

# **Harnessing the Cooperative Advantage to Build A Better World**

## **“A Global Forum on Cooperatives”**

### **“CREATING AND MAINTAINING A SUCCESSFUL COOPERATIVE”**

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# **Harnessing the Cooperative Advantage to Build a Better World**

## **Creating and maintaining a successful cooperative**

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### **1. Introduction and background**

The Rochdale society of equitable pioneers in England is the true beginning of the modern cooperative movement. Cooperative principles, which were approved by the ICA general assembly in Manchester, were organized in 1994.

According to 2005 Veerakumaran's estimate about 80 million people in the world are organized within three million cooperatives, and about three billion people in the world receive different services from cooperatives. These cooperatives have provided job opportunity for about 100 million people. In general, cooperatives are playing important role in economic performance of their members. Today, 50% of agricultural product marketing is carried out by cooperatives in countries like U.S.A., Japan, Europe, etc.. In countries like Germany, Italy and Scandinavian, considerable whole sales and retail businesses are run by cooperatives. In countries like Kuwait, 80% of retail business is done by cooperatives. In Israel, Brazil and others, businesses like electricity, transportation and health services are run by cooperatives. As the services and the associated economies due to cooperatives have increasingly become important, it has been adopted by all countries of the world.

### **2. Cooperative development in Ethiopia**

Traditional forms of cooperation were in existence in Ethiopia since ancient time. The beginning of 1950's, however, was the period of first cooperative organized in Ethiopia. The first cooperative decree was that of n/r 44/1960. The objectives were to provide market and transportation service, to provide agricultural farm tools, disseminates modern agricultural extension, technology (extension) and disseminate cooperative ideas. However,

as the cooperatives were subjected to state control, they did not achieve their objectives in terms either economic improvement or democratic and autonomous power. In 1960s, during imperial regime, two cooperatives acts were adopted. These were the decree No. 44 of the 1960, called the “farm workers cooperative” and the 1966’s cooperative society proclamation No. 241/66. However, the first proclamation could not further enhance the democratic and autonomous rights within the cooperatives, while the latter has somehow contributed to proclamation No. 147/1998. By 1973, there were 154 different cooperatives organized under proclamation No. 241/66 nationwide.

The military government that overthrew the imperial regime (1974 to 1991) adopted cooperative proclamation No. 138/1978. As a result of this proclamation, different types of cooperative societies were organized throughout the country. The formation of these cooperatives, however, was not based principles of cooperatives. They were managed in accordance with the socialist economic and political needs. They were not business organizations. The majority of the multipurpose agricultural co-operatives, and producers’ cooperatives survived without benefiting the member as required. As several studies indicated, many factors contributed to the failure of the socialist economy oriented cooperative development. Some of the identified factors were (1) Involuntary membership, (2) appointment of Cooperative leadership within political party (3) Unfair and regulated output price offer and quota basis, and (4) poor Service provision

By the time of the fall of the socio-military government in 1991 there were 205 multipurpose cooperatives that had 290,009 agricultural households in 15 administrative regions in Ethiopia. Because of the problems with establishment and the management, 99% of the cooperatives dissolved with end of the regime.

The present government after coming to power worked on of cooperatives lead by ICA principles. Cooperative proclamations No 147/1998 and 402/2004 are the basis of the present day cooperatives strength. Cooperative society’s proclamation n/r 138/1978 was replaced by proclamation n/r 147/1998 and cooperatives organized by the former proclamation were restructured by the later. Proclamation n/r 204/2004 (cooperative societies’ amendment) was to introduce more articles. The two proclamations created a

fertile ground for restructuring and strengthening all types of cooperative. These proclamations have raised not only self-interest of cooperative members, but also improved the participation of members to operate efficiently in forming viable organization. The Federal government of Ethiopia has identified the cooperatives form of business organizations as an instrumental for socio economic development of the rural country and has provided support to its development by opening a structure like cooperative agency at federal and regional levels and bureaus at zonal and district level. They work on training, promotion and regulatory activities.

As a result of the fertile ground for cooperative business, cooperatives today are playing a important role in value creation by paving the way for products of small-scale producers to terminal market. Cooperative unions are now dealing with export trade in coffee, cereal, oil seeds, fruits and vegetables, etc. Agricultural credit services and input supply are also the most important activities undertaken by cooperatives, which geared their members to well-defined needs.

At present there are 41,985 primary cooperatives which have 6,583,872 households of which 5,597,259 male and 1,440,308 female; and a total capital of birr 2,714,760,170 (155,129,152.27USD). From the 41,985 cooperatives 7,843 primary cooperatives, which have a total capital of birr 1,373,602,629.00 have formed unions. Drawing from the best practices of some primary and secondary level cooperatives, today agricultural and non agriculture sectors cooperatives in Ethiopia have materialized their potential roles not only for members livelihood improvement but also contributed to social and economic development of f the country.

### **3. Cooperative development in Oromia**

The history of cooperative development in Oromia is the same to that of the country. Oromia being the largest region in Ethiopia in terms of both land area and population, most of the cooperatives of the three regimes were organized in Oromia. As the region is generally agriculture dominated, agricultural cooperatives were and still are largely organized in this region.

After the 1995 Agricultural cooperative proclamation, of the region proclamation n/r 85/1995 due attention was given by the regional government for the promoting,

supporting and regulating the societies as a tool for socio economic development of the region. Cooperatives organized during the *derg* regime were restructured ed by the proclamation

At present 1,718,845 farmers and non-farmers households are organized into 11,321 primary cooperatives in rural and urban areas of Oromia. 21% of the households are estimated to be female house heads. The total capital of these cooperative societies has reached birr 1,021,146,701(about 58,351,240USD). 3956 of these primary cooperatives are organized into 113 cooperatives' unions. Of the 113 unions 6 are coffee farmers cooperatives unions one of which is Oromia coffee Farmers' Cooperatives Union (OCFCU).

### **Oromia Coffee Farmers Cooperatives Union (OCFCU)**

#### **i. Establishment**

**The Ethiopian government Proclamation 147/1998 permitted the formation of higher level cooperatives (unions, federations and a cooperative league). This proclamation created the opportunity for primary cooperatives societies to join together to create higher form of cooperatives to increase their market power on inputs acquisitions and product sales.**

The establishment of OCFCU was necessitated to support small holder farmers that produce coffee in small-scale on small patches of land. These small holder farmers typically do not have access to coffee pulping mills, transportation facilities to get their coffee processed and/or auctioned. The Union was, therefore, established as a means to solve the problems related to coffee processing and marketing and help them receive increased revenue from their coffee. OCFCU was established during the time of coffee crisis in 2000 where the farmers lost millions of birr on post dated checks issued to them by private exporters

**Accordingly, Oromia Coffee Farmers' Cooperatives Union (OCFCU) was established in 1999 by 34 coffee producer primary cooperatives which embraced 22,503 farmers in Oromia Region. Its member primary cooperatives grew from the initial 34 to 217 to date and the households'**

**number increased from 22,503 to 203,930, and the beneficiaries (people engaged in coffee) are about one and half million.**

The establishment of the Union is based on the founding principles of the International Co-operative Alliance (ICA). The Union is founded on the principles of self-initiative, entrepreneurship and self-employment; underpinned by the values of democracy, equality and solidarity. Through putting the values into practice, OCFCU has been paving the way for a just and inclusive economic order of coffee farmers.

Despite the fact that coffee is the Ethiopia's largest export crop and means to link rural farmers to consumers world wide, smallholder farmers had not only been undeserved, but even more marginalized. This was true for smallholder coffee farmers in Oromia region. To help coffee farmers access price information, capital and transportation as well as necessary skills in production, processing and supply of coffee, there was no other alternative than establishing OCFCU. In fact, it was a groundbreaking initiative in the history of coffee farmers of the country. The Union is also the largest producer and exporter of specialty coffee from Ethiopia, and even in Africa

## **II Objectives**

The objective of OCFCU is to bring together the properties and knowledge of members and jointly solve problems that a member cooperative is unable to solve alone. The union is also established with the aim to enhance the self confidence of members and increase production and productivity.

**The specific objectives of OCFCU are:**

- ◆ To improve the farmer's income by exporting their coffee directly to the international markets
- ◆ To provide reliable service for member farmers and clients
- ◆ To improve the social condition of farmers
- ◆ To improve the quality and productivity of members coffee
- ◆ To improve and maintain the sustainability of coffee industry
- ◆ To enhance the development of smallholder cooperatives through linking to markets
- ◆ To bring about a significant positive change on small-scale coffee producers and the coffee

value chain as a whole so that producers have improved the quality, gain access to higher-value markets and earn substantially more income.

## **ii. Organizational structure and Membership**

### **1. Organizational Structure**

As an autonomous body, the Oromia Coffee Farmers' Cooperatives Union is organized in such a way that it can meet members' common economic, social, and cultural needs/aspirations through democratically controlled enterprises. Members directly have a direct role in the Union's overall activities through plausible structural representations.

The structure is very inclusive and participatory that members are decision makers in all the activities of the Union. The linkage among all actors: Union, cooperatives, producers, exporters and expertise is strong.

**Accordingly, the Union comprises:**

- 197 members' representatives of General Assembly: The apex being the ultimate decision making body composed of representatives from member cooperatives.
- 9 members of Board of Directors
- 3 members of Controlling Committee and
- 113 permanent employees well in render services entrust to members and about 1200 casual laborers
- This does not include the structure of 217 primary cooperative which employ from 6 to 25 individuals per cooperative..

## **1. ACHIEVEMENTS OF OCFCU AND CURRENT STATUS**

The organizational structure of Oromia Coffee Farmers Cooperatives Union (OCFCU) coupled with its efficient management has resulted in improved coffee quality and overall operational efficiency. Coffee growers have been benefiting more from their produce since the inception of

the Union.

#### **4.1 membership and capital**

The Union has experienced growth in the number of members' cooperatives and household farmers, shooting from 34 primary cooperatives consisting of 23,691 farm households in 1999, to the current membership of 217 primary farmer cooperatives representing more than 203,900 members. This increase in number of beneficiaries is attributed to the ever growing in the types, quantity and quality of services provided by the union. This all dimensional service provision has further inspired the non- member cooperatives to join the union.

With growth in membership and volume of transaction, the capital of the union grew from ETB 825,000 at the beginning to 161,575,474 birr in 2011.

#### **4.2 Growth in sales volume and sales value**

The Union receives, accumulates, processes and sales coffee supplied by its members directly to international buyers. Supported by the organizations like VOCA, OXFAM, America participating in exhibitions and promoting the coffee of the country and observing how the coffee industry is operating has enabled the union to be the biggest specialty coffee producer and exporter in the world. These enabled the Union to achieve incredible growth in a short period of time since establishment. Annual coffee export has grown from 126 in 2001 to 6,600 tons with corresponding income which grew from ETB 2,271,157 birr in 2001 to 709,723,782 birr in 2011.

#### **4.3 Growth in net income creation**

The Union has also been considering the need to have reasonable profit margin to maintain sustainability in coffee industry. The growths in production size and product quality and management experience have together created a momentum for net income and capital formation of the union. The net surplus which was ETB 289,184.86 in 2001 has grown to 112,858,544.00 by 2011.

#### **Present financial position of the union**

From the beginning capital of about 90,000 USD in 2001 the now has grown to a position of



owning

more than 10,000,000, 00 USD net capital , some of which are:

1. 2 Warehouses worth 27,000,000 birr of 50,000 tons
2. 1 Three storey office worth 6,760,000 birr
3. 2 Coffee processing machines 8,550,000birr
4. 6 Trucks and 2 buses 17,700,000 birr
5. Investments (shares) 5,592,900 birr and
6. Others **102,750,000 birr**

#### **4.4 Growth in dividend payment**

. The cooperative members' annual production and export sale increased in many-folds. Equally impressive is the fact that the cooperatives are returning substantial dividends over the initial market prices to farmers.

Seventy per cent of the Union's profits from sales and export coffee are distributed back to the primary cooperatives. The cooperatives then distribute the 70 per cent of the net profit as dividends back to member farmers and allocate 30 per cent for capacity building, investment on fixed asset, social services and reserve. Since its establishment, the union has paid 150,510,399 ETB in the form of second payments (dividends) these do not include dividends paid to members by each cooperative. There is no lost money on post dated checks since the formation of the union because the union facilitates all domestic sale and exports..

#### **4, 5 success in services provision**

After the establishment of the union, the service expected was to facilitate market access for members/ producers. However, the union soon realized that members//capacity building was necessary, especially trainings for the success of its objectives. Accordingly, it had to invest in training of members in different fields of activities/

With these continuous trainings, farmers were able to improve their production practices to the extent of winning certificates in coffee quality which in turn enabled the union to play a leading role in International coffee export.

#### **4.6 Infrastructures development for member cooperatives**

The involvement of the union in bringing live changes to member coffee farmers happened because of creating good relationship with roasters and buyers involvement in Fair Trade movements.

These has helped the union to build the following infrastructures to the coffee growers

construction of 11 new primary schools

1. construction of 7 high schools
2. updating of 14 primary schools
3. expansion (additional classes) for 32 schools
4. construction of 8 health posts
5. Development of 79 springs and/or digging deep wells
6. Installment of coffee processing mills
7. Other similar projects 39

The total investment in these projects is over 40,000,000 (3,000,000.00 USD) and more than 235,000 people are benefited by these projects.

#### **4, 7 Growth in employment creation**

The union when established in 1999 had a single worker, that is one of the founder, the manager. Today, it is has provided job opportunity for 113 permanent workers of different professions and. Qualifications including higher degrees. Moreover, more than 1,000 seasonal workers are able to feed their family because of the presence of the union, At the primary cooperatives level an estimate 115permanent and 1500 non permanent workers are provided with jobs as capacitated by the union,

#### **4.8 successes in net working**

The Union has been able to network member cooperatives with inspecting and certifying bodies. Accordingly, it has established networks with Fair Trade Labeling Organization International, Organic, UTZ and Rainforest Alliance and others. Africa Fine Coffee

Association (EAFCA). This has positioned the union competitive enough in international coffee markets.

The Union is now exporting Organic certified coffee, Fair Trade certified coffee, Rain Forest Alliance, UTZ Triple certified (organic, fair trade and rainforest Alliance) coffee and traceable Conventional coffees.

These products are of unique quality since due the control of activities from tree to cup. This means, the Union controls over all activities associated with coffee producing, harvesting, processing, storing and direct export. The union is privileged with by-passing the auction market and sells its traceable products directly to the clients

#### **4.9 Diversification in coffee communities.**

To minimize the risk of climate change effect in coffee farming communities and sustain the income of stallholders' OCFCU has taken the initiatives of introducing modern bee keeping and credit and saving schemes in some member cooperatives. In the last two years 480 modern beehives and their accessories have been distributed for 12 cooperative after practical training. As a result, an encouraging results have been registered in production of good quality honey, and women in member cooperatives were able to create and use their own income.

#### **4.10 women and youths Empowerment**

The union has recently started a program of empowering housewives and unemployed female youths in member cooperatives. In this program, trainings are given for women unemployed females youths in income generating activities of all kind. Then these groups are organized into Saving and Credit cooperatives and provided with training, seed money and materials such as modern beehives and accessories. In addition to these, the construction of schools in the farming communities has helped to increase female youths school enrollment.

#### **4.11 Success in lobbying and advocacy**

The outstanding performance of the union has created an opportunity through which it can discuss cooperative issues with government authorities, international organizations and thereby lobby for cooperative policy formulation and used an organization where different regions in the country and different countries in Africa are visiting to get experience and hear success stories of the union. Besides these, it became the center of excellence where many schools work on their

graduating papers and dissertations. Moreover, it could advocate the potential socio-economic benefits of cooperatives and has got award from regional and Federal governments as well as from International organizations

In general the union has proved success and won appreciation of regulatory bodies and the beneficiary farmers.

The following pictures are a few samples of infrastructure development, women empowerment and diversification works done by the union in member cooperatives

### **Reasons for success**

#### **1. The land policy**

Proclamation of 1976 which gave land to the tenants (small holder farmers) has gave the opportunity to small holders poor famers to get organized. Failure of the cooperative proclamation no. 44 of 1960 & no 24 of 1966 was because of the land ownership majority of the land used to belong to the land lords and the church and the tenants have no right to get organized.

2. The Federal Democratic Republic of Ethiopians' coop proclamation no. 147/98 was adopted by learning form past failures and getting experiences from Neighboring countries like Tanzania, Kenya, Fareast, India and Japan.
3. Following the International Cooperative Alliance Principle
  - Voluntary membership
  - Participation in decision making
  - Avoiding of interferences
  - Lack of discrimination
  - Transparency
  - Paying Dividend based on Participation
4. Support form ICA, Moshi and Nairobi office, AC DI/VOCA, Oxfam America and Other Oxfam.

#### 4.6 Quality certifications status

- FT , 28 cooperatives with 25,649 farmers, 38,348.8 ha coffee land 25,012 tons coffee /year
- Organic coffee 23 cooperatives with 23,999 farmers, 36,051 ha coffee land and 23,169.87 tons per year
- Rain Forest Alliance one cooperative 1988 farmers, 3976 ha coffee land and 2703 tons of coffee per annum
- UTZ three cooperatives with 3337 farmers, 6578.5 ha coffee land and 4276 tons of coffee per year

#### 4.7 Answers to Questions

**a) Attributes that coops can depend on in cooperative creation:**

**Voluntariness**  
**Democracy**  
**Transparency**  
**Good governance**  
**Mutual understanding**  
**Full participation of women and youth**  
**Profitability**

**b) Internal challenge**

**Management capability (knowledge, skills and initiation)**  
**Leaders' accountability members' awareness, participation and control**  
**Lack of clear vision and mission**  
**Ability to plan and implement**  
**Use of financial and other coops resources**  
**Shortage of capital**

**c) External challenges**

**Absence of clear policy**  
**Access to credit/collateral problem**  
**Inappropriate competition**  
**Absence of coop law to prevent embezzlement/ collect embezzled coops resource**