.7.5 Tractor Services

As noted earlier, the union has been actively involved in providing tractor rental services to individual farmers in the area. In view of the short duration of the rains and the problem of recurrent drought, tractor services enable farmers to accomplish necessary pre-planting preparations in a short period of time. Quite a number of farmers with suitable soils have benefited, with positive impact on their productivity and labor savings.

As shown in Table 15, the period 1998-2001 shows a steady increase in tractor users from 52 to 450 farmers and corresponding land area cultivated from 115 ha to close to 1,200 ha, representing more than a ten fold increase. The sharp decline in 2002 is due to the late Belge and Meher rains. Most farmers plowed later with oxen when the rain came.

The tractors are not kept idle during slack periods; they are used for hauling grains and hay. With these additional services, the tractor service generated income of up to Birr 274,000 in 2001, which is a significant increase from approximately Birr 18,000 in 1998.

The impact of tractor use is very positive. Tractors increase productivity significantly [at least 10 qtls (wheat) more per ha when plowed with a tractor] due to better cultural practices and more timely planting. According to farmer members, a tractor can plow in one day what two oxen plow in 20 days.

Table 15: Tractor Rental Services Provided by the Union

Particulars	**1998**	**1999**	**2000**	**2001**	**2002**
No. of Beneficiaries	52	280	400	451	347
Land Cultivated (ha)	115	382	795	1,187	615
Transport service (Birr)	-	15,000	21,600	10,762	15,000
Revenue (Birr)	17,669	89,495	173,292	273,811	162,811

2.7.6 Credit Services

So far, as shown in Table 16, the union has obtained a total loan amounting to Birr 5.7 million from different sources: Birr 3.65 m from the Bank of Abyssinia (BOA); Birr 1.2 m from the United Nations Development Program (UNDP); Birr 650,000 from the Commercial Bank of Ethiopia (CBE) and Birr 192,572 from the Wegagen Bank. Over 64 percent of the total loan has been secured from BOA through the Loan Guarantee Fund scheme. The union has been on-lending the funds obtained from BOA to member cooperatives. The union borrows from the BOA at 8.5 percent interest and on-lends to member cooperatives at 11 percent. Some qualified member primary cooperatives have borrowed directly from the CBE under a special arrangement. In other areas such a loan has been extended through unions.

So far the Commercial Bank of Ethiopia is the only commercial bank that is willing to provide working capital to co-ops, after witnessing the success of the Bank of Abyssinia under the loan guarantee fund. Other private commercial banks in the country are risk averse when it comes to the rural financial market.

The loan from UNDP is a soft loan that is used exclusively by the union, mostly as working capital for purchasing grain from member farmers. The loan from Wegagen Bank is a term loan directly used by the union for the purchase of a tractor.

Table 16: Loan Sources of the Union

Source	Year	Amount of loan	Recovered incl. interest	Outstanding	Interest rate
BOA	2000	1,000,000	1,055,748		8.5 %
	2001	1,400,000	1,520,000		
	2002	1,250,000	958,000	292,000	
Wegagen Bank	1999	192,572	215,618		NA
CBE	2002	650,000	661,136		7.5%
UNDP	1998	350,000	350,000		Free
	2000	350,000	350,000		
	2001	300,000	300,000		
	2002	200,000	100,000	100,000	
Total		5,692,572			

This is a clear indication of the key role that the union plays in supporting its member cooperatives in credit services and in demonstrating its creditworthiness at large. ACDI/VOCA's facilitative role and trainings related to financial planning and credit management have made dramatic changes in the financial services available to cooperatives.

PART III: LESSONS LEARNED, SALIENCE OF COOPERATIVES, MAJOR ISSUES AND RECOMMENDATIONS

A. Lessons Learned

The most important lessons include, but are not limited to, the following:

1. Implementation Strategies Foster Sustainability

Through the systematic linking of training, capacity-building and market linkages, the implementation process of the CUP and ACE projects has been cost effective and geared toward assuring the long-term sustainability of cooperative services. Projects activities have been targeted to the needs in Ethiopia and have made significant changes in the revival and restructuring of cooperatives as private business organizations.

ACDI/VOCA, working closely with the Cooperative Promotion Bureaus, has given ownership of the projects to the cooperatives. To implement the projects ACDI/VOCA used a few core staff of its own, and the staff of the CPBs at the regional, zone and woreda levels collaborated closely with ACDI/VOCA in training, monitoring and tracking project progress. At the end of the project, CPB staff is expected to withdraw from active involvement in supporting management of the unions, and some measures have already been taken toward this end. This goal will further ensure unions' autonomy as private business organizations. As noted in the case studies, additional training of board members, managers, accountants, internal controllers and farmer members at both primary cooperatives and unions would be useful in assuring continuing sustainability at all levels after the project phases out.

The new cooperative proclamation limits government intervention primarily to training, organizing, licensing, supervising and auditing. The implementation process of the project has reinforced this stipulation and, as a result, cooperatives should be largely autonomous institutions. Regular monitoring and evaluation by cooperative promotion bureaus will detect any positive or negative changes in the policy environment and help in taking appropriate actions.

2. Couple Training With Changes in the Enabling Environment

Past practices of bad governance, corruption and misuse of cooperatives as channels of government directives had stigmatized the cooperative sector in Ethiopia. Government officials and experts as well as farmers were suspicious of and prejudiced against cooperatives until the new proclamation for the establishment of agricultural service cooperatives was issued and ACDI/VOCA's intervention began in 1994-1995.

The application of international cooperative principles in restructuring and organizing cooperatives and the simultaneous advocacy and training roles of ACDI/VOCA have, together, changed the environment and transformed cooperatives into indispensable institutions in the agricultural and rural development of Ethiopia. Broad-based awareness, formal short-term training, study tours and exposure visits for cooperative officials and experts, federal, regional, zonal and woreda administrative council members[11], board members, managers, accountants and farmer members have increased skills and discernibly changed negative attitudes.

Cooperatives in Ethiopia are no longer associated with socialism or communism. Unlike the past, there are no longer direct orders from above dictating that cooperatives should contribute money for social services. If there is any request for cooperatives' support, the board chairman or the manager cannot decide unilaterally. The board members or the general assembly must approve the disposition of funds. Farmer members' confidence in their primary cooperatives and unions has grown. The decision to become a member is based on economic benefit and training has developed an attitude of ownership. Members' perceptions of cooperatives have changed as they understand their obligations and their rights. They refer to their cooperatives with confidence as their own institutions. There is a high level of trust among members, leaders and promoters. Government interventions have been regarded as positive and supportive.

3. Democratization: A Product of Training and Professional Development

Democratization results from training. Members now join the cooperative of their own free will, without coercion. They elect their leaders at both primary and union levels in a transparent and democratic manner. Members state that the past system of "Deregitawe Asserar" (organized manipulation of leaders' elections) no longer exists. Cooperative promoters dutifully discharge their facilitative roles. Other government bodies, such as the kebele administration and woreda council, are involved only upon invitation to witness elections. An office bearer can be elected only twice, and a member has only one vote regardless of his/her share capital. Women have equal rights.

The board members and the control committee members are elected by, and are directly accountable to, the general assembly. The board members hire the manager, and with the approval of the board members, the manager can hire his/her staff members. The bylaws govern the duties and responsibilities of all office bearers.

It is strongly believed that professional managers who are not members of cooperatives should manage the cooperative business. This is particularly a reality at the union level. Most, if not all, primary cooperatives would also like to have hired mangers. Members have developed confidence in employed managers and accountants. The past attitude that only

[11] For example, from the East Shoa Zone and Lumme woreda where the case study union and primary cooperative are found, two administrative council members were sent to Kenya and India for exposure visits.

farmers' children should manage the business instead of outsiders is fading away. Initially, there was a misunderstanding between the board members and managers as to their respective roles and responsibilities, but this confusion has been dealt with and the board members do not interfere in the day-to-day activities of the manager.

In the past, controllers had no constructive role. They were viewed as faultfinders, rumor mongers, etc., but, through training, their role is now understood and they are respected and fully authorized to oversee the activities of board members and managers. They stated that they are servants of the members or the general assembly who owns the cooperative. This is an impressive change from the past. With such attitudes the management capacity of cooperatives has improved substantially. The strength of cooperatives can be measured by the professional competence of the board members, managers, accountants and controllers.

4. Improving Business Management Increases Confidence in Co-ops

In the past, cooperative leaders managed as they saw fit and money was expended without a plan. Loans given to individual members were based on personal connections and rarely repaid. The secretaries and treasurers had full authority over the cooperatives' money. Controllers had little status. Further, all executive members wanted to be involved in financial matters: the division of labor and responsibility was not clear. The cooperative office within the MOA was loosely organized, with no controlling system. There was a 3-4 year backlog of audit services, so that it was often difficult to trace financial shortfalls and enforce repayment. In general, financial resources were mismanaged and members had no confidence in their own cooperatives. For this reason, members were indifferent and had no intention to closely follow-up on the business activities and performance of their institutions.

Due to ACDI/VOCA's training, all executive members now have an understanding of business management. Treasurers, controllers and accountants have been given accounting training and, as a result, the cooperatives' accounting systems have significantly improved. Internal control functions are well understood and audits are performed regularly. Cooperatives use bank checks, and bank statements are prepared every three months. Management submits monthly reports to the board. Members closely track the performance of their cooperatives. Consequently, there has been no embezzlement or financial irregularities. Members interviewed during the preparation of this report indicated that past practices have been altogether changed.

5. Formation of Unions Increases Purchasing Power

Primary cooperatives have for the first time been federated to form unions. ACDI/VOCA's training in management issues, and regarding the roles of board members, managers and promoters have brought about significant changes. Exposure visits have changed the common thinking that cooperatives are only relevant in communist or socialist societies.

Members have gained bargaining power through unions in bulk purchasing of inputs and marketing of agricultural products. They have enjoyed substantial cost savings on inputs and generated profits through the higher prices obtained for their products.

6. Facilitating Financial Services Increases Co-op Creditworthiness and Independence

Most of the old cooperatives owe excessive input loans and some medium- and long-term loans to the Development Bank of Ethiopia (DBE), and this situation has eroded their creditworthiness. Because of their weak bankable capital base, neither the parastatal nor private banks are willing to extend loans to cooperatives. Since 1996, under the guarantee of the regional governments, CBE has been providing input loans to smallholder farmers through the Bureau of Agriculture, microfinance institutions, and cooperatives. Cooperatives are now handling the lion's share of the loan portfolio.

Cooperatives have been starved of credit for many years. Since the end of 1999, however, ACDI/VOCA has for the first time facilitated a Loan Guarantee Fund through a collaborative partnership between USAID and BOA**.** Through this credit mechanism, cooperatives have proved to be creditworthy for the first time since the restructuring and union formation. In recognition of this, the LGF facility has been expanded and the CBE, based on results so far, decided in 2000 to relax its credit policy and provide short-term loans for grain marketing to cooperatives in the Oromia Region. Such recognition and positive steps have deepened the cooperatives' confidence and feeling of independence. This is a major result of ACDI/VOCA's assistance.

7. SACCOs Institutionalize Rural Savings and Credit Services

In collaboration with CPBs, ACDI/VOCA has launched several trainings relating to savings and credit services in different regions and assisted in the establishment of 42 rural SACCOs in the last three years through the ACE project. Members and non-members of primary cooperatives benefit from SACCOs. Primary cooperatives themselves have already become beneficiaries of SACCOs. For example, two multi-purpose cooperatives in East Shoa (Tade and Hidi) have borrowed sizable working capital loans from SACCOs to purchase grain. SACCOs are likely to be sustainable financial intermediaries in rural areas.

8. Other Accomplishments and Lessons Learned

Additional accomplishments and lessons learned during the course of the projects include the following:

- Fertilizer supply has dramatically increased through primary cooperatives and unions. Farmers, through their unions, are directly involved in price bargaining. Unions buy fertilizer at a reasonable price through competitive bidding, and farmers have benefited from price reductions.

- The number of farmers participating in grain marketing has increased considerably through cooperatives and unions. Between 1992 and 1996, it was difficult for cooperatives to obtain grain from members. The situation has changed and members are now willing to sell all their grain though cooperatives and unions. Members have been induced by the business consciousness of cooperatives and unions, as well as the resultant dividend payments.

- Dividend payments greatly motivate member participation. Unions distribute dividends based on patronage and share stock, while at the primary cooperative level the dividend payment is solely based on patronage. Dividend payments are the outcome of good management, increased member participation, and business volume. An increase in the number of farmers who receive dividends and an increase in average dividends paid are indications of increased patronage. Dividends paid to farmer members have direct impact on the household economy.

- The incentive system which primary cooperatives and unions have adopted for boards of directors and management has encouraged good performance.

- The production and distribution of improved seed through primary cooperatives and the involvement of smallholders in improved seed multiplication is a step toward self-sufficiency and enhanced farm productivity.

- Tractor services provided by Unions have improved farmer productivity. Some farmers have expanded their farm operations through land lease or rental because of the tractor services. This has implications for popularizing appropriate farm technology and for food security at large. ACDI/VOCA has assisted the unions in the preparation of a business plan for tractor services.

- The new grain storage management system has contributed to maintaining the quality of grain and to a reduction of grain losses, which has translated into financial benefit. After the farmers received the training in this area, there was a broader understanding of the value of grain storage facilities, and a higher priority was placed on constructing new ones and/or improving older ones. The unions that have recently constructed new warehouses (Lumme and Erer) have provided a good example of how storage facilities can be an effective basic infrastructure element of a cooperative.

- The adoption of comprehensive bylaws, and preparation of annual business plans and financial viability assessments at the enterprise level have all improved the standing of cooperatives as private business organizations in Ethiopia.

B. Salience of Cooperatives

1. Importance of Cooperatives to Members and Their Significance in the Community

Farmers' multi-purpose cooperatives are very important institutions for the rural community. Indeed, many see them as more important than some government organizations and NGOs. Individual farmers cannot access input loans without the primary cooperatives and unions. Cooperatives account for more than 85 percent of the total input supply to the community, and the price reduction to members through competitive bidding is on average 10-15 percent. The timely supply at farm gates is also highly valued by cooperative members.

Bank loans for grain marketing are also facilitated through unions and primary cooperatives. Banks are not willing to deal with individual farmers. The support of USAID and BOA to the LGF mechanism has been realized through the unions.

Cooperatives buy grain from members and non-members and sell to private wholesalers, consumers and unions at competitive prices. Members prefer to sell to cooperatives and cooperatives prefer to sell to unions because of the trust, in terms of price and weights, and confidence in the institutions. Primary cooperatives and unions provide fallback options for members when grain prices are low in the open market.

Providing tractor rental services, agro-chemical supplies, storage services and transport services to farmer members through cooperatives has broad implications for food security. Tractor services enhance productivity. Insecticides and herbicides reduce crop losses and save farmers' time, which can then be used for other non-farm income generating activities. Both members and non-members of cooperatives benefit from SACCOs. These grassroots institutions provide dependable rural financial services which formal banks cannot.

2. Importance of Cooperatives in the Business Sector and to the National Economy

In the business sector in Ethiopia, cooperatives represent a significant potential market force. For example, the demand for fertilizer through Lumme-Adama Farmers' Cooperative Union alone is over 8,000 tons, with a value of over Birr 16 million. This supply covers only about 30 percent of the farming population in the three member woredas. This is a guaranteed market, and supplying credit through the union stimulates increased usage. In the future, when unions start direct importation of inputs, the economic impact will be even greater. The fact that the regional government has trusted cooperatives to channel large loans under its guarantorship bodes well for the future role of cooperatives in the business sector and the national economy.

Unions, as the major supplier of inputs to member cooperatives, are providing a valuable service to the national economy. Fertilizer dealers, as importers and wholesalers, can deal with one organized business organization instead of retailing to small-scale individual farmers. Similarly, it is cost effective and reliable for banks to deal directly with organized business entities like the unions in enhancing agricultural production, which in turn has direct implications for food security and for agricultural competitiveness and profitability. Individual farmers, with fragmented organization and poor infrastructure, have the best chance for competitiveness in the free market though business entities like the union, a dependable community business organization.

Regional governments offer a credit guarantee for inputs to ensure food security in the country. Cooperatives are regarded as private business organizations, and no subsidy is provided to them. Some farmer members of cooperatives pay up to 50-60 percent down payment for inputs. This is evidence that the farming community is gaining financial strength.

In terms of commodities, coffee is Ethiopia's principal foreign exchange earner, and cooperatives command the bulk of the supply. Hence, cooperatives have a significant role in the national economy in terms of foreign exchange earnings. In addition, the market contacts created through ACDI/VOCA for dairy, sugar cane and sesame unions have shown tangible results. Taken together, these commodities make a significant contribution to the economy.

The proliferation of SACCOs will enhance savings mobilization and create a fertile ground for promoting strong cooperative banks. This is an important contribution to the building of a sustainable rural financial market in the county.

The potential of cooperatives for rural livelihoods is enormous. It is a counter measure to rural-urban migration, in a setting where farmers have little alternative employment opportunities in urban areas. Today co-ops and unions are the single most important livelihood creating institutions in rural Ethiopia. Close to 7,000 people are estimated to be employed by the existing re-structured primary co-ops and unions.

C. Major Issues

Major issues have been discussed throughout the report and are summarized below:

1. **Marketing strategies.** Improved marketing strategies are needed to maximize farmer dividends. The union extends short-term credit to primary cooperatives for the purpose of grain purchase, but there is no binding agreement that cooperatives supply their production to the union. Member cooperatives supply to the union only upon request. The union in general seems satisfied as long as the loan is repaid on time. As explained earlier, the main reason for such a situation is that the union could not obtain a sufficient market, nor make available sufficient storage capacity to enhance its temporal and spatial price advantages. The implication of the present practice is that the union is forgoing the profit margin that would have been obtained and, as a result, member cooperatives forgo income that would have accrued to them in the form of dividends. Wholesalers or direct consumers are instead taking advantage of the situation. This issue is directly related to the lack of a viable marketing strategy.

2. **Training**. The field assessment revealed that both cooperative officers and members desire more and longer training sessions. Half-day or one-day awareness creation training sessions are not deemed adequate for farmer members, the majority of whom are illiterate. At the primary cooperative level, ACDI/VOCA's training is focused on elected board members (executive members), managers and accountants. Cooperative promoters and union managers, especially diploma holders, are not satisfied with short-term training alone. Providing opportunities for continuing education and training can lead to retention of needed employees who have indispensable hands-on experience in cooperative development.

2. **Auditing systems.** Auditing systems have improved, but further improvement is needed. The capacity of all auditors is reportedly not up to the desired standard.

3. **Management capacity in primary co-ops.** Management capacity in primary cooperatives is weak. With the assistance of the CPBs and ACDI/VOCA, both the primary cooperatives and unions have drawn up comprehensive bylaws. These bylaws are strictly followed at the union level, but more loosely respected at the primary cooperative level. The reason is that at the union level there are hired mangers, accountants and other supporting staff. For example, at Lumme-Adama Farmers' Cooperative Union the standing committee members drawn from the board meet once a week and work closely with and supervise the manager. Because of this interaction, the bylaws are rigorously followed and division of labor and accountability are clear.

   At the primary cooperative level, however, members manage the cooperative business, and the executive committee meets only once a month. Only the accountant and, to some degree, the treasurer work on a regular basis. In sum, compared to unions, the primary cooperatives have a weaker management capacity.

4. **Primary cooperative planning and reporting**. The planning and reporting system at the primary cooperative level is not up to the desired standard. The annual business plan and strategic plans at the primary co-op level need to be better articulated. Even at the union level, the strategic plan could be strengthened.

5. **Young cooperative members.** Young men and women joining the cooperative report having limited resources to cope with other senior members of the cooperative and to derive the maximum benefit from their membership. Kolba, for example, is encouraging landless men and women to join the co-op. They lease small areas of farmland and their production is mostly only suitable for home consumption. Their benefit from the co-op through a patronage dividend will be limited. Perhaps some mechanism could be found for the older more established members with sufficient landholdings to support these younger members.

6. **Women's participation.** Participation of women in cooperatives is limited and special awareness creation programs or training modules have not been designed for women.

7. **HIV/AIDS.** HIV/AIDS prevention campaigns and integrated natural resource management awareness programs through cooperatives are just beginning. They have not been given sufficient attention in the past.

8. **Diversification.** Limited diversification, few value-added products, and limited market opportunities for agricultural producers seem to be characteristics of cooperatives, both primaries and unions.

9. **Mechanization.** Farm mechanization is limited to the increased use of tractors.

10. **Warehouse storage.** The structure of the union's warehouse does not seem to be adequate. The architectural design is not cost- and space- conscious.

D. Recommendations for Further Action

Based on the issues articulated above, recommendation for further action and assistance include the following:

1. **ACDI/VOCA should intensify its support toward the development of a viable marketing strategy** and establish local and export market connections for grain and pulses, as it has done for the coffee, dairy, sugar cane, and vegetable production sectors. The market information system as it has been envisaged in the ACE project amendment document should receive immediate attention.

2. **ACDI/VOCA should intensify its training programs and technical support to primary cooperatives and farmer members**. If possible, adult education (including literacy and numeracy) should be incorporated in training for farmer members. The amended strategy for redirecting and refocusing training and technical support on primary cooperatives and unions is welcome and should be given full attention. In particular, the new approach articulated in the plans for ACE (using a Core Team, Cooperative Business Agents and Farmer Outreach Agents) should be implemented without delay.

   In addition, advanced diploma and/or degree programs should be arranged either through correspondence or at specialized institutions in or outside the county for capable cooperative promoters and union managers. Special training should also be given to auditors and the audit system streamlined to stimulate the needed improvements.

3. **All primary cooperatives should hire a manager and an accountant** to enhance their management capacity and to improve planning and reporting systems. Members can manage their business operations as they have been doing to date, but professional management is required with a greater number and range of activities. Unions also need to develop their capacity to prepare strategic plans.

4. **ACDI/VOCA should design special training modules for women** and introduce mechanisms to enhance women's participation and leadership. Young men and women joining cooperatives should also be supported by older members in ways that could maximize their patronage dividends.

5. **ACDI/VOCA should support diversification of union activities, as well as agro-processing**. For example, Lumme-Adama Farmers' Cooperative Union has great potential for cattle fattening, poultry production and value-added processing of wheat.

6. **ACDI/VOCA should assist unions in introducing cost-effective farm mechanization** including, but not limited to, harvesters, threshers and winnowers.

7. **ACDI/VOCA should introduce appropriate warehouse designs**, and

8. **HIV/AIDS prevention campaigns and integrated natural resource management training** should be integrated into the programs of unions and primary cooperatives.

PART IV: FINANCIAL ANALYSIS

A. General Comments

In previous years, normal practice has been for both the union and the primary cooperative to close their accounts and prepare a trial balance on the basis of which auditors prepare the financial statements (income statement and balance sheet). The union is, however, now in the process of developing its own capacity to prepare the completed financial statements beginning next year.

Based on observation and confirmation by the auditors, the books of accounts are simple and a complete set of bookkeeping and accounting documents are in use and are well maintained. With the support of ACDI/VOCA, the union has commenced operations in an organized manner and the accounting practices are almost flawless. The primary cooperative has also shown a substantial improvement over the last five years. In both societies, experienced and qualified accountants are employed and accounts are kept up-to-date and in an orderly manner. The impressive result of ACDI/VOCA's support in this area is that both the union and the primary cooperative have been audited on time. In the past, four to five years of audit backlogs were not uncommon.

However, the major concern is the capacity of the auditors. They are neither meticulous nor consistent in their reporting, and this poses difficulties in the financial analysis. The audit reports tend to lump figures without identifying sources. It is difficult to identify old and new loans, short- and long-term loans, etc. In some cases dividend payables are recorded as expenses. In other cases, the same amount of dividend payable is shown for three consecutive years, implying that either there was no incremental dividend or no payments were made to members, while the reality is completely different. In general, the auditing system needs strengthening.

The financial analysis below covers five years (1998-2002), including CUP (1998-1999) and ACE (2000-2003) assistance. The approach to generating the required data for the ratio analysis was according to the guideline given as follows:

- First, from the audit reports, adjusted balance sheet and income statements (financial statements, hereinafter) were generated following generally accepted accounting principles and formats, without changing the end result. The adjustment exercise involved translation of the local vernacular into English and aggregation and/or disaggregation of the various accounting entries.

In the case of the primary cooperative, old input loans[12] obtained from the AIDB (now DBE) during the Derg regime have been excluded from both assets and liabilities, as well as from the income and expenses (in terms of accrued interest income and expenses). This decision was made in order to avoid distortions in the financial analysis and to provide a common basis for comparison with similar cooperatives elsewhere.

- Second, the adjusted financial statements were re-organized and tailored to fit into the ACDI/VOCA financial format designed for the study (summarized operating statement and balance sheet).

- Third, the local currency was converted into a dollar equivalent based on the official exchange rates prevailing for the respective years (average rates for the year).

- Fourth, the financial ratios were calculated based on the formula given for the case study.

- Finally, the ratios derived from the given formula were compared with the target values provided for the purpose of the study. The results and implications were then interpreted and discussed, taking into account the nature of cooperatives' business activities in particular and the level of cooperative development in general. It would have been more appropriate to compare the results with norms or target values/best practices based on Ethiopian conditions.

It is probable that some of the ratios and targets are not applicable to this situation in view of the level of cooperative development and the nature of their business activities and financing mechanisms. Therefore, only relevant ratios should be considered for the purpose of comparison with the performance of other cooperatives elsewhere. For example, day's sales in receivables, day's sales in payables and day's sales in inventory are only remotely applicable because neither the union nor the primary cooperative deals with typical merchandise. The major activities are input distribution and grain marketing which are seasonal and the transactions takes place within a fixed timeframe.

The financial sustainability of the case study cooperatives has been determined based on their liquidity, solvency and profitability. The different ratios under each sub-heading are strictly

[12] Such loans have been written - off from the bank's account but no action has been taken at the cooperative level. The regional governments are expected to make efforts to recover the loans. Obviously, pressing the cooperatives to pay old loans after a decade or so would have negative consequences. Some of the old members have died and others have left. And legally it is a different cooperative that has taken the loan. It is unfortunate that the auditors simply treat them like other loans and this practice affects bankability of primary cooperatives.

followed as required in the financial ratio analysis. The profitability analysis at the enterprise level was attempted for the last two years (2001& 2002) for which the breakdown figures are available.

It should be noted that some of the data collected directly from the cooperatives during the field assessment do not agree with the financial data in the audit reports. The difference lies in the timing and sometimes in the classification of information. Audited reports show the balance of accounts when they were closed for the fiscal year. For example, dividend payables in the audit reports simply show 70 percent of the total net income, whereas the information available in the records of the cooperatives are the actual figures based on the decisions of the general assembly. Similarly, liabilities shown in the audit reports have already been settled and the actual information available is completely different. In spite of these anomalies, attempts were made to reflect the actual situation by making certain adjustments where necessary and appropriate without tampering with the end result of the audit reports.

The analysis begins with the primary cooperative and is followed by the union.

B. Kolba Farmers' Multi-Purpose Primary Cooperative

Results of the liquidity, solvency and profitability ratios for the period of five years (1998-2003), along with the average values and standard deviation are presented in Table 17. It should be noted at the outset that this cooperative has fully repaid old term loans and the short-term loan (input loans) in arrears, amounting to approximately Birr 575,000, has been excluded from the financial statements for the reasons explained earlier.

1. Liquidity Ratios

1.1 Working Capital to Sales Ratio: Compared to the target, the working capital to sales ratios are significantly high. This shows that the cooperative has had sufficient working capital in relation to its sales or operating income.

1.2 Debt Service Coverage Ratio: On the other hand, the debt service coverage ratios are significantly lower than the target. This shows that the margins before depreciation and interest expense were very small in proportion to the substantial amount of principal debts (which were mainly short-term input loans) and associated interest expense. This implies that the cooperative is not profit-motivated in its major input distribution service.

1.3 Current Ratios: The current ratios show mixed results. They were lower than the target value during 1998 and 2002, slightly higher during 1999 and 2000, and in a break-even position during 2001. On average, the ratios represent a borderline case. However, by Ethiopian standard, as shown in the balance sheet, the current assets are reasonably higher than the current liabilities signifying availability of sufficient working capital. The cooperative has also confirmed that working capital is not a serious constraint given the credit services from the union and direct inventory credit from CBE.

1.4 Interest Cover Ratio: During 1998, 1999 and 2002 the results were better than the target. During 2000 it was a borderline case. It was nonetheless significantly lower during 2001 when the operating income was low and interest expense was higher than the rest of the period.

1.5 Day's Sales in Receivables: The result shows that the cooperative needed on average 180 days or 6 months to recover its receivables. In reality, the cooperative collects its receivables (input loans) within 6-12 months and personal loans (in kind) in 5-6 months. Although there is no target to compare with, the result appears to reflect (by coincidence) more or less the actual practice.

2. Solvency Ratios

2.1 Term Debt to Total Fixed Assets: The cooperative had no term debts and according to the book value its fixed assets are fully salvaged, so this ratio is not meaningful. The situation has not changed even today. The implications are: a) formal financial institutions are not willing to provide term loans to primary co-ops; b) the fixed assets are totally dilapidated and need replacement or they are undervalued. The latter situation seems to be true, based on observation.

2.2 Local Leverage Ratio: Similarly, this ratio is not meaningful for the explanation given above. The cooperative has sufficient equity capital compared to the equity it has in the union (associated organization).

2.3 Ownership Percentage: The ownership percentage ratio was on average noticeably below the target, although the results for 1999, 2000 and 2001 were very close to the target. This shows that the equity capital in relation to total assets is low. This is acceptable because of the high value of input loans (current assets) shown as receivables.

2.4 Total Debt to EBITDA: The results are significantly higher than the target, except in 1999. This shows that the cooperative's debt obligations in proportion to its earnings before interest and depreciation are much higher. This is acceptable because of the sizable amount of short-term loans (input and grain marketing loans**).** It must also be noted that cooperatives are exempted from income tax.

2.5 EBITDA to Interest: On average, the results are greater than the target, showing that total earnings satisfactorily cover interest expense which is the major expense item in the face of little or no depreciation expense and income tax. The result of 2001 is lower than the target because of conspicuously high interest expense and low operating margin.

2.6 Day's Sales in Payables: The result shows on average 136 days with high coefficient of variation. In reality, the cooperative repays its input loans and grain marketing loans within 6-12 months.

3. Profitability Ratios

3.1 Return on Sales: The results are favorable compared to the target value. In fact, in view of the huge amount of input and grain sales with low level of profit motivation, the return per unit of sales have been unexpectedly very high.

3.2 Return on Assets: The result on average reflects a borderline case compared to the target. Clearly, the current asset (input loans) is the major factor that affects the ratio. For example, during 1999 the result by far exceeded the target when the value of the current asset was relatively lower than the rest of the period. As explained earlier, the operating margin expected from input distribution is not high.

3.3 Productivity Ratio: The results are within the target value. This shows that cost of goods sold is a major cost while the operating expenses are minor. This is the true picture of most primary cooperatives in Ethiopia.

3.4 Labor to Gross Income Ratio: Expenses incurred for labor (salaries and wages, travel and per diem expenses) in comparison to the gross operating income or sales are generally insignificant. Thus, the results are very low compared to the target. This result is compatible with the reality.

3.5 Day's Sales in Inventory: Inventory or goods in stock is not a problem with this cooperative. The relatively high amount observed in 2001 was partly due to the quantity not distributed to members and partly due to extremely low prices. The position during 2002 does not reflect the true situation because auditing was conducted before the grain was distributed to members.

In conclusion, compared to the given targets, the cooperative has generally performed well, in terms of profitability, while its liquidity and solvency positions show mixed results. By Ethiopian standards, the cooperative has generally been financially self-sustainable over the period considered for the study.

Table 17: Kolba Farmers' Multi-Purpose Primary Cooperative
Financial Ratio Analysis Over a Five Year Period
(Based on NCBA, CHF, ACDI/VOCA, NTCA, AAC/MIS)

Ratio	Target	Year 1998	1999	2000	2001	2002	Average	Standard Deviation
Liquidity								
Working Capital to sales	>8%	22.9%	31.7%	25.3%	32.3%	29.3%	28.3%	3.6%
Debt Service Coverage	>2.0	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Current Ratio	>1.8	1.4	1.9	1.9	1.8	1.5	1.7	0.2
Interest Cover Ratio	>3.0	4.3	8.8	2.9	2.0	3.5	4.3	2.4
Days' Sales in Receivables	N/A	194	165	145	197	197	179	21
Solvency								
Term Debt to Total Fixed Assets	<50%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Local Leverage Ratio	<50%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ownership Percentage	>50%	31.1%	47.8%	47.8%	44.8%	33.3%	41.0%	7.3%
Total Debt to EBITDA	<3	7.7	3.8	5.2	5.9	7.3	6.0	1.4
EBITDA/Interest	>5	7.6	14.9	6.8	4.3	7.4	8.2	3.5
Days' Sales in Payables	N/A	180	106	84	125	180	135	39
Write-offs as % Revenue	<5%	NA	NA	NA	NA	NA	NA	NA
Profitability								
Return on Sales	>2.5%	5.3%	7.8%	4.3%	5.2%	7.0%	5.9%	1.3%
Return on Sales Assets	>8%	6.9%	11.6%	8.1%	7.2%	7.9%	8.3%	1.7%
Productivity Ratio	<10%	4.2%	4.6%	3.9%	5.4%	5.2%	4.6%	0.6%
Labor to Gross Income Ratio	<30%-40%	1.5%	1.9%	1.6%	2.3%	2.2%	1.9%	0.3%
Days' Sales in Inventory	N/A	1	1	4	23	100	26	38

Source: Study Findings

4. Profitability Analysis by Enterprise Level

Fertilizer distribution and grain marketing are the two major activities carried out by the cooperative, as shown in the financial annex. Both activities were profitable during 2001 and 2002. In 2001, grain marketing and fertilizer respectively accounted for 62 percent and 13 percent of the total net income. Other incomes account for a significant proportion of the net income (25 percent). In 2002, fertilizer and grain marketing activities accounted for 33 percent and 50 percent, respectively. Similarly, other income accounted for a significant proportion of the net income (17 percent). See the income statement for details.

It is indeed unique that the major source of income is grain marketing. For this primary reason members have benefited considerably through the dividend payment. This cooperative has even managed to pay dividends during bad years including 2001. In contrast, in most other cooperatives inputs distribution constitutes the major source of income.

The primary cooperatives in general, as has been witnessed from Kolba, deal with a few activities and the level of diversification is limited.

C. Lumme-Adama Farmers' Cooperative Union

Lumme-Adama Farmers' Cooperative Union began its operation in 1998 with a clean sheet (without old loans from the Derg regime). In the following analysis, its liquidity, solvency and profitability over the project period (1998-2002) shown in Table 18 will be analyzed in a similar manner as that of KFMPC.

1. Liquidity Ratios

1.1 Working Capital to Sales Ratio: The results over the reported period are by far lower than the target. This clearly shows that the working capital in relation to total sales or operating income has been small. Relatively, the situation was severe during the first three years (1998 – 2001) due to the low level of current assets as compared to current liabilities and the proportionately high operating income derived from input sales, the major activity of the union.

1.2. Debt Service Coverage: Compared to the targets, the results for all years are high. The margins before depreciation in relation to principal and interest payment are generally favorable. The positions during 1998, 1999 and 2002 were above target, while those in 2000 and 2001 were lower due to the relatively high interest expense. Clearly, there was a large amount of loan in 2001, but it is difficult to explain the situation in 2000 because the interest expense is significantly high in proportion to the total loans. It is probably due to short-term loans settled during the year and not shown in the audit report.

1.3 Current Ratio: the results are consistently lower than the target value showing that the union has been short of liquidity or working capital. Year 1999 in particular shows lower value than the normally accepted threshold of 1.0.

1.4 Interest Cover Ratio: The results for 1998, 1999 and 2002 were high compared to the target, showing that the operating margins have been sufficient to cover all its operating expenses including the interest expense. The relative decline observed during 2000 and 2001 are attributable to high interest expenses as explained earlier.

1.6 Day's Sales in Receivables: The short-term credit which the union extends to member cooperatives for the purchase of grain are repayable within 6-12 months and the result (13 days on average) is entirely unrealistic. So this ratio may not be applicable to this situation.

2. Solvency Ratio

2.1 Term Debt to Total Fixed Assets: The union had no medium- or long-term debts in 1998 and 2002 so the ratios are not meaningful. The results for the remaining years are within the given range. The trend shows that fixed assets are steadily growing while term debts remain proportionately very low. Perhaps this shows that the union is building its fixed assets (stores, tractors, etc) from its own sources.

2.2 Local Leverage Ratio: The values for 1998 and 2002 are apparently not meaningful for the reasons given above. The result for year 1999 is higher than the target value because the amount of medium-term loans secured for the purchase of tractors was high in relation to members' equity. The values for year 2000 and 2001 are within the given range. By Ethiopian standard, such a relationship between term loan and members equity is reasonably good; in fact, the ratio would have been very low if the term loan were compared with the total equity capital.

2.3 Ownership Percentage: The results are lower than the target showing that the total equity covers less than 50 percent of the existing assets. This is mainly because of the sizable amount of short-term loans for grain purchase and partly due to inputs extended to member cooperatives and shown as receivables. The ratio for 2000 is closer to the target value because the incremental equity exceeded the incremental assets.

2.4 Total Debt to EBITDA: The results of 1998 and 2000 are within the target range, while 1999 and 2001 show slightly higher values because of loans secured for tractor purchase in case of the former and for grain purchase in case of the latter. Year 2002 shows an abnormally high result because in that particular year the audit was performed before the Union paid the collected down payments to the CBE. So the recorded debt shows only the routine double-entry accounting operation. The short-term debts comprising input loans and grain marketing loans are not a major concern because their recovery through the existing system is almost 100%.

2.5 EBITDA Interest Ratio: During 2000 and 2001 the ratios were lower than the target due to the high interest expenses as explained earlier; results of the remaining years were by far greater than the target. On average the result is markedly higher than the target value.

2.6 Day's Sales in Payables: As explained earlier, the union, like the primary cooperative, is mainly dealing with input distribution and grain marketing and the duration of loans is fixed: 3 months for input loans and 6-12 months for grain marketing loans. Therefore, the results —36 days on average (8-116 days) —are far from the reality.

3. Profitability Ratio

3.1 Return on Sales: The results have been lower than target throughout the period. This implies that the margins from the operating income were low. By and large, this is true because the union is not intended to make much profit from business transactions with members. For example, the tractor rental service is almost at cost and sometimes below cost. Storage services are free. The only opportunity for the union to make a good profit is on grain marketing when prices are favorable.

3.2 Return on Assets: On average, the results are significantly higher than the target. During the first three years the recorded assets were relatively low in relation to sales or operating income so the ratios are high. In 2001 the sales and assets have proportionately grown and the result more or less agrees with the target. But the assets recorded during 2002 were artificially high for the reasons explained earlier, and the operating margin was also proportionately low.

3.3 Productivity Ratio: All the results over the reported period are favorable compared to the target. This shows that direct costs have significant weight in the operation of the union.

3.4 Labor to Gross Income Ratio: The results are very low compared to the target. Similar to that of the primary cooperative, expenses incurred for labor (salaries, wages, travel and per diem expenses) in comparison to the gross operating income or sales are very small.

3.5 Day's Sales in Inventory: The low number of days more or less reflects the reality. The union has not been maintaining inventory, except in 2001 when it was forced to keep some grain due to low prices.

Conclusion: The financial performance of the union gauged in terms of liquidity, solvency and profitability shows mixed results compared to the target values set for the purpose of the study. Obviously, it has a working capital constraint and it also needs term loans to build up its fixed assets. The modest return on sales is in conformity with its objectives of providing services to its members. As a whole, the union has been showing a steadily growing net income throughout the period. In view of this, it can be safely concluded that the union has been financially sustainable during the reporting period.

Table 18: Lumme-Adama Farmers' Cooperative Union

Financial Ratio Analysis Over a Five Year Period

(Based on NCBA, CHF, ACDI/VOCA, NTCA, AAC/MIS)

		Year						Standard
Ratio	Target	1998	1999	2000	2001	2002	Average	Deviation
Liquidity								
Working Capital to sales	>8%	0.1%	-0.6%	-0.1%	0.1%	2.0%	0.3%	0.9%
Debt Service Coverage	>2.0	13.5	11.1	4.3	3.9	13.6	9.3	4.3
Current Ratio	>1.8	1.0	0.9	1.0	1.0	1.1	1.0	0.0
Interest Cover Ratio	>3.0	9.4	7.8	2.6	2.0	8.2	6.0	3.1
Day's Sales in Receivables	N/A	0	5	9	11	38	13	13
Solvency								
Term Debt to Total Fixed Assets	<50%	0.0%	27.4%	11.5%	11.2%	0.0%	10.0%	10.1%
Local Leverage Ratio	<50%	0.0%	65.3%	21.6%	28.8%	0.0%	23.1%	24.0%
Ownership Percentage	>50%	38.6%	37.7%	49.3%	34.1%	18.6%	35.7%	9.9%
Total Debt to EBITDA	<3	2.4	3.5	1.4	3.9	13.0	4.8	4.2
EBITDA/Interest	>5	13.5	11.1	4.3	3.9	13.6	9.3	4.3
Day's Sales in Payables	N/A	16	22	8	26	118	38	40
Write-offs as % Revenue	<5%	NA	NA	NA	NA	NA	NA	NA
Profitability								
Return on Sales	>2.5%	1.6%	1.9%	1.8%	1.2%	1.6%	1.6%	0.2%
Return on Sales Assets	>8%	21.6%	12.2%	20.9%	8.7%	3.8%	13.4%	6.9%
Productivity Ratio	<10%	1.6%	4.0%	4.0%	3.7%	4.5%	3.6%	1.0%
Labor to Gross Income Ratio	<30%-40%	0.2%	0.6%	0.5%	0.5%	0.7%	0.5%	0.2%
Day's Sales in Inventory	N/A	0	1	0	5	1	1	2

4. Profitability Analysis By Enterprise

The profitability analysis was done for only two years (2001 and 2002) for which the cost breakdowns are available.

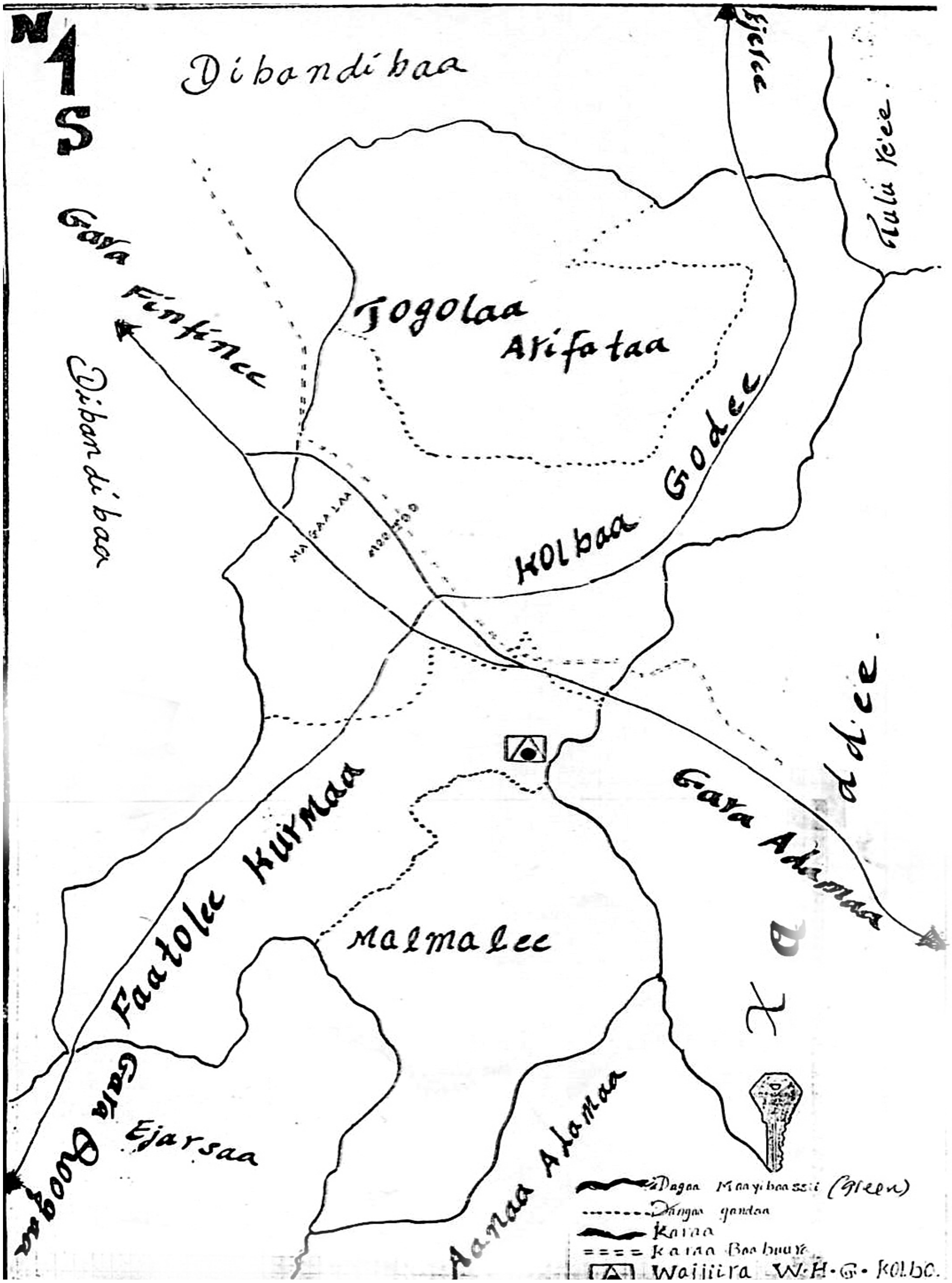
The union is mainly involved in input supply (fertilizer, improved seeds and agro-chemicals) and grain marketing. It also provides tractor rental services, secretarial and storage services (other services). However, its major activity is fertilizer supply, which contributes over 90 percent of its total net income. The contribution of grain marketing is low.

In 2001, as shown in the financial analysis section of the annex, all activities generated profit with fertilizer accounting for 86 percent of the total net income, grain sales 6 percent, improved seeds 6 percent, grain marketing 4 percent, agro-chemicals 4 percent and other services 1 percent. Tractor rental service was in a break-even position. In 2002, fertilizer accounted for the lion's share (91 percent) of the net income, followed by agro-chemicals (5 percent), grain marketing (2 percent) and other services (2 percent). Tractor rental service incurred a loss.

The union has been and still is engaged in limited diversified activities, with a heavy emphasis on one commodity (fertilizer) alone. The union itself is not actively involved in grain marketing; it is rather playing a facilitative role in terms of providing market information and credit services (for the purchase of grain) and establishing market contacts for member cooperatives.

ANNEXES

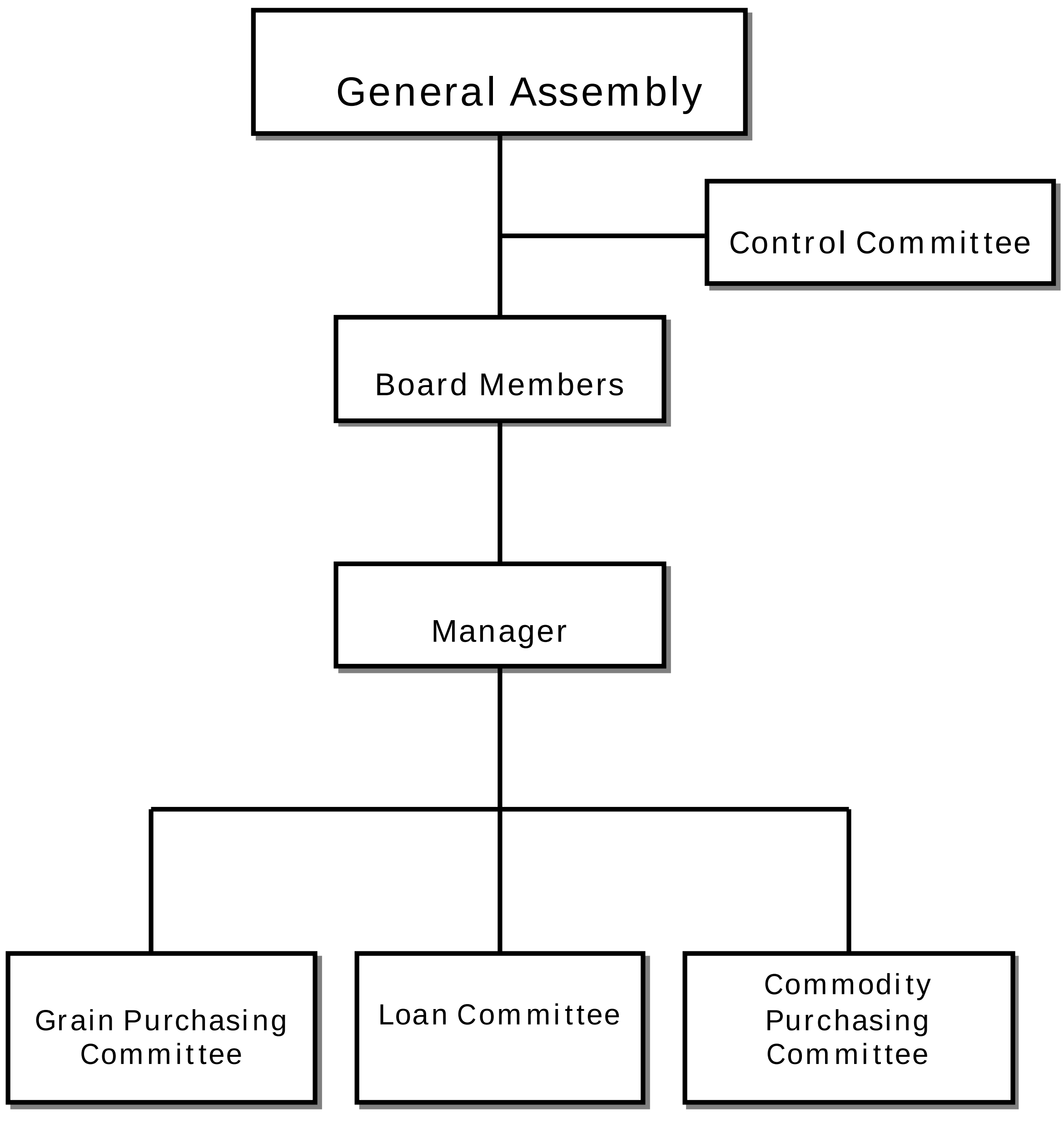
Annex I
Map of Kolba



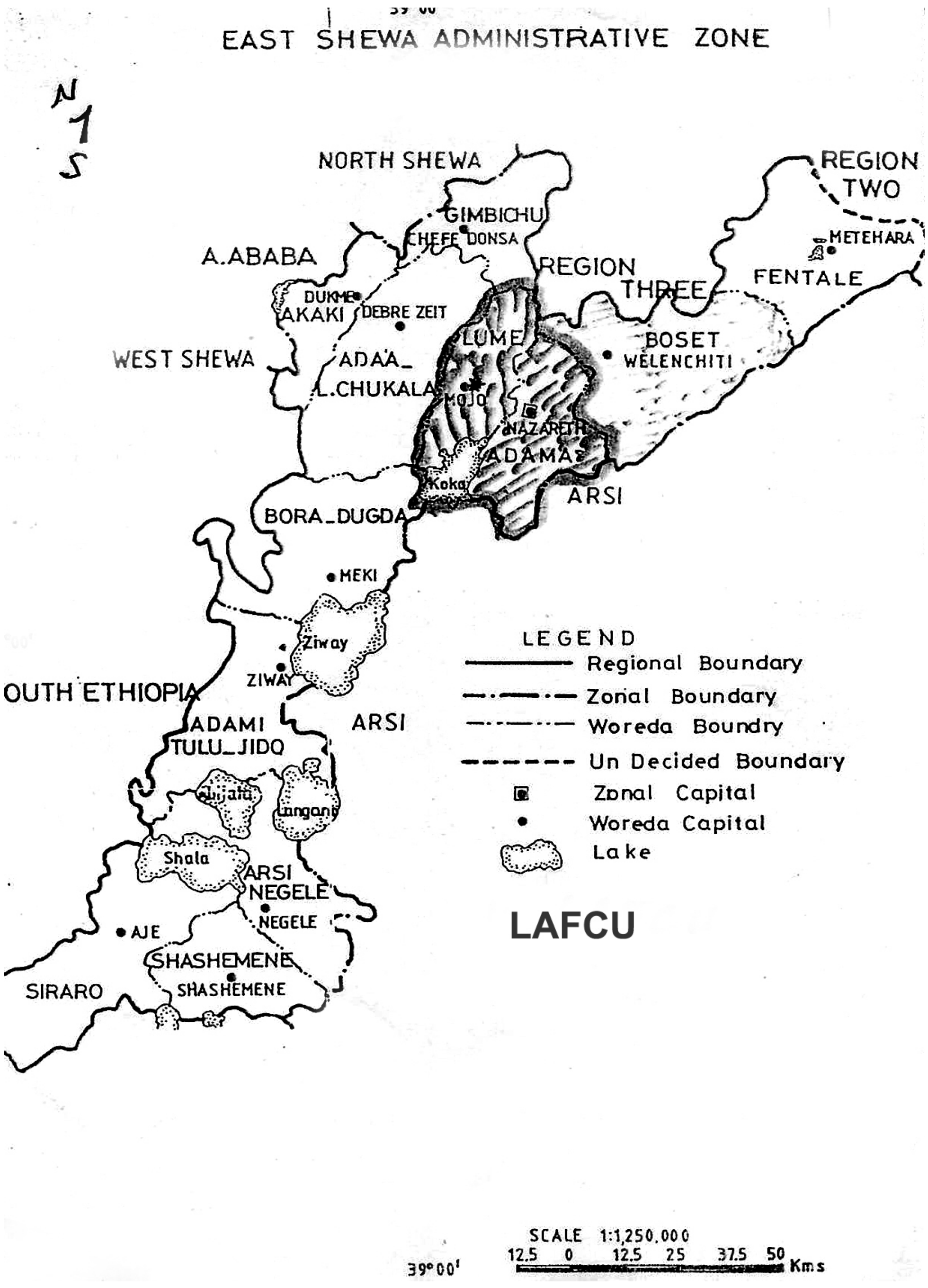
Annex II

Organizational Chart of

Kolba Farmers' Multi-Purpose Primary Cooperative



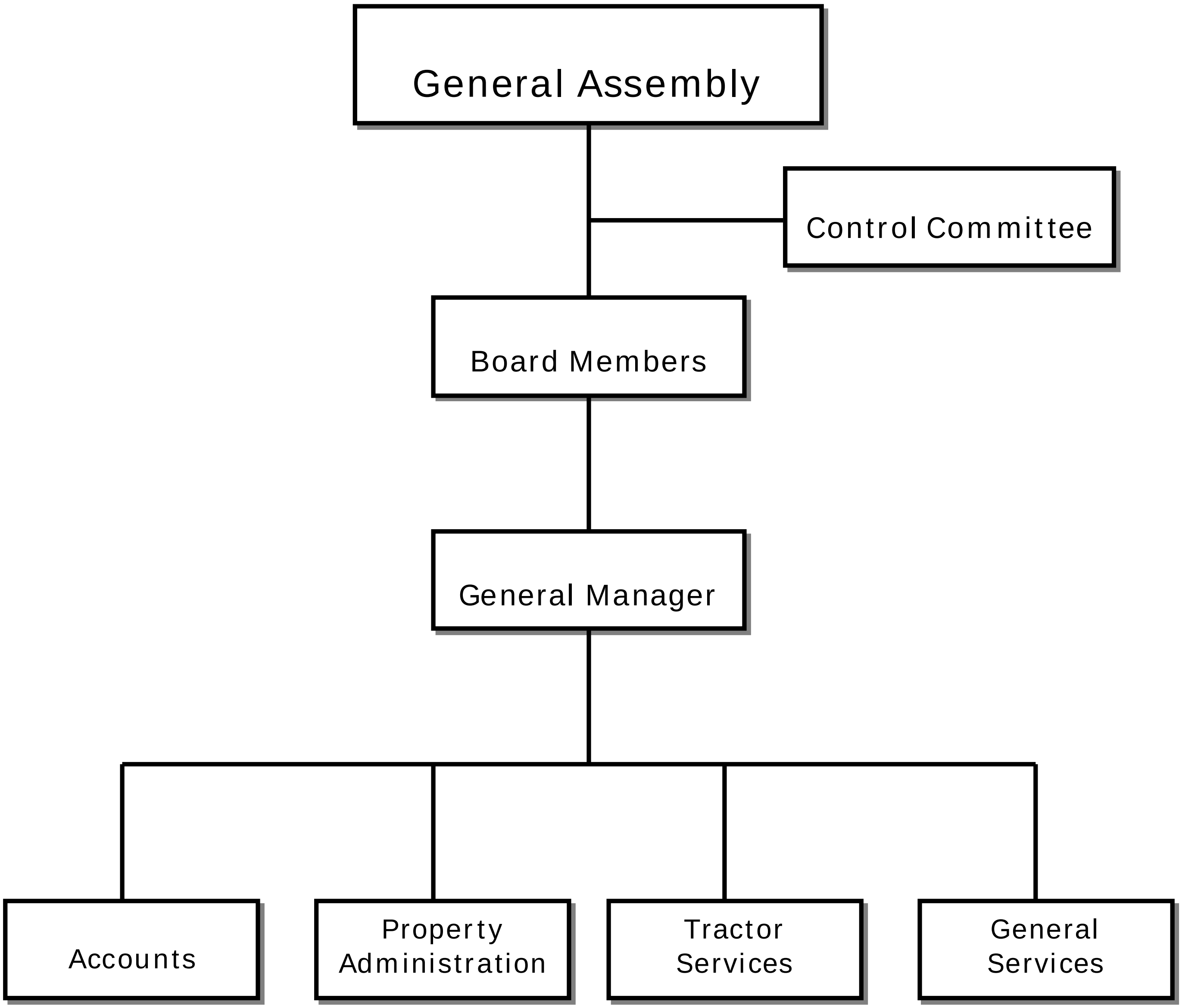
Annex III
Map of Lumme-Adama



Annex IV

Organizational Chart of

Lumme – Adama Farmers' Cooperative Union



Annex V
List of Shareholders of Lumme –Adama Union

	Name of Cooperative	Woreda	No of share	Amount (Birr)	Members as of Mid-2003	Remarks
1	Dibandiba	Lumme	14	70,000	1596	Founding member
2	Kolba	"	13	65,000	915	"
3	Dkebora	"	12	60,000	779	"
4	Ejerie	"	12	60,000	868	"
5	Tedena Bola	"	7	35,000	1564	
6	Tulurae	"	8	40,000	447	
7	Horogumbu	"	3	15,000	686	
8	Teliete	"	4	20,000	590	
9	Keltu Ourja	"	1	5,000	412	Last coop to join the union
10	Mukeye Kechema	Adama	7	35,000	1173	
11	Arogaye Adama	"	4	20,000	583	
12	Geldeya	"	1	5000	1000	
13	Osona Ono	"	1	5000	245	
14	Boku Mechael	"	1	5000	568	
15	Cheka Deworo	"	1	5000	485	
16	Kechema	"	2	10,000	465	
17	Buta	Boset	1	5000	889	
18	Bofa	"	1	5000	1589	
19	Beressa	"	1	5000	581	
20	Amecha	"	2	10,000	952	
21	Bekektu	"	1	5000	313	
	Total		97	485,000	16,700	

Annex VI

Financial Statements

(See Attached Excel Spreadsheets)