



**Indira Gandhi National Open University (IGNOU)**

**Department of Rural Development**

**Assessing the Contribution of Agricultural Cooperatives to Poverty  
Alleviation in the case of Gechi District, Ilubabor Zone, Ethiopia**

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**Project submitted to IGNOU Department of Rural Development in  
partial fulfillment of the requirement for the award of MA in Rural  
Development**

**Addis Ababa, Ethiopia**

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**Declaration**

I hereby declare that the dissertation entitled Assessing the Contribution of Agricultural Cooperatives to Poverty Alleviation in the case of Gechi District, Ilubabor Zone, Ethiopia submitted by me for the partial fulfillment of the M.A in Rural Development to Indira Gandhi National Open University/IGNOU/ New Delhi is my original work and has not been submitted earlier either to IGNOU or any other institution for the fulfillment of requirement for any course of study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any either work by me or other.

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## **Certificate**

This is to certify that Mr. Zelalem Fufa student of M.A in Rural Development from India Gandhi National Open University, New Delhi was working under my supervision and guidance of his project work for the course MRDP. His project work entitled Assessing the Contribution of Agricultural Cooperatives to Poverty Alleviation in the case of Gechi District, Ilubabor Zone, Ethiopia which he is submitting his guanine and original work.

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## **Acronyms**

ALID	Agricultural Lead Industrial Development
CSA	Central Statics Authority
DIFD	Department for International Development
FAO	Food and Agricultural Organization
FCA	Federal Co-operative Agency
FSS	Food Security Strategy
GDP	Growth Demotic Product
ICA	International Co-operative Alliance
ILO	International Labor Office
MDGs	Millennium Development Goals
NGO	Non-Governmental Organization
USD	United States' Dollar

## **Abstract**

Poverty is a major social and economic problem of many countries including Ethiopia. Cooperative is established throughout the country, especially in the rural areas of the country so that the people voluntarily come together to work in collaboration to solve their social & economic problems in their communities and beyond as much as possible.

The study is conducted with the main objective of assessing, the contributions of farmers' cooperatives to Poverty alleviation. The study used primary data from household survey, key informant interview to get background information and investigate the contribution of the agricultural cooperatives. Secondary data is also used to supplement the primary data.

Descriptive statistics was used to analyse the personal characteristics of the respondents. The Foster-Greer-Thorbecke (FGT) Poverty Measure Model was used to assess poverty level and its variation among members and non-members of the cooperatives.

The study found that agricultural cooperative highly contributing in poverty reduction by playing tangible roles.

These includes accessing the poor rural community to get loan so as they engage on different income generation activities, providing different agricultural inputs and home consumption items in their vicinity, likewise, buying different produces from the producers with good price by avoiding brokers/middlemen who run for only their benefit. Even though the cooperatives have some challenges that should be worked on further to solve for more success. And to do these there must be collective efforts of all concerned bodies to find appropriate solution.

# Chapter one

## Introduction

### 1.1. Background

A cooperative is defined as “an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises (ILO, 2002).

A cooperative is primarily organized to provide the necessary common needs of its members that improve and uplift their living condition within the context of the universally accepted cooperative principles of membership, democratic administration, equitable contribution, savings disposal, education and cooperative cooperation. (Mendoza,1980).

More formal forms of cooperatives were first introduced in 1960; the new cooperative movement in Ethiopia was triggered by reform made to the social political system during the socialist government (the Derg regime). Cooperative was made to assist in the implementation of government’s policy of collective ownership of properties. Under this system, cooperative were forced to operate in line with the socialist principles, which mean that production and marketing of produce were under taken through collective mechanisms. Membership to cooperative was also compulsory, which contravened the basic principles of voluntarily participation. Currently, cooperatives are recognized as an important instrument for socio economic improvement of the community. This importance is recognized in their definition, which consider cooperative to be: an association of persons who have voluntarily joined to a common end through the formation of democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risk and benefits of the undertaking, in which the members actively participate (FCA, 2007c:1); cited in ILO, 2009:1

The cooperative proclamation No. 147/1998 identified clear goals and authorities, which supported a more conducive legal environment for the formation of Ethiopia cooperatives. The goals includes social, economic and other motive that require joint actions for attaining a common target.

In Ethiopia, prevalence of poverty and destitution has reached a surprisingly high level due to population growth and land degradation, crop and market failures associated with policy, droughts and other environmental factors, low productivity due to primitive farming techniques as well as low access to assets. An estimated 45.0% of all rural households were considered to be poor in 1999/00 (MEDaC, 2002).

The most common cause of destitution is crop failure occurring mainly due to droughts or inadequate and untimely rainfall and other hazards such as pests and frost. Severe droughts that occurred with varying frequency in different areas of the country often caused mass destitution (Amare Rural Poverty in Ethiopia, 2002 and 2003).

For decades, poverty has become a global issue and a major contending force against the pace of development in the less developed countries. Poverty has been described as the basic malady of the less developed countries (Mier, 2001). Generally, poverty is quite dehumanizing as the poor lacks influence, is lowly esteemed, has a limited range of economic and social opportunities and for most times suffers psychological defeat.

Unfortunately, the poor are generally located in the rural areas where they are primarily engaged in agriculture and agriculturally related activities (Todaro, 2006).

The rural areas are characterized by vicious cycle of poverty, showing low income, low productivity, low savings, low capital formation and low investment. Among other things, the rural areas experienced social, economic, cultural, political and environmental deprivation. Basic infrastructural such as electricity, water, adequate health facilities are often absent in such areas. Oftentimes, rural dwellers find it difficult to access credit facilities from the formal financial sectors due to their inability to produce required collateral securities. Loans from the sector are often accompanied with high interest rates which make such loans unprofitable for the poor small holders

Poverty has been seen as a hydra-headed concept that means different things to different people under different dispensations. It is generally associated with condition under which people live. It is easier to identify the dimension of poverty than giving a straight line definition of what poverty is. Poverty is seen as a state of involuntary deprivation that a person, household and society may be subjected (Ojo, 1995; Enjlama and Bamide, 1997), Madinagu, 1999; Ogwumike, 2001, Odusola, 2001; while others see it as inability to meet basic material needs such as food,

water, clothing, shelter, education and health and also lack of non-material needs such as participation, identity, dignity, self-esteem, freedom and sustenance Poverty can be reflected in different dimensions.

Accordingly to Sen (1999), World Bank (2001) and Jhinjan (2006), improving the productivity, profitability and sustainability of smallholder agriculture is argued to be the main pathway out of rural poverty in developing countries. Institutional innovations are believed to play a crucial role in this as they can help farmers to overcome market failures (Hazell et al., 2010; World Bank, 2008). There is a renewed interest in producer organizations such as cooperatives as an institutional tool to improve market participation of smallholder farmers, increase farm incomes and reduce rural poverty (Bernard and Spielman, 2009;

Concerning the effectiveness of cooperatives to bring about output and income growth, studies have indicated positive effects of cooperative membership on producer prices and market participation, and on the likelihood to adopt improved technologies (e.g. Abebaw and Haile, 2013; Bernard et al., 2008; Bernard and Taffesse, 2012)

Agricultural cooperatives are seen as an important institutional vehicle to improve the performance of the smallholder farm sector and to achieve rural poverty reduction (GoR, 2004; 2011).

Poverty is a state of involuntary deprivation to which a person, household, community or nation can be subjected (Oseni 2007).

According to Encyclopedia Britannica (2008): poverty is "The state of one who lacks a usual or socially acceptable amount of money or material possessions; whatever definition one uses, authorities and laypersons alike commonly assume that the effects of poverty are harmful to both individuals and society."

High incidences of poverty and poor living standard has been characterized many Sub-Saharan Africa countries including Ethiopia. Among other reasons, low agricultural productivity, and high population growths not matching with the available resources to support them are associated with high incidences of poverty in these countries (Kelly 1998; Irzet al 2001; Mwankemwa 2004; Mason and Lee 2005cited in Lwelamira, et l., 2010).

Poverty gives rise to many serious social problems, some of which, not only impose enormous economic and social costs upon the non-poor and society in general, but also threaten the survival and stability of the society (Oluwakemi et al., 2012)

It is worth noting that economic development is characterized by increasing production and consumption. In order to increase production, well-established institutions for clear property rights are a necessity. Attracting capital and investments are needed for an economy to grow. This can take place in a stable economic environment (John et al., 2013).

Institutions are also needed for overseeing income distribution aspects in economic development so that the less fortunate can survive and lead a decent life in a society. Cooperatives have potential as business entities particularly in the agricultural sector to process products of farmers and in marketing of agricultural products (John et al., 2013).

Cooperatives provide self-employment through millions of worker-owners of production and service cooperatives; financial cooperatives mobilize capital for productive investment and provide people with secure institutions for the deposit of savings; consumer cooperatives provide households with affordable goods and services reducing the proportion of income used for basic living costs, and similarly user-owned cooperatives such as housing, utility, health and social care cooperatives provide affordable access to basic services (Biru, 2014).

## **1.2 Statement of the problem**

Ethiopia economy can achieve a considerable change despite its bottle neck provided that cooperative services are provided effectively to the rural society throughout the country. Hence cooperative can take the lion share in improving the livelihood of the rural societies by availing asset in improving services and supplies to the rural societies and the subsequent effort of the government to provide its solid support to establish cooperative through various initiatives provides renewed optimism.

In Illubabor zone, formation of primary agricultural cooperatives is not a new phenomenon. Based on the existing statues and the bylaws of the societies, the established cooperatives have providing services to their members. The major issue here is that, these agricultural cooperatives are really contributing for the livelihood improvement of the members. This requires

investigation of the contribution of the agricultural cooperatives. It is, therefore, from the above general conditions that the need arose to conduct this assessment (survey) to be able to see the present concrete situation of the members, and identify the roles of agricultural cooperatives in Poverty alleviation among members.

### **1.3 Objectives**

#### **General Objectives**

To assess the contributions of farmers' cooperatives to Poverty alleviation in Illubabor zone

#### **Specific Objectives**

1. To examine the socio-economic characteristics of the respondents
2. Assess the incidence, depth and severity of poverty among the respondents in the study area.
3. Determine the contributions of farmers' cooperatives to poverty alleviation among the members

## Chapter two

### 2. Literature review

#### 2.1. Cooperatives

Different authors defined cooperatives in different ways and gives different meanings. The international Cooperatives alliance (ICA) defined cooperative in 1995 as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Cooperatives are voluntary associations that are members owned, self-managed and democratically controlled within a specific location (Adedayo and Yusuf, 2004).

Cooperatives are independent association of people who voluntarily unite to form a jointly owned and democratically controlled enterprise called cooperatives, to meet members' economic, social and cultural needs (Henry and Schimmel, 2011).

Cooperative is one of a range of financial arrangements designed to attract the poor as either borrowers and/or savers (Montgomery and Weiss, 2005). Cooperative societies are community based, self-controlled, and self-funded microfinance institutions (Simkhada, 2004).

Cooperative is a microfinance arrangement to help the low income earners with financial services that will enable them to create wealth without any discrepancy as to the gender of such persons. Cooperative enables low income people to access financial and non-financial services that are packaged in a manner that enable those who are unable to access formal financial services to access comparatively small loans, saving schemes and other services for working capital and income generation (Nathan *et al.*, 2004).

Cooperatives are privately organized institutions that are owned and controlled by their members (Branch 2004)

Cooperative is an association of persons who have voluntarily joined together to common end through the formation of a democratically controlled organization, making equitable contribution to capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate (Bezabih, 2012).

The most commonly used definition is given by the International Cooperative Alliance, the apex organization that represents cooperatives worldwide that states a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural



needs and aspirations through a jointly owned and democratically controlled enterprise (ICA, 1995 cited in Krishnaswami and Kulandaiswamy, 2000: 43).

The above definition emphasizes that cooperatives are independent of government and not owned by anyone other than the members. They are associations of persons, which can mean individual people but also 'legal persons', organizations that may themselves have members.

Cooperation has been the very basis of human civilization. The inter-dependence and the mutual help among human beings have been the basis of social life. However, modern type of cooperative enterprise has its origins in the 19th century and has become one of the most ever present example forms of business/economic enterprise.

The statement is often supplemented with the distinguishing features of seven principles adopted by ICA. Moreover, according to the 1995 statement, cooperatives function based on the values self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty and openness.

This means that federal bodies whose members are primary cooperatives can also be cooperatives, and that small businesses can also be members of their own cooperatives. They are united voluntarily, and should be free to join or leave. This means that collective farms or village or neighborhood associations that include all people in an area (whether or not they want to be members) are not genuine cooperatives. They are designed to meet their own needs as defined by the members; organizations that are set up primarily to meet the needs of others are not cooperatives. The principles on which they are based reinforce this definition. Cooperatives have voluntary and open membership, democratic member control, and economic participation on the basis of membership rather than size of investment, autonomy and independence. Because they are member-owned businesses they need to make a commitment to the education and training of their members, and because they share similar values are expected to cooperate with each other.

Finally, though they exist primarily for the benefit of their members, they also have responsibility for their wider community (Johnston, 2003).

The diversity and types of cooperative can be confusing, and so here is a simple way of classifying them. Apart from the investors of capital, there are three main stakeholders in a business: its consumers, the producers who supply inputs to or take the outputs from the business, and its employees. In a cooperative, usually one of these stakeholders is put at the

centre of the business. This gives us three classes: consumer cooperatives, producer cooperatives and worker cooperatives. There is one interesting complication. Financial cooperatives; cooperative banks, insurance societies and credit unions often have in membership people who are consumers of their products and in their own right producers. So farmers and small businesses can be members alongside private individuals. As long as the interests of each group do not conflict, the cooperative works well. There are two kinds of comparative advantage to cooperatives: general ones derived from the nature of cooperatives as member-owned businesses, and particular ones derived from specific types of cooperative (ILO, 2009).

Currently, there is a strong assertion in Ethiopia about the potential role that cooperatives could play in terms of smallholder commercialization and poverty reduction. Some success stories already achieved include direct export of coffee, oil seeds and vegetables to markets in Europe and the USA by cooperative unions in which smallholder farmers are represented as members through primary cooperatives. However, empirical evidence on the livelihood development and poverty reduction impact of cooperatives is yet to be established.

Few cases of empirical study include Francesconi and Heerink (2010), Bernard et al. (2008) and Francesconi and Ruben(2007).

The impacts of cooperatives are multidimensional, observable in different forms like employment, livelihood opportunities, education and training, information and risk reduction. There are also spill-over effects of cooperatives extended to members and the society at large as indirect benefits. These make measuring and evaluating the impact of cooperatives difficult. Consequently, our understanding of the development impacts of cooperatives remains limited, with implications on our commitment and support to further promote and strengthen cooperatives as business enterprises. There are few studies that can be mentioned as sources of information on the impact of cooperatives in Ethiopia. Francesconi and Heerink (2010) found that marketing cooperatives have smallholder commercialization impact. Bernard et al. (2008) recognized the potential contribution of smallholder cooperatives to agricultural production and marketable surpluses in rural Ethiopia and, in the long run, to overall agricultural development, economic growth and poverty reduction in the country. However, the need for a range of additional and innovative policies and investments is emphasized.

According to Tiegist (2008), grain producers' cooperatives played an important role in providing Ethiopian farmers with better prices by reducing seasonal price fluctuations and by stabilizing

the local grain markets in favor of the producers. Francesconi and Ruben (2007) found that dairy farmers in Ethiopia perform better under cooperatives than otherwise in terms of quantitative indicators such as herd size, productivity and market access. Based on a case study on the coffee farmers' cooperatives, Myers (2004) concluded that cooperatives helped to successfully position Ethiopian smallholder farmers in the international coffee market.

A cooperative is defined as “an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprises (ILO, 2002). It is also a business enterprise that aims at complete identity of the component factors of ownership control and use of services (Nweze, 2001, Cited in Ibitoye, n.a).

Co-operatives are financial organizations that are owned and controlled by the members and they provide savings and credit services to their members in the community (Sharma et al, 2005). They can be viewed as a form of microfinance institutions owned by their members who provide small scale financial services typically mainly savings and loans. Co-operatives enable low income earners to access financial and non-financial services that are packaged in a manner that enable those without access to formal financial services to access comparatively small loans, saving schemes and other services for working capital and income generation (Nathan et al, 2004). “They appear to be the most standardized informal financial institutions with well organized savings mobilization strategy in the informal market” (Oloyede, 2008: 47).

Co-operative societies, also known as credit co-operatives, credit unions, financial co-operatives, and savings and credit co-operatives can be government sponsored, member sponsored or programme sponsored (Ghosh and Maharjan, 2001; Simkhada, 2004; Oluyombo, 2012). The government sponsored co-operatives are co-operatives established, owned and funded by the government to accomplish its economic objectives. Co-operatives that are established and owned by the individual members of the co-operatives are regarded as member sponsored co-operatives which are the focus of this study. Programme sponsored co-operatives are established and owned by an existing organization which may be a Non-Governmental Organization (NGO), bank, donor etc. with specific purpose of poverty eradication, targeted towards a particular group of people in a specified location. This study defines a co-operative as a voluntary open association established and owned by people of like minds who come together to form an organization called

a co-operative society without government or programme funding. They mobilize funds in the form of savings from the members, which then guarantees member access to the loan facility provided a minimum savings requirement is met. As a voluntary association, without control from the government, a member is free to join or cease to be a member of the association at will based on the rules guiding the co-operative.

According to DFID (2005, Cited in Biru, 2014), cooperatives have four main characteristics: first, they are formed by groups of people, who have a specified need or problem. Secondly, the organization is formed freely by members after contributing to its assets. Thirdly, the organization formed, is governed democratically in order to achieve desired objectives on equitable norms, and fourthly, it is an independent enterprise promoted, owned and controlled by people to meet their needs.

Rural cooperatives have played an important role in the development of agriculture in industrialized countries as suppliers of farming requisites, marketers of agricultural commodities, and providing services such as grain storage and transport. It appears that many of these agricultural cooperatives are adapting their operations to the rapidly changing economic environment characterized by technological change, industrialization of agriculture and growing individualism (Ortmann& King, 2007).

## **2.2. Origin of Cooperatives**

Cooperatives are not foreign to African continent. Before the advent of colonialism, savings associations known by different names could be found on the continent. Examples, sanduk in Sudan, are esusu in Nigeria, chilimba in Zambia and ekub in Ethiopia. All of them consisted of a simple organizational structure where savings and credit was administered on a rotation basis by members. These associations convened on fixed intervals (weekly, monthly) and each of the members would contribute a fixed amount. The whole amount collected would then be given out to one member according to the criteria agreed upon by all members (Mwangi, 2008; cited in Moses et al., 2013).

## **2.3. Co-operative identity, values & principles**

### **Values**

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

### **Principles**

The co-operative principles are guidelines by which co-operatives put their values into practice.

These Principles are seven that are under stated as below:

#### **1. Voluntary and Open Membership**

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

#### **2. Democratic Member Control**

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

### **3. Member Economic Participation**

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

### **4. Autonomy and Independence**

Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

### **5. Education, Training and Information**

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

### **6. Co-operation among Co-operatives**

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

### **7. Concern for Community**

Co-operatives work for the sustainable development of their communities through policies approved by their members.

## 2.4 Poverty alleviation and cooperatives

The concept of poverty has been an object of discussion for many authors. There is no uniform approach for defining poverty. Some scholars use the income approach and define poverty as a lack of income. A commonly used standard in the income approach is an income/day measure (e.g. 1 USD/day in 1985 Purchasing Power Parity, Chen and Ravallion 2008, or alternatively 1.25 USD/day or 2.00 USD/day). Some other scholars believe that the definition of poverty is the lack of the basic needs of life. Nobel Prize Winner Amartya Sen (1981) sees poverty as ‘the deprivation of basic capabilities rather than merely as lowness of income, which is the standard criterion of identification of poverty’. A third group of scholars use the proportion of total household expenditure used on food as a criterion for defining poverty (Parviainen, 2012 ;cited in John et al., 2013). Whether the definition of poverty is any of the three definitions given above, poverty is still a complex phenomenon that requires a multidisciplinary approach.

## 2.5 Role of Agricultural cooperative in poverty alleviation in Ethiopia

Large proportion of the Ethiopian population is severely affected by poverty and subsequently by chronic respectively transitory food insecurity and hence vulnerable livelihoods. As it is well known, food insecurity and vulnerability to poverty are closely interrelated and multifaceted resulting from a broad range of root causes. However, as food insecurity is not only a result of these causes, but may even lead to further deterioration of the situation, it is necessary not only to tackle the immediate and visible impacts of food insecurity (e.g. by providing food aid to undernourished people), but consequently also to tackle the root causes through appropriate measures for a sustainable development of the country (FAO, 2017).

Thus, the Ethiopian government has elaborated various policies and strategies directly related to the above-mentioned problems, like the Agricultural Development Led Industrialization (ADLI), which is still perceived as the central element of the government’s overall policy in a direct attack on rural poverty. Its essence is that agricultural growth is seen as the engine of industrialization through its effects on demand for industrial goods, supply of raw materials and exports. The government sees ADLI as a strategy that will ensure the widely sharing of growth

benefits. ADLI also forms the basis for the national Food Security Strategy (FSS) as well as for the Poverty Reduction Strategy Paper (PRSP). There is a need to identify other means of addressing the serious damage caused by poverty to Ethiopian society, attention should therefore be shifted to the use of self-help using Co-operative organizations formed and administered by the people (FAO, 2017).

In support of the ADLI strategy, the GoE has allocated a greater share of its budget resources to agriculture than any other country in Africa since the early 1990s. However, recent studies suggest that the impact of public spending on agriculture has yielded limited returns in terms of economic growth or poverty reduction (Mogues, Ayele, and Paulos 2007). Meanwhile, specific strategies meant to increase yields through intensive use of modern inputs in cereal production, or commercialize surpluses from smallholder production through cooperatives have yielded mixed results to date (Bernard, Gabre-Madhin and Taffesse 2007; Byerlee et al. 2007; DSA 2006).

In fact, Ethiopia has yet to experience the agricultural growth and food security improvements expected from these policies. Gains in agricultural production during mid-1990s resulted primarily from area expansion rather than intensification, and have since experienced a slow-down in sectoral growth, large annual fluctuations in agricultural output, and volatility in grain and other prices (Mogues, Ayele, and Paulos 2007; Bernard, Gabre-Madhin and Taffesse 2007; Byerlee et al. 2007; DSA 2006).

It is worth noting that economic development is characterized by increasing production and consumption. In order to increase production, a well-established institution for clear property rights is a necessity. Attracting capital and investments is needed for an economy to grow. This can take place in a stable economic environment (John et al., 2013) Cooperative sector development in Africa evolved three distinct generations. The First Generation Cooperatives are those introduced by colonial administrators during the colonial era to organize production, marketing and exporting of commodities such as cocoa, coffee and cotton for industries and markets in Europe. The Second Generation Cooperatives were initiated by the governments of the newly independent states of Africa in order to promote rural development. Such cooperatives were mainly state invented tools meant for implementing planned development activities. They were important channels for government-sponsored credit and input supply and marketing programs and often had to operate under close guidance and control by the state. As such, they



were not genuine cooperatives in terms of their establishment and management. As a result, they were not sustainable and their development and poverty reduction impacts were limited. Such limited achievement of cooperatives in terms of delivering livelihood development and poverty reduction impacts used to cast doubt whether cooperatives are at all appropriate and credible institutions to organize the poor out of poverty.

Consequently, what form of economic and social organization does the poor need to help themselves out of poverty remains an important question in the search for the right model (for example, Francesconi and Heerink 2010).

The Third Generation Cooperatives are those operating in the post-reform period, in a competitive business environment. They are considered genuine, autonomous and free from government influence. Liberalization and globalization are considered as important driving forces that make Third Generation Cooperatives necessary in order to promote competitive participation of the rural poor in production and marketing activities. Such cooperatives are considered as grass-roots based self-help business enterprises operating autonomously in a dynamic and competitive business environment.

The role of cooperatives as organizational forms for social and economic development, including poverty reduction, is ever emphasized following the global trends of market liberalization and globalization. This is typically so in response to the problem of market failure which is common in developing countries. The problem induced by market failure includes exclusion of the poor from participating in income generating opportunities and benefiting from social services. Thus, market failure opened the way for cooperatives to improve equity, inclusiveness and democratization. According to Shigetomi (1992), the changes that follow market liberalization has bestowed new functions to cooperatives for supporting the livelihoods of members. As a result, there is an observable trend of a growing importance of cooperatives as business organizations in the developing countries during the post-liberalization period.

Currently, cooperatives are considered as appropriate models to promote agricultural and rural development in Ethiopia. Cooperative activities have been encouraged since the late 1990s and the sector receives various supports, despite the bad legacy from cooperative movements experienced during the socialist regime (Kodama 2007). Different measures have been taken in support of cooperative sector development, including organization and reorganization of different types of agricultural cooperative societies, establishment of cooperative promotion

bureaus at regional level, establishment of Cooperative Commission at a federal level and launching of education and training programs on cooperatives at different universities in the country.

A large number of cooperatives in Ethiopia participate in marketing of agricultural inputs and produce. As a result, a significant proportion of cooperative unions are engaged in marketing of agricultural produce (Bernard et al., 2007). Cooperatives provide marketing options for the members and non-members, though the members receive higher prices for their produce. Cooperative unions are involved in export and domestic marketing activities, financial transactions and social capital development. The economic role of cooperatives is significant in terms of foreign currency earning for Ethiopia. For instance, four unions (Oromia, Yirga-Chefe, Sidama and Yeka-Chaka coffee farmers' unions) have generated a total USD 104,154,838 by exporting 36,593.36 tonnes of coffee between 2000-2007/08. This was equivalent to 0.9 per cent of Ethiopian GDP in 2006 (CSA, 2006).

## **2.6 Impact of cooperatives in Development and poverty reduction**

Cooperatives are widely seen to have potential to impact on development and poverty reduction (Birchall, 2008). For example cooperative makes an important contribution to sustain an economic growth to make markets function better for poor people (DFID (2010)). Agricultural cooperatives play an important role in food production and distribution, and in supporting long term food security. Savings and credits cooperatives are increasingly popular and may soon be the most common forms of cooperatives within the African Cooperative movement (Pullet, 2009). They are seen to expand poor people's access to financial services (loans and savings), support enterprise start up an expansion, and reduce vulnerability by allowing the poor to secure savings, build assets and smooth out consumption. They are one of the largest providers of micro finance services to the poor, reaching 78 million people living below two dollar per day (DFID), 2010). Cooperatives are also sometimes seen as beneficial for conflict resolution, peace building and social cohesion.

Cooperative are often described as promoting both economic and social goals, the evidence in regard to the latter is weaker, and sometimes contradictory. Cooperative may have a significant direct impact on people's life through the services they deliver (example, credit, and agriculture inputs access to markets, storage and transport, housing, among others) (Pullet 2009).

Cooperatives increase the productivity and incomes of small scale farmers by helping them collectively negotiate better prices for seeds, fertilizer, transport and storage. They help farmers and market access and capture more of the value chain, for example, by getting involved in processing activities. (DFID, 2010).

There are steps needs to develop a comprehensive understanding of poverty and its causes. According to Birchall (2004), the three key steps that need attention are opportunity, empowerment and security.

**Opportunity:** Opportunities are created when economic growth is stimulated and markets are made to work for poor people on the demand side. Poor people must have the capacity to take advantage of the opportunities, this means building self-confidence through education, trainings, and self-organization. Furthermore, Birchall (2004) clarified that cooperatives have a contribution to make both on the supply and demand sides. They open up markets by organizing supply of inputs and marketing of outputs. They provide a means by which credit can be provided.

**Empowerment:** is the expansion of assets and capabilities of the poor people to participate in negotiate with, influence, and hold accountability of the institutions that affect their lives (World Bank, 2001). The document further classified that poor people should have a control over the resource invested, and the decision making process. It has been recognized for a long time that without the participation of the beneficiaries it is difficult to make development effective.

**Security:** is measure taken to reduce poor people's inseparability to risks (World Bank, 2002). If a risk affects an individual then conventional insurance can work well. If a risk affects a whole community, then it can not only the community but has to deal with at the country level. When a shock occurs, depending on the frequency of shocks, and the degree of vulnerability people who are not poor can easily fall into poverty. Any interruption in income generation through illness or unemployment will soon result in a crisis. However, a segment of the population may have strategies to manage a risk.

Cooperatives can help in reducing the risks by connecting the communities to wider markets, and diversifying source of income, through providing short term credit and safe place to put saving. In farming community, they can help their members ride out seasonal shocks such as harvest failures or fall in market prices. After a crisis, cooperatives have a key role in the recovery process through financing reconstruction (Birhall, 2004).

According to Zeuli and Crop (2004), farmers create farm supply and marketing cooperatives to help them maximize their net profits. This requires both effective marketing of their products for better prices as well as keeping inputs costs as low as possible. The farmers recognize that they are usually more efficient and knowledgeable as producers than as purchaser. By selling and buying in large volumes they can also usually achieve better prices.

## **2.7 Cooperatives and sustainable development**

As value-based and principle driven organizations, cooperative enterprises are by nature a sustainable and participatory form of business. They place emphasis on job security and improved working conditions, pay competitive wages, promote additional income through profit-sharing and distribution of dividends, and support community facilities and services such as health clinics and schools. Cooperatives foster democratic knowledge and practices and social inclusion, making them well-placed to support the achievement of sustainable development. Cooperatives have also shown resilience in the face of the economic crises. Hence, cooperatives are well-placed to contribute to sustainable development's triple bottom line of economic, social and environmental objectives plus the governance agenda, not least because they are enterprises that endeavour to meet the economic progress of members while satisfying their socio-cultural interests and protecting the environment. They offer an alternative model for enterprise, with contributions to sustainable development well beyond job creation. Since cooperatives' share in GDP and total enterprises is relatively small in most countries at present, the promotion and expansion of cooperatives could be an important instrument for the achieving the Sustainable Development Goals (SDGs) (ILO, 2015). According to Bhuyan (2007) cooperatives are specially seen as significant tools for the creation of jobs and for the mobilization of resources for income generation. Evidences about the recent impacts of cooperative organizations as business institutions in Asia, Latin America and Africa are encouraging. Spielman (2008) notes that policies and programs promoting rural producer organizations in many parts of Asia have been successful and contributed significantly to reducing food insecurity and rural poverty, while also

stimulating agricultural development and wider economic growth. According to Gandhi and Marsh (2003), membership in local institutions plays a significant role in explaining the variation in household incomes and gain in capital assets over time in India. Their study confirms that institutions matter and make a significant contribution in helping development in the rural areas, especially for the lower income groups. Cooperatives in the social and service sector (water, electricity and health and insurance) have a lot of success stories in Latin America (Bibby and Shaw 2005).

## **2.8 Some example of success story of cooperative in Oromia**

Most of this development was taking place in the Regional State of Oromia, where much of ILO's support was directed. The region, the largest and most populous of the country's nine regional states, is leading the way in cooperative development in Ethiopia.

To provide common services to their affiliates and to make economies of scale, cooperative grassroots organizations federated and formed cooperative unions. Some of the 34 unions, including the Oromia Coffee Farmers Cooperative Union and the other examples mentioned earlier, have become international trade partners. The profits from these ventures are passed on to the unions' coffee-growing cooperative members, thus helping to improve their living conditions and reduce poverty. The latest development in the region has been the establishment of the Oromia Cooperative Bank, which responds to the growing financial needs of cooperative members. Established in 2004 with capital raised solely by cooperative members, the bank has opened seven flourishing branch offices in different parts of the region.

In January 2001, the ILO received an award from the Government of the Regional State of Oromia in recognition of the support given to cooperatives in the region from 1994 to 2000. "The attitude of national, regional and local government towards cooperatives is good for their success. They must encourage their efforts and create a favourable environment for the organization of members," said Jürgen Schwettmann, head of the ILO's Cooperative Branch.

## **2.9 Contribution of Cooperatives to MDGs in Ethiopia**

Cooperatives in Ethiopia play a significant role in poverty reduction and contribute to the Millennium Development Goals (MDGs):

- by bringing services closer to their members at highly competitive prices, and increasing members' income by eliminating middlemen and reducing production costs;
- through improved production methods resulting from education and training activities offered to members of cooperatives, enabling farmers to improve incomes, nutrition and food security through higher yields;
- through profits accruing from efficiently managed business and reverted to the members, again raising their incomes and reducing poverty;
- through education and training activities for members promoting entrepreneurship and democratic management practices;
- by promoting job creation and stabilizing existing self-employment in urban and rural areas.

## **2.10 Measurement of poverty**

The measurement and analysis of poverty and inequality is crucial for understanding peoples' situations of well-being and factors determining their poverty situations. The outcomes of the analysis are often used to inform policy making as well as in designing appropriate interventions and for assessing effectiveness of on-going policies and strategies (Federal Democratic Republic of Ethiopia, 2012).

Income or consumption is traditionally used to measure material deprivation. Especially consumption rather than income is viewed as the preferred welfare indicator because consumption better captures the long-run welfare level than current income. Consumption may better reflect households' ability to meet basic needs. Income is only one of the elements that allow consumption. Consumption reflects the ability of household's access to credit and saving at times when their income is very low. Hence, consumption reflects the actual standard of living (welfare). Consumption is better measured than income. In most developing countries, income report of households is likely to be understated compared to consumption expenditure report.

Income is so erratic and seasonal that it may be very difficult for respondents to recall. Hence, many of the income poverty measures (such as the head count ratio, poverty gap ratio, and the squared poverty gap ratio) use consumption rather than income in the conduct of poverty analysis (Federal Democratic Republic of Ethiopia, 2012).

The most widely used poverty indices are the percentage of the poor (headcount index), the aggregate poverty gap (poverty gap index), and the distribution of income among the poor (poverty severity index). The poverty measure itself is a statistical function that translates the comparison of the indicator of household well-being and the chosen poverty line into one aggregate number for the population as a whole or a population sub-group (Federal Democratic Republic of Ethiopia, 2012).

The measurement of poverty can be categorized in to two. The first one is identification of the poor and the second is aggregation of the poor of their poverty characteristics into an on overall measure. The most common route to identification is through specifying a set of basic or minimum needs and regarding the inability to fulfill these needs as the test of poverty (Sen, 1991).

## **Chapter three**

### **3. Description of the study area**

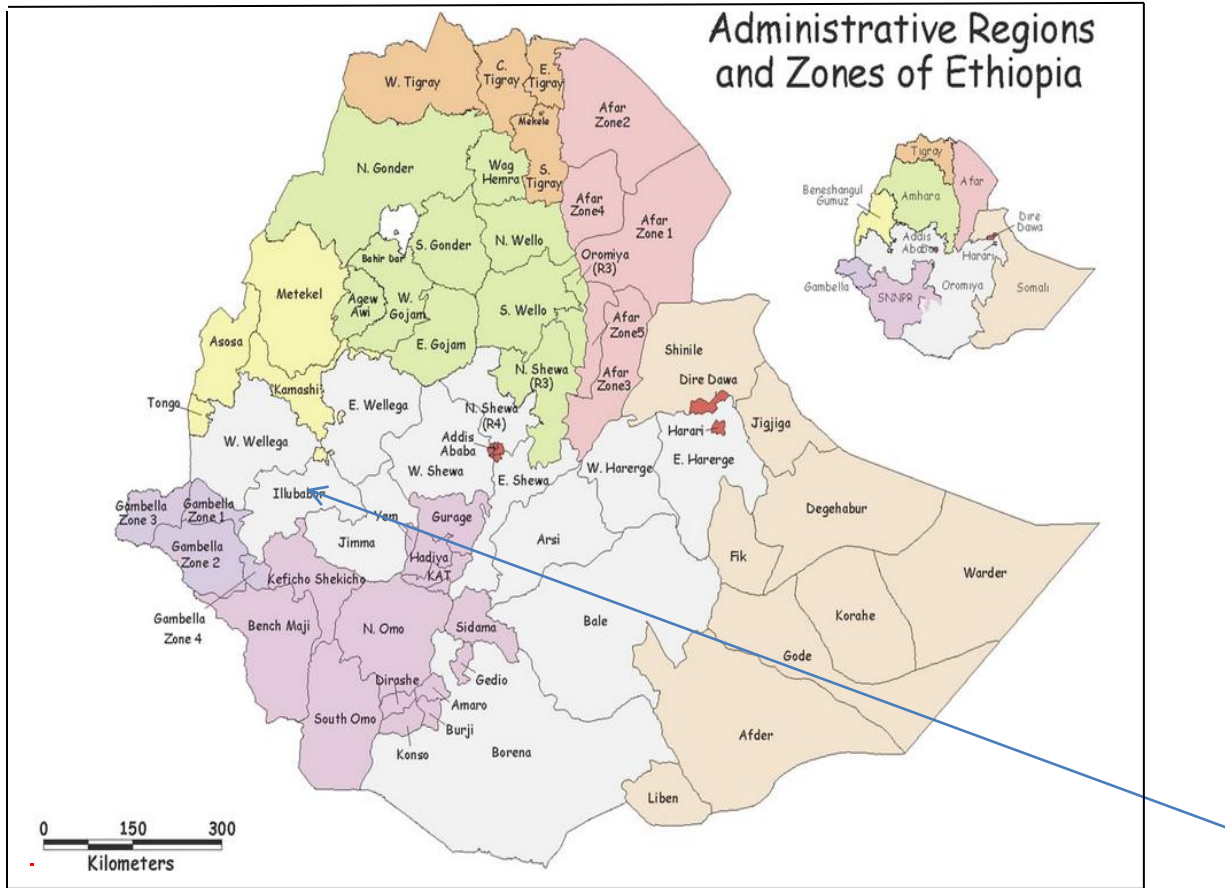
The study was conducted in Gechi district Illubabor zone, Oromia Regional State which is 466km away from the capital city Addis and 145km from Mettu, zonal town.

Gechi is bordered on the south by Didessa district, on the east by the Jimma zone, on the north by Bedele, and on the east by Didessa River which separates it from the Jimma zone. Based on figures published by the Central Statistical Agency in 2008 Gechi district total population is 71,253 and from this 32,682 is males and 35,571 are females. From the whole Gechi district population 91 % live in the rural area of which 43.77 % are males and 47.63% are females.91% of the population depend on the agricultural economic activities.

According to Gechi district land management office, Gechi district has a total of 38,652.7hectares of land from this 25,598.7 hectares is farm land, 1991 hectares covered with forest 4193 grazing land, 1495 hectares swampy and watery, 190.7hectares rocky areas, 211.65 hectares town areas and some hectares of land are non-productive areas. Likewise the district has three agro ecology of which 27% Dega, 50% weinadega and 23% kola. Likewise, the altitude of Gechi district fall averagely between 1548-2317m.a.s.l, Average Temperature is between 13-31(<sup>0</sup>C) & average annual rainfall is between 900mm-1850mm.



Location Map of the study area (Map of Illubabora Zone where Gechi is found)



Source: [https://upload.wikimedia.org/wikipedia/commons/4/49/Ethiopia\\_zone\\_region.jpg](https://upload.wikimedia.org/wikipedia/commons/4/49/Ethiopia_zone_region.jpg)

## **Chapter four**

### **4. Material and methods**

#### **4.1. Experimental Design**

A multi-stage random sampling technique was used in this study. The first stage involved selection of four Cooperative societies present in Gechi district. The second stage involved choosing of 25 members from each of the four Co-operative societies selected. Thus, 100 respondents were sampled for the study. Likewise 100 non cooperative members randomly selected from the area and interviewed so as to compare and contrast the impact observed between the two (cooperative members and non-cooperative members). Primary data was used for this study. Personally administered questionnaire was used to collect data on personal characteristics of members of Co-operative and other independent variables such as average monthly per capital expenditure and size of investment.

##### **4.1.1. Data collected**

The data was collected randomly from 100 respondents who were cooperative members and 100 respondents who were non cooperative members. The majority of the respondents from both categories were males that account 79% and the age from both respondents were between 21-60 out of which the majorities were between 31-40. Majority of the respondent were illiterate followed by who completed only primary education. Likewise, about 92 % from both categories of the respondents were married and having household size between 4-6 and they are farmers.

Annual income of cooperative members from different crops lies between 95-571 dollar)in which 48% from 381-476 dollar, and also annul total income of cooperative members fall between 190-905 dollar. In line to this monthly consumption of cooperative members are fall between 14-95 dollar.

Annual income of non-cooperative members from different crops fall between 95-57 dollar but only 33% fall 381-476 dollar and also annual total income of non-cooperative members fall between 95-571 dollar. Their monthly consumption is 33% below 14 dollar and the rest is fall between 14-95 dollar. But above 47 dollar is only 9% as compared with the cooperative members monthly consumption above 47 is 31%.

### 4.1.2. Data analysis

Descriptive statistics was used to analyze the personal characteristics of the respondents. The Foster-Greer-Thorbecke (FGT) Poverty Measure Model was used to assess poverty level and its variation among members and non-members of the cooperatives. Poverty status of each sampled members was assessed by comparing the average monthly per capital expenditure (including food and non- food component) with an absolute poverty line. Having classified the households into the poor and non-poor groups, the Foster Greer and Thorbecke (FGT) class of poverty measures was then computed for an average member and non-members in the study area.

More precisely, these measures can be defined in terms of the well-known Foster, Greer, and Thorbecke (1984)  $P_\alpha$  class of poverty measures. When real per-adult (per capita) household expenditure,  $Y_i$ , is ranked as

$$Y_1 \leq Y_2 \leq \dots \dots Y_q \leq Z < Y_{q+1} \dots \dots \leq Y_n,$$

Where  $Z$  is poverty line,  $N$  is the total population, and  $q$  is the number of poor,  $Y_i$ , is consumption expenditure of household then  $P_\alpha$  is given by

$$P_\alpha = \frac{1}{N} \sum_{i=1}^q \left( \frac{Z - Y_i}{Z} \right)^\alpha ; \alpha \geq 0, \text{ for } Y < Z.$$

Here the parameter  $\alpha$  reflects the policymaker's degree of aversion to inequality among the poor. If  $\alpha = 0$ , there is no concern about the depth of poverty and the corresponding poverty index is called the **headcount index** (P0). Hence P0 corresponds to the fraction of individuals falling below the poverty line. The head-count index is easily understood and communicated, but it is insensitive to differences in the depth of poverty. It fails to capture the extent to which individual income (or expenditure) falls below poverty.

If  $\alpha = 1$ , the poverty index is called the **poverty gap index** (P1) and it measures the aggregate poverty deficit of the poor relative to the poverty line; we also call it poverty gap ratio. Poverty gap ratio can also be interpreted as an indicator of potentials for eliminating poverty by targeting transfers to the poor. The minimum cost of eliminating poverty using targeted transfer is the sum

of all poverty gaps in a population. The drawback of the poverty gap measure is that it does not capture the differences in the severity of poverty among the poor, that is, it does not capture the transfer of income among the poor. If income is transferred from the poor to the least poor, the poverty gap index will be unaffected. When  $\alpha > 1$ , the  $P\alpha$  calculation gives more weight to the average income shortfall of the poorest of the poor. Thus P2 (where  $\alpha = 2$ ) measures poverty severity or squared poverty gap. This takes into account not only the distance separating the poor from the poverty line (the poverty gap), but also the inequality among the poor. That is, a higher weight is placed on those households further away from the poverty line, and these indices was calculated using excel.

***Incidence of poverty (headcount index).*** This is the share of the population whose income or consumption is below the poverty line; that is, the share of the population that cannot afford to buy a basic basket of goods (Federal Democratic Republic of Ethiopia, 2012).

***Depth of poverty (poverty gap).*** This provides information regarding how far households are from the poverty line. This measure captures the mean aggregate income or consumption shortfall relative to the poverty line across the whole population. It is obtained by adding up all the shortfalls of the poor (assuming that the non-poor have a shortfall of zero) and dividing the total by the population. In other words, it estimates the total resources needed to bring all the poor to the level of the poverty line (divided by the number of individuals in the population) (Federal Democratic Republic of Ethiopia, 2012).

***Poverty severity (squared poverty gap).*** This takes into account not only the distance separating the poor; from the poverty line (the poverty gap), but also the inequality among the poor, that is, a higher weight is placed on those households further away from the poverty line (Federal Democratic Republic of Ethiopia, 2012).

## Chapter five

### 5. Result and discussion

#### 5.1 Cooperatives and rural poverty

As shown in the table 1, the poverty incidence, depth and severity values are lower for cooperative members. The depth of poverty for cooperatives members is about 0.316 as compared to 0.564 for non-members. The interpretation is that the per capita income of farmers who are cooperative members needed to be increased on average by 31.6% to lift their per capita income level to the poverty line or alternatively to move them out of absolute poverty, while the income of non-member should be increased by 56.4% to lift them out of poverty. The higher poverty severity value for non-member also indicates that inequalities among the poor non-members are higher when compared to cooperative member.

**Table1. The effect of cooperative on incidence, depth and severity of poverty**

Membership	Incidence ( $\alpha = 0$ )	Depth ( $\alpha = 1$ )	Severity ( $\alpha = 2$ )	
Members	0.08	0.316501184	0.159731	
Non-members	0.91	0.564778	0.385129	

Source: my own survey result

##### 5.1.1. Contribution of cooperative in reducing poverty

All members of the cooperatives appreciate the contribution of cooperatives in reducing poverty in that, it facilitate loan to the members so that the members could engage on different income generation activities and help their family's needs. Likewise, their production increased and also searching good price for its members' production for better income. In line to this, all respondents or 100% witnessed the contribution of the cooperative in poverty reduction

A new proclamation on cooperatives was issued by the government in 1998 (Proclamation No. 147/1998) to provide a ground for the establishment and development of all types of cooperative societies. The 2005–2010 development plan of the country (Plan for Accelerated and Sustainable Development to End Poverty PASDEP) placed due emphasis on the role of cooperatives to promote market linkage (commercialization) of smallholder agriculture (MoFED 2006). As a result, the cooperative sector has got a momentum in Ethiopia in recent years.

### **5.1.2. Visible outcome of cooperative in poverty reduction**

By facilitating loan for the members, supplying different agricultural inputs they could increase their production. Likewise, by supplying different house consumption items in fair price at nearby, by installing coffee processing machine so as to sell wet and dry coffee at the their vicinity without any problem and so on.

According to( Birchall, 2004), cooperative can help in reducing the risks by connecting the communities to wider markets, and diversifying source of income, through providing short term credit and a safe place to put saving

ILO (2001) indicated that, cooperatives have significant contribution for the development of various economic parameters throughout the world. They have roles in various economic dimensions such as product and service delivery, employment creation, resource mobilization and income generation. Cooperatives have economic impact at the micro level for their members. They are securing higher price for the members' products, lowering inputs costs, creating employment opportunities, and introducing technological innovations. Besides, they can provide consumable goods, deliver education and housing, and other socio-economic service at lower price, and there by encourage the local community to save their income for investment.

Akpghor (1993) shown that, in developing countries, farmers need the service of cooperatives in the field of agricultural credit. This is mainly because, unlike their counter parts in advanced countries, there are no Banks in their areas or they have no access to Banks. Hence, farmers are exposed to individual money lenders, which provide the service in unorganized system at

exorbitant interest rates. According to Akpghor, this makes cooperative societies the only and/or main source of organized credit of such countries.

Scram (2007) noted that cooperatives are institutions of choice to bring economic opportunity to undeserved areas. Because of the scattered and low levels of production, high transaction costs and long distance to market remote and rural regions tends to be less profitable for other forms of enterprises and unattractive to investors. Cooperatives overcome many of their market barriers and over time, agricultural cooperatives to reduce the cost of farming inputs and improve marketing

According to ILO (2004) cooperatives role is deemed to be essential especially for the rural poor people, where service are either missing and/or inadequate. In a country like Ethiopia that are characterized by agrarian economy, efficient and effective provision of the necessary farm inputs is inevitable in improving the productivity and income level of the farming communities, which in turn could improve the livelihood of the poor farmers. In line of this argument, the study confirmed that the supply of such inputs like fertilizers, improved seeds and agro-chemicals, though cooperatives has created better access opportunity and economies of scale benefit to the members

### **5.1.3. Cooperative activities intended to reduce poverty of the members**

As it is responded from all cooperative members the cooperative found in different kebeles are undertaking different activities that intended to reduce their poverty are benefiting the members. For example, it facilitate loan for the members, it supplies different house consumption items like, sugar, oil, soap and so on. Likewise, it provides different agricultural inputs, it buys our production for good price, it facilitate loan for the members and so on activities are encouraging the members highly. In the same way, all the respondents were agreed as the cooperative activities intended to reduce poverty of the members

### **5.1.4. Change on living standards of the members due to cooperative activities**

The living standards of the members are changing from time to time due to the cooperative activities. As the sampled interviewed witnessed, by the loan they get from their respective cooperative some members engaged on different income generating activities like pity trades that enabled them so as to improve their families well beings. Likewise, it provides awareness creation for the members so as they work properly in all aspects that resulted in improved their

living standards from time to time. The benefits of cooperatives can be witnessed through income increment among service users. Generally, cooperatives create business and income generating opportunities by supporting and encouraging surplus production and by providing information.

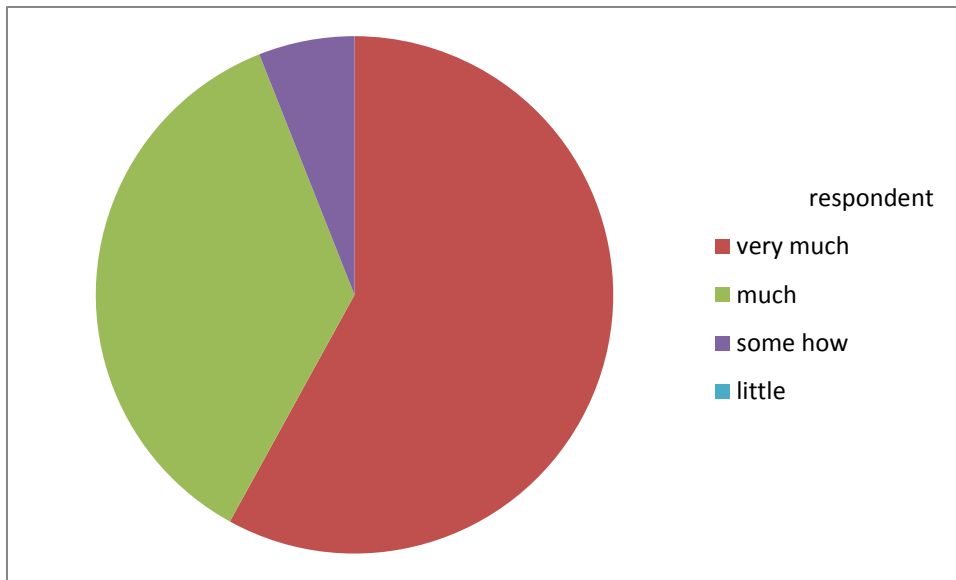


Figure 1: Change on living standards of the members due to cooperative activities

From figure 1, 58% of the respondents replied that as there were very much change on living standards of the members due to cooperative activities, 36% of the respondents were replied as there were much change on living standards of the members due to cooperative activities while only 6% respondents replied as there were somehow change on living standards of the members due to cooperative activities.

### **5.1.5. Ability of cooperative in reducing poverty**

Ability of cooperative in reducing poverty is so great as replied from the respondents, because it facilitate loan for the members, get dividend based on their share in the cooperative, by buying different production from its members by good price and this could save from merchants misuse of their production (since they were used to buy their production in low price targeting for their own maximum profit only). Likewise, by introducing different technologies, by supplying different house consumption items at nearby by fair price and also it buy both wet and dry coffee by good price at nearby for its member's maximum benefit.



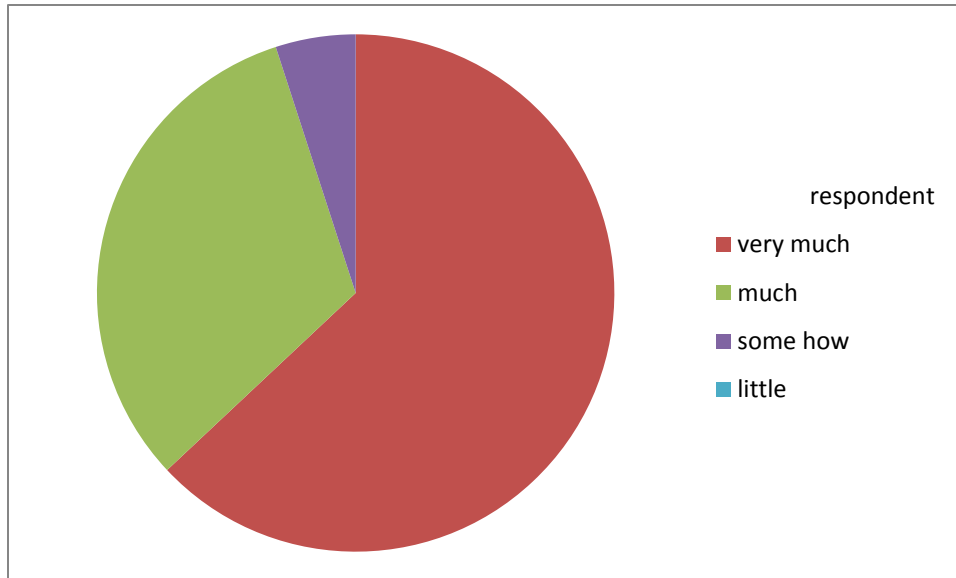


Figure: 2 Ability of cooperative in reducing poverty

From the figure 2, 63% of the respondents were replied that the ability of the cooperative in poverty reduction was very much, 32% respondents responded that the ability of the cooperative in poverty reduction was much while only 5% respondents were replied as it is somehow. So from this we can judge that cooperative play great role in poverty reduction.

#### 5.1.6. Demographic characteristics

**Table 2: Sex of the respondents for non-cooperative members**

	Frequency	%
Male	76	76
Female	24	24

Source: field survey (2015)

As it is observed from the above table 76% of the non-cooperative respondents were males and 24% were females

**Table 3: Age of the respondent for the non- cooperative members**

---

	Frequency	%
Between 21-30	23	23
Between 31-40	49	49
Between 41-50	25	25
Between 51-60	3	3

---

Source: field survey (2015)

The age between 31-40 constitute a large numbers of the respondents (49%) that followed by the age between 41-50 that constitute 25%. Likewise, the age between 21-30 constitute 23% and the least percentage is the age that found between 51to 60 which is 3%.

**Table 4: Educational level of non-member**

---

	Frequency	%
Primary school	31	31
Secondary school	4	4
Illiterate	65	65

---

Source: field survey (2015)

The above table show that majority of the non-cooperative respondents were illiterate which is 65%, followed by 31% who were completed primary school and the least percentage were the respondents who completed secondary school.

**Table 5 Marital status of non-cooperative**

---

	Frequency	%
Married	91	95
Single	2	2
Divorced	7	7

---

Source: field survey (2015)

Regarding the marital status of the non-cooperative members majority of the respondents were married (95%), which is followed by divorced respondents (7%) and the least percentage (2%) were the respondents who were not married or single.

**Table 6: House hold size of non-cooperative members**

---

	Frequency	%
Between 4-6	61	61
Between 1-3	23	23
Between 7-9	13	13

---

Source: field survey (2015)

As shown in table, the households' size of the non-cooperative members the majority of them fall between 4-6 which was (61%) that followed by the house hold size between 1-3 (23%) and the least percentage was the house hold size between 7-9 which is 13%

**Table 7: Occupation of non-cooperative respondents**

---

	Frequency	%
Farmers	91	91
Daily labourers	6	6
Others	3	3

---

Source field survey (2015)

All most all non-cooperative respondents were farmers which is 91% and 6% of the respondents were daily labourers and the least percentage was others which is 3%

**Table 8 Annual incomes of non-cooperative members**

---

	Frequency	%
2000-4000birr	18	18
4001-6000birr	23	23
6001-8000	19	19
8001-10000	33	33
10001-12000birr	7	7

---

Source: field survey (2015)

As we see from the above table large percentage (33%) of the non-cooperative respondents' annual income earn from 8001-10000 birr, followed by the respondents who earn between 4001-6000birr which was 23%, likewise 19% of the respondents

earn annual from 6001-8000birr from 4001-6000 birr, 19% from 6001-8000 birr, and the lowest percentage was the respondents who earn from 10001-12000birr annually.

**Table 9: Annual total income of non-cooperative member**

---

	Frequency	%
<2000 birr		
Between 2000-4000birr	13	13
Between 4001-6000birr	27	27
Between 6001birr-8000birr	21	21
Between 8001birr-10000birr	34	34
Between 10001birr-120000birr	5	5
Between 12001birr-140000birr		
>14000birr		

---

Source: field survey (2015)

As we see from the above table majority of the non-respondents were earn total annual income that fall between 8001-10000birr, 13% of the respondents earn from 2000-4000 birr, 27% of the respondents earn from 4001-6000 birr, 21% of the respondents earn from 6001-8000 birr, 34% of the respondents were earn from 8001-1000 birr and 5% of the respondents were earn from 10001-12000birr

**Table 10 monthly consumption of non-members**

---

	Frequency	%
<300birr	33	33
Between 300-500birr	21	21
Between 501-1000birr	37	37
Between 1001-2000birr	9	9

---

Source: field survey (2015)

The above table shows from the non-members respondents the largest percentage of the respondents have monthly consumption expenditure of 501-1000birr (37%) and followed by those non-members who have monthly consumption expenditure of less than 300birr (33%), and also followed by who have monthly consumption expenditure of 300-500birr (21%) and the lowest percentage of the non-cooperative members who have monthly consumption expenditure 1001-2000birr (9%).

**Table 11: Monthly income of non-cooperative members**

---

	Frequency	%
<300birr	27	27
Between 300-500birr	16	16
Between 501-1000birr	44	44
Between 1001-2000birr	13	13

---

Source: field survey (2015)

The above table shows that from the non-cooperative member respondents, the largest percentage (44%) have a monthly income between 501 to 1000 birr, 27% earn below 300 birr, 16% between 300-500 birr and 13% between 1001-2000 birr

**Table 12: Sex of the cooperative members**

---

	Frequency	%
Male	78	78
Female	22	22

---

Source: field Survey (2015)

**Table13: Age of the cooperative member respondents**

---

		Frequency	%
Between	21-30	27	27
Between	31-40	43	43
Between	41-50	21	21
Between	51-60	9	9

---

Source: field Survey (2015)

The table shows that the age of majority of the cooperative member respondents were between 31 and 40 year (43%), and it followed by the age between 21 and 30 which was (27%), and also followed by the age between 41 and 50 which was (21%) and the lowest percentage was the respondents who were between 51 and 60 (9%).

**Table 14: Educational level of cooperative member respondents**

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	Frequency	%
Primary	38	38
Secondary	6	6
Tertiary	1	1
Illiterate	55	55

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Source: field Survey (2015)

The table above shows that the largest percentages of the respondents were illiterate that accounts for 55%. Likewise, the respondents who were completed primary education that accounts for 38% and also 6% of the respondents were who completed secondary education and the lowest percentage was the one who completed tertiary education that is only 1%.

**Table: 15 marital status of cooperative member respondents**

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	Frequency	%
Married	85	85
Divorced	11	11
Single	4	4

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Source: field Survey (2015)

According to the above table majority of the marital status of the cooperative members' respondents were married that accounts for 85% and it followed by 11% who were divorced and the lowest percentage of the respondents were single that account only for 4%.



**Table 16: House hold size of cooperative member respondents**

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	Frequency	%
1-3	28	28
4-6	53	53
7-9	19	19

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Source: field Survey (2015)

As of the above data the majority of the House hold size of cooperative member respondents were from 4-6 that accounts for 53% and it followed by the respondents who have a household size of 1-3 that accounts for 28% and the lowest percentage of the household size was from 7-9 which was 19%.

**Table17: Occupation of the cooperative members**

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	Frequency	%
Farmers	88	88
Daily laborers	8	8
Others	4	4

---

Source: field Survey (2015)

As it is observed from the above table majority of the respondents occupation were farmers that accounts for 88%, and some percentage of the respondents were daily labourer which was 8% and the lowest percentage were the respondents who engaged on different economic activities to sustain their lives that accounts for 4%.

**Table 18: Annual total income of the cooperative member respondents**

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	Frequency	%
Between 4000-6000birr	6	6
Between 6001-8000 birr	9	9
Between 8001-10000 birr	28	28
Between 10001-12000 birr	23	23
Between 12001-14000 birr	14	14
Above 14000 birr	20	20

---

Source: field Survey (2015)

From the above table annual total income of the cooperative members respondents the largest percentage were the respondents who earn total annual income from 8001-10000birr, which accounts for 28% and it followed by the respondents who earn annual total income from 10001-12000birr that accounts for 23% and followed also by the respondents who earn annual total income above 14000birr that accounts for 20% and followed by the respondents who earn annual total income from 12001-14000birr that accounts for 20% and also the respondents who earn annual total income from 6001-8000birr accounts for 9% and the lowest percentage was the respondents who earn annual total income from 4000-6000birr that was 6%.

**Table 19: Annual income of the cooperative members' respondents from different crops**

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	Frequency	%
4000-6000irr	9	9
6001-8000birr	24	24
8001-10000birr	48	48
10001-12000birr	19	19

---

Source: field survey (2015)

From the total respondents of the cooperative members the largest percentage have annual income from different crops were fall between 8001-10000birr which is 48% and followed by the respondents who get annual income from different crops from 6001-8000birr which was 24% and this also followed by the respondents who get annual income from different crops from 10001-12000birr that account for 19% and the lowest percentage was the respondents who get total annual income from different crops from 4000-6000birr that accounts for 9%.

**Table 20: Monthly consumption of cooperative member respondents**

	Frequency	%
<300birr	6	6
Between 300-500birr	13	13
Between 501-1000birr	50	50
Between 1001-2000birr	31	31

Source: field Survey (2015)

From the above table data majority of the cooperative members respondents have monthly expenditure that fall between 501-1000birr that account for 50% and it was followed by the cooperative members who have monthly consumption expenditure that fall from 1001-2000birr that accounts for 31% likewise, it followed by the cooperative members who have monthly consumption expenditure that fall from 300-500birr that accounts for 13% and the lowest percentage was those cooperative members who have monthly consumption expenditure that was less than 300 birr that accounts for only 6%.

**Table: 21: Monthly income of the cooperative Members' respondents**

	Frequency	%
<300 birr	4	4
Between 300-500	11	11
Between 500-1000birr	51	51
Between 1001-2000birr	34	34

Source: field Survey (2015)

As of the above data or table, monthly income of the cooperative members respondents the largest percentage or almost half (51%) of the respondents were from 500-1000birr that followed by the cooperative members respondents who have monthly income that fall between 1001-2000birr that accounts for 34% and this also followed by the cooperative members respondents who have monthly income from 300-500birr and the lowest percentage of the cooperative members respondent have monthly income less than 300birr that accounts for only 4%.

## Chapter six

### 6. Conclusion and recommendation

#### 6.1. Conclusion

The study investigated the contribution of cooperative movement on poverty alleviation among rural in the study areas of Gechi district of Illubabor zone, Oromia Regional States of Ethiopia. Structured questionnaire was used to elicit information from 200 randomly selected households in the study area.

Cooperatives are considered as appropriate business enterprises and institutions for advancing members' socio-economic objectives. Cooperatives impact poverty reduction effects through livelihood development. The livelihood development and poverty reduction role of cooperatives is predicated on the assumption that they are pro-poor institutions that potentially embrace the poor as members and provide better services to them.

The renewed interest in cooperatives during the post-reform period shows the vibrancy of cooperatives to operate in a liberalized and globalized market environment.

However, empirical evidence on their real impacts in terms of livelihood development and poverty reduction and whether they should still be considered as appropriate institutions for helping the poor out of poverty is scarce. Empirical assessment of their impacts is crucial in the context of Ethiopia where there is strong support for cooperatives as institutional mechanisms to transform smallholder agriculture and to promote socioeconomic development in the country.

The findings of the study lead to the conclusion that cooperatives support rural livelihood development, possibly with a positive impact in terms of poverty reduction among the rural poor. The positive livelihood impacts of cooperatives reaffirm their importance to mobilize resources and to deliver services to rural communities towards achieving poverty reduction goals.

Loan provision is one of the major services provided by the cooperatives so as to engage the members on different income generating activities that result in poverty reduction of the members. They have enabled their members to access loan services for various productive and services rendering activities. The volume of loan service is increasing from year to year partly due to the increase in membership size. However, so far there is a shortage of finance to give loan as per needed for all the members and this problem is caused by lack of access to adequate

credit services, lack of qualified and committed leadership who can mobilize financial resources, and use the various productive and services rendering activities efficiently, lack of training and experience sharing opportunities for the leaders and members, inadequate of members participation and lack of providing necessary technical support on the part of the government.

It is observed that agricultural cooperatives covered in this study areas could made significant economic contribution to the members on increasing products price by abolishing the middle men or traders, it reduces the agricultural inputs cost, accessing market to the local/vicinity, reduction in the marketing risks that resulted in significant contribution in poverty reduction.

The major evidence from the impact assessment results of this study is of a positive impact of cooperatives on rural livelihoods. Cooperatives in the study area sell agricultural inputs (fertilizers and improved seeds) to service users at relatively lower prices than the price at which the private traders sell. Cooperatives also purchase agricultural products from service users at relatively higher prices than the prices offered by the private traders. The impact of cooperatives on income of users is promising and their effect on savings is positive. However, the impact of cooperatives on productive asset accumulation is mixed. Moreover, as the major findings of a positive impact are based on averages or mean program effects, there could be important heterogeneity across households. Except for such cautions required in interpreting the results, the findings of the study lead to the conclusion that cooperatives support rural livelihood development, possibly with a positive impact in terms of poverty reduction among the rural poor. The study concluded that the being cooperative member had a positive impact on the social and economic wellbeing of the members in improving rural incomes and reducing rural poverty. Conclusively one can safely say that there is a significant relationship between cooperative movement and poverty alleviation in the study area.

The effect of cooperative on incidence, depth and severity of poverty

Membership	Incidence ( $\alpha = 0$ )	Depth ( $\alpha = 1$ )	Severity ( $\alpha = 2$ )	
Members	0.08	0.316	0.159	
Non-members	0.91	0.564	0.385	

Source: my own survey result (2015)

- As it is observed from the above table incidence of poverty is lower for the cooperative members (0.08) as compared from that of the non-cooperative members which is (0.91)
- Depth of poverty is smaller for the cooperative members (0.316) as compared with the non-cooperative members which is (0.516)
- poverty severity is lower for the cooperative members (0.159) as compared to the non-cooperative members which is (0.385)

## **6.2 Recommendation**

The positive livelihood impact of cooperatives reaffirms their importance to mobilize resources and to deliver services to rural communities towards achieving poverty reduction goals. Thus, further promoting, deepening and supporting cooperatives as appropriate rural organizations are recommended. In addition, it would be better if all members of the cooperatives contribute equally for the successful work of the cooperatives

Close follow up is needed from district sector office or from technical person as deemed necessary sustainable development of the cooperative

Adequate, timely and sustainable support of district cooperative promotion Bureaus is very crucial to the cooperatives established under their jurisdiction to ensure their sustainability and success. However, as it was understood during the survey, the concerned Bureau is not providing these services in adequate, timely, and in sustainable manner. So these should be improved by the Bureaus of cooperative promotion in the future for the better performance of the cooperative.

The government should be committed itself to creating a favorable environment for cooperative development. With the relative scarce resources the government should focus on the provision of physical infrastructure to reduce transaction costs and risk. Improving physical structure such as roads, telecommunication and so on facilities would help to reduce transport and communication costs and makes ease access to different agricultural inputs. Likewise, it enables ease access to produce to market, keeping adequate stocks of farming inputs, maintain competitive process for inputs and products are important to get members commitment and promote members financial success.

Cooperative should make joint investment by pooling their resources in economically efficient way. In addition, enhancing cooperative linkage with different development actors should be given a proper attention. The realization of creating access opportunities for the rural people to different inputs and outputs market, modern technologies, different capacity building trainings, employment and other socio-economic opportunities enable them to improve their livelihoods and contributing in poverty reduction.

Cooperatives should focus on networking with the potential buyers by using modern information communication technologies, and must have access to accurate and up to date market information, reliable price and volume statistics in order to market products efficiently. External assistance will be required to see the transfer of these technologies at appropriate levels of complexity to the cooperatives system and the integration in their daily operation.

Government should enlighten and educate people about the advantages of cooperative movement in improving standard of living.

Mobilization of resources by cooperatives must be stressed, with a view to strengthening their base to self-reliance. Cooperative financing institutions like cooperative banks and credit and saving institutions have to be established with capital sources from the cooperative members and the government.

Generally, from this thesis work I recommend that being a cooperative member has good advantage in reducing poverty and benefit from other social aspects in the societies.



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WHAT IS POVERTY? THE STAKES OF A GOOD DEFINITION

*Published Jan 2011 - Updated May 2013*

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## Qualifications/degrees

- a. Doctor of Philosophy (PhD) : Production Ecology and Resource Conservation, Wageningen University, the Netherlands
- b. Master of science in Agriculture (Horticulture), Alemaya University of Agriculture, Ethiopia
- c. Bachelor of science in Agriculture (Plant science), Addis Ababa University: Alemaya College of Agriculture, Ethiopia

## Academic rank

PhD, Associate Professor (Hawassa University)

## Trainings (diploma,

- Horticulture production, processing and protection technology
- Participatory Rural appraisal (PRA) Training (FARM AFRICA-Ethiopia),
- Championship for change leadership training on food security, Kenya

**certificate)**

- (Nairobi), (organizers: USAID and CAADP)
- International potato course: production, storage and seed technology , the Netherlands,
  - Recent development in potato technology for rural development in sub-Saharan Africa ,
  - Action research program on the improvement of peeper production SOS-Sahel
- 
- Modeling: Applying Innovation System Concept in Agricultural Research for Development (Haramaya University)
  - Human resource management

**Employment**

- Educator, Researcher and consultant, Hawassa University (over 25 years), St Mary's University (about four years)
- Research and publication, and Training coordinator: Hope College of Business, Science and Technology (since February 2015)

**Skill and Expertise**

Food crops production, environment ,rural development, production, processing and marketing of coffee, tea, vegetables, temperate and tropical fruits, vegetables, spices , tuber and root crops. Seed production, home gardening, post-harvest handling, seed system, food systems, honey production and marketing, biodiversity, food security and livelihood, organic farming, ecophysiology, feeding crops, soil nutrients, organic agriculture,

**Office management**

- Head, Horticulture program, AwassaCollege of Agriculture
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**Thesis research advising**

Advising over two hundred graduate students on development, food security, livelihood, microfinance, irrigation, cooperative, honey production and marketing, production, processing, quality and marketing of vegetables, tropical and temperate fruit crops, coffee, tea and spices; cassava production and cyanide, at Hwassa University, Addis Ababa University, and St Mary's University

## Consultancy experiences

Consulted several national and international institutions/organizations in several subjects, which some of them are:

- At **ILRI and African RISE**: an assessment on highland fruit crops and vegetable production under the title: **Understanding production and marketing constraints of vegetables and fruit crops across the value chain in the Ethiopian highlands: case study at Sinana, Mahoney and Debreberhan**. Supervisor DrTilahunAmede ICRISAT-Principal Scientist and Country Representatives, Tel :251-911230135, (in the year 2014)
- **CIP andUSAID project**:Evaluating the potato and sweet potato programs in north and south Ethiopia with **HEDBEZ Business and Consultancy PLC**. Project title: **Tackling food insecurity and malnutrition through diversification: exploiting the potential of potato and sweet potato to reduce food insecurity and dependence on cereal in SNNPR and Tigray** (in the year 2014).
- With **SOS/SAHEL/Ethiopia**- Establishing peeper value chain project in south region particularly in Gurage area. An action research program financed by smallholder livelihood Improvement project (SLIP of SOS/SAHEL).
- With **SOS/SAHEL/Ethiopia**- Establishingan extension manual on pepper production and processing. Financed by smallholder livelihood Improvement project (SLIP of SOS/SAHEL).
- With **Dryland Coordination Group (DCG- Norway)**: Consulting a project entitled : **Contributing to wealth creation and food safety to farmers by reducing yield loss and mycotoxin contaminations of ground nut in selected drylands of Ethiopia**”.
- With **Dryland Coordination Group (DCG- Norway)**: reviewing, and compiling a report entitled **“Impact of Resettlement on the Livelihood, Food Security and Natural Resource Utilization in Ethiopia”**

Engaged in several out-reach and community services, which

include:

- Several communities in Sidama/Hawassa, Woliyta on the production

and protection of root and tuber crops: potato, *Plectranthusedulis*, enset, cassava, yam,

- Several farming communities on the production of groundnut in Eastern and Southern Ethiopia with the Dryland Coordination Group/ Norwegian Church Aid
- Several farming communities on the value Chain of pepper with SOS/Sahel at Hawassa/Sidama, and Gurage zone/Butagera,
- On the production of apple and olive crops at Debreberhan
- Studies on agronomy and crop physiology of *Plectranthsedulis* (Vatke) Agnew
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