



USAID
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**Evaluation of
Agricultural Cooperatives in Ethiopia (ACE) Program
Activities**

for

USAID/Ethiopia

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**Final Evaluation Report of
Agricultural Cooperatives in Ethiopia (ACE) Program Activities**

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Acronyms

ACE	Agricultural Cooperatives in Ethiopia program
ACDI	Agricultural Cooperative Development International
ACDI/VOCA	Merger of ACDI with VOCA (1997)
BDS	Business Development Services
BEAT	Business, Environment, Agriculture and Trade
Birr	Ethiopian currency (1 birr = 12 US cents)
BOA	Bank of Abyssinia
BOD	Board of Directors
CA	Cooperative Agreement
CBE	Commercial Bank of Ethiopia
CPB	Cooperative Promotion Bureau
CTO	Chief Technical Officer
CUP	Cooperative Union Project
DA	Development Agents
DBE	Development Bank of Ethiopia
DCA	Development Credit Authority
FtF	Farmer-to-Farmer
GA	General Assembly
GDA	Global Development Alliance
GFDRE	Government of the Federal Democratic Republic of Ethiopia
GDP	Gross domestic product
HIV/AIDS	Human Immune Virus/Acquired Immune Deficiency Syndrome

ICA	International Cooperative Alliance
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
INRM	Integrated natural resources management
LGF	Loan Guarantee Fund
MIS	Market Information System
MOA	Ministry of Agriculture
MPC	Multipurpose cooperative
NBE	National Bank of Ethiopia (central bank)
OCFCU	Oromia Coffee Farmers Cooperative Union
OCPB	Oromia Cooperative Promotion Bureau
MSED	Micro and Small Enterprise Development
ODPPB	Oromia Disaster Prevention and Protection Bureau
PAs	Peasant Associations
PMU	Project Management Unit
PVO	Private Voluntary Organization
RSA	Republic of South Africa
RUFIP	Rural Financial Intermediation Program
SCC	Savings and Credit Cooperatives
SCFCU	Sidamo Coffee Farmers Cooperative Union
SNNPR	Southern Nations Nationalities Peoples Regional State (Southern Region)
US\$	United States Dollar (= birr 8.65)
TOT	Training of Trainers

USAID United States Agency for International Development

VOCA Volunteers in Overseas Cooperative Assistance

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Executive Summary

Agricultural Cooperatives in Ethiopia (ACE) Program is an outgrowth of the success of the 1998-1999 pilot Cooperative Union Project (CUP) in Oromia region and the expansion of its coverage to three other regions: Amhara, SNPPR, and Tigray. The program cost was budgeted at approximately \$10 million for 5 years (September 1999-September 2004); it is currently operating under a no-cost extension until 30 June 2005, with a further extension to 31 December 2005. The goal of the program is to improve the agricultural market efficiency through the development and promotion of modern, business oriented agricultural cooperatives actively involved in input supply, output marketing, and credit. The program has expanded market-linkage activities with private sector businesses and international coffee buyers. ACE also encouraged cooperatives and unions to expand their core businesses and to diversify their activities into new products and services (consumer stores) and to establish savings and credit cooperatives to support members own efforts at diversifying their family businesses and improving their family's food security and access to food from other sources of income.

The team was composed of two international consultants, both of whom had worked in Ethiopia before and with agribusinesses and farmer-owned organizations elsewhere in Africa. It also included two national consultants, both of whom had experience with cooperatives; one of the consultants Dr. Tesfaye Assefa had recently done a case study of the oldest and most famous cooperative union (Lumme-Adama). The team followed an intense schedule of fieldwork and visited a larger number of cooperative unions and a much larger number of cooperatives (including some non-ACE program) and to observe firsthand the changes in these cooperatives and unions as a result of the ACE program. Team members split up to reach as large a sample as possible, taking special pains to include those which were more remote and which might possibly be less fully served by the program. The team was accompanied on this fieldwork by USAID who were able to observe and make their own observations concerning the successes of the ACE program. Support from both ACDIVOCA and USAID was superb. Despite its limited time, the team also met with other NGOs dealing with cooperatives (Oxfam) and donors supporting cooperatives (IFAD). Policy issues were also discussed with the Land Tenure Service at FAO. A presentation of major findings was made to a large number of interested staff from USAID, showing the commitment of the Mission to the ACE program and interest in knowing more about its achievements.

The ACE program has operated with a very limited professional staff and in close collaboration with the Cooperative Promotion Bureaus and with the recently established national Cooperative Commission. The ACE program interventions are 1) the development of a three-tiered cooperative sector operating on sound business principles, market-orientation and democratic governance while upgrading organizational and business skills of members, 2) upgrading the skills of cooperative promotion staff to better support the movement and improve its efficiency, 3) upgrading the skills of cooperative managers, union managers and board members; 4) advocacy on cooperative opportunities with local and regional governments; 5) promotion of linkages with private businesses; 6) development of rural Savings and

Credit Cooperatives (SCCs); 7) support cooperative business diversification, and 8) promoting HIV/AIDS awareness among cooperative members.

The following indicators were agreed upon with USAID:

- The amount of dividends paid by cooperatives and unions to members;
- The volume and value of inputs purchased and sold by cooperatives and unions;
- The volume and value of outputs purchased and sold by cooperatives and unions.

Recent changes allow General Assemblies to retain a significantly higher proportion of the net surplus for reinvestment; until now, they were required to set aside 70% of net surplus for distribution as member dividends. Indicators for SCCs relate to the number of members by age and sex and amounts of savings, loans outstanding and loan recovery rates; number and size of SCCs is important as are savings and portfolio size and quality.

The major findings, lessons learned and recommendations of the evaluation are presented in 5 sections:

- A. Capacity Building for the Regional Cooperative Promotion Bureaus
- B. Transfer of Necessary Operational Skills to Cooperatives and Unions
- C. Business and Market Development for Cooperatives and Unions (inc. DCA)
- D. Savings and Credit Cooperatives
- E. Unintended Impacts

- A. Capacity Building for the Regional Cooperative Promotion Bureaus

During the ACE program, 1000 CPB staff has received training. The improvement in the capacity of CPB staff was instrumental in improving their ability to inspire farmers to restructure and their cooperatives along lines being promoted with ACE and to establish unions and then to manage both cooperatives and unions as successful business enterprises. The capacity of the CPB has been greatly improved as a result of training provided by the ACE program. Given the limited staff available to the ACE program, the improvement in the capacity of CPB staff has made it possible to achieve the results which ACE alone would never have been able to achieve solely with its own staff. However during 2002, decentralization and restructuring of civil service at regional level had a major impact on the CPBs. Many staff trained as part of TOT programs was then relocated. (These problems led the ACE program to change tactics and to provide more training directly to primary societies and unions instead of through the CPB.

Though the benefit of this training was lost to the CPBs within regions served by ACE, it was not lost to the country as a whole: trained staff took the benefits of ACE training with them to new jobs within Government or the private sector elsewhere in the country.

CPBs are better able to provide new cooperatives with a basic understanding of cooperative principles, accounting and control systems, responsibility of officers and hired staff. CPBs are now able to assist new cooperatives in maintaining their accounts

and the accounts to deter malfeasance and incompetence. CPB staff provides this training and assistance without controlling the decisions which are taken by the cooperatives.

It is critical to further improve the capacity of CPBs in audit to allow cooperatives and unions access to their net surpluses more quickly. In view of the ambitious RUFIP program funded by IFAD, it will be important to provide CPBs with overall guidance in SCC formation, appropriate rules and procedures, and the risks of excessive borrowing.

B. Transfer of Necessary Operational Skills to Cooperatives and Unions

The ACE program has been instrumental first in convincing that independent, farmer-owned, business-oriented cooperatives could increase the profitability of their farm businesses and then in helping to turn newly formed cooperatives and cooperative unions into viable businesses operating on a sound footing. A major element in its success in turning cooperatives and unions into viable businesses in their own right has been in the training provided to members of the General Assemblies, members of the board of directors (BOD) and staff at all levels. Another element has been the hiring of professional managers and staff to replace part-time volunteers and increase the efficiency of operations. BOD members and managers each are aware of their duties and responsibilities, both recognize the need for internal control and audit.

Cooperatives and unions assisted by ACE have shown dramatic improvements in their capacity to manage their operations as businesses. They are significantly better at managing their operations along sound business principles compared to 1) the way they were operating prior to ACE intervention and 2) to the way cooperatives not assisted by the program are run. Major decisions are made by the General Assembly; the BOD sees that these decisions are carried out and oversees management; managers and other staff see that day-to-day business is handled in the most efficient way possible.

Much of the initial training in motivation to join or revive cooperatives, by-laws, rights and responsibilities of members, etc, has been provided by the Cooperative Promotion Bureaus (CPBs) supported by ACE. ACE both through the CPBs and more recently, through directly managed training activities and activities managed by the unions has been providing training to cooperatives on areas necessary to their management of their businesses. Specialized training related to the products they are most active in buying (grain, coffee, etc) has been provided to both cooperatives and unions, and as cooperatives and unions start to diversify into non-core areas, training in new products (like hides and skins) as also been provided. Unions are now providing training in some of the following areas: agricultural marketing, market information, price stabilization, consumer goods supply, and warehouse management. Unions are beginning to assist cooperatives with market information and can be expected, as they computerize and improve their communications and their own market information system, to provide more such assistance in the future. Together with ACE, they are helping cooperatives with feasibility studies of proposed new activities and assisting them in seeking sources of financing other than DCA guaranteed loans.

Unions, cooperatives and even individual farmers are aware of the importance of market linkages both nationally and with buyers overseas; they also understand that support from ACE has been critical to establishing existing linkages; continued support is still needed to expand and consolidate linkages and to provide alternative market outlets for products.

C. Business and Market Development for Cooperatives and Unions (inc. DCA)

Market linkages were established with Ethiopian processors and traders for the following products: specialty wheat in Amhara, wheat in Oromia, nigerseed in Bahir Dar, sugarcane (Wonjii) and haricot beans and pulses. As a result of these linkages farmers have obtained higher prices and guaranteed market for their products; agreements have led to quality improvements which should continue to increase future prices to farmers.

At the same time as linkages that are being developed at the national level, unions are beginning to cut out the traders as middlemen at the international level and deal directly with foreign buyers thanks to contacts established through ACE interventions. Initial contacts with international buyers for nigerseed, beans, chickpeas and sesame in eight countries; these contacts are expected to lead to direct sales; in some cases, these contacts are likely to lead to immediate sales but in most cases it takes a number of years of work to build relationships. Contacts made with coffee buyers in Europe and US through representation at trade fairs in 2001 and 2002 have only now led to direct sales to international buyers for specialty coffee (organic and Fair Trade). Coffee unions obtained authorization to sell directly and since have channeled sales directly to foreign coffee buyers instead of through the low-return domestic auction system. Average coffee quality has improved due to work by the ACE program with the unions and cooperatives.

The number of cooperatives and unions has vastly increased: the number of unions served by ACE has increased from 12 with a total membership of 130 cooperatives and 107,000 members in 2000 to 32 unions with 642 cooperatives and 673,000 members in 2004. The percentage of women members in farm cooperatives, though increasing (from 8.0% in 2000 to 8.3% in 2004) remains low.

Fertilizer sales have risen ten-fold from 22,000 MT in 2000 to 218,000 MT in 2004, but due to inadequate markups (birr 3-7 net = 1-2%), neither unions nor cooperatives make much profit on fertilizer, but members do benefit from lower prices and on-time delivery.

Volume of cereals, oilseeds and pulses marketed by unions rose from 4,700 MT in 2000 to 20,000 MT in 2004; in value terms sales rose from birr 9.2 million in 2000 to 39.1 million in 2004. The volume of coffee increased from 126 MT in 2001 to 8,200 MT in 2004; in value terms sales rose from birr 4.3 million in 2001 to 134.0 million in 2004. The volume of sugarcane increased from 72,000 MT in 2001 to 118,000 MT in 2004; in value terms sales rose from birr 6.5 million in 2001 to birr 10.3 million in 2004. The total value of all products sold by unions rose over the five year period from birr 9.3 million to birr 178 million, almost 20 times the year 2000 sales. Fresh milk marketing through the dairy union rose to 1.5 million liters worth birr 2.9 million.

These improvements are largely the result of loans made to unions and then broken down and passed on to primary societies, providing them with the working capital they need to buy products from their members and other farmers during those times of the year when the products are available. The DCA guarantee has risen from \$650,000 to \$18 million. With land unavailable as collateral, the DCA guarantee has been essential to allowing cooperatives and unions access to the large market season loans they need to operate successfully; only a few loans have been granted without guarantee). All those who had benefited from loans were unanimous in stating that they could have used many times the amount of funds that were available; the Evaluation Team concurs with their assessment. In some cases, late availability of loans limited the volume of purchases. SCFCU also reported receiving a major portion of its 2004/05 finance from Wogagen Bank based on a line-of-credit guaranteed by its coffee inventories.

The DCA facility is also now available to guarantee medium- and long-term loans. A few unions are building warehouses with funds of their own or from regional governments. Some cooperatives and unions have also received some loans on the collateral of fixed and movable assets which they are beginning to accumulate.

Dividends paid by unions and primary cooperatives have been a driving force in encouraging farmers to join or rejoin despite whatever past problems they may have had with cooperatives in the past. Not only do members get better prices, but afterward they get a dividend paid to them based on their patronage (also on share capital in the case of cooperative members of unions); this was unheard of in the past. Until recently, 70% of net surplus had to be paid out as dividends to members. Total dividends for primary cooperatives rose almost twenty-fold from birr 485,000 in 2000 to birr 9,272,000 in 2004. Unions reported dividends of birr 273,000 in 2000 and birr 16 million in 2004, with two thirds of this total corresponding to coffee unions which appeared on the scene in 2001 had dividends of birr 238,000 that year and in 2004 had over birr 10 million. A good part has so far been paid as dividends to primary cooperatives, and in turn paid to members, some of whom have received dividends of over \$1000 each. Dividends have greatly encouraged membership in cooperatives; new legislation allows cooperative members to pay out as little as 30% and to reinvest the rest of their dividends in the cooperative.

As a result of guaranteed markets, lower input prices, and higher product prices, farmers who were members of ACE-assisted cooperatives had higher incomes than non-members. Those who do significant volumes of business also receive patronage dividends which are a welcome addition to their income. The team was able to corroborate through interviews with selected members, including members not on the BOD, that the increased income had made significant contributions to improving the quality of their lives and the welfare of their families. Sugarcane farmers and coffee farmers (who were destitute because of low prices and bad marketing) have seen the greatest improvement in their farm incomes. However, improvements in welfare were generalized among the farmers whom the evaluation team met. A higher percentage of children were in school, house quality (roofs, floor, etc) and furnishings (especially beds). Health improvements were noted along with the availability of cash to deal with medical problems as they arose. Farmers in the meetings, especially coffee farmers, were better dressed and more self-assured.

D. Savings and Credit Cooperatives

The program has achieved its goal of establishing a system of savings and credit cooperatives where substantial member savings are collected and are available to finance a diversity of business ventures in the local economy. The number of SCCs has risen from three in 2000 with a total of 243 members to 100 in 2004 with 5,844 members. One union has been formed during 2005. Female membership has nearly doubled from 12.8% to 23.9% of members. Most cooperatives are formed out of a subset of members of the agricultural cooperatives they are associated with; therefore the percentage of women members is low (mirroring membership in parent MPCs). However, the percentage of women is growing, and a few women-only cooperatives are being formed. Membership is broadening as some cooperatives incorporate people who are not members of the agricultural cooperative (teachers, traders, etc); some SCCs have piggy-bank accounts for children. Membership needs to expand further and to become more inclusive of other members of the community.

Total savings have reached birr 1.2 million and lending is just under birr 1 million; more than 90% of this savings is compulsory. While the transformation rate of savings into loans 80% nationally, there are large disparities between regions. In Tigray, loans made are double the amount of savings, whereas in the Southern region less than 30% of savings are turned into loans. Loan interest rates range widely between 7.5% and 24% but are more often closer to the lower than to the upper end of the range. In the South, attractive business opportunities in commerce are being missed due to conservative lending policies concentrating on farming to the exclusion of petty trade and livelihoods.

Staffing has suffered during periods of funds shortages and the lesser strength of savings and credit cooperatives compared to agricultural cooperatives is a reflection of insufficient resources for this component of the program. The principal advisor for rural finance was under contract from the beginning of 2000 until the end of 2002 and was not replaced; therefore, the lack of overall guidance on savings and credit at precisely the time that SCCs were beginning to reach a significant number of people was unfortunate.

IFAD and the African Development Bank have co-financed the Rural Financial Intermediation Program which represents a massive scaling up of the SCC movement established by the ACE program to create over 3000 SCCs and 80 unions, 30 and 80 times the number of SCCs and unions established by ACE over about the same amount of time. Risk is increased by a loan fund for intermediation to be managed by newly formed and untested unions. This rate of establishment of SCCs and unions is imprudent, and, given the lack of and unknown future of technical assistance, is potentially very dangerous putting prospective member's savings at risk. Potential problems would be mitigated if the ACE program continued to provide it experience and guidance on rural financial cooperatives. The skills of the CPB and Commission responsible for supervising savings and the integrity of a SCC system growing at 100% per year will be sorely tested.

E. Unintended Impacts

The degree of success of the ACE program in helping farmers marketing a significant percentage of their own products is unprecedented in Ethiopia and vastly exceeded expectations. Complaints from private sector representatives reflect inroads into the profits of traders and some exporters accustomed to privileged access of their own to markets and finance see them now being eroded by stiff competition from cooperatives.

ACE program impact on people's lives has also far exceeded initial expectations. Project documents said nothing about cooperatives installing electricity not only to the cooperative offices but also to homes of hundreds of members and dividends for a single member measured in the thousands of dollars. Positive improvements in family welfare as the result of ACE support to agricultural cooperatives and SCCs was to be expected but has, in some cases, exceeded the wildest expectations when the program started.

Cooperative unions have become a force to be reckoned with in the marketplace in Ethiopia. The Consultants were told by union directors and management and Cooperative Commission and CPB directors that the need is there and the stage has been set for the establishment of product-specific federations in grains and coffee. These federations are not only the key to improved marketing on both the input and product sides but also to manage information and carry out advocacy on issues of urgency to cooperatives and to lobby for change policies which negatively impact rural people. Such consolidation of the smallfarmer cooperative movement has already occurred elsewhere in Africa with USAID support.

1. Introduction and Methodology

A. Goals of the ACE Program and of the Evaluation

The purpose of the Agriculture Cooperatives in Ethiopia (ACE) program is to improve the efficiency of agricultural markets through development and promotion of modern, business-oriented agricultural cooperatives active in input supply, output marketing, and extension of credit. Building on its success in the pilot Cooperative Union Project in Oromia, the ACE program expanded its coverage to Amhara, the Southern Region (SNPPR), and Tigray. It also expanded market-linkage activities with private-sector businesses and international coffee buyers. ACE encouraged cooperatives and unions to expand their core businesses, to diversify into new products and services (consumer stores), and to establish savings and credit cooperatives (SCCs) to support members who wished to diversify their businesses and improving their family's food security.

The evaluation goals were to:

- Evaluate ACE's cooperative development activities since 1999;
- Evaluate ACE achievements in scaling-up USAID-funded cooperative development activities in cereals, oilseeds, pulses, coffee, livestock and livestock products, sugar cane, and horticultural products;
- evaluate ACE program contributions to increased productivity, reduced food insecurity, and enhanced rural incomes;
- Identify opportunities for improving the impact of cooperative and market development programs;
- Identify lessons learned and recommend approaches for improving market efficiency and cooperative development; and
- Evaluate ACE contributions to the goal of the Government of the Federal Republic of Ethiopia (GFDRE) goal to commercialize smallholder farmers and to USAID's new strategy, especially Strategic Objective 16, "Market-led economic growth and resiliency increased."

B. Composition of the Team

The team was led by John Semida, who has long experience with African agricultural cooperatives, agribusinesses, and import and export businesses; his work included extended stays in Ethiopia. Dr. Jeff Dorsey was the Agricultural Marketing and Credit Expert for the mission and later assumed major responsibility for writing this report; he has had extensive experience with cooperatives and other producer organizations, particularly on finance issues, and has previously worked in Ethiopia, including an assignment in 2000 where he looked at the results of ACDI/VOCA's Cooperative Union Project (CUP) and the initial efforts of the ACE program. Dr. Tesfaye Assefa, who studied with Dr. Dorsey at the University of Wisconsin Land Tenure Center, was national

cooperative business consultant. Wolensu Rebu was the team's cooperative development specialist. Ms. Agnes Asele acted as project assistant and secretary.

C. Support from USAID and ACDI/VOCA

USAID/Ethiopia

USAID showed great interest in the evaluation, in initial meetings and at a well-attended debriefing, and through the participation of staff members in the fieldwork . The initial meeting was chaired by John McMahon, head of the Business, Environment, Agriculture and Trade (BEAT) Office; the debriefing was chaired by the Deputy Director, Karen L. Freeman, and attended by some 20 staff members. Ahmed Mohammed, Microenterprise and Cooperatives Program Manager, accompanied the team during most of its field work. Present during part of the fieldwork were Bruno Cornelio, Senior Private Sector Advisor, Ms. Metselal Abraha, Knowledge Management Activities, and Addis Alemayehou, AGOA Ethiopia Coordinator. Ms. Sandra Kalscheur, Information Officer, was present, with other staff, at the Coffee-Buyer & Taster Award ceremony.

The active participation of USAID staff made a positive contribution to the evaluation; the questions they asked demonstrated a thorough knowledge of the program and a keen interest in its results and impacts. The presence of USAID staff did in any way inhibit the responses of cooperative members, board members, or staff of the cooperatives or unions or of Government and private sector representatives. USAID staff showed a willingness in the field, within the limitations imposed by commitments in the field other than the evaluation, to work the same long hours and travel the same long distances to visit remote cooperatives as the evaluation team members.

It was important to assure that a representative cross-section of program beneficiaries were interviewed and that the activities and the results of the ACE program were accurately observed. Adjustments were made to the program originally proposed to assure that 1) a larger number of primary cooperatives could be visited and 2) some more remote cooperatives could be added to the program. USAID staff sent their own vehicles ahead and generously allowed evaluation team members to share them, facilitating the division of the team into separate groups to cover a larger sample of cooperatives than would otherwise have been possible.

ACDI/VOCA

Senior ACDI/VOCA staff from the ACE program participated actively in the evaluation. Jim Dempsey, ACDI/VOCA Representative in Ethiopia, arranged for full cooperation of ACE staff with the evaluation team and provided all available documents in addition to those already provided in Washington by Joshua Walton, ACDI/VOCA Senior Vice-President for Africa and the Middle East. Werqu Mekasha, ACDI/VOCA Country Director, coordinated ACE headquarters and field staff and accompanied the team during most of the fieldwork and interviews, meetings, and functions in Addis Ababa, as did

Hine Hasenu, Coordinator. Sileshi Bogale, Marketing and Agribusiness Officer, was especially helpful in applying his special expertise to assist the team in interviews with coffee cooperatives and agribusinesses. Berhanu Asfaw, Field Office Coordinator, ACE Southern Region; Mekonnen Merid, Field Office Coordinator, ACE Amhara Office; and Alema Wolde Mariam, Field Office Coordinator, Tigray Region also accompanied the team. Special arrangements were made so that team members could split up and cover an even larger number and greater diversity of cooperatives and unions than had been envisaged in the ambitious field program.

Elsabeth Tarrekegn, ACIDI/VOCA Information Technology Assistant, provided good support for computer and communications issues, as did Solomon Hailu, Assistant Administration, for other logistical problems.

D. Methodological Approach

Review of the Literature:

USAID made available all relevant documentation and, during the fieldwork as well as in meetings at the Mission, gave the evaluation team insight into USAID's strategy as it relates to agriculture and the importance of a business-oriented, democratic cooperative movement to Ethiopia's agribusiness development. ACIDI/VOCA similarly provided all documentation requested, and made a special effort to provide advance copies of reports that might otherwise not have been available in time to be analyzed for this evaluation. These reports have been analyzed together with information obtained in other ways. FAO's document collection was found to contain little up-to-date information on areas covered by the evaluation and can only be read at the FAO office itself. After a meeting at its headquarters in Rome, John Gicharu, IFAD's project manager for Ethiopia, kindly provided the appraisal report for its large Rural Financial Intermediation Programme just now getting under way, which includes a large component for vastly expanding rural SCCs.

Fieldwork:

A very large percentage of the team's time was dedicated to visiting all four regions where the project operates and, wherever possible, interviewing cooperative members and staff of cooperatives and unions at their premises. This allowed the team to arrive at its conclusions based upon a representative cross-section of the types of cooperatives served by the program, as well as a small control group of cooperatives not benefiting from ACE support. Some donors other than ACE that are working in one way or other with cooperatives were also interviewed, as were private sector processors and other types of agribusinesses were visited; where possible, their facilities were also visited.

- **Site Visits**

In each region, all team members met first with the head of the Cooperative Promotion Board along with ACDI/VOCA headquarters and field staff and accompanying USAID staff. The team then split up for site visits. Normally each subteam of one international and one national consultant would go together to a union and then split again with individual consultants visiting separate associated cooperatives. Thus at the primary society level, the team was able to cover a much larger cross-section of agricultural cooperatives and SCCs because team members visited them independently; unions and major agribusinesses were visited normally by two consultants; and regional offices by the entire team. Field notes and other interchanges made it possible to compare and cross-check results obtained by individual team members.

In Tigray, the two unions supporting farmers marketing sesame were too far away to be visited by the team; instead, the Chairman of one of the sesame unions (Setit Humera Cooperative Union) met with the consultants in their hotel and provided information similar to that normally obtained through site visits. The union is currently in negotiations with an international buyer representing an East African trading company based in Tanzania, whose contact was provided, concerning possible purchase of the two unions' unsold stock of 10,000 MT of sesame.

- **Individual and Focus Group Interviews**

Interviews at unions were usually with the manager and accountant plus one and often several members of the board. For primary cooperatives, the accountant, the manager, most board members, and whatever cooperative members happened to be around were interviewed as a group. Summaries of union or cooperative accounts were posted on the wall in virtually all sites, so that discussion could concentrate on factors responsible for better or poorer performance, or differences between one year and the next, and comparisons to other cooperatives visited. Individual members were questioned (usually in the presence of the entire group) on their own farming business, their operations with the primary society, and what use they had made of dividend payments or increased income resulting from their affiliation with the cooperative. In the case of SCCs, borrowers were questioned on their use of loan proceeds, the profitability of the enterprises or activities financed, and their ability to meet loan repayment requirements.

At the request of USAID, ACE had documented farm- and family-level impacts of its assistance. The evaluation team, through its own questioning, was able to generally confirm the impact of ACE program activities on family welfare and to add special cases resulting in dramatic improvements in family and community well-being.

- **Personal Observation**

Staff and members of cooperatives and unions and of most (but not all) private sector businesses were more than happy to show team members their equipment and installations so that they could verify by personal inspection the accuracy of statements made during interviews. The team also observed the state of houses and transport and other equipment belonging to members. It was, for instance, possible to observe both

dramatic improvements in the standard of living of members of coffee cooperatives compared with their status a few years earlier and how they compared with members of cooperatives marketing less lucrative products like grain; members of coffee cooperatives were, for example, better dressed than their grain-cooperative colleagues. The size and state of warehouses and office facilities were observed, as were the state of the roads and travel time to major markets.¹

- **Focus, Analysis, and Geographical Areas Covered**

The goal was to evaluate the degree to which the ACE program had achieved the goals and objectives set out in its 1999 program document, along with subsequent modifications (such as the addition of the HIV/AIDS awareness component). The team used information at its disposal or obtained during the course of the evaluation in Ethiopia additional information from IFAD in Rome and FAO's Land Tenure Service, which is relevant to the work of the ACE program.

The team visited donors other than ACDI/VOCA who are involved in cooperative promotion to discuss both the ACE program and their own activities and accomplishments. Cooperatives not served by the ACE program but in its vicinity were also interviewed. Where SCCs were being assisted but associated multipurpose cooperatives (MPCs) were not, the issues covered with ACE-supported MPCs were covered with these cooperatives to ascertain their level of development and the need for the kinds of assistance ACE was providing, as well as to provide a framework in which to judge the attainments of the SCCs scheduled to be interviewed.

In response to discussion with the BEAT team, the evaluation team consultants were careful to check whether it was being taken to visit "model" or "pet" cooperatives which had received special treatment or support beyond that received by the main body of cooperatives served and which were thus unrepresentative of the main body of cooperatives served by ACE. For example, the team leader visited cooperatives more than three hours drive away in one region; in Amhara, the other international consultant visited a grain cooperative union and associated cooperatives not in the initial schedule of visits because of its remote location, to assure that they were receiving support from ACE similar to that received by cooperatives located closer to the ACE regional office.

E. Reporting

Because of problems the team leader had subsequent to the mission, this report has been prepared largely by Dr. Jeff Dorsey, the Agricultural Marketing and Credit Expert, based on the work of the team in Ethiopia; on material collected by its members and provided by ACDI/VOCA, USAID and others; and Dr. Tesfaye Assefa, National Cooperative Business Expert, has also contributed. This change and other factors have entailed delays in submission of this report, for which both Dr. Dorsey and the Mitchell Group

¹ Photographs were taken to document conditions, some of which were included in the Powerpoint presentation; others were left with ACDI/VOCA and are thus available for review.

apologize. In the meantime, additional reports and other information were kindly provided by ACDI/VOCA, meetings were held in Kampala, Uganda with the Principal Advisor for Rural Finance relating to the development of savings and credit cooperatives, and additional information was provided by SCFCU on its credit operations.

2. Discussion of Areas of Analysis

A. Evolution of the ACE Program

Based on UNDP's Human Development Index for 2001, Ethiopia, which has 65 million inhabitants, is one of the least developed countries in the world (158th out of 162 countries). Over the past three decades, its economy has gone from a quasifeudal monarchy through a Marxist centrally planned economy under the Derg regime and then nearly three decades of civil war to an economy moving toward democracy and a decentralized political administration.

The basis of the economy is the agricultural sector, which accounts for 50% of GDP and generates 90% of export earnings. Crop production accounts for 70% and livestock production for 30% of agricultural GDP. Cereal production (dominated by a local grain called *teff* but including wheat, barley, maize, sorghum, and millet) covers 75% of cropped land and pulses (peas and beans) cover 15%. Coffee, which originated in Ethiopia, is a major source of export earnings; the variety grown is Arabica. Ethiopia's livestock herd, the largest in Africa, is a major source of animal traction as well as income for farmers; skins and hides are another important source of export earnings.

Farm production is almost totally in the hands of small farmers; private commercial farms are of negligible importance. The origin of cooperatives dates from Haile Selassie's reign, but they became the dominant form of organizing farmers under state control during the Derg regime. Proclamation No. 138/78 made membership in cooperatives obligatory; cooperatives were used as a means of state control over the rural population and to extract food and other farm products from farmers and channel them to urban consumers and the elite at subsidized prices. Cooperative leaders were appointed by the state and not accountable to their members; many used the positions for their own financial gain.

When Derg was overthrown, cooperatives were seen as tools of the much-hated regime, which had used them to oppress farmers; cooperatives were looted, sometimes by farmers themselves, although in a few cases where farmers felt some degree of ownership, members banded together to protect cooperative assets. In general, however, most farmers held cooperatives in ill repute because they had brought few benefits to most farmers. They were similarly regarded with suspicion by many of those in positions of power in the new government.

Nevertheless, a few visionaries had hopes for reviving cooperatives along the lines of those prevailing in the Western world, which are entirely different from those of the Soviet Union and Eastern Europe that had been the model for the Derg system of state control. The promoters of a new style of cooperatives foresaw organizations which farmers joined of their own free will, ran for their own benefit, used to obtain farm inputs and to sell products on more favorable terms. Cooperatives would be managed democratically by leaders farmers themselves elected, their profits or surpluses would

belong to the cooperative members and paid out to members as dividends or reinvested in the cooperative as increases in share capital. The broad vision of these enthusiasts included growth of the movement, with cooperatives banding together in cooperative unions, also managed along democratic lines by their members, and later federations of cooperatives organized along product lines to capture further economies of scale. Eventually a cooperative league would represent the common interests of the movement.

This vision, probably seen as a pipedream a decade ago, is now coming to fruition through the combined efforts of the Government Cooperative Promotion Bureaus (CPBs), ACDI/VOCA, and USAID. A major element in this success is the support given by the Cooperative Union Project (CUP) in 1998-99 and the Agricultural Cooperatives in Ethiopia (ACE) program, the focus of this evaluation.

In other countries with a similar history of state domination, not even the name of “cooperatives” survived; where farmers did band together to achieve better financial benefits, they were forced to call their new organizations “farmers associations,” or any name other than cooperatives. In Ethiopia, thanks to the cooperation of Government, ACDI/VOCA, and USAID, farmers not only gained control over their organizations but these were reconstituted as democratic, business-oriented farmer-owned businesses, so the name “cooperatives” was revived, with the more favorable image cooperatives have attained in North America and Western Europe.

Ethiopian officials were taken to cooperatives in the United States and Kenya, where cooperatives are businesses profitable in their own right, increase the profitability of member farm businesses, and are run in accordance with member wishes. Policymakers were able to see cooperatives in action and the role they can play in a market-oriented economy. By the mid-1990s the government’s view of cooperatives had changed and policymakers generally accepted the principles followed by business-oriented cooperatives worldwide, as enunciated by the International Cooperative Alliance (ICA). The principles were embodied in Proclamation 85/1994, which made it possible to restructure those cooperatives that remained along new lines. The principles were amplified in 1998 in Proclamation No. 147/98, which established a more favorable context for building the cooperative movement.

From the start, the Oromia Cooperative Promotion Bureau (OCPB) was instrumental in getting the process of change under way; its support was a key factor in the change in the government’s approach to cooperatives. It reeducated cooperative promoters in the new approach of support rather than control over cooperatives. Farmers, too, had to learn that cooperatives could become tools for them to increase the profitability of their businesses.

In September 1995, under the farmer-to-farmer (FtF) program (which ended in 2003), ACDI/VOCA volunteer specialists in cooperatives conducted a four-week exercise to train government staff drawn principally from Oromia (where Addis Ababa is located) but also including some from Amhara, Tigray, and the Southern region). Later, staff, board members, and members of cooperatives were trained. Because Oromia is one of the most important regions in terms of agricultural potential and has a large number of

cooperatives, and because the national center of administrative power is located there, it was the logical site for a pilot project to rebuild and revamp the cooperative movement.

The 1998 proclamation permitted the formation of higher level cooperatives (unions and eventually federations and a cooperative league). For the first time, primary societies were allowed to band together to increase their market power on both the input and product sides. The role of government was limited to promotion, registration, consultancy, audit, and legal services. Additional support in the form of land grants and warehouse space in cases where cooperatives and Government interest coincided were possible, as in the case of food security interests, as were alliances with agencies, such as the Oromia Disaster Prevention and Protection Bureaus (ODPPB) and its homologues elsewhere in the country.

Cooperative Union Project

The two-year CUP pilot project in 1998 and 1999 had the goal of enhancing food security and raising rural income through improvements in productivity and production resulting from improvements in the market efficiency of cooperatives in supplying inputs and marketing products. The approach was in line with the government's strategy of agricultural development-led industrialization. Through bulk purchasing and marketing, unions of three grain cooperatives and one coffee-marketing cooperative, and their associated primary societies, were covered by CUP. The project achieved its main goals and made major improvements in business management for both individual cooperatives and unions; it improved market linkages at all levels. These changes were achieved through training, carried out largely with CPB staff, study tours, union formation, enhancement of basic infrastructure, improved access to credit, and the new SCCs.

The Agricultural Cooperatives in Ethiopia (ACE) Program

The five-year ACE program extends the program in Oromia to three other regions: Amhara, the Southern region (SNNPR), and Tigray. Except for Tigray, where it seems other criteria were adopted, the productive potential of the regions, and the areas selected within these regions, appears to have been the primary criterion for selection. The major project components remained the same—training and study tours, capacity-building, infrastructure support, establishment and strengthening of unions, improved market linkages, and establishment of rural SCCs—and other components were added: increased participation by women, diversification of cooperative business, natural resource management, and HIV/AIDS awareness.

The program signed in September 1999 was expected to last until September 2004; a no-cost extension takes it 30th June 2005, with a possible extension to 31st December 2005.

B. Capacity-Building for the Regional Promotion Bureaus

The ACE program continued the CUP strategy of providing training to CPB staff and working closely with them. During the CUP program 112 technical staff from the OCPB had participated in training-of-trainers courses (TOTs) and 18 staff members did three- to six-month training courses in Kenya.

The training was diversified: 112 technical staff from OCPB participated in TOTs; and 363 board members, 86 cooperative managers or accountants, and 36,000 farmer members participated in various training sessions. Study tours to Kenya, Tanzania, and India were organized for 15 board members and 24 representatives of government organizations. During the ACE program, 1,000 CPB staff received training. The improvement in the capacity of CPB staff was instrumental in their ability to inspire farmers to restructure their cooperatives along lines promoted with ACE, to establish unions, and to manage both cooperatives and unions as business enterprises.

This training was not without problems. During 2002, decentralization and restructuring of civil service at regional level had a major impact on the ACE program because many TOT-trained staff were relocated to other regions, to Addis, or to other government departments. The benefit of this training, though not lost to the country, was lost to the CPBs that had expected to have trained staff available for carrying out their programs. For example, in the Southern region, 20 staff were trained to promote SCCs and as an end-of-training assignment each was charged with the formation of one SCC; however, all 20 were transferred out of their posts, which had a very negative impact on the formation of SCCs. These problems led the ACE program to shift emphasis away from training and capacity building for the CPBs and move to directly building the capacity of primary societies and unions.

Despite these apparent set backs, the capacity of the CPB has been greatly improved as a result of the ACE training, even given the limited staff available. The improvement in the capacity of CPB staff has improved the results achieved by cooperatives and unions supported by the program. Furthermore, staff, whether remaining in their positions or transferred elsewhere, have increased the number and quality of interventions of the CPBs, which have been largely responsible for ACE implementation. Improvements have been observed in the quality of training, organizational development for cooperatives and unions, assistance with bylaws and business plans, supervision, and auditing.

As cooperatives, and especially unions become stronger, they should take over some functions now provided by the CPB, such as contracting with private auditors. At one point the the Oromia CPB considered forming a cooperative of auditors that would perform the audits for the CPB on a for profit basis; the assumption was that who would better to understand the auditing cooperatives than a cooperative made up of auditors; this idea apparently never came to fruition.

Despite the problems of transfers and relocation, large numbers of CPB staff continue to provide better service to the cooperative movement as a result of their ACE training. Many former CPB staff are now managers of unions or in other positions of responsibility within the cooperative movement, thus using the training provided by ACE in another capacity to continue supporting cooperative development.

C. Transfer of Operational Skills to Cooperatives and Unions

The ACE program has been instrumental in 1) convincing farmers that independent, farmer-owned, business-oriented cooperatives could increase the profitability of their farms and (2) helping to turn new cooperatives and unions into viable businesses. A major element in its success in turning cooperatives and unions into viable businesses has been the training provided to members of the General Assemblies, boards of directors, and staff at all levels from general managers to warehouse-keepers.

Another element has been the professionalization of management at all unions and most of the well-established cooperatives; day-to-day operations work better when they are in the hands of full-time professional managers and accountants than when handled solely by volunteer members, as had previously been the case. Professional management works best when it works closely with a steering committee that meets weekly, under the direction of boards that meet every month or two.

All these practices have been instilled in unions and cooperatives by the ACE program; in some cases, the program has paid the salary of the manager for the first year. After that, managers and accountants earn their keep by making sure that their cooperatives operate more efficiently. For this work they are rewarded with salaries that are in line with those paid in the local labor market for professionals with similar skills; in one union near Bahir Dar, the salary of the manager is Birr 1,250; in others it can range as high as Birr 2,000. Managers also participate in the surplus. Under this incentive system, common in other unions, 1.75% of the net profit goes to the manager and 1.25% to other staff.

As a result of the ACE program, board members and managers each are aware of their duties and responsibilities, both recognize the need for internal control and audit, and controllers are seen not as impediments but as partners in assuring sound operation of the cooperative or union. Good governance of cooperatives now is the rule. Accounts are regularly audited, and results are posted publicly on the walls of cooperatives and unions. In all the cooperatives visited during fieldwork, there was only one case of embezzlement—roughly birr 34,000 (\$4,000) had been taken by previous board members—and the matter was being vigorously pursued through the legal system. No other financial irregularities were uncovered during the evaluation.

This is a major accomplishment because corruption and theft of cooperative assets was rampant during the Derg regime. They have stopped thanks only to the control systems and frequent audits encouraged by the ACE program; the procedures are being followed, within the limited resources commanded by the CPBs, in cooperatives not assisted by

ACE. Because all unions and most cooperatives had hired accountants, accounts were for the most part kept current. One case study commissioned by ACDI/VOCA separately from this evaluation discovered some errors in accounting and even in the approaches taken by auditors but found that, in general, accounting was far better than in the past, which helps eliminate a major problem cooperatives used to face.

This greater accountability makes it harder for treasurers and staff to misappropriate cooperative funds. Financial control systems that involve the accountant, the cashier, the treasurer, and the controller mean that more than one person is aware of any inflow or outlay of funds. These systems clearly define each person's responsibilities. They also minimize the amount of cash kept on hand. The rest is immediately deposited; bank statements then offer a clear way to check for any shortage in the accounts and to hold accountable the person responsible for it. Rapid closing and audit of accounts also makes it possible to pay dividends to members shortly after the end of the financial year; the payment of dividends has been a major factor in attracting new members.

Much of the initial training in motivation to join or revive cooperatives, write by-laws, and state the rights and responsibilities of members has been provided by the CPBs, supported by ACE. For primary cooperatives, the type of training that is most useful relates to cooperative management, marketing, financial management, accounting, internal controls, and strategic business planning. Because most cooperative and union managers and accountants have more than 12 years of education, they are able to make full use of advanced training.

Most board members have less education, rarely as much as 12 years and often not more than 7 years; because boards are responsible for supervising managers and other hired staff, it is important for board members to be well-trained to make sure that the staff is executing in daily operations the policies mandated to them by the General Assembly. Managers as well as board members have also been trained in the financial and internal control systems being installed in their cooperatives and unions.

Specialized training related to the products they are most active in buying, such as grain or coffee, has been provided to both cooperatives and unions. Recently there has been limited training on marketing new products, such as hides and skins, as cooperatives and unions diversify their operations. Diversification is often highly risky for cooperatives that have specialized in a very small number of products, or even a single product like coffee. A number of cooperatives visited, including coffee cooperatives (which are currently doing quite well because the ACE program has assisted them in improved marketing and world coffee prices are high), showed strong interest in diversifying. Board members and staff of coffee cooperatives remember that the price of coffee not so long ago was abysmally low and fear that this could happen again.

Until 2002 CPB staff provided most of this training was provided in their capacity as TOTs; in recent years, as they mature and in line with new ACE program policy, unions have been more active in providing training to primary cooperatives in such areas as agricultural marketing, market information, price stabilization, consumer goods supply,

and warehouse management. The oldest and strongest of the cooperative unions, the Lumme-Adama Farmers' Cooperative Union, is building a training center with its own funds in which to pass on its experience to primary cooperatives and newer unions.

Unions also help member cooperatives with producing stationery and seals and with duplicating services, often using equipment obtained as a result of the ACE program. They are also beginning to use private auditors themselves for their own accounts, thus setting an example to cooperatives where long delays in CPB audit and certification of accounts has delayed the payment of dividends.

Unions are also helping the cooperatives to draw up business and strategic plans and are beginning to help them conduct feasibility studies for new products and value-added enterprises, which many cooperatives are embarking on as diversification strategies.

A major role of unions is to transmit market information to their members. There is no functional national system of market information, although there are periodic reports on product prices transmitted on the radio at a few major locations; prices are too out-of-date and lack sufficient specificity to provide useful market information. (Michigan State University was setting up a national system similar to systems MSU established by MSU in Mozambique and Mali, but the project was closed down.) Unions need to do more to build internal market information systems for the use of the primary societies that are their members and to guide their own product acquisition and sales decisions, though systems for the use of the movement itself will not replace a national market information system, which government has the responsibility to fund for the general public.

Table 1 is an example of the training situation of one of the oldest MPCs; it is taken from a separate case study by Dr. Tesfaye Assefa, national consultant for this evaluation.

Table 1: Training Conducted Through ACDI/VOCA for the Kolba Farmers' Multi-Purpose Primary Cooperative
Table 1: Training Conducted Through ACDI/VOCA for the Kolba Farmers' Multi-Purpose Primary Cooperative

No.	Title of Training	1998	1999	2000	2001	2002	2003	2004
1	Training of Farmer Members	681	-	-	608	-		
2	Board Training on Cooperative Development (3 Modules)	5	-	-	-	-		
3	Training of Managers on Cooperative Development (4 Modules)	1	-	-	-	-		
4	Board Training on Cooperative Development (3 Modules)	-	3	-	5	-		
5	BSD Training for Managers (3 Modules)	-	-	1	-	-		
6	Training on Grain Marketing Analysis and Monitoring for Managers	-	-	1	-	-		
7	BSD Training for Managers (5 Modules)	-	-	-	1			

8	BSD Training for Board Members (5 Modules)	-	-	-	1			
9	Training for Board Members (3 Modules)	-	-	-	7	-		
10	Training on Internal Control System Installation for Managers	-	-	-	-	1		
11	Training on Internal Control System Installation for Board Members	-	-	-	-	7		
12	Training on Financial Planning and Credit Management for Managers	-	-	-	-	1		
13	Grain Quality Control for Board Members			1				
14	Grain Quality Control for Managers			1				
15	Study Visit to Kenya for Manager and Board Members		1					
16	Study Visit to Kenya for Board Members		1					
17	Training of Cooperative Accountant in Accounting						1	
18	Training on HIV/AIDS Prevention Activities							1008

Source: ACDI/VOCA ACE-Oromia Office

Nearly all training is local; however, the previous chairman and the accountant for this cooperative participated in a study tour of Kenya. This privilege was in recognition of the outstanding performance of the cooperative (also visited by evaluation team staff) among all member cooperatives of the Lumme-Adama Farmers' Cooperative Union.

Staff, board members, and members of cooperatives and unions interviewed by the evaluation team in all four regions requested more internal study tours, particularly to cooperatives elsewhere in the country that deal in the same products; Lumme-Adama was specifically mentioned in some of these requests, particularly by cooperatives dealing in grain. However, cooperatives near the border with Kenya also mentioned the possibility of study tours to that country, where the cooperative movement well-developed.

Specific technical training in post-harvest handling has helped cooperatives control the quality of the grain and coffee they purchase. Additional product-specific technical training is required; cooperatives also need to be supplied with basic equipment, such as humidity gauges and fine scales for weighing samples. Storage management training has helped them to minimize losses from grain spoilage, but better storage facilities are needed because many of the warehouses observed by the evaluation team were mud-and-wattle buildings with dirt floors. These are too small and imperfect to allow cooperatives to maximize their use of working capital by storing purchased products long enough to obtain better prices or in quantities attractive to major purchasers, such as food security and disaster relief programs. Better storage facilities and good quality and product quantity control systems make it easier for cooperatives to do business with relief agencies and have product purchases financed by the Commercial Bank of Ethiopia without the need for collateral provided by loan guarantee funds derived from USAID Development Credit Authority (DCA) funding. Cooperatives now manage better the financing they obtain, thanks to ACE training in credit and finance.

Prices cooperatives and unions pay for farm products and charge for inputs are set based on assessment of the full costs involved. Better cost accounting makes it possible to set prices more accurately, but evaluation team is convinced that, especially for input supply, the birr 7 per quintal mark-up most cooperatives add for fertilizer is insufficient to provide an adequate margin. Abichikli Multipurpose Primary Cooperative (Bahir Dar) reported that the same 7 birr markup made sales not very profitable for the cooperative and said that fertilizer sales were more of a service to members and a way of exercising market power over traders who jack up the price of fertilizer when the cooperative is out of the market. The Licha Hadiya Cooperative Union stated that after deducting transport and loading/unloading costs averaging 4 birr, a net margin on fertilizer is only 3 birr per sack (less than 1%).² The International Fertilizer Development Center (IFDC) considers a reasonable margin to be 5% or higher under competitive conditions in Africa.

Training in accounting and marketing has permitted some cooperatives which had toyed with the idea of setting up consumer shops, to decide against it in view of stiff competition from nearby private shops. This same training can provide the basis for those cooperatives that do have such shops to establish appropriate mark-ups for their products; again, the narrow margins limit the profitability of the shops and their ability to stock a broader selection of items.

Dividend payments are now properly managed as a result of ACE training. The payment of patronage dividends to members is a major factor in attracting new members and increasing the loyalty and willingness of old members to sell through the cooperative. The consultants observed that only a small fraction of eligible members in most cooperatives were receiving dividends because most members were still selling most of their products to private traders. For example, in Shecha Lereba Primary Society near Hadiya (which has over 900 members), dividends rose from birr 2,709 for 65 members in 2000 to birr 30,813 in 2004; these dividends went to 156 members (1/6th of total membership), indicating that other members were selling to their products to traders.³ In Morsito Primary Cooperative near Hadiya, 35 members out of 373 (about 10%) received dividends. At Belasa Ambicho Primary Society near Hadiya less than 10% of members got dividends (125 out of 1283 member). At Kolba MPC, a well-established grain cooperative member of Lume Adamma Union, 41% of the members received dividends in 2004. Despite the relatively low percentage of members in many cooperatives receiving them until now, dividend payments do enhance member willingness to sell to the cooperative rather than simply using it to obtain fertilizer and other inputs at more reasonable prices. To the extent that cooperatives increase their access to timely market seasons loans so that they are better able to compete with local traders, the percentage of members selling to the cooperatives and thus obtaining dividends can be expected to go up. Dividends are also related to net surplus generated from fertilizer purchases and

² IFDC, Factors Affecting Fertilizer Supply in Africa, page 21 & table 10, p. 50; 5% (the average for Malawi) is a reasonable retail margin under competitive conditions.

³ Digital photos were taken by the evaluation team assistant of information on indicators of cooperatives visited which were posted on the walls of cooperative office; these data indicate that a small percentage of members receive dividends compared to the number of members registered in the cooperatives.

consumer store purchases; however, net margin generated by these two profit centers is low due to narrow mark-ups on both fertilizer and consumer goods. Members will also demand faster audits, including the use of private auditors, to speed up their dividends.

Many cooperatives and unions reported having had ACE HIV/AIDS awareness training and who had been exposed to the training then passed the message along to others. Some cooperative stores reported selling condoms, perhaps as a result of this training. Demand is low for cultural reasons despite low prices but can be expected to rise as the message of the dangers of infection are better understood after repeated training on the subject by ACE and other institutions.

Union Training

Table 2 provides a description of the types of training unions need to grow strong and function as effective businesses serving the needs of their members. This level of training is by no means typical, though all unions assisted by the ACE program have received some of the same types of training. Lumme-Adama Farmers' Cooperative Union is the oldest and most mature of the Unions developed with ACE support and therefore has, over time, had access to the types of training needed to meet the growing needs of its members. Some of the training is product specific (grain); other unions are trained in other products which their members are producing. As the leaders and staff of cooperatives and unions are renewed which is occurring with increasing frequency as time goes on as the three-year term of initial leaders expires and they are replaced by new ones, some of the same training will be required for new board members and staff.

Table 2: ACDI/VOCA Training for Lumme-Adama Union

No	Title of Training	1998	1999	2000	2001	2002
1	Farmer Member Training	4,198	-	1,425	5,307	5,198
2	Accountant Training in Cooperative Accounting	-	-	2	-	-
3	Manager Training in Marketing Analysis	-	-	5(1)	-	-
4	Training of Managers and Accountants (4 Modules)	8(1)	1(1)	7(1)	-	-
5	BSD Training (3 Modules)	-	-	5(1)	-	-
6	BSD Training for Managers and Board Members (5 modules)	-	-	-	30(6)	-
7	Training in Grain Quality Control for Managers and Board Members	-	-	29(4)	-	-
8	Board Member Training (3 Modules)	47	19	4	-	-
9	Board Member Training in Savings and Credit	-	-	-	-	20
10	Pre-Union Awareness Workshop on Savings and Credit	-	-	-	-	15
11	Training in HIV/AIDS Prevention for Managers and Board Members	-	-	-	-	2(1)
12	Training in Financial Planning and Credit Management	-	-	-	-	2(2)
13	Training in Project Planning and Management	-	-	-	-	1(1)
14	Board of Directors Mentoring	-	-	-	-	2(2)

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

Note: The total figures show all participants from the union and member cooperatives (while the figures in brackets show the number of participants from the union only).

Source: Lumme-Adama Farmers' Cooperative Union, from a case study done by Dr. Tesfaye Assefa (separate from this evaluation)

Board members, managers, accountants, and controllers of this union have participated in a variety of training programs, among them cooperative management and structure, cooperative accounting, marketing analysis, grain quality control, strategic business planning, and inventory credit. All these courses have produced results in terms of better operation of the union. The inventory credit has not yet been implemented; if it is, it may to allow unions to access the funds they need to expand product purchases beyond the volumes currently supported by loans provided based on the DCA loan guarantee fund, guarantees by regional governments, and with collateral of cooperatives and unions which are gradually accumulating more tangible assets. Other training has covered post-harvest loss minimization, business development services (BDS), HIV/AIDS prevention, project planning and management, business diversification, technical feasibility assessment, financial planning and credit management, internal control system installation, mentoring and integrated natural resource management (INRM). It should be noted that the consultants were informed of most of the other courses in interviews with union and cooperative leaders and staff, but not about the INRM course; however, one cooperative did report receiving NRM training from the Ministry of Agriculture. (In any case, NRM training is not part of ACE support.) The present board chairman was taken on a study tour to India; the past chairman and manager had earlier been on a tour to Kenya, and the present treasurer had also been to Kenya with ACE support.

Training of the types provided has clearly had a positive impact on the operations of unions. All those visited looked and felt like businesses; their accounts showed that they were doing significant volumes of business, both in input supply and product marketing. All those interviewed reported they had benefited from training and that it had improved the efficiency and productivity of union operations. In Lumme-Adama, specific results of ACE training were competitive bidding in input purchasing, leading to substantial cost reductions for fertilizer and other inputs; improved grain quality control and better stock management; and improvements in credit services, tractor services, and dividend payments based on patronage and share capital owned by member cooperatives. This union serves as a model as new unions form throughout the country.

Market-linkage activities have been critical to the marketing success of the unions, both for products sold through Ethiopian processing companies and traders and for those that are or can be sold directly to international buyers. Coffee is a case in point: unions are still living off contacts made at trade fairs during the first two or three years of the ACE program. Some grain and pulses are also being sold either to domestic processors or Ethiopian traders who have contacts abroad. With ACE support, unions are also investigating ways of selling products like sesame at better prices directly to international buyers instead of through local traders. Additional efforts include continued representation at international fairs and tours to neighboring Eastern and Southern African countries (Kenya, Tanzania, Mozambique, and the Republic of South Africa).

Cooperatives previously were required to pay out a flat 70 percent of net surplus as dividends to members. For the first few years of the ACE program, this requirement was reasonable; it helped encourage new membership and greater use of cooperatives and unions by members as channels for product marketing. Because of a recent change, now only 30% of net surplus must be paid out, with most of the remainder made available to be either paid out or reinvested by decision of the General Assembly. ACE is guiding cooperatives and unions on appropriate retention, investment, and payouts. If they are to grow, it is important that cooperatives invest a significant proportion of net surpluses in their business enterprises.

D. Business and Market Development for Cooperatives and Unions

Business development and marketing linkages have been a prime focus of the ACE Program. Its commitment to improving the marketing of primary cooperatives and unions was reaffirmed in 2004 by hiring a full-time marketing specialist. Market linkages were also established with national agroindustries and wholesalers, cutting out local traders where possible and increasing farmer margins by dealing with end users of primary products directly or with wholesalers. Some examples of such linkages are the following:

- Production in Amhara under an agreement and subsequent sales of specialty wheat to Guder Industries at a premium price, saving it the industry transport costs previously in bringing that type of wheat from distant regions of the country
- Sale of nigerseed directly to an edible oil factory in Bahir Dar
- Direct sales of wheat in Oromia to Natheret Flour Mill
- Milk sales to a private dairy processor (Mama) under a sales agreement;
- Cane sales to the parastatal sugar milling industry at a higher negotiated price, with provision of inputs by union rather than the mill;
- An agreement with Amal Trading to supply haricot beans of a set quality at a premium price to fulfill an overseas order Amal has for that type of bean.

As linkages are developed with other private sector processors and traders at the national level, unions are also beginning to displace traders at the international level, dealing directly with foreign buyers. Part of the complaints about alleged special treatment of cooperatives clearly arise because some traders understand the increasing power of

cooperatives, which threatens their local monopsonies and traders' ability to act as middlemen between unions and the international buyers for whom products are destined. Some recent union initiatives:

- Initial contacts with buyers in eight foreign countries for nigerseed, beans, chickpeas, and sesame; these contacts are expected to lead to direct sales and are raising tensions with private traders, who increasingly see unions and federations as competitors rather than merely as partners, as had been the case in the past.
- Direct linkages to coffee buyers in Europe and the United States, where unions have already made direct agreements with buyers for specialty coffee (organic and fair trade), pulling product out of the domestic auction system.
- Improvements in prices and bonuses for farmers through a campaign to improve coffee quality, though much work remains to be done at primary cooperative and farmer levels.

The formation of grain and coffee federations is well underway; they will help farmers achieve greater economies of scale and better prices for products like grains, oilseeds, and pulses, on which margins are tight given the volumes of product unions have available.

Union usage of computer-based financial and inventory-control systems has also been enhanced:

- By the end of 2003 ACE had given all unions a number of computers and associated software for record-keeping and MIS;
- By 2004 84% of the unions were making use of these systems beyond simple secretarial tasks and taking advantage of their capacity for managing union finance (dividend calculations, financial data, etc.), and for control of inventory and assets, as these systems become tools for management information.
- Computers are beginning to be used for communications via the Internet to facilitate transmission of marketing data and direct contact with buyers.
- As an increasing number of primary societies obtain access to electricity and as the volume of their business increases, computerization of their operations, finance and control systems will inevitably take off as well.

The establishment of financial and inventory control systems, first paper-based and increasingly computerized, training in their use and audits by CPB staff and more recently by private auditors has allowed ACE-supported cooperatives and unions to escape the problem with misappropriation of resources and other types of malfeasance which have plagued agricultural cooperatives in the past and which still affect those not assisted by the ACE program, often leading to their demise. Though it was not part of initial plans for fieldwork for the evaluation, the Consultants made a point of visiting multipurpose and savings and credit cooperatives not assisted by ACE as a control group. The only cooperative found to have fallen victim to embezzlement by its officers (totaling birr 34,000) was Debre Tsion Primary Cooperative visited by the team

accompanied by two USAID staff members; not a single one of the cooperatives visited which were assisted by ACE had suffered a similar fate.

Union and Primary Society Formation

During 2004, six new unions were formed. The 109 new primary societies affiliated with these unions, with total membership of over 52,000 members, became eligible for ACE assistance during the course of the year.

Table 3: New Unions and their Affiliates

No.	Region	Number of Unions	Member Primary Cooperatives	Number of Farmer Membership
1	Amhara	2	18	15,595
2	South	2	62	23,650
3	Tigray	-	-	-
4	Oromia	2	29	13,120
	Total	6	109	52,365

Source: Annual Report 2004 April 2005

No federations were formed during 2004 but plans are being made for the formation of both grain and coffee federations based on interviews with the Commissioner of Cooperatives, the Cooperative Promotion Boards of the Southern Region and Oromia, ACE senior staff, and management of both the Sidamo and Oromia Coffee Farmers Cooperative Unions for the purposes of improving market power in grain, coffee-marketing and input markets, market information transmission and lobbying. IFAD's country program manager referred to the federations in its RUFIP program. The time for formation of federations is at hand; the only issue is whether the kind of guidance ACE will be available to provide the same farming-as-a-business orientation to federations as has been followed by the primary and secondary cooperatives established so far with its support. Without such guidance, particularly in the case of a vastly expanded system of savings and credit cooperatives, there is no guarantee that a business-orientation will be retained among the federations formed for financial cooperatives. No feasibility studies covering the costs and prospective benefits of federations were brought to the attention of the Consultants. However, the ACE 2004 Annual Report states that one such study was done for the grain-producing unions and a copy of the study was sent before this evaluation report was finalized. The conclusion of this study is positive, indicating that it would be feasible to move ahead with the formation of such a union and advantageous to members of grain unions and cooperatives to do so. A similar study of the feasibility of the formation of a federation of the coffee union to guide union leaders who are proposing its creation and USAID would be most useful. Lobbying for better policy is a principal activity of federations. Thus, the calculation of benefits should include the costs of preparing well-founded position papers on policies affecting member farmers and savers and on the expected financial benefits from changes which would improve their business opportunities in input, product and rural financial markets and changes in current policies currently hindering the interests of cooperatives and their members. Particularly in the case of coffee, where management of the major unions is convince of

the need of a federation, careful analysis of costs and benefits of a coffee producers' federation would need to be done.

In all, 98 primary societies have affiliated with existing unions during 2004. Affiliation of new primary societies strengthened these unions and increased their volume of business on both the input and the product side. Affiliating new primary societies within areas they are already serving is a more cost-effective strategy than expanding outward geographically and serving increasingly marginal areas. Consultants were able to confirm ACE 2004 annual report's contention that "[m]embership growth was strongest in areas where members are within relative geographical proximity to the unions and where necessary services can therefore be provided." Increasing the density of coverage by a union makes its operations more efficient and lowers costs.

Primary societies in some cases cover large regions. They also need to bring down their costs of serving members with better transport (motorcycles, trucks and even bicycles), additional warehouses and satellite offices at buying/selling points to capture a larger share of the market by bringing their services closer to farmers. The ACE program has confirmed the success of the process of restructuring moribund cooperatives, putting them on a sound footing and organizing them into unions to provide farmers within their catchment areas with the services they need. There is no reason that the coverage of existing unions cannot expand rapidly establishing better services to existing cooperatives and helping establish and revive new cooperatives providing that there is a willingness to invest in the resources necessary to finance this expansion. Without the investment of external resources, expansion will still occur but it will take place at a much slower rate and reach a smaller percentage of the population in need of these services.

Table 4: New Primary Cooperatives Joined Unions

No.	Region	Number of Primary Cooperatives
1	Amhara	13
2	South	24
3	Tigray	2
4	Oromia	59
	Total	98

Source: Annual Report 2004 April 2005

The ACE 2004 Annual report notes that plans to provide service to drought-prone areas were dropped. The decision on which areas to serve should be made purely on the basis of business potential and other purely commercial considerations; regions having a good commercial potential and contiguous to those currently served by the program would be the best candidates probably not have been chosen or would only have been chosen at a much later stage in the development of the cooperative movement. The principle of the greatest benefit to the greatest number at the lowest cost has generally guided ACE decisions and should continue to do so. Focus should be on areas with the greatest

productive and commercial potential to maximize impact of ACE investments in the development of cooperatives.

Table 5: Number of Unions and their Affiliates

No.	Region	No. of Unions		Unions' Member	Unions' Member
		December 2003	December 2004	Primary Cooperatives December 2003	Primary Cooperatives December 2004
1	Amhara	7	9	134	165
2	Tigray	2	2	8	10
3	South	5	7	87	173
4	Oromia	12	14	206	294
	Total	26	32	435	642

Source: Annual Report 2004, April 2005

By the end of 2004, ACE was assisting 32 unions, a 23% increase over the 26 unions assisted in the previous year. The number of affiliated cooperative societies rose by 48% from 435 to 642.

Total membership increased by 30%, from 519,406 to over 673,000. This increase is the result of 1) new unions with their affiliated primary societies joining the ACE program, 2) the affiliation of new primary societies to unions already in the program, and 3) increased affiliation of new members to existing primary societies already in the program as a result of farmer satisfaction with better input availability and prices, better prices and other conditions offered by cooperatives for the purchase of their products, and the payment of dividends by both the primary societies and the unions. The adherence of new unions and associated primary societies was responsible for about one third of the growth in membership. The affiliation of new primary societies to existing unions and increased membership in already affiliated cooperatives was responsible for about two thirds of the growth in membership.

Increased farmer membership in existing primary cooperatives accounted for 20 percent of the growth in membership between 2003 and 2004. Membership growth is of paramount importance to cooperatives' economic growth, as new membership brings additional business capital and business volume. Primary societies need to increase their efforts to increase 1) the number of new members joining and 2) the volume of business both all members do with the cooperative.

Female membership increased by 34%, male membership by 29%; women still only constitute 8.3% of the membership of ACE-supported cooperatives compared with 8.0% in the previous year. Part of the increase in female membership attributable to an increase in female participation in cooperatives in general. More importantly, however, is the increased numbers of SCCs, where women form a higher percentage of members and some of which are women-only. Where a family composed of a man and woman belongs

to a cooperative, the membership is registered in the name of the man, as head of household as follows Ethiopian custom. Only in the case of female-headed households are women admitted in their own right. However, in one of the cooperatives affiliated with the Licha Hadiya Cooperative Union (Morsito Primary Society), it was reported that where men have two or three wives, all of them may join the cooperative.

At the same meeting of the Morosito Primary Society, it was noted that an SCC was about to be formed with a mixed membership including women and that women-only SCCs were being set up. To the extent that men and women within the same household keep part of their funds separately or engage in different business activities or livelihoods, it would make sense for both the man and woman to belong to the savings and credit cooperative independently. By the same token, adult children with their own source of income and their own businesses to attend to, should also be allowed to join in their own right. Special loan and savings products may need to be developed to accommodate these changes, which would have the effect of increasing female participation in at least the SCCs. All these efforts are having the combined effect of gradually raising female participation rates in cooperatives.

Table 6: Unions' Farmer Membership

No.	Region	December 2003			December 2004		
		Men	Women	Total	Men	Women	Total
1	Amhara	170,186	15,181	185,367	201,630	18,703	220,333
2	Tigray	3,330	1,147	4,477	4,724	1,460	6,184
3	South	134,405	7,342	141,747	186,332	12,933	199,265
4	Oromia	169,837	17,978	187,815	224,957	22,752	247,709
	Total	477,758	41,648	519,406	617,643	55,848	673,491

Source: ACE Annual Report 2004, April 2005

Input Marketing

Fertilizer sales have increased dramatically, by 141%, from 86,636 MT in 2003 to 208,565 MT in 2004; the value of sales in 2004 exceeded \$74 million. This growth is attributable in part to increased membership but more importantly to sales to members who sought more fertilizer to take advantage of the improved market opportunities made available to them by the more efficient marketing of primary societies and unions. Part of the growth is also attributable to sales to non-members, some of whom may eventually join the movement as a result of their favorable experience; according to the Cooperative Commissioner, Government is providing a guarantee for fertilizer sold on credit to non-members. Some unions have imported fertilizer directly from overseas for the first time, on terms more favorable than they could get by buying the products in Ethiopia; better prices thus obtained have let to substantial savings to members. Fertilizer is not sold in Tigray because of minimal production of grain crops responsive to fertilizer; sesame production does not require fertilizer.

Table 7: Fertilizer Sold by Unions

Region	Volume Sold in MT	Value in Birr
Amhara	56,116	185,887,089
Tigray	0	0
SNNPR	57,349	188,251,787
Oromia	95,100	282,093,567
TOTAL	208,565	656,232,443

Source: ACE Annual Report 2004, April 2005

Unions sold over 5,700 MT of improved seed: over 5,000 MT in Oromia (88%), 10% in Amhara, and a minimal amount in SNNPR. The value of seed sales exceeded \$1.5 million. No seed was sold in Tigray, where commercial grain production is minimal; sesame production is significant, but does not require improved seed. Better product prices undoubtedly affect Oromia farmers' willingness to invest in improved seed. Some seed multiplication is also being carried out. This, of course, requires farmers to purchase improved seed to multiply; farmers then receive a premium price for their product, which is sold specifically for seed rather than milling.

Table 8: Improved Seed Sold by Unions

Region	Volume Sold in MT	Value in Birr
Amhara	597	2,069,605
Tigray	0	0
SNNPR	113	279,689
Oromia	5,052	11,208,142
TOTAL	5,762	13,557,436

Source: ACE Annual Report 2004, April 2005

Unions and member cooperatives sold over 125,000 liters of agricultural chemicals; as with improved seeds, 95% of sales are concentrated in the cereal-producing region of Oromia, with the remainder in Amhara. Sales in SNNPR and Tigray, if any, are negligible. The value of these sales exceeded \$650,000. It should be noted that in Amhara, sales were somewhat reduced because the Ministry of Agriculture prohibited sales of 2-4-D due to fears of its impact on honey production, which is becoming increasingly important in the region. While the cooperatives respected this prohibition, it was reported that some traders continued to sell 2-4-D.

Table 9: Agricultural Chemicals Sold by Unions

Region	Volume Sold in Liters	Value in Birr
Amhara	6,226	284,470
Tigray	0	0
SNNPR	10	204

Oromia	120,141	5,610,343
TOTAL	126,377	5,895,017

Source: ACE Annual Report 2004, April 2005

Animal Feed and Veterinary Drugs

The Selale Dairy Farmers' Cooperative Union sold 337 MT of animal feed and 132 packets of veterinary drugs. In Amhara, the Ministry of Agriculture restricted sales of veterinary drugs by cooperatives, on the grounds they need to be prescribed by veterinary doctors. This policy needs to be addressed by the cooperative movement on two fronts: 1) by hiring its own veterinarian at the level of unions and 2) by lobbying Government to review the animal health concerns as well as farmers' interests in having a nearby and affordable source of supply for the veterinary drugs which they commonly use.

Output Marketing

Coffee Marketing

ACE correctly focused on coffee which, despite the low prices of a few years ago, offered real potential for dramatic increases in farmer income through a combination of better marketing and quality improvement at all stages, from production to on-farm and local processing to bulking and export. By 2004, the volume of coffee unions marketed increased by more than 180% from the previous year's volume and reached nearly 7,500 MT, bringing in income of over \$15 million. The increase in volume is attributable to increased membership in unions and affiliated primary cooperatives as well as purchases from farmers not currently affiliated with the movement. Quality also improved through interventions by ACE on both production and processing. On the marketing side, based on contacts developed in years past, the unions were able to penetrate new markets and expand sales to previous customers. At the same time, the efficiency of operations improved dramatically with the hiring of professional staff; for example, all primary cooperatives affiliated with Sidama Union hired full-time professional managers. With professional management at both the primary society and union levels it is impossible that the volume of exports and repeat sales to quality-conscious buyers like Starbucks could have been achieved. The USAID loan guarantee fund was instrumental in allowing unions access to funds for buying coffee. The amount of finance available for coffee purchasing was deemed insufficient by all managers and directors of unions and primary societies benefiting from these market-season loans, an assessment which is shared by the Consultants. The unions have gone to great length to secure additional financing from other financial institutions like the Development Banks and commercial banks. Satisfaction with ACE program support, good prices paid to farmers, and the payment of dividends are likely to lead to the Union's handling of increasing volumes of coffee in future years.

Two-thirds of the coffee volume came from SNNPR and less than a third from Oromia. However, the Oromia unions obtained a higher average price (98 cents per pound, as opposed to 92 for SNNPR). The average price was 94 cents per pound, which farmers found to be very satisfactory.

Table 10: Volume and Value of Coffee Marketed By Unions

Region	Output Type	Volume Sold in MT	Sales Value in Birr
SNNPR	Coffee	5,055	88,258,200
Oromia	Coffee	2,432	45,311,014
Total		7,487	133,569,214

Source: ACE Annual Report 2004, April 2005

Grain Marketing

The volume of grain marketed increased from 10,816 MT in 2003 to 17,525 MT in 2004. This 62 percent increase is largely due to linkages developed with agro-processors and sales arranged with food security programs due to their confidence in the unions' ability to deliver on products as agreed. A contributing factor was the increase in ACE-supported cooperatives and unions (see Table 11.)

Table 11: Volume and Value of Grain and other Products Marketed

Region	Output Type	Volume Sold in MT	Sales Value in Birr	Price per Quintal
Amhara	Cereals	3,582	5,574,826	156
	Oil Seeds	1,386	3,995,599	288
	Pulses	343	749,466	219
	Spices	53	175,492	331
	Sub Total	5,364	10,495,383	196
Tigray	Cereal	235	284,633	121
SNNPR	Cereals	4,072	6,687,845	164
	Pulses	103	162,433	158
	Sub total	4,175	6,850,278	164
Oromia	Cereals	5,931	10,500,801	177
	Oil Seeds	1,226	4,352,607	355
	Pulses	647	1,084,545	168
	Spices	1	1,036	104
	Honey	19	28,980	153
	Sub total	7,824	15,967,969	204
Summary	Grain (inc. oilseeds and pulses)	17,525	33,392,755	191

	Honey	19	28,980	153
	Spices	54	176528	327
	Total	17,598	33,598,263	191

Source: ACE Annual Report 2004, April 2005 and calculations by Consultants

Sugarcane Production

Wonji Sugar Cane Growers Cooperative Union's sales increased from 79,831 MT to 118,156 MT, a 48 percent increase (see Table 12), primarily as a result of additional harvests from existing sugarcane farms.

Those growing sugarcane are the only producer cooperatives in continuous operation since the time of the Derg. They have achieved major improvement in prices for their members as a result of negotiations between the Wonji Cooperative Union and the parastatal company doing the milling. As a result of these negotiations, prices currently are about double what they were only a few years ago. Some types of cane that sold for birr 50 per MT are now pegged at birr 110; base on information provided by the union the average price was birr 87 per MT. The manager of the Wonji sugar factory reported that farmers were earning birr 10,000-12,000 on a farm of 2.5 hectares. Now, there is interest among neighboring farmers in joining an irrigation scheme and banding together to produce sugarcane for the mill.

Sugarcane producers organized in cooperatives are some of the most prosperous farmers in the country. They have used some of the surplus generated by cane sales to pay for electrification of the homes of all 279 coop members. The cooperative has also helped 8 members buy motorized waterpumps, making it possible for them to carry out intensive high-value vegetable farming and boost their incomes and the well-being of their families, who now possess TVs and other domestic appliances. One sugarcane outgrower cooperative visited had also formed an SCC which was making loans to member to purchase diesel-powered irrigation pumps for intensive and highly successful vegetable production, recovering the loans in 7 months.

Table 12: Volume and Value of Sugar Cane Marketed

Region	Output Type	Volume Sold in MT	Sales Value in Birr
Oromia	Sugarcane	118,156	10,273,588

Source: ACE Annual Report 2004, April 2005

Wake Mia Sugar Producers Cooperative Society

Wake Mia is one of the seven primary cooperatives affiliated to the Wonji Sugar Cane Growers Cooperative Union in East Shewa Zone of Oromia. This is one of the few production cooperatives to survive the fall of the Derg. Farmers realized even then that sugar production is profitable, and that it just had not been organized properly. The strengthening of the cooperative and the formation of the Wonji Cooperative Union has made it possible to negotiate sugar prices with the refinery. The prices have effectively doubled over the past few years, significantly raising member income. With part of their net surplus, the Wake Mia has installed electricity in the homes of all 279 of its members at a cost of birr 84,781. The electrification of their homes has allowed families to buy their own TVs; now the young people stay at home and watch TV with their family and friends instead of going off to local drinking establishments and getting into trouble.

Additionally, the Wake Mia cooperative has purchased 10 water pumps at a cost of birr 59,260 for its members' individual use. Each member has 0.25 hectares in intensive vegetable gardens producing tomatoes, onions, green pepper and cabbage; production has been so good and income from its sale at the Awash Mercasa market so high that one farmer had to buy a second cart just to carry all his vegetables to market.

The cooperative is also building an eleven room hotel with its own funds and a birr 50,000 loan from the union. It is expected to recover its investment in less than 5 years on room rental, not counting food and beverage sales.

Well-managed sugar production is profitable when organized farmers and the sugar refinery work together as is the case at Wonji. The Wonji Shoa Sugar Company needs an additional 15,000 hectares to meet demand and will be putting up a new sugar mill. Now farmers in Wagateo and in Dodota North have said that they are interested and willing to abandon their teff and wheat and put all their land in a cooperative like Wake to produce sugarcane and reap the benefits it brings when organized in business-oriented cooperatives like those of Wonji Sugar Producers' Union.

1. This case is not unique. Other cooperatives like Haro Coffee MPC of Oromia Coffee Farmers Cooperative Union in Manna District, have also paid to have electricity installed in the homes of their members.

Milk Production and Marketing

Sales of milk have increased dramatically as a result of the ACE program and the price increases negotiated as a result of its work. Selale Dairy Farmers' Cooperative Union has continued to grow. Milk sales for 2004 increased by 40 percent over 2003, to over 1.5 million liters, as a result of good milk prices, a guaranteed market (most of the time), and close collaboration with Sebeta Agro Industry (which produces the "Mama's Milk" Brand). The union has been able to purchase light-duty truck which the consultants photographed picking up milk along the main road and delivering it to Addis. The single truck plies the route twice a day, picking up milk from coops; milk production in the hinterland is discouraged because there is no milk collection point with refrigeration and transportation is inadequate. The union now plans to go into milk processing and distribution in competition with Sebeta; however, no feasibility study had been done.

Table 13: Dairy Marketing by Selale Dairy Farmers Cooperative Union

Region	Dairy Outputs	Unit of Measure	Sales Volume	Sales Value (Birr)
Oromia	Whole Milk	Liters	1,560,410	2,931,188
	Butter	Kg	1,831	60,273
	Cheese	Kg	3,419	10,834
	Skim Milk	Liter	368	432
Total				3,002,727

Source: ACE Annual Report 2004, April 2005

Dividends Paid By Unions

Primary cooperative societies and unions can only pay dividends after CPB auditors certify their accounts and confirm that there is a net surplus, part of which can then be distributed to members. Because the capacity of CPB auditors is limited, delays in annual audits make it impossible to pay dividends promptly. These delays reduce the incentive of dividends for attracting new members. Some unions are beginning to contract with private auditors, whose services can be provided on a more timely basis and whose expertise may prove valuable in improving accounting practices and operations. ACE has helped cooperatives and unions set up financial control systems and trained board members and staff in their use; it has also sponsored training to improve the capacity of CPB auditors to perform audits. However, because of resources limitations, the number of new auditing systems and of related training sessions had to be reduced in 2004.

In 2004 unions paid more than birr 16 million (US\$1.8 million) in dividends to their member primary societies. Under the formula prevailing until 2004, the patronage dividend of 70 percent was mandatory; the 30 percent of earnings retained was computed as an addition to share capital. Because of delays in auditing, only 21 of the 32 unions reported dividend payments in 2004, though the number having net surpluses is, of

course, much higher. Six audits were conducted by private auditors (down from 11 conducted such auditors in 2003 in 2003).⁴ Without these audits, CPB auditors would have reached only half of the unions, thus delaying the payment of dividends to their member cooperatives. Union dividends are added to those of the primary society itself in paying the members and are frequently higher than those of the primary society. For example, in the case of Shecha Lereba Primary Society referred to earlier, two thirds of the birr 30,000 of dividends came from dividends paid by Licha Hadiya Cooperative Union and only one third from the cooperative society itself.

Table 14: Dividends Paid by Unions to their Member Primary Cooperatives

No.	Region	Number of Unions	Number of Patrons	Total Dividend Paid in Birr	Average Dividend Paid in Birr
	Amhara	7	125	1,593,358	12,747
	Tigray	1	4	383,577	95,894
	South	5	90	7,101,790	78,909
	Oromia	8	150	7,006,348	46,709
Total		21	369	16,085,073	43,591

Source: ACE Annual Report 2004, April 2005

The average amount of dividends a union paid to member cooperatives is, as may be seen, significant. The high averages in the South and Oromia reflected dividends of coffee cooperatives, which have been quite profitable recently. High dividends in Tigray reflect good marketing of sesame during 2004; dividends will almost certainly fall in 2005 due to lower prices and difficulty in selling sesame in the international market, which was weak during the first few months of the year.

Just as unions pay dividends to their primary societies, these primary cooperatives in turn pay dividends to their members (farmers and saver/borrowers). Some coops also have shops and pay patronage dividends based on member purchases as well. Primary coops paid a total of over birr 9 million (over US\$1 million) in 2004, just over one third of total dividends of the system including both union and primary society dividends.

The evaluation team was able to confirm by interviews and its own observations that the results of the ACE Household Impact Assessment are correct: dividends received by coffee cooperative members were not only significant but had a positive impact on family assets and welfare. Even farmers producing products lower in value than coffee made gains that contributed in a positive way to family well-being and were spent or invested in a thoughtful and productive way. The payment of dividends by ACE-assisted cooperatives has been the biggest single factor in attracting new members.

⁴ Unfortunately, no information was available on the cost or the quality of the private audits compared to those done by CPB auditors (which are free, but often long delayed).

Premium from Fair Trade Coffee Sales

As a result of contacts made through four tours to the United States, technical assistance, capacity building, promotion, and marketing—all done with ACE program support—four coffee cooperative unions (three in the Southern and one in Oromia Region) have been recognized by international coffee buyers as reliable suppliers of specialty coffee of consistently high quality traceable back to the cooperative of origin. These coffees fetch premium prices in the United States, Europe, and Japan. After receiving payment for their coffee calculated on the basis of current sales of coffee of average quality on the auction floors, two unions (OCFCU and Sidama) later received premiums of \$100,000 and \$84,306 respectively because their coffee was classified as Fair Trade.

Table 15: Premium Paid out by Coffee Unions and the Beneficiary Cooperatives

Region	Name of the Union	Member Primary Cooperatives	Total Premium Paid to Member Cooperatives in Birr
SNNPR	Sidama CFCU	6	742,737
Oromia	Oromia CFCU	11	884,331
Total		17	1,627,068

Source: ACE Annual Report 2004, April 2005

In 2004, Starbucks™ paid a bonus of \$91,270 to the Sidama Union for its purchase, through Volcafe, of 180 MT of washed coffee. The highest bonus payment to a single farmer was birr 14,892 (\$1,690) paid to Tilahun Mekuria of the Setamo Coffee Cooperative in Dara District of Sidamo Zone.

There may also be additional payments for organic certification.

DCA Loan Guarantee Fund

Stemming from property law which prevents farmers and their cooperatives from using their land as collateral and from antiquated banking practices, even well-managed cooperatives and unions are systematically denied access to credit. A history of banks being forced to make loans, price distortions, defaults by state-run cooperatives and looting of cooperative assets when the Derg was overthrown combine to make banks reticent to lend to cooperatives. Many of the major banks are successor institutions to banks forced to lend to cooperatives during the Derg and have not forgotten the losses incurred. To offset these distortions in the property and financial markets which put cooperatives at a competitive disadvantage to private sector firms, USAID/Ethiopia made use of the Development Credit Authority (DCA) guarantee. This authority allows Missions to leverage their funds up to 25 times by providing 50% guarantees for loans from commercial banks to finance activities which might otherwise have only been possible to finance from grant funding at a cost to the Mission of 100% of their value.

Starting from an initial \$680,000, the DCA guarantee for lending to cooperatives assisted by the ACE program has increased over time. The most immediate need of cooperatives

and unions has marketing season loans to purchase crops from their members and from other farmers. In 2004, DCA-backed loans amounting to birr 17 million (almost \$2 million) were provided to 12 cooperative unions (see table 16 below). Awash Bank and the Commercial Bank of Ethiopia agreed to make loans up to the limit covered by the guarantee to those unions proposed to them by ACDI/VOCA.

In view of the success of the program and the need of the unions and their member cooperatives for much larger volumes of funds for 1) additional market season loans for buying crops and 2) for fixed assets (such as permanent warehouses) and equipment (transport and agro-processing machinery), the DCA guarantee has been increased almost ten-fold to \$18 million and its term extended to cover medium-term loans for fixed assets with terms up to five years. The evaluation team based on its own experience elsewhere and from interviews with unions and primary societies confirms that unions and primary societies assisted by the ACE program need and could have effectively handled much larger volumes of marketing funds. Those unions which estimated their working capital needs compared to funds available in the previous season⁵ stated that they could effectively use between 3.5 and 5 times the amount they were receiving (average 4.3 time). This figure may be an exaggeration; it is nevertheless clear to the Consultants that the unions could use at least three times the funds that they had available in 2004 to effectively compete in the product markets. There is also indisputable evidence that there are additional requirements for warehouses, transport and other fixed assets whose amount cannot be quantified based on information obtained in the evaluation.

Visual inspection backed by photographic evidence confirms that the size of warehouse facilities and their quality (dirt floors, mud-and-wattle walls) is inadequate for the product volume of that they are currently handling and for the growth that can be expected in the coming years.

The DCA guarantee is now available to support the medium-term loans needed to acquire much needed equipment and infrastructure (particularly storage and processing facilities). However, this use of DCA guarantees ties up funds for long periods; it may mean that less credit will be available for market season loans, limiting the ability of cooperatives and unions to expand the volume of their purchases in line with supply and with their own ability to manage the larger operations which the training and business development assistance from ACE has prepared them to handle. The DCA loan guarantees are crucial to the regulatory function of cooperatives and unions making them price-setters in both the input supply and agricultural product markets during the time that they have inputs available for sale and the cash to buy products.

Primary societies and unions are taking creative action to overcome impediments to access to both short- and medium-term finance. They have in some cases succeeded in obtaining guarantees from regional governments for crop season loans and in a few cases from the same sources as well as from food security agencies to finance the construction of warehouses (whose ownership and hence future use as collateral remains unclear in the

⁵ Licha Hadiya Cooperative Union, Yirgacheffe Coffe Farmers' Cooperative Union and Sidama Coffee Farmers Coop Union

minds of the evaluation team). There is some question as to future availability of guarantees and other facilities by regional government and other agencies. Such bans are being obtained from the Commercial Bank of Ethiopia and the Development Bank of Ethiopia; processing of applications for these loans is not always speed, and their arrival well after the beginning of the marketing season for specific crops decreases their usefulness. Shoye Cooperative near Awasa noted that the Commercial Bank of Ethiopia only provided funds needed for buying coffee in November while funds are needed at the start of the coffee-buying season (September). One union stated bluntly that the reason banks delay a month or so in releasing market season loans was to allow private traders to buy coffee cheaply;⁶ the evaluation team has no way of checking this assertion but can confirm that these delays do occur and affect the volume of business unions and cooperative can carry out with these loans.

Where they have them, cooperatives and unions are pledging their own assets to obtain loans (besides any loans they may obtain from the use of DCA loan guarantees. For example, Homocho Worno Cooperative located at one and a half hours drive from Awasa and affiliated with Sidama Union pledge three coffee washing stations and their Toyota pickup truck to obtain a birr 2.5 million to finance their coffee purchasing activities; the loan was obtained from the Development Bank and came in a month late. As their assets increase, so will the ability of cooperatives and unions to obtain market season loans.

Until needed changes are made in property law and financial sector reform is deepened, commercial banks will require guarantees of some sort (DCA, regional government or from some other source) in order to be able to make loans to cooperatives and unions which do not have sufficient collateral of their own to guarantee the amount of financing they need to compete successfully in agricultural marketing operations. The same holds true of loans for capital improvements. The National Bank of Ethiopia (Ethiopia's Central Bank) would almost certainly consider loans made without adequate collateral as part of banks' portfolio at risk and require them to provision the full amounts of such loans, limiting banks' options for making loans based largely on cash-flow rather than collateral; even a history of 100% on-time repayment of loans by the unions will not affect NBE requirements. Private commercial banks are also springing up in some of the regions but so far have not been a major source of funds for cooperatives.

As members' trust in their cooperatives grows thanks to the efficiency and transparency with which they have operated since ACE support began, some members and cooperatives have been willing to provide some products to their primary societies and unions on credit, deferring payment until the societies and unions have themselves been paid. Because of urgent needs to be paid for their products, farmers are not always in a position to defer payment for their crops even if they want to. Coffee farmers do accept deferred payment of Fair Trade bonuses, but most need at least part of the money from their coffee harvest to settle urgent financial obligations.

⁶ Oromia Coffe Farmers Union

Private traders like Amal Trading have so far been unwilling to provide advances to unions to buy products from their members and other farmers on their behalf; however, credit from buyers may also be a possible source of market season finance in the future. To some extent, the ability to tap this source of finance will depend on the continued moral support of ACDI/VOCA whom traders know to be providing guidance to these unions.

Table 16: Loans Taken Out by Unions from the DCA Program

No.	Name of Union	Region	Amount Borrowed in Birr
1	Sidama Coffee FCU	SNNPR	6,000,000
2	Yirgacheffe Coffee FCU	SNNPR	1,500,000
3	Kaffa Forest Coffee FCU	SNNPR	800,000
4	Angacha FCU	SNNPR	300,000
5	Admas FCU	SNNPR	857,000
6	Licha FCU	SNNPR	800,000
7	Gozamin FCU	Amhara	500,000
8	Damot FCU	Amhara	800,000
9	Merkeb FCU	Amhara	800,000
10	Oromia Coffee FCU	Oromia	3,000,000
11	Buno – Bedele	Oromia	1,500,000
12	Hetosa	Oromia	400,000
	Total		17,257,000

Source: ACE Annual Report 2004, April 2005

The 2004 annual report notes that “funding for inventory credit will not be available” and that “training for such a system was dropped.” This is unfortunate now that banks have indicated their willingness to make use of this type of financing, which can have a huge multiplier effect on the funds available from other sources for market season purchases, since the same funds can be turned over several times during the marketing season. One of members of the evaluation team has personally observed the successful operation and importance of bonded warehouse receipts in financing coffee purchasing in Central America, where it is the main source of finance for such purchases. SCFCU obtained 40% of its credit from Wegagen Bank warehouse finance in 2004/05; total finance available was only birr 18 million, which supported a volume of sales totaling birr 123 million when supplemented by credit sales of coffee from primary societies and their members.

Infrastructure and Equipment

As their financial positions improve, primary societies and cooperative unions have begun to build or otherwise acquire warehouses, office facilities, and equipment (trucks, tractors, processing machinery, etc). Cooperative societies have built small warehouses mostly with local mud and wattle walls but with roofs made of iron sheets and in some cases with cement floors. These warehouses are adequate for short-term storage, which is all most primary societies do at present, but are often too small for the increasing volume of product and not appropriate for longer-term storage for holding products until prices improve. All have scales for weighing the produce they buy and sell, and these are kept in good working order, as the consultants verified. They have also constructed offices appropriate to the size of their operations and the means at their disposal; they are not wasting money in brick and mortar that could be better used for working capital to finance their marketing operations. One sugar-growers cooperative was building a small hotel to handle clients visiting the sugar estate.

Unions have built or bought major warehouses to handle their increasing volume of inputs and products; they have also bought or built other buildings to house their offices and have computerized their information and control systems. Lume Adama Union, the grandfather of all unions, which is often visited by those in need of guidance on setting up and managing new unions, has built its own training center which it expects to pay for by cost-recovery from training sessions. Lume Adama has also acquired tractors to provide land-preparation and other services for its members. Other unions and cooperatives have bought trucks to facilitate marketing, and many more are planning to buy transportation equipment in the near future.

These investments made in 2004 are examples of the continuing process of accumulation of assets by unions and the primary societies which form them. The recent change in the formula for distribution of net surpluses now allows the General Assembly to choose what percentage of the surplus to reinvest in the business; an increasing number of primary coops and unions are choosing to reinvest a higher proportion of surplus to increase the rate of growth and profitability of their cooperatively owned businesses.

Many cooperatives and unions hope to finance these investments with medium- and long-term loans guaranteed by the DCA, though large-scale use of DCA guarantees for longer-term loans would tie up capital that might be more urgently needed for market-season purchases of products. However, some organizations have succeeded in obtaining commercial credit by pledging their own assets as collateral. As cooperatives and unions accumulate more capital assets, they will be able to use them as collateral to secure additional loans from the banking system, reducing their dependence on guarantee funds like the DCA.

In a few cases, regional governments are providing loan guarantees or financing the construction of warehouses to help maintain grain reserves against drought. The evaluation team noted that the value of these warehouses to the unions would be much enhanced if, in addition to allowing the unions to use them, title to them were actually transferred to the unions. Making these warehouses the property of the unions would enhance their value as collateral, which would facilitate borrowing for market-season loans. Ownership might also facilitate warehouse receipt lending: banks will be more willing to operate a warehouse receipt finance program in premises owned by the borrowers. Additional changes in the business environment are also needed before finance based on a system of bonded warehouse receipts can be counted on to provide the major source of crop purchase finance as it does for coffee and other crops in other countries. Despite these problems, Sidama Coffee Farmers Cooperative Union has obtained a line of credit for birr seven million based on its coffee inventories, and there is no reason why this system could not be expanded to cover other unions, and perhaps to cover products whose value is not as high as is that of coffee. With this credit line and other sources of finance, insufficient as they were in total (birr 18 million), SCFCU was able to increase its volume of sales to birr 123 million.

Computerized financial and inventory control systems have been installed at most unions and is an essential part of efficient operations conducive to transparency and the ability to

handle large volumes of member products and the finance needed to buy them. Additional support of this type is required elsewhere as new unions are formed. Where primary cooperatives are located near the electric power grid and telephone connections, computerization of their operations may also be justified by efficiency and accountability criteria. One of the reasons that ACE assisted unions and cooperatives have succeeded in escaping problems of embezzlement and misappropriation which occurred in the past and which continue to plague non-ACE-assisted cooperatives is the fact that appropriate systems have been installed, those operating them have been trained in their use, and other members have access to the information in time to maintain vigilance over those managing cooperative and union funds.

E. Savings and Credit Cooperatives

ACE has made dramatic progress in establishing and strengthening the Savings and Credit Cooperatives (SCCs) in the four regions in which it is operating. The basis of the system is the ability of members to save and subsequently to borrow based on member savings. The goal of SCCs is to provide members with a secure place to keep their savings and to transform member saving into loans allowing members to expand their economic activities both inside and outside of agriculture. The selection criteria for areas in which to promote SCCS were the following: 1) high population density to reduce costs, 2) economic activities going beyond solely agriculture production, 3) proximity to a bank or other registered financial intermediary to provide a place in which to keep member savings securely, 4) infrastructure to facilitate access in providing support to SCC development, and 5) a willingness on the part of potential members to invest their time and effort in establishing and consolidating their SCCs. The integrity of a savings and credit cooperative and the commitment of its members to repay loans rely on members' perception that they are borrowing their own money.

Many SCCs are close allied to multipurpose cooperatives (MPCs), which were also selected in part because of their commercial potential; however, the existence of an MPC was not the driving force in the decision on whether or not to establish a savings and credit cooperative. Nevertheless, most, though not all, SCCs grew out of a multipurpose cooperative and their members were with few exceptions a subset of the members of that MPC. For cultural reasons described elsewhere, most members are male of MPCs are men who are the heads of household. Women are present in small numbers in most MPCs as representatives of female-headed households by reason of desertion, divorce or death of the husband. This composition is carried through to the SCCs formed in conjunction with an MPC, with a high proportion of members being male.

Nevertheless, this situation is changing. The proportion of women in SCCs rose from 9% in 2001 to 24% by the end of 2004. Some women-only SCCs have been formed, including one the evaluation team visited in Tigray; women-only SCCs do not arise out of MPCs as is the norm. In general, the proportion of women in SCCs is much higher

than in the MPCs. In an interview with the team, the Cooperative Commissioner underlined this fact, noting that women constitute 30% of SCC members in Tigray.

Tigray Tambentari Savings and Credit Coop shares offices with Heberet Multipurpose Coop in Migua Village, Doga Tamben in the Highlands. They are located about three hours drive from the regional capital. The savings and credit cooperative is assisted by the ACE program. The MPC is not supported by ACE, because very little production can be scratched out if the parched terraces cut into the steep hills surrounding Migua; instead it concentrates on keeping a consumer store stocked with basic items. ACE training to the SCC spills over into the MPC improving the way it too is run, because most of the board members of the SCC are also on the board of the MPC. Board members have been trained, but because of turn-over new board members need to be trained as well.

Formed in 2002, Tigray Tambentari SCC now has 78 members, nearly a third of whom are women. Members save birr 18 per month. Their savings is birr 37,591, two thirds of which (birr 25,335) is loaned out; they also have share capital of birr

Over the five-year period, savings and credit cooperatives were formed at a prudent rate given the ACE assistance was able to provide. At the end of 2004, 100 such cooperatives had been formed with a total membership of 5,884 members. Additional SCCs have formed as a result of the demonstration effect of ACE promotion, as a result of independent effort by promoters from the CPBs but without the intervention of ACE. There is a strong interest in the communities to form such cooperatives even where the support which ACE might provide was

absent. The evaluation team came across some of these cooperatives while visiting MPCs assisted by ACE as well as cooperatives not receiving any ACE assistance whatsoever; the leaders of these SCCs were also interviewed where possible as a control group. To summarize, rural people show a tremendous interest in forming savings and credit cooperatives.

Table 17: Number of and Membership in SCCs, by year and sex

Year	Number of SCCs	Membership		Total
		Male	Female	
2000	3	212	31	243
2001	18	597	135	732
2002	50	1,791	507	2,298
2003	89	3,433	914	4,347
2004	100	4,449	1,395	5,844

Note: Four MPCs in Oromia are members of SCCs.

Source: ACE, Key Indicators CY 2000-2004, Final Draft Report on Performance Monitoring and Results, ACDI/VOCA, March 2005: Table A2: Number of Saving and Credit Cooperatives (SCCs) and Membership, 2000-2004

The initial impetus for establishing SCCs came from ACE. The original project document (Five-year Grant Proposal, September 1999) proposed setting up nine SCCs in Oromia,

three of which were to be exclusively for women. The focus was on both rural capital formation for the benefit of the farmer cooperatives and the creation of a culture of savings. A role for SCCs as shareholders in cooperative banks was also envisioned.

To implement the development of SCCs, ACIDI/VOCA brought in an expatriate as principal advisor for rural finance in January 2000 to help design its assistance to SCC start-ups. Until his contract ended at the end of 2002, the advisor designed systems and wrote articles on credit and financial issues and on SCCs specifically, procedure manuals, by-laws, and curricula for training programs. He also participated in many of the training sessions with CPB staff, members of boards of directors of both MPC and newly formed SCCs, and members and potential members of these cooperatives. This assistance was instrumental in laying the groundwork for sound operations of the new cooperatives. However, his assistance ceased just as the numbers of SCCs, their membership, and their volume of savings and funds available for lending began to increase dramatically. This lack of leadership has been evident in terms of slower development in both the numbers and the lower operational capacity of ACE's SCCs than might otherwise have achieved. In most areas (excluding Tigray), these SCCs have yet to succeed in making fullest possible use of member savings to finance productive and profitable activities in rural areas, in building on their success in mobilizing savings and capital to support the development of their communities, and in guaranteeing their own survival as sustainable financial institutions benefiting their members and the population of the areas they serve.

ACIDI/VOCA supported the development of SCCs using the same systematic approach which it used in its assistance to MPCs and other types of agricultural cooperatives. First, it did a survey of the communities. For example, in 2000, its first year of operations, it surveyed 32 communities (8 in each operational region), selected 8 based on the likelihood of success, and succeeded in establishing 2 SCCs. As time progressed, it took a selective approach in choosing which cooperatives to assist while using similar procedures to those used in the support of agriculturally-oriented cooperatives. Both the numbers of SCCs and of the members affiliated with them have grown at a rate in line with ACIDI/VOCA's ability to support their development (see Table 17). However, the pace of growth has been reasonable and sustainable; the choice of where to establish stand-alone SCCs or those affiliated with MPCs has been based on careful analysis of the commercial area of the area and of those interested in joining. The numbers of SCCs formed are in line with ACE resources available to support their development. In recent years, these resources have been limited.

The SCCs formed have received training either directly from ACIDI/VOCA or from CPB staff previously trained by ACE. The training-of-trainers (TOT) approach has been used whereby CPB staff has been trained with the understanding that they will then pass on the knowledge they have thus acquired in forming and strengthening SCCs. In 2002, 87 training sessions were held for SCCs, more than double the 40 sessions planned. Much of this training for CPB staff has been instrumental in providing farmers with information on the advantages and disadvantages of forming SCCs and later with the book-keeping and accounting skills needed to manage them successfully.

Unfortunately, not all this training has been led to the formation of new SCCs as had been hoped. The worst case of this type occurred in the southern region. There, 20 CPB staff members were trained, culminating in the end-of-training task that each newly trained trainer should go on to form one new SCC. However, in the restructuring of government which immediately followed the training, all 20 trainees were transferred to other Government departments or to other regions. Not one of them was able to form an SCC as had been expected, at least not in the area in which they had been assigned. It is, however, possible that the training stood them in good stead and some of them may even have gone on to establish or support SCCs in other regions not directly tied to the ACE program. Despite this setback, the ACE program still achieved its target of establishing ten SCCs in 2002.

Farmer training has focused on the benefits to and obligations of members of SCCs. Training of CPB and board staff concentrated on providing information on the advantages and disadvantages of SCCs and on SCC accounting and financial controls.

Up to the time of field work for the evaluation, no SCC unions had been formed. Unions will be important as SCCs advance to a point where coordination of their activities and transfer of unused balances from SCCs with net savings to those in need of additional funds for lending becomes feasible; however at early stages in SCC development, unions are not only not needed but may even be counterproductive. When SCCs reach a reasonable level of development, the creation of unions is a natural outgrowth and becomes a requirement if the number of new societies, their membership, aggregate savings and volume of loans and other services are to continue to grow at a rapid rate. Unions allow funds to be shifted from cooperatives with surplus savings to those with larger loan demand, to support cooperatives having short-term liquidity problems, to provide the specialized accounting services in a more timely fashion than they are currently provided by the CPB, and to complement the oversight of the operations of member SCCs by the CPB. Later, a federation of unions could also be needed to provide similar functions among unions as union provide member SCCs, regulate and provide part of the supervision of the system, to provide advocacy for the SCC movement with Government and to allow a forum in which to discuss and resolve common problems faced by the savings and credit cooperative movement.

ACE plans originally called for unions to be formed early on in the program. The proposal was to establish five unions during the second year. This goal was not reasonable, and it is most fortunate that unions were not formed at that point in time. The formation of unions normally comes after the maturation of savings and credit cooperatives which initially act independently and provide loans exclusively out of their own savings. Only once, SCCs have fully understood how to operate prudently using their own members savings are they in a position to make use of a union to intermediate between SCCs with surplus savings and those needing more funds to make additional loans. The delay in union formation is reasonable considering the level of development of most SCCs, the relative low level of funding available for this component, and thus the level of support that ACE has been able to dedicate to their support. The program is now in its fifth year of operation, and establishing SCC unions is in line with the current needs

and institutional capacity of primary SCCs, which are now in need of the services that unions will provide and able to contribute to their cost and operation. The availability of outside technical assistance while these unions are developing would be most helpful.

At the beginning of 2003 ACE brought in a consultant (Tom Shaw) to facilitate union formation in Oromia. A conscious decision was made to delay union formation 1) to wait the longest possible time for the initial SCCs to mature and 2) to support their formation while funding was available for external technical assistance to supervise the process. In the meantime, ACE developed model by-laws for an SCC union. At the time of evaluation field work, ACE believed that the conditions were in place for the team was told that unions were expected to be formed shortly in both the Southern region and Oromia. One SCC union has, in fact, been formed subsequent to the conclusion of fieldwork.

Auditing and Supervision

SCCs have their accounts audited by the woreda-level (or district-level) CPB auditor. The annual CPB audit sets the stage for distributing dividends, which cannot be paid until the accounts are audited. Delays in CPB audits are frequent and prolonged due to a shortage of trained staff.

Supervision for all types of cooperatives including savings and credit cooperatives is vested with the Cooperative Commission and the Cooperative Promotion Board and has so far proven adequate given the small number of such cooperatives which have been established so far. (Besides those supported by ACE, other SCCs have been set up independently by CPB staff acting on their own and, in the past year, in conjunction with RUFIP.) In many countries, financially-oriented cooperatives receive special treatment: because of the fiduciary responsibilities of SCCs in taking savings from the public, the Central Bank takes some degree of responsibility for supervising the system. For example, in the states of the West African Economic and Monetary Union (the francophone countries the CFA franc area), the Central Bank of the West African States, which has offices in all major cities of each member country, supervises SCCs. However in Ethiopia, the National Bank of Ethiopia (NBE), which has limited staff and no regional presence, has taken no role in supervising the SCCs and has no plans to get involved in their supervision. Audits and supervisory visits by CPB staff have not uncovered any financial malfeasance or embezzlements in the relatively small numbers of SCCs established so far by the ACE program or by the CPB itself. The issue now is whether supervision by the Cooperative Commission and the regional CPBs will be adequate in the face of the rapid growth of the system that will occur in the coming years.

Office Space and Office Equipment

All the SCCs visited had office space with on the premises of MPCs or other institutions (such as a women's organization in one town in Tigray). The SCCs usually occupied a separate room within the same building as the parent organization; however, a few of the

newer SCCs convened in the exact same office used by the parent organization. This situation needs to change so that the SCC reduces its identification with the organization which spawned it, establishes its identity as a separate entity, its independence and its openness to broaden its membership to new classes of members.

ACDI/VOCA has provided basic office furniture to the SCCs, usually consisting of a locking file-cabinet, tables, chairs, and a bench. One SCC had tiny lockboxes used as piggybanks for savings deposits from small children. None of the SCCs had safes. One SCC, though it had a separate office from the MPC it was associated with, did not have its own calculator to calculate interest and keep accounts, borrowing the MPC calculator when it was needed, which was frequently, given the complicated way in which loan interest was calculated. (In most cases, loan interest is computed on a declining balance basis and in many cases interest is charged based on the number of days that the loan is outstanding, making for complicated calculations for which a calculator is needed.)

The average size of SCCs (58 members) is too small as is their volume of business. In Tigray, the CPB is promoting the idea that SCCs should have a minimum of 100 members; despite the harsh environment of the region and its limited commercial opportunities, SCCs are making enormous progress in this region. As SCCs grow in size and importance, they will need to get their own premises and will need their own calculators and safes, as is appropriate for independent organizations. SCC unions will need to computerize their operations both for the sake of security and to handle the large number of transactions involving intermediation efficiently (calculation of interest paid to SCCs providing surplus funds and of interest due from those borrowing to meet member loan demand); they will probably also help member SCCs to check their accounts. The larger SCCs may also need to computerize their operations to reduce the possibility of fraud and to increase the efficiency of their operations.

SCC Growth and Financial Status

There has been rapid growth in the financial strength of the SCCs, which have achieved total equity of nearly birr 680,000 (over US\$78,000). The strongest equity position appears to be in Tigray where the debt-to-equity ratio is 1.43, compared to 2.65 in Oromia, 3.30 in Amhara, and 3.65 in the Southern region. It was a working principle that leverage (the ratio of debt-to-equity) should not exceed 3.5 in the SCCs. At the same time, the other working principle was that the ratio should be as close as possible to 3.5 to facilitate growth.

Most of the growth has been internal rather than due to increase in the numbers of cooperatives, an indication of increasing financial strength. A significant part of the assets of the cooperatives consist of money on deposit in commercial banks, which earns approximately 3.5% interest per annum.

Table 18: SCCs' Financial Positions (in Birr)

No.	Region	No. of SCCs		Assets		Liabilities		Equity	
		Dec. 2003	Dec. 2004	December 2003	December 2004	December 2003	December 2004	December 2003	December 2004

1	Amhara	6	8	186,670	369,373	142,780	283,421	43,890	85,952
2	Tigray	28	27	390,652	877,734	188,467	516,712	202,185	361,021
3	South	27	31	298,829	458,925	225,099	358,224	73,730	100,702
4	Oromia	28	34	307,317	481,497	225,927	349,739	81,390	131,758
	Total	89	100	1,183,468	2,187,529	782,273	1,508,096	401,195	679,433

Source: Table 6, ACE Annual Report 2004, April 2005

SCC Savings and Lending

SCCs supported by ACE have mobilized nearly birr 1.2 million (almost US\$140,000) in savings. Almost all this is compulsory savings collected at monthly meetings of the cooperative where members save an agreed-upon amount each time; ACE recommends a minimum of birr 10 per month since the objective of the SCCs is to have a significant impact on the development of members' businesses and to have this impact a significant volume of savings needs to be achieved in as short a time as possible. Obligatory savings were reported in the birr 20-25 per month range, though in some cooperatives, savings average birr 40 per month. The ACE program had a working principle that monthly saving in SCCs should be at least birr 10 per member per month. SCCs were not viewed as a strategy for the poorest of the poor but rather a strategy to form capital and finance business growth among the economically active poor. Low savings rates were seen as an impediment to allowing economically active community members to grow at a more rapid rate than would be possible with a fixed low savings rate.

About 20% of obligatory savings is counted as a contribution to share capital. Share capital for a person to join as a member can be as low as birr 20 or as high as birr 100. Most members range from 20 to 50 years of age. Registration fees do not constitute a barrier to entry; for example, one cooperative reported charging birr 5 and another birr 7; these fees appear to be set at levels consistent with the cost of opening a new account.

The amounts are fixed for each SCC and in most cases exceed the savings capacity of young people and women who would need a differentiated savings product and access to small loans if they are to participate in the cooperative (as they do in Mali, Senegal and elsewhere). Younger members and women can form the basis for growth and diversification of the cooperatives, allowing young people to develop businesses of their own in their home areas instead of begin forced to migrate elsewhere to make a living, and women to contribute in a substantial way to raising the standard of living of their children and families.

In many but not all of the SCCs visited during the evaluation fieldwork, a very high percentage of the savings collected were being kept in the bank in accounts bearing a low rate of interest instead of being loaned out to members. In most cases SCCs start some lending within six months of their establishment. However, even taking into account the short time many SCCs have been in existence and their lack of experience in lending, the proportion of savings that have been turned into loans to their members is low by the standards of similar programs in other countries. An extreme example of the failure to

make good use of member savings is the case of the Genet Birr (“Heaven’s Door) SCC associated with Kuchi MPC in the Bahir Dar region; total savings are birr 31,872, of which less than 14% had been transformed into loans; all the rest is kept in a savings account earning 3.5% per annum. (It should be noted that this two-year-old SCC has only been assisted by CPB staff only, and is not assisted by ACIDI/VOCA.)

The SCCs in Tigray seem to be the exceptions to this rule. One SCC associated with the Heberet MPC in Migua, Doga Tamben, had savings of birr 37,500 and loans outstanding of more than birr 25,000, two-thirds of savings; a nearby cooperative interviewed by Dr. Assefa had lent out 93% of member savings. An extreme example of full use of savings to support lending to members is a woman’s-only SCC in Tigray, which reported in March 2005 that it had savings of birr 17,745 and loans of birr 17,817 (the loan amount over 100% of savings came out of share capital); this cooperative was founded in 2002 after a promotional meeting with ACIDI/VOCA and has had constant support thereafter. Thus this SCC had 1) gone through a maturation process and 2) received appropriate training and support from a qualified provider of technical assistance.

The fact that repayment is 100% is an extremely positive note for the SCCs supported by the ACE. It will be important, though difficult, to maintain high repayment rates in the future, unless adequate technical assistance and external support continues to be available and unless growth in the number and membership of SCCs continues at a prudent rate.

Table 19: Savings Mobilized and Amount of Loans Made by SCCs in 2004

No.	Region	Savings (Birr)			Lending (Birr)	Repayment Rate (%)	Loans as % of Savings
		Compulsory	Voluntary	Total			
1	Tigray	233,865	10,149	244,014	475,471	100	195
2	South	306,611	49,822	356,433	101,752	100	29
3	Amhara	254,580	15,508	270,088	186,071	100	69
4	Oromia	329,073	7,388	336,461	199,247	100	59
Total		1,124,130	82,867	1,206,997	962,541	100	80

Source: ACE Statistics (and Evaluation Team Calculations) March 2005.

Interest Rates, Loan Terms and Maximum Loan Sizes

The entire financial system in Ethiopia is in need of major changes to bring it in line with practices prevailing in countries with a greater market orientation and more freedom of entry into the banking business. In addition to the banking industry, where the presence of state-owned banks is large, a variety of other credit programs are operated by

government on terms unrelated to the costs of operation or the opportunity cost of capital. Where MPCs are able to obtain loans, due in large part to guarantees provided by the USAID DCA facility, they often pay rates as low as 7.5% per annum from state-owned banks. On the other hand, in the unregulated local rural financial market, money lenders charge between 5% and 10% per month, sometimes more, for quick cash loans. Microfinance institutions charge between 9% and 12% per annum, rates which are also appear to be too low to cover their costs .

SCCs typically charge between 7.5% and 24% per annum on a declining balance basis. It is not clear on what basis most SCCs set their interest rate, or what advice they receive from ACE and the CPB on what level is appropriate to their situation. The reaction of General Assemblies to the inability to place a high percentage of members' savings as loans, has been to reduce the interest rate and increase the loan term. Some SCCs which have been charging 2% per month have dropped to the rate to 1% per month or less. Most lending has been for the agricultural and livestock production purposes which members being mostly farmers understand. Fewer loans have been granted for quick-turnover petty trading in which a larger number of women participate; interest rates have been reduced to accommodate lower-value activities instead of encouraging members to engage in more profitable activities able to sustain a higher interest rate. All borrowers interviewed had made reasonable profits from the businesses financed by their loans and had had no problems paying them back even at interest rates as high as 2% per month.

Loan terms have typically been kept short, which is reasonable in the case of new institutions that have small amounts of funds to lend and little experience in lending. Typically, loan terms have not exceeded six months. ACE program initially recommended that loan terms not exceed one year, if the loan was to be repaid in a single payment; it also recommended that not more than 20% of the loan portfolio be in agriculture. Now, to increase loan placement, terms have been extended, sometimes to two years, to facilitate the financing of agricultural activities with longer maturation periods and increasing the risk of loan default. These changes are unwise and probably would not have been made if a long-term advisor had been involved during program implementation as well as the design phase to assure that SCCs were receiving adequate advice on technical issues like these as they arose.

Dividends

Only a small number of SCCs have paid dividends, because most are relatively new, are not making effective use of their loanable funds to finance profitable businesses by members, and have been subject to delays in the CPB audits that are the basis for paying dividends. Dividends are less important in encouraging membership in SCCs than in other types of cooperatives. Nevertheless, some of those interviewed pointed out the fact that the payment of dividends back to members constituted an incentive for rural people to join SCCs rather than simply depending on microfinancing institutions which pay no dividends to those who use their loan services.

Saving is a major motivation for many SCC members, and satisfaction with the results of systematic obligatory savings has been reported both in ACDI/VOCA reports and in interviews with members by the evaluation team. Nevertheless, ownership of the institution and benefiting from the rights conferred by membership, including receipt of dividends, are major factors in the decision to join SCCs.

Table 20: Dividends Paid from SCCs to Members in 2004

No.	Region	Number of SCCs paying dividends	Number of beneficiaries	Total dividends paid (Birr)
1	Tigray	6	426	12,591
2	Amhara	1	65	153
3	Oromia *	3	219	7,882
Total		10	710	20,626

* Three multipurpose coops are SCC members; these coops also received dividends.

Note: SCCs in the Southern Region did not pay dividends.

Source: ACE Statistics (and Evaluation Team Calculations) March 2005.

Rural Financial Intermediation Program (RUFIP)

Jointly funded by the African Development Bank and IFAD, the six-year Rural Financial Intermediation Program (RUFIP) plans are extremely ambitious. RUFIP proposes to establish over 3,000 additional SCCs and almost 80 unions over the next five years, compared to the 100 SCCs and one union established by the ACE program over the 5 years of operation of its program. In its first year, RUFIP has already formed 137 SCCs; this number exceeds the number of SCCs formed by the ACE program in its 5 years of existence; membership in RUFIP sponsored cooperatives totals 5,381. Despite considerable interaction of the IFAD design team with ACDI/VOCA during the preparation of its program, the approach IFAD adopted differs in significant ways from that followed by ACDI/VOCA in its support to SCCs. First, the RUFIP program does not distinguish between a poverty-reduction program and a program focusing on economically active people who have the ability to save themselves and to participate in savings intermediation. As a massive nationwide program, it does not focus on groups and geographical areas with good commercial potential, which, for the most part, the ACE program has done. Second, the level of technical assistance required as a precondition for a program of this size to succeed was not unavailable within the CPB at the time the program started. No technical assistance team was in place at the time the team interviewed the National Program Manager in Addis and later when it met with IFAD's Country Program Manager in Rome; the delay in putting needed technical assistance in place was ascribed to the change from the international procurement rules used by IFAD to those followed by African Development Bank international

procurement rules which is co-financing the loan. Despite its experience in providing initial support to the SCC system, ACDI/VOCA is not being considered as the provider for this assistance and thus its experience will not be available to guide this process, at least not through the RUFIP program. Third, the intermediation component of the program involves a departure from the principal that savings should constitute the source of funds for loans so that members have the discipline of borrowing for their loans using funds obtained from the savings of their fellow members of the local SCC. One third of the loan funds under the RUFIP program do not come out of member savings but are provided by IFAD and ADB; newly formed unions will be responsible for the intermediation of these funds, while borrowers will lack the incentive to repay that comes from borrowing their neighbors' savings, since a substantial part of the loan funds come from external sources. Fourth, it is not clear that the Cooperative Commission and Cooperative Promotion Boards which have the fiduciary responsibility for supervising the system and making sure that the savings of members are secure will be adequate to the task of supervising an SCC system which is growing at a rate of 100% per year over the period during which the program will be operating, including the additional responsibility of supervising the intermediation activities of 80 unions. The failure of even a small number of these SCCs could imperil the entire system and put the savings of all the system's members at risk. Such a failure would make it impossible to recreate a savings and credit cooperative system in rural areas of Ethiopia for years to come, thus wasting the time, money and effort which have gone into the ACE program's work in establishing the foundations for a sound savings and credit cooperative system. With vast expansion planned and the formation of scores of unions, a continuation of ACE assistance and support to guide their development, to advise on funds intermediation among SCCs within a given union and among unions, and to assist in overall system oversight would seem essential to preserve and build on the investment USAID has made to date in piloting the establishment of rural financial cooperatives.

F. Unintended Impacts.

Cooperatives as Price-Setters in Local Markets and Direct Participants in Exports

The results expected from the ACE program when it started seem fairly modest at the time the program was proposed: nine points revolving around the strengthening of a small number of cooperatives, tying them together in unions and perhaps federations, improving the business skills of their leaders and staff and of CPB staff supporting them, diversification of their business activities, local level advocacy, linkages with private sector firms, establishment of some SCCs and HIV/AIDS awareness training. Tangible results were expected in the form of increased sales of inputs and products and the payment of dividends to members. None of these changes seemed likely to affect private sector business, and indeed it might have seemed that cooperatives by bulking up products would actually improve profits for some traders by reducing their costs of assembling volumes of products for major urban and export markets.

Instead, the stronger cooperatives and unions now are perceived as a threat to the market share of small traders who had enjoyed local monopolies. Even with the relatively low levels of finance they have obtained to date, cooperatives have become price-setter in both local input and product markets; with better access to finance which will come with greater access to DCA-guaranteed loans and access to credit from other sources as their own resources continue to grow, cooperatives stand a good chance of dominating local marketing in which they operate. As cooperatives gain strength, they are moving from allies of large private sector agribusinesses to serious competitors, and as such threatening the dominance of firms for which they had formerly acted as assemblers. In coffee, direct linkages with foreign buyers have allowed cooperatives to leap-frog local traders and to capture net surpluses for further expansion of their businesses and distribution to their members in lieu of profit formerly made by traders. At the national level, there was no understanding six years ago either of how fast and how large and strong cooperatives and unions could grow and, with ACE support, how fast they could establish direct contacts with large domestic and foreign buyers. Run by professional managers and directed by democratically elected leaders, business-oriented cooperatives are now rightly perceived as a force to be reckoned with in the Ethiopian economy and an example of what can be achieved when small producers organize to achieve their financial objectives. The stage has now been set for the cooperative movement to become an independent voice representing the interests of small producers and demanding attention to their rights and a force which it is becoming increasingly difficult to ignore.

Unprecedented Improvements in Family Welfare

Although final beneficiary level impacts were not a major consideration at the time the ACE program was designed, there certainly was an understanding that modest improvements would be achieved in farm income and livelihood activities financed by SCC loans. However, the degree to which family welfare improved from those members of cooperatives who participated most fully in activities supported by the ACE program would certainly have been hard to imagine when the program started. Improvements in welfare were certainly intended; however, the degree of change could not have been predicted even by the most optimistic of program designers.

Using accepted appraisal techniques, consultants have categorized and quantified the types of welfare improvements noted by participants in interviews of a much larger sample of cooperatives than was originally planned. A concerted effort was made to visit cooperatives of different types; the team divided its resources to reach a larger number of cooperatives and made a point of visiting cooperatives located at long distances from the towns their unions were located in to be certain that conclusions about ACE program contributions to family welfare were representative and not simply the result of interviewing in cooperatives located close to town and on main roads. Based on the one of the consultant's experience in statistics and with the conduct of farm-level surveys,⁷ it is highly unlikely that the results of these interviews is not generally representative of the

⁷ Dr. Jeff Dorsey taught statistics at Univeristy level and led and participated in large numbers of sample surveys.

program's impact on the welfare of cooperative members in general. The team leader and Dr. Tesfaye Assefa interviewed large numbers of primary societies and a number of SCCS, many of them located at great distances from regional centers; the other international consultant interviews 13 primary cooperatives assisted by ACE and a small number of agricultural cooperative cooperatives not assisted by ACE plus half a dozen SCCs including some not assisted by ACE. Most people noted changes in their ability to provide for their children's education, with reported increases in the number of children who were attending school and their purchases of books, school supplies and clothing for their children. Improvement in home were reported directly by respondents and indirectly through initiatives to stock roofing sheets at stores run by the cooperatives. Furniture improvements were also noted particularly the purchase of beds. Purchases of animals were also recorded (milk cows, oxen and goats). Improvement in family diets was also reported, including milk use for family consumption. Motorized waterpumps were reported being purchased by farmers in two cooperatives for vegetable production, resulting in significantly family higher incomes. Coffee farmers are now investing in seedlings to expand their plantations and in pruning trees to eventually raise yields despite short-term loss of production.

Cooperatives and unions are making significant investments on behalf of their members; one coffee cooperative (Shoye Farmers Multipurpose Coop) planned to dedicate its Fair Trade bonus to fixing the road to the cooperative which was in an awful state of disrepair. Several cooperatives were expanding existing cooperative stores and increasing the variety of goods stocked; others were analyzing the costs and benefits of setting up cooperatives stores. Besides diversifying into other enterprises which they deemed profitable (such as hides and skins), cooperatives were investing in enterprises which are both profitable and provide much needed services to their communities (oil mills, flour mills, maize shellers, cereal banks, etc); in some cases members pooled their entire dividends for a year to make a capital invest of this type. Those located in areas where it was feasible were planning on installing electricity for the cooperative offices and warehouses and telephone service; Morsito Primary Cooperative was waiting for the power to be connected at the time it was visited by the evaluation team. Cooperatives planning to install electricity were also planning on computerizing their operations. These were not simply pipedreams but the kind of plans for the future that leaders of successful organizations make and work to achieve. Lume-Adama Cooperative Union is building a training center which it will use and pay for out of training fees paid by users.

It would have been hard to predict that earnings of some cooperatives, like the Wonjii Sugar Producer Cooperatives, would be sufficient to allow them to pay to bring electricity to all their members' houses; now children and youth stays home watching television instead of frequenting local drinking establishments. This same cooperative is building an 11 room hotel at a cost of birr 260,000 using its own funds and a birr 50,000 loan from the union; based on a 50% occupancy rate and the room rate of birr 30 per day which they plan to charge, they can recover the cost in 5 years. An SCC loan allowed an entrepreneur in Tigray to buy a small generator and provide electricity for five hours each evening to more than half the 150 families in the community; one of them bought a TV and video system and set up a TV cinema using the electricity provided. It is doubtful

that impacts this significant on the welfare of people touched by the ACE program were really understood before the program was started.

Milk-Processing Proposal:

The Selale Dairy Farmers' Cooperative Union is thinking about processing and distributing milk itself rather than to continue selling through a private processor. It wants to get a plant with 3000 liters capacity and an estimated cost of birr 30 million for new equipment. Whether this proposal is currently feasible is unknown since no feasibility study had been done by the time fieldwork was done, it shows that unions are, at least in their own minds, capable of entering into activities which, until now, they have left to private partners. The threat of competition of this sort was clearly worrisome to the owner of the dairy to which the union was currently supplying milk.

There are certainly questions of how far downstream the unions should go. A November 2000 study of producer organizations across Africa concluded in general that unions did not have the capacity to manage major processing facilities. Nevertheless, unions supported by ACE have made tremendous strides and are beginning to develop the business acumen needed to handle activities that were not envisaged when the program started. Their success in managing the business of making farming profitable for small producers is spawning criticism from private sector business people who are just now beginning to see second and third tier cooperatives as serious competition and threats to their positions as processors and exporters.

3. Lessons Learned and Recommendations

A. Capacity Building for Cooperative Commission and Promotion Bureaus

Conclusions:

1. The training provided to CPB staff was instrumental in supporting primary cooperatives, where they played a major role in promoting formation and providing basic training to restructured and new cooperatives, such as the SCCs being formed in large numbers and at a rapid rate.
2. ACE does not and never will have the capacity to carry out all the necessary training, supervision, and audit activities on its own, and therefore, the CPB will continue to have principal responsibility in these areas.
3. Continued collaboration and provision of additional training for CPB staff will be necessary for the foreseeable future.
4. To make use of their improved capacity, the CPBs will continue to require the logistical support and infrastructure provided by ACE to assure staff outreach to

cooperatives and the financing and organization of CPB training courses for cooperative members and staff.

5. Training-of-trainers (TOT) continues to be the most cost-effective way for the ACE program to operate for many of the interventions it carries out.
6. Further displacement and loss of staff through major restructuring of government services and their reshuffling to different geographical areas is not expected; thus, most of those trained will be able to apply their new skills in the regions where the training was expected to be used.
7. Additional training for auditors is needed so that they can complete audits more quickly and thus allow cooperatives to determine surpluses for distribution as dividends or reinvestment in the cooperative.
8. Private audits have also been shown to be an effective way of cutting down the backlog of audits and will remain an option for cooperatives eager to see their accounts audited expeditiously so that dividends of increasing value can be paid.
9. CPBs capacity is limited for providing specialized service needed by financial cooperatives (SCCs and unions) whose numbers are expected to rise exponentially over the next few years.
10. Supervision of these new types of cooperatives is vested in the CPBs and the Cooperative Commission and their staff is unequipped to handle this task efficiently without additional capacity building.
11. Without improved skills on the part of these staff, the savings of members will be at risk and effective use of SCC loans will not be made both within and outside of agriculture.

Recommendations:

1. Some capacity-building for regional CPBs needs to continue.
2. Training of new staff is a key element in success of cooperatives since some staff which had been trained have been promoted or transferred.
3. The audit capabilities of the CPBs need to be strengthened in order to assure that cooperative accounts are audited quickly so as to detect and prevent fraud and to allow the General Assemblies to make informed decisions on distribution of dividends or reinvestment of surpluses.
4. Given the vast expansion of SCCs , ACE involvement in capacity-building for those organizing and supporting SCCs should continue for the next five years.

5. To assure that the process of cooperative development as a whole is successful, training at the same and higher levels should also be provided for the Cooperative Commission.
6. Training for the Cooperative Commission in supervision of financial cooperatives should be a high priority.

Lessons Learned:

1. Capacity-building for the Government entity responsible for cooperatives can be a cost-effective way of increasing outreach in promoting agricultural and savings and credit cooperatives in the regions where the program operates.
2. The training-of-trainers approach and partnership with the Government cooperative entity is effective in assuring collaboration and skills transmission for the development of rural cooperatives, despite some attrition and transfer of staff.
3. Achievement of program outputs such as increased payment of dividends can only be obtained on a large scale through capacity-building in audit capacity for the entity in combination with the outsourcing of audits to private auditors to those cooperatives and unions which can afford it.
4. The consolidation of gains achieved by the program require capacity-building at the top for the recently established Cooperative Commission to ensure that skills acquired and new capacities developed in conjunction with the ACE program are transmitted to growing number of cooperatives throughout the country.

B. Transfer of Necessary Operational Skills to Cooperatives and Unions

Conclusions:

1. ACE has inculcated in the cooperative movement the understanding that cooperatives are to operate professionally, they need to hire professional staff to manage day-to-day operations. In fact, all unions and most cooperatives have managers; as a minimum, cooperatives have hired bookkeepers as well as storekeepers, shop assistants and guards. The professionalization of cooperatives is a major achievement of the ACE program leading to greater efficiency and accountability.
2. Training, much of it carried out by the CPB, has allowed board members who have received it to better understand their responsibilities and how to carry them out.
3. This training has improved the operation of cooperatives and unions where the board and control committee members take an active role in making sure that

- hired staff act in accordance with the will of the General Assembly and the directives of the board and manage cooperative business effectively.
4. However, turnover within boards will be increasing in the next few years as directors elected and then reelected to the term of maximum service, two consecutive three-year terms, finish their mandates. This is beginning to happen now, making it urgent that new board members be trained even in cooperatives that have already received ACE training provided by CPBs and the unions.
 5. In view of problems with CPB staff transfer after training, ACE changed strategy and began training unions directly and using the expertise thus acquired by unions to transmit these skills and knowledge to the primary societies.
 6. The high volumes of inputs supplied, products marketed and new surpluses achieved by cooperatives and cooperative unions could not have been achieved without the improved skills of board members and professional staff as a result of ACE interventions.
 7. Not a single case of embezzlement or misappropriation of funds on ACE-assisted cooperatives was reported to the Evaluation team whereas in the past cooperatives were frequently the victim of such actions; the one case that was reported, in the presence of USAID staff accompanying the evaluation team, occurred on a non-ACE-assisted cooperative interviewed as part of a control group.
 8. ACE has encouraged unions to use private firms to audit their accounts and to suggest needed changes in accounting practices or operations but the Consultants are not aware that primary societies have followed this same path yet.
 9. Cooperatives either underestimate the costs associated with supplying inputs or, realizing the insufficiency of their margins, fail to make their voice heard in a unified way to bring about a change in pricing policy. The mark-up of 2 percent or less on the cost of fertilizer delivered to members is inadequate, particularly since input supply is for many cooperatives and unions, one of their main activities. Margins are insufficient to recoup a fair share of the value to farmers of the on-time delivery of these essential inputs.
 10. ACE needs to do a study of what the real costs of input supply in Ethiopia is and to compare them with the 5% margin considered necessary to cover costs elsewhere in Africa; only then will cooperatives and unions be able to make an informed decision about what is an appropriate mark-up.
 11. ACE has successfully provided support for fertilizer imports and achieved important reductions in its cost which unions have passed on to members; however, maximum savings due to volume discounts and savings from direct importation have still not been fully achieved.
 12. Farmers and their organizations have achieved remarkable improvements in quality and marketing of their products as a result of ACE support, but they need more specialized technical training in the specific products they are marketing.
 13. Participation in trade fairs in the United States financed by the ACE program led directly to the direct marketing relationships with companies like Volcafe (agent for Starbucks). However, after ACE stopped paying the cost of participating, coffee unions stopped attending these events.
 14. Based on their success in their operations to date, cooperatives and unions plan to diversify into new product lines or move into processing of products that they

- now sell in raw form. Many were starting to make plans for major investments to be made with their own funds or by obtaining loans without any type of feasibility study of the proposed activity.
15. Most unions (and an increasing number of cooperatives) have access to electricity. All unions and many primary societies are of a size and complexity of operation that justifies computerization. Those which have done so are beginning to reap the fruits of this investment in terms of better decision-making and in the final analysis will make higher net surpluses as a result of this change.
 16. Unions, especially the coffee unions, have made vast strides in marketing, but they need to improve their market information. ACE can and should help improve the market information capability of the cooperative movement, focusing on the principal products cooperatives trade in.
 17. Most unions have telephones and some are starting to have internet access thanks to the support they are receiving from ACE. Good communications are now recognized by cooperative leaders and managers as imperative for the efficient operations of their cooperative businesses.
 18. Now that only 30% of net surplus has to be paid out in dividends (instead of the 70% required before), the General Assembly may decide what percentage should be distributed as dividends, what percentage retained for reinvestment and how it should be invested, ACE is helping cooperatives make informed decisions on this issue. Unions are also helping; some are already setting examples by analyzing business opportunities and reinvesting significant portions of their surpluses.

Recommendations:

1. CPB staff should continue to be used for basic training in cooperative principles and certain other areas, but much of the training in product-specific skills and business skills training and financial management should be arranged through the cooperative unions.
2. Newly elected board members need to be trained concerning their duties even in cooperatives where such training has been successfully carried out in the past.
3. Unions should hire private firms to audit their accounts and should not rely on CPB auditors to audit their accounts and to advise them on needed improvements in their systems.
4. Unions should also encourage stronger cooperatives making large net surpluses to hire private firms to audit their accounts in order to speed up audits, to acquire the guidance specialized private firms can provide, and to obtain the benefits of up-to-the minute understanding of their financial position in order to make better decisions and to define their business and investment strategies.
5. Even so, given the increase in the number of primary societies, there is a need to continue training support to CPBs so that they can better assist cooperatives; auditing, especially for small SCCs, is one area where ACE may find it cost-effective to work through the CPBs until the size and earnings of primary societies reach a level which justifies the hiring of private auditors.

6. ACE should continue to strengthen the Cooperative Commission and CPBs so that they can provide oversight of SCCs and work directly with cooperatives to strengthen their financial control systems.
7. ACE should provide technical and financial support for carrying out feasibility studies to assess the costs, risks, benefits, and financing needs for new products or proposed investments. With the increase in the size of DCA guarantees, their availability to finance medium-term investments out of their own funds, and the greater ability of cooperatives and unions to decide on whether or not and how to reinvest net surpluses, it is essential that ACE provide unions with guidance and support to carefully analyze investment alternatives and large projects prior to the commitment of significant resources to proposed projects.
8. ACE should facilitate access to computers and training to allow cooperatives to computerize their operations as soon as they have access to electricity and their volume of business justifies such an investment.
9. ACE needs to provide support to unions for fertilizer imports and to encourage the formation of federations that are large enough to cover the total volume of imports needed by federated unions and their member cooperatives since economies of scale in fertilizer purchase exceed volumes that any one union alone is able to achieve.
10. ACE needs to revitalize support for market linkage activity by encouraging those which can in financing their own participation in trade fairs and financing participation for those which cannot and arranging travel to neighboring countries and to Europe to link up with major trading companies. It should continue to support market-linkage activities within Ethiopia with processors and traders for products which are not yet feasible for the movement to process on its own or to export itself directly.
11. Cooperatives and unions urgently need advice from consultants whom ACE is in a position to recruit to carry out feasibility studies before cooperatives embark on untried territory, including processing products that they are currently supplying through linkages with private sector firms and exporting products directly.
12. The coffee unions may also want to form a federation to represent Ethiopian cooperative coffee producers in trade shows in the United States and Europe. Profits from coffee sales are high enough that unions may want to pool their resources to attend trade shows even if formation of a federation is delayed. Participation in these trade fairs is a necessary and essential cost of doing business. The unions collectively and eventually the coffee union federation need to participate on an annual basis to build new relationships and alliances rather than simply depending on partnerships already formed to continue forever.
13. Manual systems in large businesses are an invitation to fraud. All unions and most cooperatives in a position to do so should computerize their operations and need to be trained in the systems used. This is a security measure, making it easier to audit accounts and spot fraud early.

Lessons Learned:

1. The hiring of professional staff marks a key turning-point in the development of cooperatives which can only be achieved as part of a program of long-term development such as has been initiated by ACE.
2. Training is an essential element in the development of a business-oriented cooperative movement. Government cooperative staff in a training-of-trainers capacity can have a key role at initial phases and in inspiring the members with the principles of cooperative organization but subject area training in specific products and in business skills may be better managed directly by an change-agent like ACDI/VOCA directly and eventually taken over by cooperative unions and higher level cooperatives.
3. Training of members, hiring of professional staff, close interaction with an agent like ACDI/VOCA and proper monitoring and auditing of accounts can result in cooperatives which manage members money on a sound basis and remain accountable for their actions and for the results obtained.
4. As cooperatives have larger surpluses available and are able to acquire larger and longer term loans and the ability to invest in new types of enterprises, they will need assistance of external consultants, identified initially with the assistance of an agent like ACDI/VOCA to do the kinds of cost and feasibility studies needed to price their services appropriately and to make sound investments in activities and projects that they are capable of managing and bringing to fruition.
5. The future will require that cooperatives and unions further improve their marketing through networking with potential and current buyers at annual trade fairs and subsequently by email, FAX and phone and through access to accurate and up-to-date market information through better communications, internet technology and reliable price and volume statistics order to market their 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 operations.

C. Business Development of Cooperatives and Unions in the Rural Economy

Conclusions:

1. Not all areas in which ACE is operating appeared to have been selected on the criteria of significant commercial potential for cooperative business development and some areas with low population densities, long travel distances and high service costs were being served.
2. Unions have established linkages with processors and private exporters to obtain the best prices and most favorable terms possible considering the volume of products being produced and the current development of the unions. However, it is apparent that cooperatives are ambitious and view these agreements as alliances of convenience and as steps to an eventual goal of processing or direct sales to buyers both nationally and overseas.
3. The market power of cooperatives is already squeezing the profits of small traders in local markets, and unions are competing with wholesalers at regional levels.

4. Cooperatives have been prohibited from selling commonly used veterinary drugs in restraint of trade. Ministry of Agriculture intervention has adversely affected the cooperative sales of some agricultural chemicals and veterinary drugs while the same prohibitions or limitations have not been applied to private traders.
5. The success of cooperative and union marketing efforts has led to complaints from traders and their allies about special treatment of cooperatives as they see competition from cooperatives and cooperative unions increasing and their market power being eroded.
6. Unions are handling an increasing volume of inputs, selling to both members and non-member farmers; a growing proportion of these inputs are now being imported by individual unions.
7. ACE provided crucial support to initial linkages between unions and traders, processors, and exporters both internally and, in the case of coffee, in the international market. It paid the expenses of coffee union managers and board members to attend coffee-buyers' conventions in the United States during 2000 and 2001 (but not since then). Furthermore, ACE has recently strengthened its marketing department by hiring a full-time expert.
8. The volume of fertilizer sold by unions increased dramatically but is hampered by the monopoly of the state fertilizer enterprise and a company owned by the party controlling government; better prices might be obtained by banding unions together in federations, placing joint orders and tendering both domestically and internationally.
9. Members of sugar cooperatives are some of the best-off farmers in Ethiopia, providing their members a high standard of living and sufficient funds to diversify into other types of high-value business activities (irrigated vegetable farming, hotels, etc).
10. Milk cooperatives and the dairy union have achieved remarkable improvement in the price of milk and access to market, encouraging more farmers to join the cooperatives and increase the number of cows they milk and, over time, the productivity of their herd. Part of the success of the union is due to its partnership with a private dairy processor. However, the union now feels strong enough to start processing and distributing milk itself, causing some concern on the part of the private processor. No feasibility study had been done for the proposed move into processing, including financing and the management capacity of the union for plant operations and distribution.
11. The payment of patronage dividends to farmers, which was set until recently at 70% of the net surplus of a cooperative or union, has been the most important incentive for farmers to join cooperatives. The fixed percentage was the best approach initially because dividend pay-outs clearly showed farmers that it paid to be a cooperative member. Now that cooperatives are mature enough to make decisions about dividend distribution or reinvestment, General Assemblies are now deciding what percentage to distribute what to reinvest.
12. Bonuses for high-quality, fair trade, and organic coffee have a significant impact on total farmer income, encourage them to improve quality, and provide a strong incentive for farmers to join coffee cooperatives and affiliate with unions.

13. Unions obtained loans, mostly market-season loans, of a little over \$2 million as a result of the DCA loan guarantee facility; these loans were indispensable to expanding the volume of business which they were able to transact directly and in cooperation with member primary societies, through which a significant fraction of the credit was channeled for their own purchasing activities. Thus, DCA loan guarantees have been instrumental in the success of the unions' marketing activities. However, the amount required was generally reported to be four times the amount actually received; the Consultants believe these figure are only a slight exaggeration of the real need for funds to expand their purchase at harvest.
14. As they expand the volume of products marketed, primary societies and unions are finding it necessary to increase the size and standards of their warehouses and other facilities. They are also finding it necessary to acquire transport, tractors, and simple processing equipment to provide for the needs of their members.
15. After several years of successes, some cooperatives and unions have begun to acquire assets of their own that are sufficient to allow them access to credit without the need of a DCA guarantee. Some are obtaining financing for warehouses with loans or loan guarantees from regional governmental authorities.
16. More cooperatives and most unions now have access to electricity at least part of the time. As their operations expand and grow in complexity, they need and in a few cases, with the help of ACE, have acquired computers, computerized financial and control systems, and the training needed to use them.

Recommendations :

1. Future ACE work on support for farm cooperatives should focus on geographic areas that increase the profitability of existing unions and cooperatives by increased membership by increasing membership, affiliation of cooperatives in regions already served, and service to cooperatives in areas adjacent to those already served, or by adding new areas based on high potential for profitability and business success. (There may be some justification for SCC support in other areas, however, provided that other income sources besides agriculture exist.)
2. ACE should continue its highly successful efforts to support primary cooperatives and unions in increasing their market share.
3. Linkages with processors and private exporters should be maintained as long as they seem reasonable and no better alternative marketing arrangement is feasible given the level of capacity and development of the unions or federations.
4. The most common veterinary drugs should be sold in all cooperatives; supervision should be provided by a professional veterinarian from the union.
5. ACE should engage a consultant to analyze the validity of complaints about special treatment of cooperatives, analyze privileges enjoyed by private sector firms (including access to finance) and state enterprises, and recommend how unions and federations should respond to these allegations.
6. Economies of scale could be obtained in fertilizer by federating unions, increasing the size of single orders and, eventually, making bulk purchases for bagging inside the country. ACE should contribute to and technically support this process.

7. Unions as a group or organized in a federation or league of federations need to analyze policy decisions, rules, and procedures of the Ministry that may adversely affect the business, and to lobby vigorously with donor support for policy change.
8. Additional support from ACE is needed for linking unions and federations with prospective suppliers of inputs and buyers of products; where necessary, depending on the product, internal linkages may be necessary; once unions and federations achieve a level of experience and maturity that makes it feasible, these same linkages in some cases may need to be replaced by processing and distribution or direct export by the cooperative entities themselves.
9. Sugar cooperatives need support from ACE to do feasibility studies for activities into which they are diversifying and on the development of SCCs to save and profitably invest part of the income they derive from sugar and from new activities. Should new areas be put under irrigation for sugar production, ACE should provide technical support for new sugar production cooperatives.
10. ACE should help the Dairy Union with feasibility studies for its entry into processing; if these studies indicate a high probability of success, ACE should provide technical support for the acquisition of the necessary (preferably used) processing equipment and establishment of the plant and distribution system.
11. As primary societies and unions mature, they need assistance from ACE 1) to make informed decisions on what projects and activities to embark on, through well-analyzed feasibility studies, and 2) to decide what percentage of net surplus to invest in selected projects and what percentage to reinvest.
12. Coffee farmers require continued ACE support in making new linkages to markets for high-quality coffee so that premiums for quality, fair trade and organic production can be increased, as well as the volumes traded in these markets. The coffee unions appear also are at the point where they require assistance in the creation of a coffee union federation. A feasibility study should be carried out.
13. The size of the DCA guarantees has been increased ten fold; this increase needs to be assessed to make sure that even this level is sufficient, together with other sources of finance, to support increased volumes of cooperative marketing.
14. DCA guarantees for medium-term loans also need to be assessed for their adequacy to support improvement and expansion of warehouse facilities, acquisition of equipment, etc. Management of these expanded operations will require additional support from ACE, especially for training to manage the larger scale and greater complexity of operations.
15. Cooperatives and unions need ACE training and assistance in creative ways of financing their activities and investments without the DCA loan guarantee while at the same time lobbying for banking sector reform.
16. Cooperatives and unions will need much more assistance from ACE in future years to acquire computers and to computerize their operations. In most locations, given the unavailability of the electricity supply, laptop computers with extra batteries and good physical security offer a better alternative than desktop computers. Links to the Internet, where available, will be essential, both for communications and acquiring market information.

Lessons Learned:

1. Consistent effective support over a period of five years by the application of the skills ACDI/VOCA has acquired over the years in the development of cooperatives as a business has made cooperatives into major players in agricultural marketing in the regions where they operate and significant contributors to the growth of the rural economies in which they are situated.
2. Revival of cooperatives in the same regions which have not received support, their affiliation to unions, the incorporation of cooperatives adjacent areas into unions, the development of business-oriented cooperatives in other areas and the exploitation of agribusiness opportunities in processing, value-adding and direct import/export, will require additional support.
3. The size of the movement, its level of development, its volume of business and the rate at which it is expanding, and the economies of scale in major commodities such as grain and coffee require action on the creation of federations. This work will require the kind of support ACDI/VOCA has provided to similar producer organizations in other countries in order to assure the investment USAID has already made in the development of cooperative business in Ethiopia and the full realization of its potential for improving the welfare of rural people through better marketing and production.
4. Value-added wholesaling, processing, and direct export activities which are beginning to be proposed at various stages of the cooperative movement need to be carefully analyzed in terms of their costs and benefits and the ability of the cooperative entity to manage these new enterprises. Failure to support the decision-making process by assisting in the identification of expert advice and sharing an appropriate part of the cost of such studies will result in the waste of resources and the probable loss of gains already made in the institutional development of the cooperatives involved, as has been shown all over Africa where cooperatives have embarked on value-added activities for which they were ill prepared.

D. Savings and Credit Cooperatives

Conclusions

1. Over the past five years, the ACE program has seen the establishment of 100 savings and credit cooperatives and one union in four regions of the country, collecting and safe-guarding a large volume of member savings with no losses and transforming these savings into loans to finance member projects.
2. Resource and staff levels for supporting SCCs have been insufficient. The lack of the principal advisor during the last two years of the program had a negative impact on implementation. These problems have limited the number of SCCs formed and the development they have achieved. Training has been insufficient

for management of SCC financial resources; non-agricultural projects have for the most part not been identified and have not been financed.

3. SCC membership has been drawn from an unnecessarily narrow base, almost entirely from farmers who are already members of MPCs. (For example, a dairy cooperative forming an SCC planned to limit membership exclusively to farmers who sold milk to the dairy cooperative, to facilitate loan recovery.) Members are mostly limited to farmers; others, particularly women, young people, civil servants and traders have not been actively encouraged to join.
4. Contrary to recommendations by ACE, in most regions activities financed have tended to be agricultural or livestock-related, activities whose rate of profit is relatively low and whose maturation periods are relatively long.
5. Interest rates vary wildly among SCCs, and due to the lack of guidance and the desire to accommodate long-maturing agricultural projects have been set too low.
6. Petty trading, often a women's activity, has not been supported to the degree justified by market opportunities in rural communities.
7. Supervision of the savings and credit cooperative system, which is responsible for an increasing volume of members' savings is vested in the Cooperative Commission and CPBs whose capacity is limited.
8. The ADB-IFAD funded Rural Financial Intermediation Program is replicating the SCC program pioneered by ACE on a massive scale (creation of 3000 SCCs, 80 unions and external credit fund to supplement savings). The quality and quantity of technical assistance available to the program is uncertain and probably inadequate to the needs of the burgeoning SCCs system. The use of external funds to finance lending raises risk. These risks could be mitigated if RUFIP were accompanied by a substantial expansion of ACIDI/VOCA's support to SCCs.

Recommendations:

1. ACIDI/VOCA's support to SCCs should be considerably expanded, including the provision of analysis of policies and procedures for all SCCs.
2. An expatriate technical advisor for SCCs and other credit issues should be brought on staff immediately and should remain under contract until the end of any future SCC support program.
3. A full-time staff member exclusively in charge of SCC activities is needed in each region, and appropriate junior staff needs to be recruited, trained, and supported.

4. Through the intervention of the Cooperative Commission, ACDI/VOCA should have a major role in coordinating technical assistance to the SCCs formed under the aegis of the RUFIP program.
5. Guidance should be provided to new and existing SCCs on setting appropriate interest rates and loan terms and on meeting competition from other lenders.
6. Encouragement needs to be provided for the expansion of SCC membership to include more women, young people and non-farm members of the community.
7. SCC board members and borrowers need training in loan analysis for non-agricultural projects.
8. Loan products for non-agricultural projects should be designed and marketed. Viable business opportunities are not being missed in regions except for Tigray.
9. Analysis should be done and study tours should be arranged to countries with experience in incorporating women, young people and non-farmers into SCCs to places like Malawi and Uganda.
10. ACDI/VOCA should help the Cooperative Commission and CPBs bureaus to improve their capacity for the supervision of the fast growing numbers of SCCs.
11. Unions should be developed at a prudent rate based on the ability and needs of the SCCs rather than on a pre-determined quota unrelated to regional SCC capacities.

Lessons Learned

1. Development of a successful rural-based SCC system such as has been initiated with ACDI/VOCA's ACE program in Ethiopia requires a long-term commitment and a higher level of resources. Long-term support through WOCCU and NASFAM in Malawi to its MUSCCO system.
2. A long-term advisor is needed for the duration of the program, including implementation and consolidation and not just for the design phase of an SCC development program. Continuity and adequate numbers of local staff is also essential.
3. SCC establishment needs to focus on areas and groups with commercial viability, located with reasonable road access and in sufficient proximity to one another to allow cost-reductions in the provision of support which needs to last several years; density of operations is also crucial as individual societies band together into unions to allow intermediation of excess savings in one cooperative into loans in another.

4. The expansion of the SCC membership beyond the initial group must be encouraged and broadened to include members dedicated to activities other than agricultural production if full benefits and SCC sustainability are to be achieved. Concentration of a high proportion of the portfolio in agriculture is risky and slows the expansion of the cooperative by making membership unattractive to new members engaging in more profitable activities outside of agriculture.

E. Policy Actions Needed to Promote Future Cooperative Development

Conclusions:

1. Many of the policies and practices still being pursued in Ethiopia have been superseded and abandoned for some time in the rest of Africa.
2. Many of the policies and practices affect or narrow the field for expansion of business oriented cooperatives.
3. The reticence at all levels to confront policies is slowing the rate of policy change and is having a negative impact on farmers is impeding their growth of cooperatives and other private sector business and negatively impact economic growth and rural welfare.
4. Principal areas where reforms are important to cooperatives and their members are: 1) property rights to rural land, 2) banking system, and 3) privatization of state enterprises engaged in agribusiness.

Recommendations:

1. As stop-gap measures until needed reforms in land tenure and banking are made, continuation and further expansion of loan guarantee programs will be required.
2. Cooperatives and unions making investments in buildings and other fixed assets need to be assisted to obtain legal title to the land on which they are to be located to make these assets more acceptable as collateral to banks.
3. Unions are showing that they are capable of handling large volumes of inputs and agricultural products efficiently; they need to advocate the privatization of the fertilizer industry which is still under state or quasi-state control.
4. Donors need to develop a consensus on needed policy changes and act in concert to encourage Government to make such changes.
5. USAID has a comparative advantage over other donors in the areas such as agriculture, trade and competition and should use its expertise to promote change in areas that improve the efficiency of cooperatives and the welfare of their members. USAID can help move the policy agenda forward by financing studies on issues likely to produce the greatest long-term benefit for rural people and the cooperatives which support them.
6. Cooperatives need to band together in federations, one of whose principal functions is to take on the burden of lobbying for the policy changes needed by

their members and leveling the playing field which remains significantly tilted in the favor of state-owned and large privately owned enterprises.

Lessons Learned:

1. In situations similar to that of Mozambique, donors have acted in concert and have promoted peaceful economic development based on competitive markets. USAID has used its expertise to promote the liberalization of agricultural marketing raising farm income in synergy with its promotion of the formation of successful farmer organizations; at the same time, the IMF and World Bank promoted privatization of state-owned enterprises and reform of the banking sector.
2. The business-oriented segments of the cooperative movement is taking on the burden of promoting its own agenda of policy issues includes land tenure, banking sector reform, and the privatization of state enterprises engaged in agribusiness. However, these cooperatives recognize that it will take time to achieve the types of changes in these area and that changes, are likely to be small, gradual and incremental.

F. Additional Lessons

1. Many board members, particularly in older cooperatives and unions, are finishing the second of their three-year consecutive terms; often, all will finish simultaneously since they were all elected at the same time. To assure some continuity on the boards, it would be better to scale initial elections or term-limits so there is some overlap with new board members being trained by those who have been on the board for some time.

5. Additional Comments by Reviewers: Best Practices in USAID Long-Term Support to Cooperatives and Producer Organizations in Africa: Three Case Studies

A. CLUSA Mozambique

With per capita GDP of less than \$100, Mozambique is one of the poorest countries in Africa. Agriculture is still the main source of employment; 80% of the population is engaged in agriculture and close to 70% live in rural areas. Agriculture is responsible for 25%-30% of GDP. The colonial situation had not favored the development of the countryside, and policies followed by the Marxist regime after independence relied on administrative control of all markets. State-run cooperatives and state farms were used as mechanisms for extracting farm products from an increasingly recalcitrant agricultural population. The situation became worse with the generalized insecurity caused by civil war, which led to massive displacement of the rural population. After the resolution of the civil war in the early 1990s, the economic policy measures introduced had a generally very positive impact on the rural economy, with gradual liberalization of markets for produce and a pricing policy increasingly reliant on market forces.

Marketing, which had been disrupted by the civil war, continued to be problematic because commercial infrastructure had been destroyed and traders were reluctant to return to rural areas, leaving many areas with no implements, seed, or consumer goods and no one to buy any surplus production. Farmers' lack of connection to the market affected the rate and extent of development in these communities. Government eventually adopted an agricultural development program, PROAGRI, following the lead of USAID in promoting the liberalization of agricultural marketing "to transform subsistence agriculture into an agriculture where production, distribution, and processing are increasingly integrated, tending to produce family sector surpluses for the market, and to develop an efficient and competitive business sector." Marketing aspects of the program depended heavily on a partnership between private-sector traders, NGOs providing technical and financial assistance, and farmer associations (as newly formed cooperatives were called) that were established and helped to grow with technical support from NGOs and with financial support initially provided by USAID and later by other donors.

USAID-funded organizations emphasize the formation of farmer associations. Starting with an unsolicited proposal from CLUSA, in 1995 USAID began providing financial support to assist CLUSA in helping farmers organize to market their products to local traders. As farmers organized themselves into producer associations, their bargaining power improved, they obtained greater access to market, and they were able to diversify into a wider range of agricultural products and to investigate different marketing channels, while maintaining relationships with the strongest and most reliable traders.

CLUSA originated the process of association formation in 1996 and its oldest associations are now nearly a decade old. As individual associations reached the limits of

their ability to market their products, they banded together in *fora* (the plural of *forum*, equivalent to cooperative unions elsewhere) to increase the market power of farmers vis-à-vis the traders they were dealing with. After several years, some *fora* began processing cashews in partnership with a private sector operator; cashews are a major product produced by small farmers. All the associations supported by CLUSA had an economic orientation from the start, emphasizing primarily product marketing and only later becoming concerned with production issues. For the period from September 1995 through September 2005, core funding from USAID has been \$11.5 million. An additional \$5.1 million was leveraged from other sources, partially in the form of matching grants dependent on USAID funding. The program was copied by other donors, including the Swiss, the Dutch, IFAD, and DFID, and expanded from its starting point in Nampula province to cover most major producing areas of the country.

The key to program success was continuous long-term financial support from USAID coupled with excellent technical assistance from CLUSA and its national staff, who eventually formed the NGO called OLIPA to continue providing technical assistance in areas no longer needing direct assistance from CLUSA, as well as in other regions where donors planned to replicate the same program approach. That the model established by CLUSA is being copied by other NGOs and donors constitutes a tribute to its success, a result of support provided for a decade by USAID.

B. National Smallholder Farmers Association of Malawi (NASFAM)

USAID began providing support to smallholder farmers in Malawi in 1994 and has continued its support down to the present as part of its strategy to help farmers organize, market their products better, and improve family income. The creation of the National Association of Smallholder Farmers of Malawi (NASFAM) and its evolution into the third largest trading company in the country is a direct result of this long-term support. (In Malawi, due to a history of government interference with cooperatives, farmer organizations that act on cooperative principles are known as “associations.”) USAID’s support took the form of three separate projects but was continuous, starting in the mid-1990s. Over the years, USAID provided over \$20 million in total support to this effort.

After an initial visit by an ACDI/VOCA staff member in 1993, in 1994 USAID began channeling its support to smallholder burley tobacco clubs. These groups for the first time banded together into associations, which allowed small farmers to take advantage of the newly granted authorization to sell tobacco and participate directly in marketing their tobacco as “intermediate buyers” rather than through neighboring estates, which in the past had acted as middlemen, bulking smallholder tobacco with their own for sale on the auction floor. For two years, USAID continued its support through the Smallholder Agribusiness Development Project, with its motto of “farming is a business.” This project, with national staff supported by a small number of expatriate staff and volunteers, helped enhance the business acumen of farmer associations and group them into agricultural development centers to provide the economies of scale not achievable by

any single association. These centers fulfilled many of the functions and provided other services member associations could not manage on their own: arranging markets for the greater diversity of commercial farm products associations were producing, providing inputs purchased in bulk, including fertilizer, to member associations, and sourcing finance from the rural finance institution and the savings and credit cooperative union (MUSCCO). Business training, advocacy (obtaining larger tobacco quotas for smallholders), and outreach (radio programs in the local language) were all part of the program.

In March 1997, NASFAM was established as a national organization bringing together all 14 smallholder associations in the country. By 2000, there were 31 associations (with almost 4,000 clubs), with a total membership of almost 73,000 farmers. NAFAM formed a trading company to handle its commercial operations and a foundation to handle training and non-business activities. After USAID had provided continuous support for almost a decade to assure the group of the smallholder farmers movement, its growth into a major force in the rural economy, and consolidation into a major trading group to be reckoned with, other donors (NORAD, DANIDA, and the EU) began providing support to allow NASFAM to expand to areas of the country which it had been unable to reach up to that time with the resources at its command. The leveraging of these resources in favor of the expansion of smallholder businesses across the country was the direct result of the long-term support provided by USAID and the commitment of ACDI/VOCA to transforming this support into viable, farmer-owned and managed enterprises capable of competing for product sales and importing fertilizer or buying it on favorable terms locally.

C. Malawi Union of Savings and Credit Cooperatives (MUSCCO)

Starting with a small, weak savings and credit cooperative system composed of 9 primary societies and a little over 1,000 members, USAID initiated its support for a union to be known as the Malawi Union of Savings and Credit Cooperatives (MUSCCO) in late 1980. Almost all primary societies in existence at the time USAID support began were rural and linked through the efforts of a Catholic priest. Initial mistakes in philosophy, which viewed SCCs as philanthropic societies rather than businesses supporting members' needs, had to be corrected. Interest rates were set at very low levels, discouraging savings, while most participants were only interested in the possibility of obtaining a loan at low interest rates. Low participation rates of women were observed, as was a high level of tolerance for loan delinquency, which averaged over 10%.

USAID provided continuous support for 12 years. This included a large component of technical assistance, provided for most of this period by the World Council of Credit Unions (WOCCU); expatriate advisors worked with MUSCCO for most of this period. They were eventually replaced by assistance from Barents; resident advisors were replaced by a series of short missions in support of national staff, who by this time had

been trained and were capable of assuming direction of the union without permanent external technical assistance.

By the late 1990s the movement had expanded to cover more than 100 SCCs with over 18,000 members; the 60% of the societies that were urban held 80% of the assets, share capital, and loans of the entire system. Nevertheless, 43 societies (39% of the total) were rural, as was 37% of the membership. Part of the funding from USAID encouraged the development of and support to rural-based SCCs, in line with its strategic objective of increasing rural incomes. NASFAM (the National Association of Smallholder Farmers of Malawi, supported over the years by USAID and ACDI/VOCA) provided support from 1999 to 2002 for the development of SCCs in conjunction with stronger farmer associations.

It is clear that the development of a viable and significant SCC movement in Malawi and the maintenance of its focus to a significant degree on rural areas was the result of continued long-term support from USAID. This support totaled over \$10 million and lasted for at least a dozen years. Without it the movement would not have achieved its current stature; without the technical assistance provided by the union (MUSCCO), it is clear that many of the weaker societies, especially those in rural areas, would have failed. No other donor in Malawi would have had the staying power USAID demonstrated and which was responsible for the success of the SCC movement in Malawi.

ANNEXES

1. PERFORMANCE MONITORING RESULTS INDICATORS

Number of Agricultural Cooperative Unions, Primary Societies and Members					
Year	Number of Unions	Number of Primary Cooperatives	Membership		
			Male	Female	Total
2000	12	130	106,839	9,253	116,092
2001	17	233	246,618	19,264	265,882
2002	25	363	395,075	32,754	427,829
2003	26	435	477,758	41,648	519,406
2004	32	642	617,643	55,848	643,491

Source: ACE, Final Draft Report on Performance Monitoring and Results, Addis Ababa, March 2005

Number of Savings and Credit Cooperatives (SCCs) and Membership by Sex					
Year	Number of SCCs	Membership			
		Male	Female	Total	
2000	3	212	31	243	
2001	18	597	135	732	
2002	50	1,791	507	2,298	
2003	89	3,433	914	4,347	
2004	100	4,449	1,395	5,844	

Source: ACE, Final Draft Report on Performance Monitoring and Results, Addis Ababa, March 2005

Fertilizer Sales: Volume, Value, and Value per Metric Ton				
YEAR	Volume (Mt)	Value (Birr)	Value (Birr) per Metric Ton	Value (US\$) per Metric Ton
2000	22,159	55,933,667	2,524	292
2001	56,158	139,944,301	2,492	288
2002	69,451	153,082,215	2,204	255
2003	84,912	199,328,498	2,347	271
2004	208,565	656,232,442	3,146	364

Source: ACE, Final Draft Report on Performance Monitoring and Results, Addis Ababa, March 2005 and Calculations by the Evaluation Team

Marketed Volume and Value of Outputs by Unions or Pre-Union Cooperatives, 2000 - 2004

Year	Type of Crop	Purchased		Sold		Difference: Volume or Value Sold - Purchased (MT & Birr)
		Volume (MT)	Value (Birr)	Volume (MT)	Value (Birr)	
2000	Cereals	3,900	6,250,864	3,523	6,608,113	377
	Pulses*	10	15,900	1	1,151	9
	Oil Seeds	745	2,929,434	745	2,711,433	0
Sub-total			9,196,198		9,320,697	124,499
2001	Cereals	5,464	7,845,147	3,831	6,258,768	1,633
	Pulses	13	15,018	21	26,660	(8)
	Coffee**	126	1,685,622	126	2,271,157	-
	Oil Seeds	1,002	3,058,516	1,002	3,270,079	(0)
Sub-total			12,604,302		11,826,664	(777,638)
2002	Cereals	7,920	9,433,501	9,781	14,122,137	(1,862)
	Pulses	0	626	1	944	(1)
	Coffee**	375	4,303,915	561	10,521,204	(186)
	Sugar Cane	72,317	4,693,108	72,317	6,511,563	-
	Oil Seeds	530	1,093,083	474	980,714	56
Sub-total			19,524,232		32,136,561	12,612,329
2003	Cereals	9,748	16,340,240	8,955	15,840,314	793
	Pulses	30	49,709	30	53,347	(0)
	Coffee***	2,448	30,571,391	2,681	48,096,231	(233)
	Sugar Cane	79,831	6,568,728	79,831	6,896,843	-
	Oil Seeds	1,850	9,182,598	1,831	10,924,644	19
Sub-total			62,712,666		81,811,379	19,098,713
2004	Cereals	14,755	20,795,043	13,820	23,048,105	935
	Pulses	1,168	1,845,993	1,092	1,996,445	76
	Coffee	8,209	104,169,099	7,487	133,569,214	722
	Sugar Cane	118,156	6,474,336	118,156	10,273,588	-
	Oil Seeds	4,035	16,462,781	2,613	8,348,205	1,422
Sub-total			149,747,252		177,235,557	27,488,305
Grand-total			253,784,651		312,330,857	58,546,206

* Only from Amhara

** The 2001 figures are only from Oromia Coffee Union while 2002 figures are for both Sidama and Oromia Coffee Unions.

*** The 2003 data on purchased volume and value of coffee from Yirgacheffe Coffee Union was not recorded. Sales volume and value are 490 MT and Birr 6.7 million respectively, and are included in the table.

Note: Accurate inventories at the end of the year are not available for the unions. We are reporting the differences that includes losses and carry over. The cooperative promotion bureaus and ACDI/VOCA are working to improve audits to establish better inventory control measures

Dividends Paid by Unions and Affiliated Primary Cooperatives by Type of Commodity, 2000-2004				
	2000			
	Cereal	Coffee	Other	Total
Unions	273,375	-	-	273,375
Primary Cooperatives	343,586	-	141,511	485,097
Total	616,961	-	141,511	758,472

	2001			
	Cereal	Coffee	Other	Total
Unions	1,053,835	238,476	-	1,292,311
Primary Cooperatives	280,172	-	431,080	711,252
Total	1,334,007	238,476	431,080	2,003,563

	2002			
	Cereal	Coffee	Other	Total
Unions	1,126,751	1,527,137	19,546	2,673,435
Primary Cooperatives	162,545	-	806,569	969,114
Total	1,289,296	1,527,137	826,115	3,642,548

	2003			
	Cereal	Coffee	Other	Total
Unions	1,592,860	5,357,781	343,634	7,294,275
Primary Cooperatives	18,355	-	-	18,355
Total	1,611,215	5,357,781	343,634	7,312,630

	2004			
	Cereal	Coffee	Other	Total
Unions	3,603,868	10,448,703	2,032,502	16,085,074
Primary Cooperatives	4,130,394	2,702,764	2,438,865	9,272,023
Total	7,734,263	13,151,467	4,471,367	25,357,097

Source: ACE, Final Draft Report on Performance Monitoring and Results, Addis Ababa, March 2005

***Note:** The payment of dividends is based on an audit of the cooperatives and unions. Audits are completed by the government per cooperative regulation. Government capacity to complete audits is limited and thus audits are not done annually as required.*

This delays dividend payments. Thus the record of dividends is uneven and delayed, especially for the primary cooperatives. However, since 2003 ACDI/VOCA Ethiopia has started inviting private audit firms to do the auditing for unions.

2. QUICK ANSWERS TO SCOPE OF WORK QUESTIONS

A. Transferring the Necessary Operational Skills to Cooperatives and Unions

- Have the training and systems development established cooperative capacity to operate on sound business and market principles?

Cooperatives assisted by ACE have shown dramatic improvements in their capacity to manage their operations as businesses. They are significantly better at managing their operations along sound business principles both compared to 1) the way they were operating prior to ACE intervention and 2) to the way cooperatives not assisted by the program are struggling to manage their affairs.

- How have the cooperatives improved operations?

Most ACE assisted cooperatives (and all union) have hired professional managers, accountants and other staff to handle day-to-day operations in their respective areas of responsibility. Operational efficiency is much improved over the way the coops operated when relying exclusively on volunteer staff. Accounts are up-to-date and audited, control systems are in place and being followed, dividends are being paid, and coops are retaining part of the net surplus to make necessary investments. With the help of loan guarantees, cooperatives have funds available, though not always in a timely way, to buy products from both members and non-members. Inputs are also purchased in bulk and, in a few cases, imported by unions to provide for members needs. Volumes on inputs and products have handled up rapidly and increased volume is reflected in a better bottom as a result of improved management.

- Are cooperatives better able to respond to member needs?

Coops are able to provide on-time delivery of inputs needed by their members for agricultural production, and have in some cases set up small cooperative stores to meet daily household and farming needs of members. Coops are buying a significant amount of members' products and their purchases at the highest prices consistent with the going market price, and by being in the market, cooperatives perform a regulatory function setting a floor on the price that local traders can pay and still find products to buy. Their input sales perform the same function in the input market, setting a ceiling on the prices traders can charge for fertilizer and other inputs during the months that the coop has these inputs in stock and available for sale to members (and in some cases non-members).

- To what extent are cooperative members involved in the decision making process?

Through their General Assemblies, all major decisions are made in consultation with the membership while the Board of Directors makes operational decisions and professional

managers handle day-to-day operations in ways determined by the GA policies and BOD decisions. Some improvements are possible in governance if some of the board members are replaced more frequently than the two three-year terms served which is the norm; this change would also allow for more continuity, as BODs would consist of some old and some new members, instead of having a completely new slate officers each 6 years, as is the norm at present. The Board sets policy and supervises its implementation effectively, managers handle day-to-day operations in line with policy, and ACE and the unions (together with the CPB) provide the requisite training and technical support.

- To what extent are cooperative unions being managed by professionals?

All ACE-supported cooperatives visited during field work had a professional manager and paid accountant. They usually also had other paid staff in positions which require continuous staff presence to handle assigned tasks effectively. Many of these managers came out of positions in the CPB where they had worked closely with and been trained by ACE.

- Are cooperatives addressing the challenges in the rural and agricultural economy of Ethiopia?

Cooperatives are providing farmers with a source of supply for the inputs they need to carry out farm production and an attractive market channel for the sale of their products. They have a regulatory effect on both the input and product markets, setting ceiling or floor prices for inputs which they are selling and products which they are buying and during the times they are in the market. In so doing, they contribute to raising farm income, increasing access to food and sources of protein, improving family welfare, and allowing farmers and their families to invest in the development of their farm and other business activities in which they are engaged. They allow farmers a share in the marketing and downstream activities previously available only to the state-owned enterprises and private traders. They provide direct linkages with agroprocessors, exporters and international buyers (in the case of coffee) and increase farmers' share of the final product price paid by consumers.

- How have ACE capacity building activities helped cooperatives develop value-added activities such as hides and skins and tractor rental?

Having seen the impact of the vagaries of product prices in the international market (viz coffee a few years ago), ACE is encouraging coops to diversify into non-core activities with profit potential. Cooperatives were observed which provided land-preparation and other tractor services to their members, transportation (both inputs and products), and purchase of honey and other non-core products from their members. So far, the degree of diversification is consistent with the financial and managerial capacity of the coops and is not distracting attention from the core business. Systems are in place which assure that these activities contribute rather than detract from overall financial success of the business. Where analysis or feasibility studies show new products or downstream

activities to be profitable and within their capabilities to manage, cooperatives and unions are diversifying their activities and have plans to continue in this direction as their financial and managerial capabilities continue to improve.

- Has market efficiency improved in those sectors where cooperatives are found?

Rural markets are characterized by their geographical segmentation and local oligopoly/oligopsony. The regulatory function played by cooperatives may in fact be providing greater benefits to those of their members (as well as to non-members) who buy a significant proportion of their inputs and sell a significant portion of their products to private traders and State-owned enterprises; these enterprises are forced to meet the prices paid by the cooperatives or face an inability to buy or sell and decreased market share.

- What lessons have been learned and what are future program needs?

The main lessons learned are the following:

1. With proper support such as that being provided by ACE, significant progress can be made in a relatively short period of time in developing cooperatives as business entities and in setting up unions to capture economies of scale.
2. Consolidation of these enterprises and diversification of their activities will take an additional commitment of time and resources;
3. Establishment of federations and services (such as market information) is essential to enhance gains already made.
4. It would be relatively easy to expand the number of farmers benefiting from cooperatives' activities with a scaling up the program to densify the number of members in existing cooperatives, the number of cooperatives in areas already served and by adding additional areas not yet covered and having good commercial potential, especially areas adjacent to or at least near those already being served.
5. Existing unions benefit from a strong and expanding base of primary societies and better established unions are taking over some of the services currently provided by ACE or falling within the mandate of the CPBs or other branches of Government, which in many cases are not effective in reaching farmers (such as auditing services, which are slow to arrive, delaying the distribution of dividends).

B. Capacity Building for the Regional Cooperative Promotion Bureaus in Oromia, Amahara, Tigray, and SNNPR.

- Has ACE strengthened the capacity of the CPBs in the four regions to achieve their mandates?

ACE has provided considerable training to CPB staff, which has benefited development in rural Ethiopia and the pool of trained staff available to serve the country. However, much of the training has been lost to the individual regional CPBs due to restructuring of staff to other positions or departments or their transfer to other regions. Many of the staff members trained have been immediately relocated to other regions or to Addis (perhaps being promoted as a result of their increased capacity after training). While not lost to the nation in macro terms, those trained are no longer available in the region for which they were trained. However, many of the staff trained has moved into positions of responsibility within the cooperative movement as managers, accountants, and other professional positions, where the kind of business-oriented training provided by ACDIVOCA has been crucial to the success of the organizations for which they are now employed.

- Has the training and assistance provided under ACE to the regional CPBs enabled them to restructure old cooperatives and establish new unions and cooperatives?

Despite their limited resources for field outreach, CPBs have nevertheless contributed to encouraging reviving moribund cooperatives and strengthening existing cooperatives and unions beyond those served directly by the ACE program. This support was observed in visits to non-supported cooperatives and SCCs, whose only support had come from CPBs; some cooperatives which existed in name only have been restructured and revived and some SCCs have been established with CPB assistance only. This work sets the stage for substantial improvements, once outside resources such as those provided by ACE can be made available.

- Are the CPBs able to provide basic skills and cooperative revitalization assistance in a sustainable manner?

CPBs can contribute to sustainable development of cooperatives in conjunction with the provision of relatively minor support from ACE. CPB leadership is enthusiastic and staff trained by ACE are capable of providing basic skills to the cooperatives, including audit services much improved due to ACE training. However, CPB's ability to provide these services is limited by high staff turn-over and the lack of outreach (no money for fuel, per diems or field expenses). Some activities which are crucial to cooperatives' success as businesses need to be managed by the cooperatives themselves and supported by the unions rather than counting on the CPBs for more support than they can reasonably be expected to provide.

- What assistance can the CPBs now provide to unions and cooperatives that they could not prior to start of ACE?

The CPBs are better able to provide new cooperatives with a basic understanding of cooperative principles, accounting and control systems, audit, and responsibilities of officers and hired staff. They are also able to assist new cooperatives in maintaining their accounts and in auditing the accounts to deter malfeasance and incompetence and to prosecute it where it is found.

- How has ACE helped to build CPB service delivery?

The CPB is aware of the basic services needed by business-oriented cooperatives as a result of its work with ACE and the training it has provided. CPB's outreach capabilities are limited due to its resource allocation. Some improvement may occur as a result of support from IFAD which is channeled almost exclusively through Government. If resources available from other sources are adequate, CPBs will be able to make use of the orientation and training they have received from ACE to provide sustainable services to the cooperatives in the areas described above.

- Are the CPBs playing a supportive, but not controlling, role in cooperative development?

There is a culture of control which affects the way Government staff, including those from CPBs, interact with rural people. The Consultants were able to observe how CPB staff accompanying them to meetings with cooperatives not served by ACE program, often were to active in responding to questions directed to the cooperative leaders and staff and which the cooperative staff, directors and members were perfectly willing and capable of handling. On the other hand, where cooperatives have achieved a level of institutional development such as most of those assisted even incipiently by ACE have achieved, their representatives and staff become more assertive in the responding to questions, in demanding that their rights be respected, and in clarifying the kind and type of services that they need from the CPBs. The fact that the CPBs are still providing auditing services may obscure the role of the CPBs in helping rather than controlling the cooperatives. Future work with ACE might focus on making this distinction more clear. Use of private auditors in unions and the larger primary societies is a step in the right direction to clarify the supportive role of the CPBs.

- What lessons have been learned and what are future program needs?

With the resources at its disposal, ACE could not have made the achievements which it has made without the active support and collaboration with the CPBs. Future work with the CPBs should involve contracts to stating that staff trained by ACE are retained within the region for a set period (perhaps 12 months); even if such contracts will not hold up in a court of law, just having them in writing will strengthen the commitment to retaining staff for some time to apply the training they have received in the region which they were trained to serve.. ACE can best make use of CPBs expertise by providing financial resources and organizational direction to the CPBs so that needed training is provided to cooperatives and unions, such as small allowances for fuel and perhaps some per diems to support key training or other activities. Institutional support for the CPBs, however, should come from other sources, such as IFAD in the case of the SCCs. Continued presence from ACE will help assure that the business-orientation is not lost when resources come in from other financiers whose approach may be less business-like.

Business and Market Development for Cooperatives and Unions

In early 2003, ACE revised its strategy and began to provide direct support to the unions and to a lesser extent to cooperatives rather than relying quite so heavily on the CPBs. Using this approach, ACE has provided practical business and marketing training and increased quality control and marketing in the coffee sector. In addition, it has helped unions establish direct market linkages and the development of processor or exporter relationships.

- Have directed ACE interventions to the cooperatives and unions improved their business operations and the volume and price of cooperative products?

It is clear to Consultants that ACE interventions have contributed in a major way to improving the volume of business operations of the cooperative and the acumen of their directors and managers in managing these operations. These changes can be observed both historically within the same cooperatives as they have evolved and by comparing ACE-assisted and non-ACE-assisted cooperatives. With the assistance of ACIDI/VOCA and seeing how their volume of operations, net surplus and dividends distributed have increased over time. The Consultants visited some non-assisted cooperatives, where numerous difficulties and missed opportunities were identified and which members were failing to solve either through the lack of training or inadequate access to financial resources such as the credit guarantee available thanks to ACE; only one case of embezzlement or misappropriation of funds was discovered in field work and it was in a primary society not interviewed by ACE. Product prices offered to members and non-members alike are normally marginally higher and input prices marginally lower than those offered by traders (0.2-0.5% range); the prices offered by the cooperatives have a regulatory effect on the market forcing traders to compete with the cooperative or lose customers. (Unfortunately, due to lack of sufficient finance or late arrival of loans after the market season has started, cooperatives are not always present in the market; when they are not, input prices shoot up and product prices plummet.)

- Are cooperatives and unions seen as better business operators?

Cooperatives have increased esteem among the general populace, are seen as a threat to their privileged position by many rural traders, and a force to be contended with by private sector firms engaging in agro-business. Cooperatives are growing in membership and new cooperatives are being formed or restructured. Traders are forced to compete with farmers organized for their own benefit in cooperatives, in both the input and product markets where their ability to meet member needs in a timely fashion gives members confidence and trust in their current operations and their future sustainability. Coffee cooperatives are able to buy coffee from their members on credit, because members have confidence that they will be paid and will receive a substantial part of whatever benefit the cooperative and the union are able to obtain through successful marketing in terms of dividends and other bonuses. (However, it should be noted that credit provided to the unions by the primary societies deprives them of funds to continue buying coffee from their members and other farmers, so this credit comes at a high price

to the coffee cooperative movement as a whole by reducing the volume of coffee it could buy compared to a situation where adequate markets season finance were available from the beginning to the end of the season.) Inventory or warehouse credit is a main source of credit for SCFCU; since all legal structures normally required for this type of credit are not yet in place, the fact that Wogagen Bank would provide this type of credit at all is a supreme sign of trust in that Union.

The private sector is concerned enough about the commercial competition from cooperatives that they are voicing complaint “special treatment” cooperatives are purportedly receiving. These complaints are best viewed as 1) recognition of the gains cooperatives have made in market share, 2) as confirmation of the competition cooperatives represent for traders pinching out monopoly profits made in the past when the cooperatives were not a factor, and 3) as a smokescreen to mask the variety of support and incentives the private sector and state-owned enterprises have received in the past and continue to receive from Government.

A few agro-processors, exporters and international buyers have entered into agreements with cooperatives and unions to supply products of a quality and volume they require; they reported to Consultants that they were generally pleased with their initial experience and had high hopes for doing increasing the volume of business with them in the future. Cooperatives have become a force to be reckoned within the areas and products which they are dealing on behalf of their members, and this change is largely attributable to the impact of the ACE program and the support USAID has provided it.

- What has been the impact of the direct product market linkages with other private enterprises?

The impact of linkages with private sector processors and exporters has been generally positive increasing the volume of business which cooperatives and unions would have been able to do in the absence of the agreements. It has also had the effect of improving the understanding at all levels within unions and cooperatives involved concerning quality and product specifications; cooperatives understand that fulfilling requirements and product specification is key to cementing long-term relationships and future growth in sales to these enterprises. Niche markets, especially for coffee, have made it possible for unions to negotiate with international buyers for coffees of specific type and meeting other conditions (Fair Trade, organic, etc); as a result farmers have received substantially higher prices for their products than would otherwise have been the case and subsequent payment of bonuses and dividends which increase farmer interest in and member loyalty to cooperatives.

- What impact has the ACE business and market effort had on input supply and output sales?

The ACE program has made it possible for unions to obtain direct access to national and international suppliers for the main types of fertilizer used (DAP and urea), with dramatic increases in the volume of fertilizer handled by their member cooperatives over time. On-

time deliveries, which are crucial for fertilizer, have increased as a result of greater efficiency in cooperative and union operations.

The volume of agricultural products handled by the cooperatives and their unions has also increased significantly and in some cases dramatically. Farmers have achieved better prices for their products, with prices paid rising by 100% in the case of some products such as milk; the mill processing cane from Wonjii sugar cooperative reports negotiating a similar increase in price with the cooperative. Coffee cooperatives are also expanding their purchases of coffee from members and non-members alike and are being forced to expand their washing facilities in order to satisfy the market for washed coffee. New products like skins and hides are being added to the products already handled by the cooperatives as they diversify their operations to reduce risk and to take advantage of business opportunities available to them while providing new services to members. Downstream processing activities are being analyzed for future investment by unions. Coffee unions have already negotiated direct sales agreements with foreign producers; unions specializing in other products like sesame are investigating similar arrangements.

- What lessons have been learned and what are future program needs?

The ability of the ACE to turn around the tarnished image of cooperatives has been confirmed and to transform cooperatives from entities of Government control of the supply of farm products to businesses efficiently serving the needs of their members has been established. Second-level cooperatives (unions) have been a key to the success of the program which would have had limited results had it focused only on primary societies. Unions now have the ability to handle an increasing volume of inputs and products, but also can provide some of the services and training in the past coming from ACE and CPBs.

Additional efforts are needed to consolidate these gains. In some products like grain and coffee, tertiary level cooperatives (federations) seem both feasible and necessary. Positions need to be developed and advocacy carried out on a variety of policy issues including land tenure and property rights to agricultural land, banking reform, and privatization of remaining parastatal or quasi-parastatal agribusiness enterprises. The cooperative movement will need to seek out donor support for the development of sound alternatives to existing policies which negatively impact the movement's members and then publicizing their results and making the position of the movement known to the public.

C. Savings and Credit Cooperatives

- Has ACE laid the groundwork to establish a viable and extensive Savings and Credit Cooperative system?

The ACE program has created a demand for the development of Savings and Credit Cooperative (SCCs). Farmers have a general understanding that the existence of an SCC in the community and their membership in it is likely to have a positive impact on their

lives, although they are not very clear on how exactly it will manifest itself, since these cooperatives are all very new.

There has been some demonstration effect, with SCCs being formed without direct assistance from ACE, simply because members had heard of an SCC being formed elsewhere, have visited it, copied the by-laws and set up on their own, although they may receive ACE assistance subsequent to their formation.

There has been considerable copying of interest rates and other forms from the banking system without much understanding of the risks, costs and opportunities open to potential members as borrowers from the system.

The vast expansion of the number of SCCs which is programmed under the ADB/IFAD-funded RUFIP program represents a danger to the groundwork done by ACE and the investment in this type of cooperative by USAID. Technical assistance under RUFIP was totally lacking at the beginning of the program and its future adequacy is unknown. The 100% a year growth in the number of cooperatives, the establishment of 80 unions when SCC cooperatives themselves have only just been formed, the addition of a loan fund instead of complete reliance on member savings, and the ability of the CPBs and cooperative commission to supervise over 3000 cooperatives over the next 5 years cast raise question marks about the direction savings and credit cooperatives will take. Continued availability of the example of SCCs assisted by ACE and its guidance on technical matter facing the SCC movement as it develops would be a major contribution which toward influencing the way in which these cooperatives develop and minimizing risks to member savings and to the overall integrity of the system.

- What has been the program impact to date?

A substantial number of SCCs have been established and more are in the works. People know about them and are interested in forming them. Considerable share capital has been collected and members are saving in a systematic way. Some loans are being given out, although most of the SCCs funds are in interest bearing accounts at the bank. An uncomfortably high percentage of loans are in agriculture, which increases risk, particularly in areas where irrigation is not available (most areas); profitable non-farm activities are being missed and non-farmers beneficiaries, particularly women are not being recruited as members as fast as would be hoped for, despite movement in this direction.

No Union has yet been formed, although in the southern region, one is in the planning stage. Therefore, each SCC depends entirely on its own resources for operation.

Most SCCs have hired accountants, often the same accountant as the primary society. None has a professional manager. In most cases, the BOD is often an interlocking directorate with the BOD of the associated primary society.

Some SCCs have allowed local people not affiliated with the primary society to join. There is a small number of women who are members, but, except for those in Tigray, none of the cooperatives visited had given out any loans to women. Young people are beginning to join a few of the SCCs, since the new law permits anyone over 14 years of age to join. The number of women is growing, and a few women-only SCCs have been established. More has to be done to encourage membership by women in “mixed” SCCs and to encourage their access to loans for those who want them as well as to savings services, and eventually to their participation on the BOD.

- Is the Savings and Credit Cooperative system sustainable?

SCCs exist currently as independent unaffiliated cooperatives. Only one union has been formed. Unions are essential in providing services to SCCs and intermediating in the transfer surplus funds from SCC with surplus savings to SCCs with more aggressive lending programs or in need of short-term funds; they also have an important role in supervising the books and advising member SCCs on best practices. Budgetary resources for the program have been limited and the ex-pat TA has left. National staff in the regions has also been insufficient, with positions not being filled in some cases for some time. A person has been hired on an interim basis for 3 month, but no provision has been made for longer term support.

For the SCCs to emerge as a system with good prospects for sustainability, considerable external support over a period of several years would be required. This has been the case with such systems set up in other countries (such as Malawi where USAID in conjunction with the national farmers’ associations provide long-term support to the national union and member cooperatives). Long-term support is also needed in Ethiopia. RUFIP cannot be counted on to provide this support unassisted by USAID which does have a comparative advantage in the support of this type of cooperative worldwide.

IFAD has a project with ambitious goals for SCC creation but its program shows a lack of clarity on how these objectives will be achieved. It appears to be supply- rather than demand-driven.

For the system to become sustainable, long-term TA will be necessary and it will also be necessary to provide newly formed SCCs with more guidance than they have received to date on designing and marketing loan products, encouragement of membership by a broader spectrum in the community, channeling of lending to quick turn-over high value activities, setting appropriate interest rates, and expediting loan decisions. The need for collateral for larger loans also needs to be instituted before such loans are made. Currently, the utilization of SCC funds for lending is woefully low in most areas, except for Tigray, and is concentrated to too great a degree in traditional activities related to farming. SCCs do not even lend surplus fund to their associated multipurpose cooperatives for grain marketing. Though amounts are now small, they would help in some small way.

- What lessons have been learned and what are future program needs?

There is considerable interest in SCCs; however, this interest is not accompanied by a very high level of understanding of how they need to operate in order to fulfill member needs and to become sustainable. There is a lack of creativity in the types of operations being carried out. For the most part, women need to play a greater role in these SCCs and need to benefit from loans and to be encouraged to set up or expand microenterprises of their own with the help of the SCCs.

Collaboration with the RUFIP program is essential. It is important for the two programs to provide the same message, state it in the same way, and operate on the same terms so that confusion is avoided among members of SCCs assisted by these two programs.

A long-term commitment will be needed to get a viable system established. New legislation specific to SCCs such as has been written in the West African countries (UEMOA states). Supervision is necessary to safeguard member deposits. Since the Cooperative Commission has the obligation of providing this supervision, support for it to develop and maintain this capability is essential.

D. Key Indicators

- Amount of dividends paid by unions and cooperatives have risen dramatically.
- Volume and value of inputs purchased and sold by cooperatives and unions has increased dramatically; significant reductions in cost per sack of fertilizer have been achieved. Further reductions based on increased volumes will await either greater cooperation between unions or the formation of federations, particularly for grain, where fertilizer is most important.
- Volume and value of outputs purchased and sold by cooperatives and unions have grown dramatically. The keys to these increases have been improved management and more finance. Finance appears to be the limiting factor in future expansion. Unions and cooperatives have maintained narrow margins on products (too narrow in the case of inputs) and have made money through increased volume. At the same time they have increased product prices they pay to farmers and forced reluctant traders to do the same, multiplying the benefits of their product purchases many fold and extending them out to non-member farmers.

E. Additional Evaluation Questions and Guidance

- A review of government policies that impact or promote cooperative development.

There appear to be effective prohibitions on the import of used vehicles, which affects the ability of cooperatives to import cheap trucks which have been fully depreciated in

Europe but still can provide years of good service to cooperatives. This impediment to cooperative development needs to be addressed.

Complaints from private sector firms to the effect that cooperatives have special privileges need to be analyzed. Without entering into polemics, it is important that the general public, particularly voters, understand that cooperatives are still recovering from the abuse that they received at the hands of the Derg which tried to convert them into instruments of state control for rural producers. Their assets have been looted and their facilities destroyed. Any special treatment they are now receiving, is redressing in some small way past mistreatment and can be properly viewed as reconstruction assistance. Privileged access to finance and other special treatment of large private and state-owned enterprises also needs to be analyzed. Results of this analysis need to be publicized so that both sides of the story can be heard and the public can decide which side is right.

- How effectively has the ACE program addressed Gender concerns?

The development of women in Ethiopia is at a fairly low level. ACE has made strides, particularly in more recent years, to ensure a greater participation of women. However, as the Commissioner noted a proactive approach based on affirmative action will be necessary to assure a greater role for women in future development of cooperative, particularly in the case of the SCCs, which if handled properly can be of considerable benefit to women.

- To what extent does ACE address food insecurity? Assess what role, if any, cooperatives can or should play in chronically food insecure areas.

By providing timely delivery of inputs, additional services such as tractor services in a few cases, and encouraging production of food and commercial crops by offering farmers more attractive prices, ACE is encouraging increased food production in Ethiopia; farmers retain some of this additional production to improve family nutrition. Changes taking place as a result of the ACE program are also raising farmer incomes, part of which is being used for purchasing food and which provides families with cash reserves as well for buying food during the lean months. Also, the SCCs are already beginning to provide loans during the months when food is usually in short supply, payable at harvest; this makes more food available for families who would otherwise have to pay high interest rates on the loans they take out from shopkeepers and moneylenders to survive until the harvest. Some cooperatives are setting up cereal banks both as profit centers and as a way of guaranteeing their members more stable prices for food.

- How can cooperative development in Ethiopia be used as a sustainable vehicle to promote food security and develop viable agro-businesses?

It will take a long-term commitment by USAID and ACDIVOCA to assure that a viable, farmer-owned, business oriented cooperative movement is established and consolidated.

This was the case in Malawi where USAID/Malawi and ACDIVOCA committed to a partnership which has lasted approximately a decade and resulted in the development of the National Association of Smallholder Farmers of Malawi (NASFAM) into a major agribusiness and agricultural product trading and processing company, competing with the major trading companies and supply farmers with their input needs and marketing commercially attractive crops. Similar long-term support will be needed in Ethiopia if similar results are part of USAID's strategy. The fact that agricultural cooperatives are mentioned only in passing and less than 20 times in USAID's Strategy document in the section on Strategic Objective 16, "Market led economic growth and resiliency increased" raises the question in the minds of the Consultants concerning the Missions' commitment to the required long-term support to make business-oriented agricultural cooperatives a permanent force in rural Ethiopia contributing to improving the lives of its people.

- Identify ways in which USAID can enhance the development of cooperative partnerships with other entities in the supply chain (agro-processors, large producers/traders, exporters) and identify opportunities for public/private GDA-type partnerships.

USAID can help with market identification and help forge linkages with major trading firms focusing on export products as well. At the same time, it should support the development of direct linkages with international buyers, particularly in coffee and other export commodities. Attendance at trade fairs for one or two years is not enough. Constancy is rewarded in developing marketing relationships. Until unions or federations can afford to finance these trips out of increased earnings, programs like those of ACDI/VOCA need to provide this kind of support. Tours to neighboring countries and Europe or the Middle East are likely to help develop international marketing linkages for export products other than coffee.

Unions dedicated to products other than grain also need to pursue direct trading opportunities outside of Ethiopia.

Feasibility studies are essential anytime new opportunities are identified for movement into new products or expansion down the value-added chain or upward along the input supply or service-side of the chain. USAID support through a program like that of ACE is needed.

- Identify ways in which the mission could improve its approach and suggest changes, if any, in approach that should be made in any future cooperative program.

The mission should concentrate its resources on the cooperative movement and make its development the cornerstone of its agricultural sector and incomes policy. The results from the CUP project and the ACE program fully justify this approach. The mission should avoid dispersion of resources in a shotgun approach, which will have little long-

term impact and provide less of a contribution to raising incomes and food security of small farmers.

- Provide recommendations for USAID and stakeholders on alternative, appropriate, and effective technical, financial, and policy approaches based on the lessons learned from this study

USAID in close collaboration with other donors needs to put energy and effort into changing government policies which are hampering the country's development, in particular the development of agriculture. Banking sector reform is critical to get commercial banks interested in financing marketing operations of the cooperatives which require large and increasing amounts of working capital. Privatization of remaining state-owned banks should also be a priority. The DCA can provide some of these resources, but additional resources could come out of a more competitive banking system attuned more to the cash-flow of enterprises than collateral, which is currently the case.

Reform of property rights is a key element in allowing farmers to make the kinds of investment they need to make in their farms. Farmers are responsible people and have a right to control and to make financial use of their major resource, land, which currently is worthless as an asset for financing both annual production and medium and long-term farm investments. The DCA is a good stop-gap measure, but USAID and other donors need to work on changes in policy allowing farmers control over their major asset, including, if they so desire, selling their land to use the resources generated to engage in other activities, including rural-based businesses which are crucial to rural development. FAO is undertaking a land tenure study. USAID may also want to invest in analyzing these issues and, eventually, in supporting policy changes in areas suggested by this applied research.

Privatization of trade in agricultural inputs and products has already been achieved in countries which have suffered more devastation than has Ethiopia in wars. In Mozambique, Government has virtually withdrawn from the agricultural product markets and has a reduced role in input markets. Donors should be encouraging the reduction of the role of the state in both the input and product marketing sectors. Political parties should be considered to be part of the state apparatus and prohibited from involvement in these activities.

- ACE has strengthened the capacity of the 4 CPBs to achieve their mandates

ACE has provided considerable training to CPB staff, which has benefited development in rural Ethiopia and the pool of trained staff available to serve the country. However, much of the training has been lost to the individual regional CPBs due to restructuring. Rather than lamenting the loss of staff to the assigned areas, it is better to consider that this training has contributed to their professional development and to understand that this contribution will continue to serve rural people in other places and in other ways, but has not been lost when the issue is considered from a national perspective.

- Training and assistance provided by ACE has enabled the CPBs to restructure old cooperatives and establish new unions and cooperatives

With their limited resources for field outreach, CPBs have nevertheless contributed to strengthening cooperatives and unions beyond those directly served by the ACE program. This support was observed in visits to non-supported cooperatives and SCCs, whose only support had come from CPBs which had contributed to allowing the cooperatives to restructure or to be established in the case of some SCCs. This work sets the stage for substantial improvements, once outside resources such as those provided by ACE can be made available. ACE can make a key contribution through the CPBs to making best use of resources available under the RUFIP program for a massive increase in SCC formation and to improve their operation.

- CPBs are providing basic skills and assistance in cooperative revitalization assistance in a sustainable manner

While leadership is enthusiastic and staff trained by ACE are capable of providing basic skills to the cooperatives, their ability to provide these services is limited by high staff turn-over and the lack of outreach (no money for fuel, per diems or field expenses). In conjunction with provision of small amounts of support from ACE, CPBs can contribute to sustainable development of cooperatives. Support for field travel to carry out audits might be useful to speed up the availability of audited accounts to allow for improvements in management, a better understanding of the financial position of the cooperatives, and of the net surplus available for reinvestment and for distribution to members.

3. INVENTORY CREDIT/BONDED WAREHOUSE FINANCE: The Case of Sidama Coffee Farmers Coop Union and Wegagen Bank

Sep 2005 07:43:55 -0700 (PDT)

From: "Sidama Union" <sidacoop@yahoo.com> Add to Address Book Add Mobile Alert

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Subject: Re: Inventory Credit/ Bonded Warehouse finance

To: "Jeff Dorsey" <jeffdorsemia@yahoo.com>

Dear Mr. Jeff Dorsey,

I hope you are doing very well. We need short term credit mainly to buy parchment coffee from members as well as to support members who are unbankable. As I said the amount of the credit available could not meet the credit need of the union. Our export sales volume is doubling every year. Our coffee purchase value in the year 2003/04 was birr 45 million as compared birr 123,000,000.00/one hundred twenty three million birr/in the year 2004/05. The total amount of credit that we received from different sources in the year 2004/05 was only birr 18 million. This indicates that we were buying coffee from the coops on credit basis, which in turn had negative impact on the performance of each member cooperatives. The member coops are delivering their produce to the union on credit basis at the expense of their own performance to buy more cherries from the farmers. Thus for smooth export operation we need at least 40 million birr per annum.

Our main source of short term credit is inventory or warehousing credit. We are still receiving this credit from Wogagen bank on the conditions attached with this letter.

With Kind Regards,

Asnake Bekele
SCFCU ltd.

Wegagen Bank S.C.

Merchandise Loan-Pledge Agreement Form

This agreement made and entered into this ____ day of _____ by and between M/S Sidama Coffee Farmers Cooperative Union (herein after called “Debtor”) and the Wegagen Bank S.C. Bole Branch (herein after called the “Bank”)

Where is, the parties agree that:

1. Bank may grant Debtor loans as may be arranged from time to time up to a limit of Ethiopian birr 7,000,000.00/Birr seven million only/ repayable on the written demand of the bank or upon such other terms are conditions of repayment as bank may prescribe as to costs, interest and principal at the office of the bank at bole branch.
2. Such loan as may be granted under this agreement shall bear interest at the rate of 9.25 percent (9.25%) per annum payable monthly or such rate of interest as may be established by bank from time to time.
3. any payable made by debtor in reduction of indebtedness under any loan granted here under shall first be applied to settlement of costs and expense which may have incurred by bank in connection with said loan, such as shortage charge, insurance premium or another cost or expenses whatever attached to the existence and preservation of the pledge of commodities or goods and second, to payment of interest and third, to payment of principal.
4. should bank demand, Debtor at any time will make and sign negotiable promissory notes payable to bank upon demand or with maturates as Bank may prescribe for the amount due under this agreement.
5. To secure repayment of the loans made under this agreement with costs and expenses arising there from and the interest accruing there on as well as principal, Debtor hereby agrees to constitute and pledge in favor of the bank upon goods or commodities acceptable to the Bank and warehoused or stored by delivery of railway receipts or truck waybills either in the name of the bank, endorsed to bank or if in the name of owner, delivered to the Bank.
6. Debtor represents and warrants that
 - a) It will be that lawful and absolute owner of commodities or goods to be pledged hereunder or for which it will cause to be issued railway or truck waybills.
 - b) It has unconditional right to pledge the same, and
 - c) The said commodities of goods are free any and all liens, attachments, rights, adverse claims or interest
7. (a) The amount of the entire indebtedness of Bank under this agreement shall not exceed _____ percent _____ of the market value of the said commodities or goods or those substituted with the approval of the Bank.

- (b) In the event the market value of the said commodities or goods shall be reduced below the percentage above stipulated, Debtor undertakes and binds itself on demand of the Bank to compensate for such reduction in value at election of Bank either reducing its debt by payment or by delivering to bank additional commodities or goods of the name or different nature acceptable to Bank sufficient to cover the decline in the market value of said commodities or goods
8. (a) The security to be given hereunder shall be indivisible for the purpose of security as to payment of loans which may be granted under this agreement and Bank shall be entitled to retain in possession the entirety of the commodities or goods as a continuing security until as sums due to bank under this agreement shall have been paid
(b) Furthermore, the commodities or goods held by the bank hereunder shall also be a security for the repayment or satisfaction of any future or conditional debt or obligation or debtor to bank.
9. The delivery of the pledged commodities or goods or any substitution thereof agreed by Bank and place in possession of Bank or with a third party holding possession for the Bank shall be by written declaration of Debtor and in the case of third possession for the Bank also appropriated acknowledgement by such third party. Such declaration shall specify in full particular the nature and character of the pledge commodities of goods, the quality and the estimated market value.
10. The said commodities or goods be insured by Debtor with an insurance company acceptable to Bank for an amount at least corresponding to the market value thereof against loss or damage from fire, lightning, burglary, house-breaking or any other form of insurance required by Bank, if Debtor fails to do so Bank be in under no obligation to do so, place such insurance coverage at expense of Debtor.
- Under such policy or policies of insurance Bank shall be the beneficiary thereof as its interest may appear or with such beneficiary rights as by endorsement thereon should Debtor have previously place required insurance coverage with an insurance company acceptable to Bank.
11. (a) The Bank may effect and take any and all action at expense of Debtor it thinks fit for the preservation, protection and maintenance of the said commodities or good whether in its possession of a third party for Bank's account.
(b) Bank shall not assume any responsibility in this respect or for any loss of or damage to or deterioration from any cause or due to force major, decay dilapidation, improper packing or other defects of the said commodities or goods.
12. The interdiction bankruptcy or insolvency of Debtor shall render all advance of the debtor immediately due and payable
13. In the event of default of any of the provisions of this Agreement on the part of Debtor the Bank shall have the right to sell the pledged.

Commodities or goods in accordance with the charter of the civil code of the Empire of Ethiopia 1990 relating to 'contract of pledge' without prejudice to any other legal remedy or remedies the bank may exercise.

14. Any expense, Fees, Charges, and Stamp duty or otherwise attached to the execution, existence or extinguishments of the pledge shall be born by Debtor.

In witness whereof, the parties here to have signed this agreement in duplicate on the day any year first above written.

In The Presence of:

Debtor

Wegagen Bank S.C

By _____

4. BIBLIOGRAPHY

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Cooperatives: A factor of prosperity in Ethiopia, Addis Ababa, 19th February 2005.

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Wonji SugarCane Growers Cooperative Union
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Geda Wakene

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Berhamu Tufa

Tilahun Kebede

Dadi Bosat

Megersa Gurmu

Bulcha Ewanetu

Tadesse Wondimagegnaw

Bekele Gurmu

Niguse Borenas

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Dairy Coop (40 kms from Addis;

Tel 880037

Jate Dairy Cooperative

Bacha Mamo, Chairman of BOD

Mrs. Wosene Abebe, Secretary

Hailu Tokessa, Accountant

Idoro Dairy Cooperative

Dubisa Bedane, Member

Debre Tsge Dairy Coop

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Gelan Bekele

Eshetu Torbi

Ayele Terefe

Dabi Neda

Atimachew Eshete

Kidane Shieraw

Kolba Multipurpose Primary cooperative

Niguse Aseffa
Bedada Begna
Shiferaw Teshome
Dadi Shambu
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Misganaw Adamu Accountant Amharic Promotion Bureau
Worke Biru Board
Tewachew Bekele Treasurer
Tiruye Atalala Storekeeper

Debre Tsion Primary Coop

On a main paved road 20 minutes from Bahir Dar
Manayesh Getaneh, Accountant

Lake Tana Fisheries Multipurpose Cooperative

Silessa Abraham General Manager
Miss Biluayehu Dersso Member
Mr.Tadessie Wassie Member

Abichikli Multipurpose Primary Cooperative

Baye Alngne, Chairman of the cooperative
Mandefrot Asres, Secretary
Muluken Lule, Treasurer
Barihin Worku, Board Member
Grenet Alembe, Board Member
Agidew Beletre, Control Committee
Atalay Alemie, Manager
Mulualem Kebeda, Accountant

Feres Wega MP Farmers Primary Cooperative

Location : Debre Zion town 27 km from Bahir Dar
Member of Merkeb Union

Persons Contacted

Laelem Berhanu – chairman of the executive committee
Degu Dagne - Treasurer
Atanew Andargaye – member
Wetet Kassa - Manager
Abez Kassa - bookkeeper/ accountant
Mot Baynor Yehunie((sample farmer)

Hiwot Selam Savings and Credit Cooperative

Location : Wan Gedam kebele, Bure woreda, W. Gojam zone, 170 km from Bahir Dar.

Persons contacted:

Addisu Maru – Chairman of the executive committee
Banti Mola - Secretary
Mekkonen Mot Baynor – Treasurer
Bertu Alem (Ms) - bookkeeper and accountant

Members of the credit committee:

Asmeraw Abebe- chairperson
Addisu teffe – secretary
Bahere Mulu (case study)
Tsehainesh Alamnew (Mrs.-sample member)

Kuchena Area MP Farmers Primary Cooperative

Location: Kuchena, Burea woreda, W. Gojam 192 km from Bahir Dar

Member of Damot Agricultural Coop Union

Tadele Mena- chairperson

Zelalem Negatu – secretary

Mesfin Tsegaye – chairperson of the control committee

Abawa Dufaru – member

Kindeye Takele – member

Webet Tessema – manager

Tunie Achameleh – accountant

Tilahun Alesew((sample farmer)

SOUTHERN REGION (AWASSA)

ENDALE HAILU, VOCA South, SCC officer

SILESHI BOGALE, VOCA-ETHIOPIA

Kassa Aynalem, Manager

Tesfaye Kimo, Chairman

Daniel Anato, Secretary

Legese Yawo, Vice-chairman

Barasa Shunbuco, Member

Firew Rikiba, Member

Tafese Sunbuco, Member

Chernet Munana, Member

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Gedamat Coop

Location: Bure town

Walegn Asmara, Manager

Gemet Birr (Heaven Door) Savings and Credit Coop

Associated with Kuchi Multipurpose Cooperative Society

Estd. March 2003

Tilahun Alesew, Chairman
Ayele Alemu, Chief Accountant

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Abayney Delkero	Vice-Chairman
Wolde Ertero	Cashier
Abebe Agago	Secretary
Hilegiorgis Jakemo	Member

Awassa Cooperative Promotion Bureau

Kifle Lancome Chairman
Tefera Dukkalk Control Committee Chairman
Bekele Board
Tihune Gereso Treasurer
Awaka Control Committee
Johannes Mua Chief Accountant
Kabede Abele, District Promotion Desk

Shecha Lereba Primary Society

Asfaw Hafiso	Chairman
Girma Suligdo	Control committee
Teseme Eribeto	Board Member/Accountant for the SCC
Deniel Jofe	Loan Committee chairman

Yetan Abeba Honey Cooperative

Ms. Yerqalem Ereyew, General Manager
Markeb Multipurpose Ag. Cooperative Union
West Gojjam,
Lendamo Siyum, Storekeeper
Lalego Rekiso, Bookkeeper

Coops Affiliated with Licha Hadiya Union:

Morsito Primary Cooperative

Mosito Kebele, Woreda Misa
Tamrat Zeleke, Chairman of Coop
(Also Chairman of the Union)

Belasa Ambicho Primary Society

Marata Tiramo, Chairman

Embooba Hoya Savings and Credit Cooperative

Board Directors:

Mr. G/Kidan Hailu Chairman

Mrs. Yeshareg Atakti Vice chair person

Mr. Kahsay Hilay Cashier

Control Committee

Mr. Alemayehu Niguse

Mrs. Aletesety Siyum

Mr. Tesfaye Abedi

Savings Committee

Mr. Asefu Embaye

Mr. Adahane Hagos

Mr. Tesfaye Abera

Credit Committee

Mr. Tesfaye Hailu

Miss Amarech Hagos

Mr. Roger Borhana

Education Committee

Mr. Amaha Desta

Miss Mulu Aboke

Mrs. Ayemere Taddessie

Other Committee Memebers

Mr. Kiros Meressa

Mr. Hagos Tays

Mr. Kasaye Yalaus

Derarcho Savings and Credit Cooperatives

Location: Sidama zone, Dale woreda- 53 km from Awassa

Bekele keya- Chairman of the excutive committee

Dawit Dembel – Vice chairman

Yohanes Moye – Secretary

Martha Shodeye(Ms) – Treasurer

Hanta Hayeso- chairman of the control committee

Yirgu Yitema- member

Tuma Debisso- member

Credit committee members

Kebede Kenbata

Dejene Keya

Paulos Gutcho (sample member)

Aleta Andenet SCC

Location: Sidama zone , Aleta Wondo woreda- 63 km from Awassa

Persons contacted

Ejigu Wogasso – chairman of the excutive committee

Misrak Bete – secretary
Kibret Tesfaye - book keeper and accountant
Ashenafie Albom – treasurer
Said Mohamed - member
Bekele Hamito (sample member)

Konga MP Farmers Primary Cooperative

Location : Gdion zone, Yirga Chefie woreda- 140 km from Awassa

Persons contacted
Assefa Bedasso – chairman of the executive committee
Iyasu Kankie - vice chairperson
Tafesse Wako – secretary
Tadesse Shenta – treasurer
Alemu Fansa – member
Feleke Konosa – member
Ermias Yitagesu – manager
Worku Feyessa – accountant
Tilahun Herbayo- chief machine operator
Bogale G/Tsadik- store keeper
Gelcha Awacho- (sample farmer)

Afursa Derara SCC

Location: Gdion zone, Yirga Chefie woreda- 140 km from Awassa

Bekele Berberie – chairman of the executive committee
Tesfaye Cherfo- vice chairperson
Shibru Mijo – secretary
Beyene dulo – treasurer
Denbere Miju (Mrs.) – member
Feleke Mekasha- book keeper and accountant

Members of Loan Committee

Aberra beresso- chairman
Ayele Shalew – secretary
Alemayehu Omo - member
Damenech Sumie (Mrs. Sample member)

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Tesfay Kahisay, Treasurer

H/Selassie Cheitos, Secretary
Lilay G/Hor, Accountant

Ato Berhe Gabriel Selassie, Chairman
Setit Humera Cooperative Union: Sesame Union

Degue Tembien Credit and Savings Cooperative

Tigray, Makele
Hailu Kiros Promotion of Cooperatives and Agiri Input Supply Head Deqlia Tembien
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Tesfay Cashier of SCC
Habtu Control Committee
Prist Desay Member
G/Kiros Member

Woiny Womens SCC

Degue Tembien
Miss Tsehaynesh, Chairperson of the SCC
Miss L/Berhan,
Vice chairperson of the SCC and Chairperson of the Women's Association.

Yekonga Edget SCC

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Gelgele Gedo Vice chairman
Alemu Shalo Secretary
Bekele Dama Treasurer
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Biratu Bahir Control Committee
Gebre Christo Teko Credit committee
Tadese Tenko Coop Auditor

Wotona Bultama Primary Cooperative

Ejigu wegaso Chairman
Bekele Berako Vice chairman
Shimels Sidamo Secretary
Ashenafi Albo Cashier
Tumich Ogamo Member
Muntaz Navamo “
Terefe Mamo “
Evmlas Gamala “
Geremew Gemala “
Bekele Amto Control Committee Chairman
Endvias Hamito Control committee Secretary
Kebede Kimo “

Seld Mohamed General Manager
Didimos Mehurla Head of Woreda Cooperative Office
Misrak Bete Industry Operator
Gelfeto Wenasho “ “
Asfaus Wotoshe Storekeeper.

Zonal Cooperative Promotion Bureau

Beyene Beraso Chairman
Sandra Vice Chair person
Getachen Ararso Secretary
Behene Haluene Board
Zewrde Wako Board
Likedo Aodo Board
Alamu Shallo Cashier
Beyene Jisso Cashier
Kebede Watama Accountant
Ayele Shallo Pulp manager
Ayele shalo Pulp manager
Desalegne Tigsu General manager

Enda Mariam Korar SCC

Location: Dega : Mekelay zone, Tembien woreda- 60 km from Mekele

Persons contacted

Gebere Medhin G/Egziabher(a priest)- Chairman of the executive committee
Teklehaymanot Girmaye – book keeper
Gebre Egzibhere Siyfu (a priest)- vice chairman
Atakilt G/Selassie - Treasurer
Tinsu G/Egzibhere (Mrs.)- member
Hileselassie gidaye – chairman of the control committee
Tadele Woldie- member

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