

ECONOMIC REFORM AND AGRICULTURAL DECO-OPERATIVISATION IN ETHIOPIA: IMPLICATIONS FOR AGRICULTURAL PRODUCTION IN THE 1990s

Alemayehu Lirensa

1. INTRODUCTION

Following the Land Reform of March 1975, peasant agriculture in Ethiopia experienced the implementation of an institution-building and "co-operativisation" programme on a massive scale [Tegegne 1984]. Besides the formation of about 20,000 peasant associations (PAs), the erstwhile government promoted the establishment and expansion of two types of agricultural co-operatives, namely, agricultural producers' co-operatives (PCs) and service co-operatives (SCs), that were intended to transform peasant agriculture into a socialist one.

The decrees issued for the establishment of these co-operatives were published in the *Negarit Gazette* in 1975 and 1978. The overriding policy objective of establishing the co-operatives was the transformation of rural economies into the socialist mode of production and exchange. According to Proclamation No. 138 of 1978 and the Directives given in 1979, a minimum of three peasants who volunteer to pool their resources (land, labour, oxen, farm implements, etc.) together could form a PC. A PC could apply for registration and bank loans when its membership reached 30. Similarly, according to Proclamation No. 71 of 1975, three to ten PAs could form an SC.

The major functions of an SC, as outlined in the proclamation, is providing economic and social services to its members, mainly selling grain collected from members at reasonable price; distributing fertilizer and other farm inputs to farmers; purchasing industrial products and distributing the same to members; and providing different services to its members such as warehousing, credit, milling, tractor, etc. A considerable number of SCs have also established schools and clinics in rural areas where such services did not exist before or where they were inadequate for the people.

In early 1990, there were 3,316 PCs, with 290,009 members, in 25 administrative regions (see Section 3). This constituted about 6.5 per cent of the total PA members in the country. There were also 3,233 SCs serving about 3.6 million farming households in 26 administrative regions. Of these 1,566 SCs were legally registered which entitled them to get out bank loans.

However, subsequent to the declaration of an economic reform programme by the former president on 5 March 1990, drastic changes have taken place in the peasant-co-operative sector. Three of the most important events are:

- i) Over 95 per cent of the total PCs were abolished immediately after the Declaration of the reform;
- ii) The collection and selling of quota grain by SCs terminated immediately after the declaration of liberalisation of grain marketing¹; and
- iii) A considerable number of SCs in many regions (up to 40 per cent) started crumbling and have now stopped functioning. This is mainly due to looting and dismantling of SC fixed assets when Mengistu's regime collapsed in May 1991. The two consecutive events (the economic reform followed by the collapse of Mengistu's regime) have, therefore, reversed the trend of "co-operativisation" and have accelerated the process of "agricultural deco-operativisation" in rural Ethiopia. At the moment, almost all PCs in the country have been dissolved and the chances for their revival are slim. It appears that both peasants and the Ministry of Agriculture are apathetic for the restoration of PCs even in regions such as Arsi where their number had increased rapidly. The role of SCs in grain marketing has also greatly diminished since March 1990. At present, the existence of several SCs is under threat.

This paper attempts to identify the likely short-term consequences of "agricultural deco-operativisation" to agricultural production. It also suggests how the management of SCs can be improved in the future; and how the crumbling SCs can be re-organised in order to make them perform sustainable, economically viable and socially acceptable functions within the framework of a market economy.

Information on the disruption of the activities of some of the SCs in Arsi and southern Shewa and the rationale of peasants for dismantling the co-operatives were gathered by the researcher through a pilot survey conducted recently in these regions. The purpose of the pilot survey was narrow, mainly focusing on the assessment of the future role of SCs in grain marketing.

2. PERFORMANCE OF AGRICULTURAL CO-OPERATIVES UNTIL 1990

The most important function of SCs so far has been intermediation between state trading corporations (STCs) and banks, on the one hand, and the rural population, on the other. This is depicted in Figure 1. Various development agencies like the Agricultural and Industrial Development Bank (AIDB), the Commercial Bank of Ethiopia (CBE), the Agricultural Mechanization and Technical Services Corporation (AMTSC), the Agricultural Inputs Supply Corporation (AISCO), and the Ethiopian Domestic Distribution Corporation (EDDC) have used the PCs and SCs as a platform for the disbursement of loans, farm implements, fertilizer, and basic goods needed by the rural sector. In the 1980s, the AIDB and CBE disbursed a large

amount of agricultural credit to the peasant sector through SCs and PCs. The AMTSC and AISCO have distributed tractors, farm tools, fertilizer and other inputs to peasants on credit through SCs and PCs. A significant proportion of industrially manufactured goods consumed by the rural population has also been channelled by EDDC through SC shops.

On the other hand, SCs have been an important supply channel for food crops and agricultural products going to the non-agricultural sectors. In the 1980s, SCs were the major suppliers of grains and coffee to the Agricultural Marketing Corporation (AMC) and the Ethiopian Coffee Marketing Corporation (ECMC) respectively. This made them play an important role in the transfer of resources from the rural to the urban sector.

STATE SECTOR

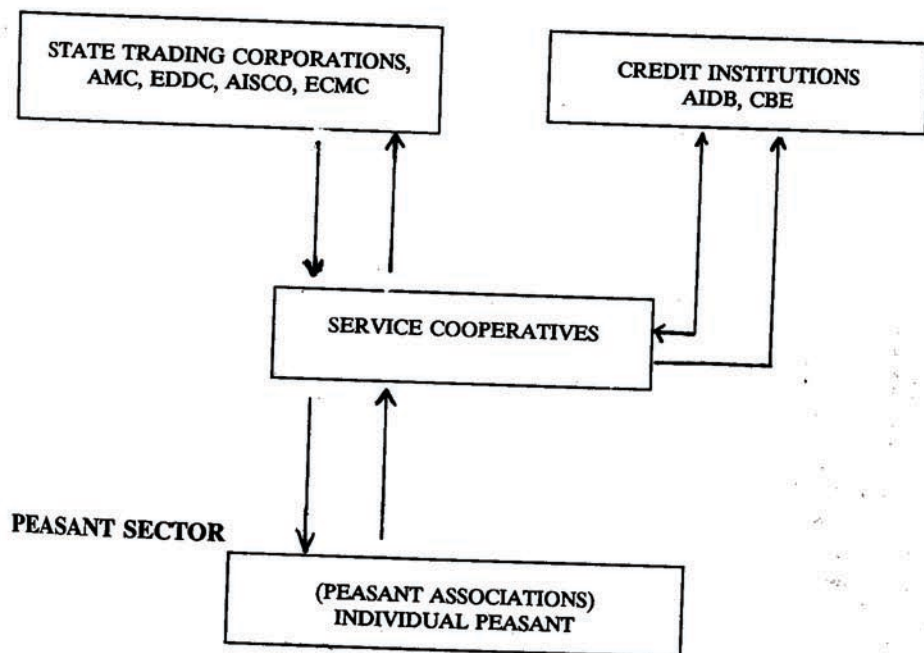


Figure 1. Links between the state and the peasant sectors through service co-operatives

2.1 Agricultural Co-operatives and Urban-Rural Exchange

2.1.1 Co-operatives and Food Grain Marketing

The share of PCs in the supply of food grain to the AMC was relatively small during 1981-90. This was due to their smaller share in the total cultivated area which was less than 3 per cent and the smaller quota of compulsory delivery levied on PC farms. However, the share of service co-operatives in official grain marketing was large until the grain marketing reform of March 1990, as shown in Table 1.

According to information obtained from the Co-operatives Promotion Department of Ministry of Agriculture, almost half of the SCs existing in ten administrative regions were involved in grain marketing until March 1990 serving the AMC as important assembling and handling agents. Most of the grain marketing SCs are found in the major grain-surplus regions of Gojjam, Arsi and Shewa (Table 2).

Table 1: Supply Share of Co-operatives in Total Domestic Purchase of Grain by AMC
1981/82 - 1990/91

Year	Total AMC purchase from local sources ('000 metric tons)	Supply share (per cent)			Total
		SCs	PCs	Others*	
1981/82	458.9	19	2	79	100
1982/83	573.8	36	2	62	100
1983/84	416.3	37	3	60	100
1984/85	237.4	34	2	64	100
1985/86	430.5	55	3	42	100
1986/87	617.2	48	5	47	100
1987/88	562.4	49	7	44	100
1988/89	466.4	38	7	55	100
1989/90	314.6	20	6	74	100
1990/91	137.8			100	100

* These include state farms, grain merchants, peasant associations, resettlement farms, farms owned by government institutions such as schools and prisons, in that order of importance.

Source: AMC, *Annual Reports*.

Grain delivery by SCs facilitated AMC's operations in rural areas in terms of arranging payments and transporting grain from farms to AMC warehouses. It would have been very difficult for the AMC to make such arrangements with other possible grain supplying intermediaries like PAs, individual peasants or itinerant grain

merchants. The quota purchase scheme, which was introduced in 1979/80, required each peasant household to deliver a fixed amount of grain to AMC at a fixed price, made a larger amount of marketed grain to pass through the SC marketing channel than would have been possible if peasants had the freedom to choose the marketing channels on their own.

Table 2: Regional Distribution of Service Co-operatives Participating in Grain Marketing, 1987/88

Administrative Region	Total number of SCs	SCs participating in grain marketing	
		No.	Per cent
Arsi	155	137	88
Bale	160	77	48
Gojjam	405	360	89
Gonder	238	81	34
Illubabor	199	45	23
Keffa	301	79	26
Shewa	1,096	833	76
Sidamo	274	15	5
Wello	294	70	24
Wellega	425	43	10
Total	3,547	1,740	49

Source: Ministry of Agriculture, Co-operatives Promotion Department.

On balance, the co-operative grain marketing system served the interests of the parastatal AMC and the state by facilitating resource transfer from agriculture to the non-agricultural sector² in as far as it was based on compulsory delivery at low producer prices.

However, it also benefitted farmers living in remote areas and those who do not have access to markets and motorable roads in as far as it was based on pan-territorial pricing. Prior to the formation of SCs, farmers in remote areas used to bring their marketable surplus to traditional markets using pack animals. The establishment of SCs in grain-surplus regions brought marketing services closer to most rural inhabitants, thereby saving peasants' time and energy [ICPE 1990: 72]. All the grain marketing SCs also benefitted from accumulation of funds obtained from the margin of grain sales.

2.1.2 Service Co-operatives and Coffee Marketing

Just like that of food grains, the marketing and export of coffee was under state monopoly until March 1990. In 1989/90, for instance, a total of 212 SCs in nine administrative regions were involved in the marketing of dry and washed coffee. Over 80 per cent of the coffee marketing SCs were concentrated in Sidamo, Illubabor and Wellega administrative regions (Table 3).

Table 3: Number of Service Co-operatives Supplying Coffee to the Central Markets, 1989/90

Administrative Region	No. of SCs supplying dry coffee	No. of SCs supplying washed coffee	Total
East Hararghe	6	--	6
Sidamo	20	62	82
Illubabor	28	24	52
Wellega	36	--	36
Borana	4	2	6
West Hararghe	14	--	14
Keffa	6	7	13
Gambela	--	1	1
Assosa	--	2	2
Total	114	98	212

Source: Ministry of Coffee and Tea Development, Planning and Programming Department.

As in food grain producing areas, coffee marketing SCs were obliged to deliver a fixed amount of coffee to ECMC at a fixed price. During the 1980s, when coffee marketing and export was monopolized by the ECMC, SCs were the major suppliers of washed coffee exported to the world market. The share of SCs in the total washed coffee entering the central markets reached about 85 per cent in 1988/89, but this share declined to 73 per cent in 1989/90 when domestic marketing was liberalised and private traders were permitted to participate in coffee marketing and export (Table 4).

2.1.3 Service Co-operatives and the Distribution of Basic Goods

A declared objective of SCs in the 80s was the creation of a marketing outlet to peasants at the grass-roots level in order to protect members from exploitation by private traders. However, information on the performance of SCs are sketchy, and we lack data required for a comprehensive evaluation of their activities from the point of view of this goal.

Table 4: Share of Service Co-operatives in the Total Washed Coffee Entering the Central Markets, 1987/88-1989/90

Year	Total washed coffee entering the central markets (metric tons)	Washed coffee supplied by SCs (metric tons)	Share of SCs (per cent)
1987/88	22,924	18,826	82
1988/89	18,494	15,643	84.6
1989/90	16,377	11,961	73

Source: Same as Table 3.

In our view, SCs could protect peasants from exploitation by speculating rural traders in three ways:

- i) by making basic goods regularly available for members at the SC shops;
- ii) by supplying goods to rural consumers in adequate quantity and quality; and
- iii) by charging fair prices for the services they provide to their members.

The attainment of these targets by the SCs depended on a number of variables, the most important of which was the reliability of the supply of basic goods to SCs by the EDDC. Given problems of industrial production, inadequacy of transport facilities and inherent managerial problems existing within EDDC, it will be difficult to assume that SCs protected their members using the first two mechanisms. Moreover, the performance of SCs in the rationing of basic goods was impaired by a host of external and internal factors constraining SCs activities [for details see Alemayehu 1984; 1985].

Table 5: Retail Prices and Service Charges of Selected Items in Service Co-operatives and Private Shops in Rural Areas of Shewa

Commodity/Service	Unit	Approximate retail price (Birr)	
		SC shops	Private shops/ local market
Debre Berhan blanket	single bed	40.00 - 60.00	100.00 - 140.00
Laundry soap/local	one bar	0.70 - 1.00	2.00 - 2.50
Salt	kg	0.50 - 0.80	1.20 - 2.00
Sugar	kg	1.50 - 2.50	4.00 - 8.00
Margin for fertilizer (DAP) sale	100 kg	1.75	25.00 - 30.00
Grain milling for <i>teff</i>	kg	0.03 - 0.045	0.06 - 0.07

Source: Compiled from various empirical studies [Alemayehu 1984; Alemayehu and Dejene 1988; ICPE, 1990].

Note: The ranges show price variations between cheap and most expensive centres.

Retail prices and service charges in SC shops were lower than those of private retail shops in local markets, as indicated in Table 5. This suggests that SCs protected the welfare of their members when goods were available for rationing between their members.

Another valuable service that some SCs in Shewa provided to their members is a credit scheme which linked the sale of industrial goods by SCs to delivery of quota grain by peasants. Under this scheme, a member of a SC was allowed to buy non-basic or unrationed items such as other textiles, khaki-twill, shoes, etc. from the SC shop on credit during the planting season when he/she is short of cash. The credit would be paid in cash or in grain after harvest, usually without interest.

The share of SCs in the distribution of basic goods by EDDC, between 1982/83 and 1989/90, is given in Table 6. The figures do not, however, indicate whether or not the ration levels have matched the demand levels by SC members in terms of availability in time, type, quantity, and quality.

Table 6: Share of Service Co-operatives in the Distribution of Basic Goods, 1982/83-1989/90

Year	Total value of goods distributed by EDDC (in million Birr)	Value of goods sold by SCs to rural population (in million Birr)	Share of SCs in total distribution by EDDC (per cent)
1982/83	567.2	111.5	20
1983/84	596.6	108.7	18
1984/85	511.5	77.4	15
1985/86	272.6	88.6	32
1986/87	1160.5	143.3	12
1987/88	1140.5	132.8	12
1988/89	1108.0	126.7	11
1989/90	907.8	96.1	11

Source: Ministry of Agriculture, Co-operatives Promotions Department.

In 1985/86, SCs handled about one-third of the total value of goods sold by EDDC in the whole country. However, their share significantly declined later mainly because of the decisions of EDDC as many SCs were in a state of managerial crisis and, perhaps, liquidation (see Section 3).

2.2 Agricultural Co-operatives and Disbursement of Bank Loans

Prior to the establishment of PCs and SCs, bank credit to farmers was limited in its amount and coverage and, it was mainly confined to relatively wealthier farmers and landlords [Stahl 1974: 108]. Most of the rural credit (80 per cent) was obtained

Table 8 shows the distribution of over 82 thousand metric tons of fertilizer in 1989/90 to peasants on credit through 1,178 SCs in 19 administrative regions. A considerable amount of improved seeds and chemicals (for weeds and pest control) was also distributed to peasants in different regions during the same year.

Table 8. Distribution of Fertilizer to Peasants through Service Co-operatives, 1989/90

Administrative Region	No. of SCs distributing fertilizer	Quantity distributed (metric tons)
North Shewa	41	4,424.1
South Shewa	123	13,344.1
East Shewa	80	12,243.0
West Shewa	202	7,653.7
Addis Ababa Zuria	55	2,489.1
East Hararghe	64	2,421.1
Dire Dawa	4	35.0
Illubabor	20	3,264.6
Wellega	40	840.5
Bale	89	1,085.5
West Gojjam	111	8,139.7
East Gojjam	125	6,381.0
North Gonder	33	770.5
Sidamo	14	718.5
North Omo	45	1,559.5
South Omo	4	6.7
Arsi	128	17,012.7
Total	1,178	82,389.3

Source: Ministry of Agriculture, *Annual Report*, October 1990.

2.3 Agricultural Co-operatives and Rural Capital Accumulation

The major sources of income for SCs were initial registration fees (Birr 5-15 per member household), commission from the sale of quota grain (Birr 5 per 100 kg), margin on the sale of basic goods to members (2-5 per cent of selling prices), margin on the sale of fertilizer and improved seeds (about 2 per cent of the selling price), grain milling charges, and tractor and combiner service charges by those SCs renting them to PCs. A few successful SCs in Arsi and Gojjam also obtained revenues from

the provisions of such specialised services as those of filling stations, garages, oil mills, clinics and schools. PCs likewise generated substantial revenue through membership fees, sale of agricultural products, gifts from different agencies, etc.

Table 9: Trends of Capital Formation By SCs and PCs in 1980s

Year	S C s			P C s		
	No.	Capital (million Birr)	Percentage change of capital	No.	Capital (million Birr)	Percentage change of capital
1975/76	308	2.7	--	--	--	--
1976/77	1203	9.7	259	--	--	--
1977/78	1926	21.1	117	--	--	--
1978/79	2896	28.0	33	66	--	--
1979/80	3330	35.9	28	123	--	--
1980/81	3378	38.2	6	544	--	--
1981/82	3651	92.1	141	1,006	17.2	--
1982/83	3815	140.9	53	1,196	30.5	77
1983/84	3903	156.7	11	1,489	45.8	50
1984/85	3964	170.3	9	1,856	59.1	29
1985/86	4052	195.3	15	2,323	83.4	41
1986/87	4159	211.5	8	2,922	115.8	39
1987/88	3596	165.4	-22	3,171	154.4	34
1988/89	3518	183.6	11	3,316	192.3	24
1989/90	233	210.6	15	154	--	--

Source: Ministry of Agriculture, Co-operatives Promotion Department.

As a result of the various sources of revenue, SC and PC capital increased significantly during the 1980s with the exception of a slight decline in 1987/88. This accumulation process was a remarkable progress in rural development in as far as capital was utilized to increase agricultural productivity and to improve the living conditions of co-operative members.

The ownership of means of production by PCs in different regions shows that, in 1989/90, 154 PCs in Arsi, Shewa, Gojjam, Hararghe and Omo administrative regions had a total of 9,184 oxen and 66 tractors.

**Table 10: Marketing and Social Infrastructure Set up by Agricultural Co-operatives
in the 1980s**

Type of infrastructure	No. of regions having the infrastructure	No. of SCs having the infrastructure	No. of PCs having the infrastructure
Warehouses	22	2,504	154
Grain mills	23	1,500	--
Pipe water supply	7	--	23
Schools	7	190	20
Kindergartens	6	--	21
Clinics	9	97	9

Source: Ministry of Agriculture, Co-operative Promotions Department.

2.4 Agricultural Co-operatives and Rural Infrastructure

The annual reports of the Ministry of Agriculture show that a part of the capital accumulated by the SCs and PCs and the loans taken from banks were used to develop infrastructure for the provision of marketing and social services, namely, warehouses, grain mills, pipe water supply, schools, kindergartens, and clinics (Table 10).

2.5 Service Co-operatives and Rural Employment

In order to perform their daily activities, SCs had to employ workers as bookkeepers, salesmen, mill operators, guards, etc. recruited from among their members. In this way, they created employment opportunities for thousands of people (see Table 11). During the period 1982/83-89/90, the number of workers employed by SCs increased by 29.5 per cent, a growth rate of about 3.7 per cent per annum. This was a remarkable contribution to rural employment in Ethiopia.

3. FROM CO-OPERATIVISATION TO DECO-OPERATIVISATION IN ETHIOPIA

Why did PCs disappear immediately after the economic reform? In what manner were they abolished? Why are the SCs crumbling? How did some SCs recently become non-functional? These are some of the questions to be answered in this section.

Table 11: Workers Employed by Service Co-operatives During 1982/83-1989/90

Year	Bookkeepers	Others*	Total
1982/83	2,180	5,596	7,776
1983/84	2,347	6,909	9,256
1984/85	2,887	7,642	10,529
1985/86	2,784	7,836	10,620
1986/87	2,931	8,440	11,371
1987/88	2,528	6,975	9,503
1988/89	2,542	6,903	9,445
1989/90	2,441	7,626	10,067

* These include mainly salesmen, mill workers, guards, etc.

Source: Ministry of Agriculture, *Annual Report*.

3.1 The Demise of Agricultural Producers' Co-operatives

The economic reform of March 1990 stressed the importance of building up an effective co-operative structure to contribute to the creation of a new economic environment. It stipulated that:

The organization of the co-operatives will be based on the absolute democratic decision of the members. The system of exchange, however, will be of such a form as to do away with the existing lack of discipline and negligence evident in the societies today. The directives needed to organize the co-operatives in a new form would be prepared in future ... Meanwhile, appropriate support would be offered to solve the problems of the existing co-operatives, to strengthen them and to make them earn better income for members. We would like to reaffirm that in this process if the members have no confidence in the organization of co-operatives owing to the fact that they had not proved beneficial for them, they could abolish them in an orderly way based on their democratic decision and embark on working individually [*The Ethiopian Herald*, March 8, 1990, page 6].

Although the government wanted to reorganize and strengthen the PCs according to the new economic policy, over 95 per cent of existing PCs disintegrated within three months after the declaration of the policy reform (Table 12). This was despite the Ministry of Agriculture issuing guidelines for an orderly abolition of the co-operatives [Ministry of Agriculture 1990].

According to information obtained from the Ministry of Agriculture, the disintegration of PCs left behind several structural problems and dislocations in the peasant farming sector.

Members took their share of co-operative assets soon after the declaration of the new policy and disappeared or changed their addresses so that they would not be responsible for any debt they had collectively and individually. This was a serious situation since the repayments of arrears and outstanding debts of PCs by December 31, 1990 was over Birr 10 million due to the AIDB [AIDB 1991], Birr 1.2 million due to CBE and Birr 3.8 million due to AMTSC [Ministry of Agriculture 1990].

Dispute also arose between co-operative members regarding the sharing of co-operative assets such as cattle, woodland, coffee plants, etc., as well as identification of pre-co-operativisation boundary between land holdings.

Some PCs sold draft oxen to settle arrears and outstanding debt, which left members without plough-oxen.

One of the reasons why PCs disappeared immediately after the declaration of the economic reform and despite continued state subsidy and agitation of political cadres and extension agents for their continued existence was that most peasants joined the co-operatives involuntarily and due to pressure from the government. In many respects, the government's plan for co-operativisation was unrealistic and over-ambitious and was not based on winning the willingness of peasants. For example, according to the Ten-Year Perspective Plan, it was envisaged that 53 per cent of the PA members would join PCs by 1993 against an actual figure of only 6.5 per cent by 1990.

After joining the PCs, peasants realized that the economic benefits from doing so were lower than what they could get as individual farmers. In fact, they came to regard working on the PC farms as "working for the state". Moreover, with increased collectivization of their land and livestock, they lost any sense of ownership over co-operative assets, as suggested by evidence from Arsi and Gojjam [Alemneh 1987]. As a result, productivity of PC farms remained low despite the fact that the PCs were provided with better land, greater extension services and more fertilizer and improved seeds than individual holdings.

Most PC members were also dissatisfied with the system of remuneration designed by the Ministry of Agriculture in 1979. Generous co-operative support to the elderly and disabled might have created a disincentive to hard work [Habtamu 1983].

3.2 The Disintegration of Agricultural Service Co-operatives

The disappearance of PCs since March 1990 created a bad precedence and unfavourable working environment for the SCs. Since members of PCs, by definition, were also members of SCs the disappearance of PCs had tended to create a sense of dislike for the SCs which gathered momentum when Mengistu's regime collapsed in May 1991, leading to pervasive looting and rioting in rural areas, the most important targets of which were co-operative and communal assets.

Table 12: Status of Agricultural Producers' Co-operatives in Different Regions Three Months after the Economic Reform of March 1990

Administrative Region	No. of PCs before the reform	No. of PCs abolished within 3 months after the reform	Per cent abolished	No. of PCs existing 3 months after the reform
Arsi	409	408	99.7	1
Wellega	222	222	100	--
West Gojjam	329	328	99.7	1
East Gojjam	360	343	95.3	17
West Hararghe	46	46	100	--
East Hararghe	137	118	86.1	19
Addis Ababa Zuria	59	55	93.2	4
East Shewa	117	95	81.2	22
North Shewa	157	147	93.6	10
West Shewa	331	328	99.1	3
South Shewa	246	190	77.2	56
North Omo	81	79	97.5	2
South Omo	2	--	--	2
Borena	2	2	100	--
South Wello	218	218	100	--
North Wello	59	59	100	--
North Gonder	46	45	97.8	1
South Gonder	142	141	99.3	1
Metekel	10	10	100	--
Bale	134	130	97.0	4
Dire Dawa	3	3	100	--
Sidamo	22	22	100	--
Illubabor	115	115	100	--
Keffa	51	51	100	--
Asosa	7	7	100	--
Total	3,305	3,162	95.7	143

Source: Ministry of Agriculture.

Table 13: Status of Service Co-operatives in Arsi after May 1991

<i>Awraja</i>	No. of SCs before May 1991	No. of SCs dissolved after May 1991	Per cent dissolved	No. of SCs existing after May 1991
Gelema	11	4	36.4	7
Keletta	27	4	14.8	23
Chilalo	18	8	44.4	10
Arba Gugu	14	--	--	14
Merti Jeju	13	2	15.4	11
Gololicha	11	11 *	100 *	0 (?)
Ticho	15	--	--	15
Amigna Seru	8	--	--	8
Shirka	9	7	77.8	2
Gedeb	17	6	35.3	11
Munesa	11	8	72.7	3
Sude	10	--	--	10
Total	164	51	31.1	113

- * The status of SCs in Gololicha was not confirmed until recently. At the time of the pilot survey, the Ministry of Agriculture office in Assela believed that almost all SCs are non-functional due to some degree of civil disorder in the awraja.

Source: Arsi Region Agricultural Development Department, Co-operative Promotion Unit.
October 1991, Assela.

In a recent visit to Arsi and South Shewa regions, known for well-established and active SCs, we found that about one-third of the SCs in Arsi and one-fourth of the SCs in South Shewa were looted and damaged so much that they will not perform any of the functions they used to (see Tables 13 and 14). In both regions, roofs of SC shops, clinics, schools, grain mills, offices of extension agents and other establishments were dismantled and stocks of medicines, furniture, water pumps, parts of diesel engines for grain mills, fertilizer and stock of co-operative goods that were ready for distribution were looted. Other projects in the vicinity such as the cattle breeding centre at Adama Tulu and the irrigation project at Zeway were destroyed by people of the neighbouring PAs. Latest, unofficial, reports reaching the desks of the Ministry of Agriculture in Addis Ababa indicated that in regions such as West Shewa the SCs, which survived looting, were being changed into offices for newly evolving political organizations.

Table 14: Status of Service Co-operatives in South Shewa After May 1991

<i>Awraja</i>	No. of SCs before May 1991	No. of SCs dissolved after May 1991	Per cent dissolved	No. of SCs existing after May 1991
Adama Tulu	21	7	33.3	14
Alaba-Siraro	40	15	37.5	25
Sike	10	4	40.0	6
Haikotch	26	8	30.8	18
Limu	20	--	--	20
Sorro	14	--	--	14
Konteb	21	--	--	21
Dalocha	26	16	61.5	10
Butajira	24	7	29.2	17
Soddo	22	--	--	22
Angatcha	9	2	22.2	7
Omo Sheleko	9	2	22.2	7
Kedida Gamela	8	2	25.0	6
Total	250	63	25.2	187

Source: South Shewa Region Agricultural Development Department, Co-operatives Promotion Unit, October, 1991, Zeway.

In the major coffee-producing regions, the looted SC property included coffee-washing machines valued at Birr 12.34 million. The information obtained from the Ministry of Coffee and Tea Development (MCTD) indicated that 25 SCs in Sidamo, Borena and Illubabor completely lost their washing machines while 59 SCs experienced partial dismantling of machines installed, thanks to AIDB loans. Similar damages have also been done to the coffee-washing machines in Wellega and Hararghe regions, although the extent of damage was not known.

Reasons given by peasants for the looting of SC property are many and vary from place to place. First and foremost, the members of some SCs felt that they had not benefitted much from the rationing of basic goods by SC shops. This was usually true for those SCs that stopped supplying goods, mainly salt, sugar and soap, to their members either due to problems of the EDDC branch in their area or as a result of mismanagement by the SC.

As to why looting was intense in the Rift Valley provinces of South Shewa than in the highland *awrajas* can, for instance, be explained by occupational differences

between the peasants of the two agro-ecological zones. The people in the Rift Valley are semi-nomads, as compared to the sedentary farmers in the highland. The semi-nomads do not use the SC shop throughout the year due to seasonal migration in search of pasture and water. The Ministry of Agriculture office at Zeway believes that semi-nomads have less appreciation of SC property and other large-scale development projects in the region, since these are not supportive of their traditional style of living.

Secondly, there was the feeling in many places that the SCs served the interests of the government, party officials and SC officials as their contingents, and not of the peasants. Ministry of Agriculture annual reports indicate that SC leaders misused co-operative funds but were not charged with or penalized for the fraud. It was reported, for example, that in Sidamo administrative region SC funds of over Birr 5.0 million were embezzled by SC officials who were mostly party members. Such SC leaders were seen to have accumulated much wealth, and run their own illicit business in coffee trade which enabled some to own Toyota pick-ups. And yet no administrative measures could be taken against them, mainly because they were party members. The audit report of the Ministry of Agriculture in 1989/90 for 741 SCs found in 23 regions and the SCs (mostly in South Shewa, West Gojjam and Arsi administrative regions) indicated a total missing fund of Birr 20.4 million [Ministry of Agriculture 1990].

There are still allegations that most of the fund of looted SCs was already misappropriated by the co-operative and government officials. It is allegedly reported that looting was done in some places by corrupt SC leaders who destroyed bookkeeping records that might be used in future investigations of fraud. Attempts to make such investigations of impropriety in the past failed due to blackmailing of Control and Audit Committees. It was reported that, for the ordinary members, it was difficult to charge the SC officials who were party members with any act of mischief.

Thirdly, most of the looted SCs were indebted to banks and other creditors as was the case with PCs. By December 31, 1990, the arrears and outstanding debts that SCs had to pay to AIDB was over Birr 111.0 million [AIDB 1991]. Most of the indebted SCs were those found in East Hararghe, East Gojjam, North Omo, South Shewa, North Shewa, and West Gojjam. One result of our survey was that some SCs were nearly bankrupt not being able to service the outstanding debts since the fund that could be used for the purpose had been embezzled.

Fourthly, prior to the fall of Mengistu's regime, there was an extensive agitation against the Ethiopian Peoples' Democratic Revolutionary Front (EPDRF), characterizing it as a looter and robber. Thus, what was done in some SCs when Mengistu's regime collapsed was not considered as looting by some peasants. It was rather considered as hiding the SC property in individual houses or saving it from the possibility of looting by EPDRF. In our view, this was an excuse for looting since

dismantling of structures was not the best means of saving property and the looted property was not returned to SCs after the EPRDF took power.

Finally, as indicated in the Ministry of Coffee and Tea Development reports, reasons for demolishing SC coffee-washing machines was based on the rigid coffee marketing and pricing policy pursued by the former government. During the 1980s, SCs with coffee-washing machines were obliged to deliver a fixed quantity (quota) of coffee to the ECMC at fixed price. The ECMC monopolistic price could not compensate for the cost of the labour-intensive process of washing red cherry purchased from coffee producers and, hence, created a price disincentive to those SCs delivering quota coffee to the central market. The price paid by private coffee traders for dry coffee in the parallel market was more attractive than the ECMC price for washed coffee.³

Demolishing the coffee-washing machines of SCs in coffee-producing regions was one way of stopping compulsory delivery to the government for some peasants. This rationale for getting rid of coffee-washing machines was yet another indicator that peasants did not have confidence in the newly declared policy of market liberalisation.

4. IMPLICATIONS OF DECO-OPERATIVIZATION FOR AGRICULTURAL PRODUCTION

4.1 Anticipated Effects of Abolition of Producers' Co-operatives

What are the short-term effects of abolition of PCs on the rural economy? Will peasants benefit or lose from abolition of PC farms? It will be premature to judge this without making a rigorous analysis of the impact of deco-operativisation. However, our preliminary assessment of the developments that have happened so far enable us to make the following tentative conclusions.

First of all, it seems that there is nobody lamenting the disappearance of PC farms after the collapse of socialism in Ethiopia and elsewhere. This indicates that the chances for the revival of PCs are narrow in the foreseeable future.

Secondly, there is nothing that an individual peasant will lose from change of PC farms into privately owned holdings. Indeed, peasants' incentive to invest and to increase productivity will increase with private ownership. This was observed on individual farms over the past years. Peasants will also gain from the freedom of private ownership in terms of farm management, control of output and disposal of agricultural surplus in the marketing channels of their choice.

Thirdly, as a result of abolition of PC farms, it is expected that private farms that play an important role in food production (over 90 per cent) will receive more government attention in terms of extension services and agricultural credit. Thus, in the long-run, the net gains from abolition of PCs will outweigh the net losses.

Fourthly, the failure of PCs shows that any form of organization of agricultural production which is superimposed from above, without considering the will of the peasantry, would not be viable economically. The elimination of PCs in Ethiopia also validates the thesis:

the African states face problems managing the rural economy because the peasants live in their own way. They are 'uncaptured' by the state. If agricultural policies do not favour them, the peasants have the option of withdrawing into subsistence production regulated by the informal economy of affection where they are free from state control [Hyden quoted in Stahl 1989: 27-28].

Finally, it should be noted that the abolition of PCs and the manner in which they have disintegrated would create tremendous disruptions to agricultural production in the short-term when coupled with other forms of dislocations caused by devillagisation.⁴ Disputes over sharing the co-operative assets among members, distribution of land owned by PCs, indebtedness of PCs, sale of co-operative oxen, and other related problems emanating from abolition of PCs can be prolonged. It is imminent that such disputes create rural unrest and adversely affect food production and rural development programmes unless the concerned bodies seek benign and practical solutions to settle them.

4.2 Anticipated Effects of Dissolution of Service Co-operatives

What are the likely consequences and dangers of losing SCs? Can the loss of such important rural institutions providing vital economic services to the rural population be tolerated? If not, how can the crumbling SCs be strengthened? These are crucial questions that should be addressed in the formulation of agricultural development policy for the country.

Unlike the case with PCs, it seems to be in the interest of the peasants and the government that the crumbling SCs are reorganized and strengthened. It should also be underlined that service co-operatives play important roles in agricultural development and marketing in African countries such as Kenya [Faaland and Jansen 1979; Barger 1980] and they seem to be well-suited to a market economy, although some scholars [Hyden, 1970] have asserted that they cannot do well in such a framework.

The Ministry of Agriculture office at Assela reports that peasants of the dissolved SCs in Keleeta *awraja* have requested the assistance of the Ministry of Agriculture to re-establish the co-operatives. Similar requests have also been made in Alaba-Siraro *awraja* of South Shewa. The immediate reason for these demands seems to be the acute shortage and the drastic increase in the prices of basic goods in these areas following the dissolution of the co-operatives.

If properly reorganized, SCs in Ethiopia can play an important role not only in the distribution of basic goods but also in agricultural marketing. They can enhance the bargaining position of smallholders in terms of pricing, on-farm storage and

dissemination of market information. If the crumbling SCs are not reorganized, rural development will be hampered and much of the rural economy will be adversely affected. The major, short-term and long-term, consequences of the dissolution of SCs can be listed as follows:

- i) Farmers living in remote areas (places far from markets and motorable roads) as well as in areas where the private traders are absent will lose marketing outlets for agricultural products and access to industrial goods. Preliminary assessments of regionally differentiated grain prices of the AMC and free markets indicated that producer prices for cereals are depressed in remote areas compared with exorbitant prices in accessible regions.
- ii) Under the present structure and arrangements, the state trading corporations (AMC, EDDC, ECMC) will not be able to function effectively without the SC structure. For example, coffee exporters both public and private, cannot get washed coffee unless SCs of producer regions supply it at auction prices. This, in turn, will jeopardize coffee export and foreign exchange earnings of the country.
- iii) The link between the state and the peasant sectors will be lost if the SCs disappear. This means that credit institutions and AISCO will not be able to disburse agricultural credit and fertiliser unless there is a credit-worthy intermediating institution to replace the SCs. As a result, farmers' incentive to production for the market will be destroyed and agricultural productivity will decline.
- iv) The process of rural capital accumulation will also decline in as far as the share of SCs in the process has been significant.
- v) Access to agricultural extension services will be limited unless the development agents (DAs) use the SCs as their working sites.
- vi) Curtailment of SC functions will also mean loss of employment opportunities for thousands of rural people.
- vii) Provision of social services will be undermined, and the welfare of the rural people will be affected when social infrastructure developed by the SCs are dismantled.

Some of these consequences were actually observed during the pilot survey. For example, it was reported that the people affected by malaria in the Rift Valley *awrajas* of South Shewa could not get services from clinics, since malaria pills stocked for months were looted.

4.3 Suggested Measures for the Improvement of Service Co-operatives

Many scholars and development planners share the idea that any event such as dissolution of SCs affecting the rural economy cannot be tolerated at all. It is also commonly agreed that the management of the existing SCs should not continue in its form of the past. Several changes need to be made in the organization and administration of SCs so as to enhance their contributions to rural and agricultural development.

We suggest the following measures be taken in order to improve the status of SCs:

- i) SCs should be formed or reorganized on a voluntary basis without external pressure. Not more than five PAs should constitute one SC in order to ensure efficient management. Reorganized SCs should maintain their autonomy and exercise democracy in decision-making. Government and political parties should not intervene in the management of SCs and should limit themselves to providing technical services in areas such as training, auditing, etc.
- ii) The process of election of co-operative leaders should be fully democratic so that members will be able to remove weak and corrupt leaders in time and replace them by better ones. Members should also be able to monitor the activity of leaders and take legal action against co-operative officials and employees who may be suspected of fraud.
- iii) The concerned government agencies should give continuous training to co-operative leaders and employees in co-operative and business management. Such training should include efficient handling of warehouses, quality control and bookkeeping.
- iv) Auditing of SC accounts should be done regularly and be reported to the SCs members regularly.
- v) Credit policy should be revised so that banks provide multi-purpose or non-specialized loans to SCs on easier terms than is the case at present. Thrift associations should be promoted to meet the demands for short-term loans and to facilitate greater rural savings.
- vi) SCs should be encouraged to form associations at the regional or national levels to deal with problems that cannot be handled by individual co-operatives.
- vii) SCs should have the right to choose their clients and marketing channels.

NOTES

1. The grain-marketing reform package basically included abolition of the quota purchase scheme, cancellation of fixed (pan-seasonal and pan-territorial) grain pricing, abandonment of restrictions of inter-regional grain flows on major routes, and allowing private traders to enter into grain trade.
2. Empirical evidence showed that compulsory delivery of grain affected rural grain reserves while lower producer prices paid to peasants by AMC reduced farm incomes [Alemayehu 1987].
3. The official price of red cherry was about 0.50 Birr/kg during ECOMC monopoly. The same quantity could be sold at 3 to 4 Birr at the parallel market. Prior to 1989/90, SCs washed 5 kg of red cherry used to get only one kg of clean coffee was sold at Birr 4.4 to the ECOMC. But, after the ending of ECOMC monopoly in mid-1990, SCs and coffee producers were able to earn more profit from dry coffee sold at auction prices, which was higher than the fixed price by 60 per cent. Hence, washing coffee and delivering it at fixed price to the ECOMC was disadvantageous to both coffee producers and the SCs.

4. The grouping of rural settlements through the villagisation policy has been reversed since the March 1990 economic reform. As a result, about 33 per cent of the rural population living in the new villages are in the process of demolishing the new houses and going back to old sites of dispersed settlements.

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