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The Role of Cooperatives, SACCOs and Traders in Value Chain Development in Borana Zone

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Research Report



European Union

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EXECUTIVE SUMMARY

The Borana pastoralist system has been considered as one of the most robust livestock production systems in Africa for a long time. Yet today it is under stress. The long term balance between the number of animals and the natural resources has been disturbed; probably already for 50 years, but the problems became more manifest in the last 2 decades. The Boran responded by diversifying their livelihoods via crop production and by taking up new activities like petty trade and charcoal making. They also started to pay more attention to education. At the same time improvements in the marketing system and veterinary services lead to an increase in the commercial off-take of animals from 4 to 8%.

In the last decade governmental organisations and projects as well as NGOs have created over 400 cooperatives to improve the income of poorer segments of Boran societies. Over half of the coops were SACCOs; the rest were mostly agricultural cooperatives dealing with the marketing of livestock or incense. A few production or processing coops were set up as well.

The present research aims to assess how these coops are functioning and what their impact is on the income of the members. Secondly an analysis is made of the role of traders (in livestock and incense). To this end twenty cooperatives have been visited and a few dozens of traders interviewed (mostly in Focus Group Discussions). Additional information was collected on the support system; especially the Cooperative Promotion Office and NGOs.

The first conclusion is that SACCO's have two major advantages over agricultural coops. It is cheaper to become member and they do lead to much less conflicts in the community. With agricultural coops we see that only those run by experienced traders in periods of good prices are able to beat inflation. Coops in more isolated areas hardly make any profit; none of them beats inflation. Members are often illiterate, have less business experience and less administrative skills. This easily leads to conflicts. On top of that these coops suffer from low turnovers and small margins (due to high transport costs).

Many coops like to change their business in bull fattening. This is lucrative as long as one can buy cheap bulls in the dry season and fatten them on free grazing areas. As an important part of the coop members are traders and better off pastoralists, giving them exclusive grazing rights to communal lands (in the form of ranches or '*kalo*'s) is disadvantageous for the poor.

SACCO's can provide cash to poorer pastoralists so that they do not need to sell off their animals in the dry season. For traders the main problem is a shortage of working capital. Also here SACCO's could be very useful; especially SACCO of traders.

Based in these findings the following recommendations have been formulated:

- Make better use of the potential of SACCO's, via a more diverse and intensive approach:
 - Start SACCO of different levels: poor, medium and rich families
 - Use mature SACCO's as a platform for business development. Options are to give additional capital, support informal groups of members engaging in a common business (e.g. goat trading) or provide small grants or credit to successful individuals
- Review all existing agricultural coops. Stop those which suffer from unsolvable conflicts and give more business support to those who are successful.
- Only start new agricultural coops when a value chains analysis and a market survey has clearly shown the business potential. Do not start new coops in isolated areas.
- Assess the feasibility of a Bio-Enterprise to assist coops marketing non-livestock products
- Improve milk marketing by improving the supply chain to private milk traders
- Assess the feed market and develop a model for bull fattening.

To do all this NGOs have to specialise and to attract staff with more business skills and experience.

1 INTRODUCTION

In the last decade several NGOs in Borana zone created and supported hundreds of cooperatives, mostly marketing cooperative and Saving and Credit Cooperatives (SACCOs), in close cooperation with Cooperative Promotion Office. Virtually always this was done in projects that served a wide range of goals (on rangeland management, water supply, education etc.) which meant that during projects evaluations the functioning and performance of cooperatives received limited attention. As a result most evaluation reports simply conclude that the coops do exist and do function.

During a training on value chain development and business planning for coops in the 'Building Resilient Pastoral Communities' project the assumption that marketing coops are '*the solution*' for marketing problems of pastoralists communities was questioned. As this assumption is widespread among donors, NGOs and government organisations, it was decided to commission a more in depth research into the role of marketing coops and compare their performances with SACCOs and with the role of traders.

The ToR for the research formulated three concerns on the performance of the coops:

- They are not necessarily sustainable
- They do not necessarily have a positive impact on the most vulnerable groups in a community and may actually have the opposite effect in some cases.
- They are not necessarily profitable if one look more critically at the numbers.

In the ToR the following specific objectives are formulated:

1. To what extend are the underlying assumptions for the support of coops correct ? This refers to the basic assumption that coops are a sustainable way to improve the income of the poorer segments of the Boran society.
2. What should be the role of Trocaire in supporting cooperatives to ensure it leads to increased incomes for men and women ?
3. Can Trocaire work with private traders to help ensure increased income for men and women?

The overall objective of the research is to provide Trócaire and her partners with detailed research to guide future value chain work in Southern Ethiopia with specific reference to Borana Zone.

In chapter two the research approach is explained. Chapters three provides the necessary background information on the livelihood system of the Boran. Chapter four present an overall picture of the situation of cooperatives in Borana. In chapter five the findings on cooperatives and SACCOs are presented. Chapter six explain the situation of private traders. In chapter seven the overall conclusion are given, followed by the related recommendations.

Annex I provides the full ToR and Annex II summarises the explicit answers to specific questions in the ToR. Annex III gives the itinerary of the research. Annex IV gives a detailed analysis of all twenty cooperatives and SACCO visited.

2 RESEARCH

2.1 Approach

The five steps in the research methodology were the following:

1. Literature review and tool formulation
2. Field work: interviews with all stakeholders
3. Workshop with stakeholders to validate findings
4. Workshop to formulate recommendations
5. Reporting

Based on the literature review and the experience of the researcher in Borana and elsewhere, lists of topics for each type of respondents were prepared. The interviews were loosely structured in phases:

- a. Introduction on the aim of the dialogue
- b. A short presentation of the basic facts of the coop
- c. What are your main activities ?
- d. How does your cooperative/business/organisation function ?
- e. What are the challenges that you face ?
- f. What support did you get and would you need ?
- g. How do you see the future ?

In reality each interview developed its own dynamics; a group who's equipment has broken down and is waiting for its repair, is not in the mood to answer many detailed questions on leadership issues. At the same time the qualitative and flexible approach allowed for a deep probing into the specific issues of each coop. Generally, in the first part of the interview the researcher listened to the respondents and asked questions for clarification, in the second part the group was challenged on what the impact of all their work has been. The latter means trying to understand *who* does profit (most) from all the work done. Do the primary producers (pastoralists) get better prices? Do members get dividend? Do they feel that all their work is rewarded?

The choice to focus on the quality of the dialogue was based on the experiences that even well designed questionnaires can never capture the dynamic complexities of a village coop. At the same time it was necessary, as due to time constraints only a limited number of coops could be visited and with a variety of coops to be covered in terms their business, maturity and locations, the chance that quantitative parameters would lead to significant results was very small.

2.2 Implementation

Twenty cooperatives were visited:

- 6 Livestock Marketing Coops (Dubluk, Tile Maddo, Jiruuf Jireenya, Higo, Saba).
- 4 Gum and Incense Coops (Elway, Erder, Dawiche-Borbor, Wacile)
- 3 Milk coops (Elway, Srupa, Boku)
- 4 Saving and Credit Coops (Dubluk, Dillo town, Dillo rural, Saba)
- 3 special cases (Animal Health Workers coop, Soap coop and Livestock Union)

On the side of the traders the following recorded interviews took place:

- Four FGD of livestock traders (Dubluk; Dillo town; rural Dillo and Higo)
- Four medium size traders on livestock markets (Harobake, Elway, Srupa)
- Short talks with small traders/brokers and livestock seller on- and off markets

- Large goat trader in Yabello (selling to abattoir in Mojo)
- Manager of Utuba Gumi, a community based enterprise working on livestock trade
- A Borana trader operating a feedlot in the highland
- Milk trader in Yabello and women selling (camel) milk and butter on the street.
- Manager of the NGPME.

The following government actors were interviewed:

- At zonal level: Cooperative Promotion Office (2 visits; 4 staff members), Pastoral Development Office, Productive Safety Network Programme, IMX office
- At woreda level: CPO in Dillo, Dhas, Moyale and Teltele (in Dillo and Dhas PDO staff was present); IMX office in Mega
- Tax collectors at Harbobeke and at Elway market

Three financial institution were visited:

- Commercial Bank of Ethiopia
- Oromia International Bank
- Oromia Credit and Saving Share Company

Two non-partner NGOs

- Care Yabello office on Women Income Generating Groups (WIGGs)
- Panos office in Yabello on SACCOs

At the end of the exercise the researcher talked over some major issues in a short Focus Group Discussion with 8 *gadaa* leaders.

The stakeholders invited for the validation workshop included *gadaa* leaders, coop leaders, traders, staff of the Cooperative Development Offices and partner NGOs. The meeting started with a presentation of the findings, after which a number of statements were discussed in four groups. The next day an internal workshop was organised with all partner in the BRPC project to discuss the implications for the work of the partners in the BRPC project and in a possible new programme.

2.3 Limitations of the study

When it comes to the complexity of the functioning of a cooperative in areas like Borana zone, there are many challenges for a research like the present one:

- The need for translation makes any communication lengthy and tiresome. Fortunately people proved very patient and eager to discuss, but not all issues can be addressed properly in a group interview of two hours with some 15 people
- The lack of reliable data makes any estimate of the profitability of the coop not more than a guess. Many coop members do not have a clear idea about the financial situation of their coop; except for the SACCOs. Only in case of misuse of money they are alerted and they know some things; yet even in those cases many issues remain unclear.
- No incense traders were interviewed as both meeting with them were cancelled (one as the trip to Arero was cancelled and one as the car of the trader had an accident on the agreed day). This is made up by an in-depth interview with the manager of NGPME, questions about local trade to the incense and gum cooperatives and the three value chain analyses on incense and gums that AFD produced in the last year.

Next to these technical problems and challenges, the 'soft resistance' needed attentions. As with all groups confronted with an inquisitive outsider, initially respondents depicted their coop as an harmonious organisation that only needed more (financial) support. Only by focusing on very

practical issues, the researcher was able to identify some paradoxes in their answer. Typically people initially say all members are pastoralists and the coop aims to break the price-setting power of traders. Yet later on some tell about their experience as livestock traders and then it appears that many participants in the discussion are actually livestock traders themselves. These paradoxes were then explored, while taking care people do not feel offended. In this way it was possible to get most of the groups talking openly and feely about the real issues.

The most complex aspect is the ‘political economy’ of coops. Both respondents and NGOs have a vested interest to depict coops as effective and sustainable tool to assist the poor. Partly this is because they do believe this to be the case; partly this is because they do not see an alternative way to shape the interaction between NGOs and communities. The latter is enhanced by the easiness in which one can get donor funds for coops. This mutual interests makes it hard to get a realistic picture of the performance of coops. People stress positive aspects and ignore problematic ones. Even when a local shopkeeper pocketed half the profit of the coop two years ago, people say: “No problem, he will pay back”.

Despite these challenges the researcher feels sufficient information was collected to provide an adequate picture of the situation. This has to be attributed as well to the NGO staff assisting in the field visits; they proved to be able to look beyond the immediate interests of their own organisation.

3 BORANA LIVELIHOODS

3.1 System level dynamics

The main balance in a pastoralist economy like that of the Boran, is between the number of animals needed to sustain the population and the natural resource base. Until the 1960's the Boran controlled their population via the 'gadaa' system that ensured men only fathered children at the age of 32 or beyond. Earlier born children could be thrown away; especially girls. Although this is no longer practiced, population growth has been estimated to be lower than the national average (2.5% versus 3.3%) for decades. Even today statistics show that there are more men than women in Borana.

In a steady-state situation the carrying capacity on Borana plateau is estimated to be 20 cattle/km². Above this density, overgrazing will lead to a lack of feed, to erosion and to bush encroachment. This leads to low milk production and high mortality during droughts. Although no historical data are available, models studies show that when the human population started to grow in the second half of the twentieth century, total herd seize approached its critical density of 20 heads/km² for the first time in 1960. A system collapse was avoided as projects dug a series of new water-wells, especially around Yabello, opened up new grazing areas previously unused for part of the year due to a lack of water.

In the early 1980's however the overall density again surpassed the limit and the severe drought of 1983-84 lead to dramatic losses of animals. Since then a cycle of 'boom and bust' can be observed. Initially the cycle took 6-7 years, but as the population grew and veterinary services improved, the total herd grew as well and the growing pressure on the natural resources meant that even slightly less than average rainfall lead to very high mortality; e.g. in 2006 when in some area half of the animals died while rainfall was only slightly below average.

Even a modest population growth of 2.5 % means that in seven years the population grows with 20%. So when a herd is reconstituted in seven years, the number of animals per capita after the complete recovery is reduced by 20%. In concrete number: while in 1960 the Boran had 7.5 TLU/capita, in 1990 it had come down to 4.5 TLU. Most recent data suggest 3 TLU/capita. This is not enough for survival; the more so as over time the division of animals over households became more skewed: in 2007 only 7% owned 35% of all cattle and the poorest 70% owned only 30%. Thirty years before this was resp. 21% and 50%. For goats the poorest 70% still owns 50% of the herd (down from 66%). Today probably only 25-33% of all households have a herd that can sustain their families.

All this has several consequences for the livelihood of pastoralists. One can observe that in the last two to three decades the Boran

- Grow more crops (in 'obruu' or garden) as this provides more energy and protein per unit of land and labour. Only 12% of the land is arable; these are also important grazing areas. In some surveys over half the households are involved in some form of crop production. Even if yields are very low, the stubbles (or even a fully dried up crop) can be grazed. Better off families cultivate as well; to reduce the need to sell milk or animals to get grains but also as it the shortest way to obtain private land from the PA administration.
- Sell more milk in order to use the money to buy grains. Also the overall commercial off-take of animals increased in the last 30 years from a level of 3-5% to 7-8%.
- Keep more goats and camels as these thrive on the bush that replaces the grasslands. Both enjoyed good marketing opportunities in the last 10-15 years. Goats have an additional advantage that they are affordable for the poor and camels are useful as pack animals; among other to transport grains. They also produce some milk during severe droughts.
- More people become drop-outs; they no longer have cattle and move to small towns to do petty trade and daily labour. Other explore the natural resources more intensively (make charcoal, collect incense or small scale mining activities of sand, stones, salt, gold).

3.2 Policy matters

In this paragraph the relation between the above mentioned growing pressure on the natural resources and the institutional and policy environment are explored. To do this, the natural economy of the Boran have to be explained: the land use system and the herd management system.

Traditional *land use management* focuses on ensuring the herd mobility needed to make use of the wide variation in pasture productivity over a given area. In time of drought herds need access to reserve areas. As droughts occur at different geographic scales, land use planning is needed at different scales.

At the highest level the Boran have agreed with their neighboring tribes (Guji, Gabra) to respect the '*miirti*', a buffer zone between the two tribes that is only used by one or both of them in times of severe drought over a large area. Inside Borana, the largest land use planning unit is the '*madda*' (some 35 in total) an area that shares the use of one deep wells ('*ella*') or spring. Each '*madda*' is divided into a number of '*arda*', an area in which several '*olla*' (encampments) cooperate. The '*arda*' belongs to the community, but between these are free grazing areas that can be used by all Borana. At both level a council of elders decides on the use of water sources and pastures.

The *herd management system* is intertwined with the above. The two units of a Boran herd are the '*warra*' consists of small stock and lactating cows that stay near encampments and in the '*arda*' area. The '*fora*' herd consist of adult bulls and dry cows, that stays in satellite camps. In commercial livestock systems adult bulls from the '*fora*' would be sold as they no longer grow; in the pastoral system they are kept as an insurance. These bulls are hardened animals that can move over long distances in search for pastures and water; so much more bulls survive a drought than cows. After a drought they can be sold; one bull can generate enough cash to buy two cows.

During a drought one can ask permission to move your '*warra*' into another '*arda*' and this will be granted if pastures are sufficient and relations good. In principle '*fora*' herds can move freely in the whole of Borana, as long as they do not enter the '*arda*' areas of others. But one does ask permission to enter another '*madda*'. Sometimes access to pastures is awarded, but access to water restricted (esp. for very large herds that need water from deep wells that already have a full 3-days schedule).

This land use management system has been upset over the last 40 years in a number of ways. The first change was an endogenous one. In the 1960 the Boran introduced the institution of '*kalo*': an area set apart for dry season grazing near the encampment to ensure the survival of calves. This 'tradition' was copied from the Guji. Apparently livestock density became so high that allowing '*warra*' herds access to all grazing areas in the '*arda*' at once would lead to overgrazing.

Twice the Boran lost control over some grazing areas to their neighbours in times of social upheaval. In the early 1970's, when the regime of the emperor crumbled, the ethio-somalian war lead to a loss of pastures in South-East Borana to the Somali tribe. Relations with them are still tense; also at the time of the research. And the power vacuum following the fall of the Derg lead to conflict with the Guji who managed to get control over '*miirti*' areas in the Northern part of Borana.

During the Derg regime, a series of external induced changes affected the mobility of the '*fora*' herd:

- Managing the '*madda*' became very complicated when the Derg imposed the PA- level of administration. PA's do not coincide geographically with '*madda*'s; yet the PA had the power to decide on land use; incl. giving out land use rights. To agree on the use of a '*madda*' which was spread over different PAs was very difficult. Nor was it easy to agree

within a PA on the use of parts of different *madda*'s. Frustrations mounted as decision of young and uniformed PA-administrators took precedent over those of Boran elders.

- In the 1980's the number of '*kalo*'s' boomed; increasingly they were not only used for the whole '*arda*' or '*olla*' community, but to certain groups or even single families.
- At the same time the Derg stimulated crop production which lead many families to claim private land for this, while actually using it for grazing purposes. Another option was to surround a small field of crops with a large private '*kalo*'.
- Sedentarisation of pastoralists was an aim of the Derg, and this reduces mobility further.
- The ban on wild-fires meant that bush encroachment was stimulated; fire was the traditional way to kill of most of the young tress germinating in the pastures.
- The creation of three ranches to fatten young bulls under state management did not fit the Boran strategy of keeping bulls as an insurance measure and was not appreciated by them
- Forced conscription into the army reduced the available labour for herding, watering and well maintenance. This was enhanced by a ban on hired labour.
- A lack of markets and forced sales of animals below market prices lead to a commercial off-take of 3% and to poverty among pastoralists. High taxes added to this.

Both researchers and pastoralists consider that due to all this around 1990 the system went into a downwards spiral. The fundamental reason was the herd dynamics based on population growth, but the demise of the system was enhanced by the pastoralists unfriendly policies of the Derg which substantially reduced the capacity of the Borana to manage their natural resources.

After the fall of the Derg some policies were revoked: forced conscription and sedentarisation, forced sales and high taxes. Controlled wildfire is allowed but often not feasible due to bush encroachment. The new government also created new institutions to deal with pastoral issues. This improved the voice of pastoralists and the livelihood of the Boran.

Internal dynamics continued to put pressure on mobility since 1991; a substantial increase in private '*kalo*'s', '*obruu*'s' and settlements increasingly restricted '*fora*' herds movements at a time that the pressure on water sources and pastures enhanced the need for mobility. So *gadaa* leaders, supported by GO and NGOs started a campaign to move encampments out of major grazing areas so that herds can pass without causing a conflict. Significantly, it is said that people can keep their '*obruu*'s'.

While this goes on, a spatial specialisation seems to be evolving: isolated and dry areas focus on animal reproduction. People living in well watered areas near large markets buy animals to fatten them on a communal or private '*kalo*' or on their private '*obruu*' for a few months. The optimal deal for fatteners is to buy at the end of the dry season when prices are low and sell in the wet season when prices are high. Ultimately the competition on fodder is the key issue: as this is a communal resource, the question is who has access to it at critical times and in critical places.

It is against this background that the research looks into the actual and potential role of cooperatives, SACCOs and private traders in Borana zone.

4 COOPERATIVE DEVELOPMENT

4.1 Introduction

In the last decade a series of new government policies were designed to improve access to markets for pastoralists. The fact that the number of animals dying due to drought or diseases exceeds the number of sold animals by a factor four or even more is highly frustrating for all. The initiative started in the highlands by setting up new export oriented abattoirs and creating an enabling environment for them. In the lowlands the focus was on improving the roads, better market infrastructure, creating marketing cooperatives and access to credit. Formal and non formal education was enhanced as well; basic literacy skills are needed on the market and in diversifying livelihoods.

The improvements were well timed: (international) prices were general favourable in the last decade and with market linkages improved, livestock prices increased and commercial off-take increased from 3-5% to 7-8%. The next logical step was to try to ensure that pastoralists get a bigger share of the value of their animals on the final market. Cooperatives were seen as the most appropriate tool for this. The PARIMA project took the lead by setting up Livestock Marketing Cooperatives (LMC) based on informal saving and credit groups. They linked them to highland abattoirs and exporters and they sensitised policy makers.

Based on the initial success, NGOs followed suite; not only working with LMCs but also with coops for marketing gums and incense, of milk or butter, of Aloe vera soap and with SACCOs. In the last 2 years also IMX started to create income generating groups in rural areas (before that they focused on urban areas). Based on a Business Plan that is approved by PA-administration these groups get a loan from the Oromia Credit and Saving Share Company (OCSSCO).

The principle of cooperatives fit well with Borana culture. The Boran have been and are cooperating on several practical issues. First of all their famous singing wells are a good example on how community labour is organised for the benefit of all households. Also in the area of milk marketing common action is normal when the distance to markets is far. This is reported in literature and was confirmed in the present research as well.

As explained above, during the Derg regime the forced cooperation in coops and the forced sales to these naturally lead to a strong aversion against this type of organisation. However, these days people do understand that the present type of coop created with the support of NGOs are different.

4.2 Present state of affairs

In 2010 in total 405 cooperatives were registered at the Zonal Cooperative Promotion Office. Half of these (205) are Saving and Credit Coops. In the lowlands woreda's 161 SACCOs were registered and 132 agricultural coops. The lowlands encompasses the ten woreda's of Arero, Dhas, Dilo, Dire, Dugda Dawa, Malka Soda, Miyo, Moyale, Teltele and Yabello.

The next table gives a summary of the data obtained from the zonal CPO in Yabello.

Table: Basic data on cooperatives in Borana zone

Area	Members			Present assets			Source of capital				Saving/ profit
	Male	Female	Total	Current	Fixed	Total	Fee	Share	Seed F.	TOTAL	
Saving and Credit Coops											
Highland	1,458	616	2,135	895	83	978	42	180	253	474	307
Lowland	2,371	5,704	7,990	2,738	185	2,923	80	422	1,880	2,382	642
Total	3,829	6,320	10,125	3,632	268	3,900	122	602	2,133	2,856	949
Agricultural Cooperatives											
Highland	10,004	485	10,619	6,782	9,970	14,806	64	3,377	9,638	24,501	13,079
Lowland	3,070	1,703	4,840	3,349	584	4,277	114	1,394	1,108	4,391	2,616
Total	13,074	2,188	15,459	10,131	10,554	19,083	178	4,771	10,746	28,891	15,695
TOTAL	16,903	8,508	25,584	13,763	10,822	22,983	300	5,373	12,879	31,647	

* All data on the capital are in '000 ETB.

The data represent the situation of October 2010. Looking at the individual data many inconsistencies can be found (see par. 4.5) so we can only draw some very general conclusions:

1. SACCOs and agricultural coops unite 7.200 people in the lowlands. In the same area the Productive Safety Net Programme reaches 100.000 vulnerable people selected by communities.
2. SACCOs are most prominent in the lowlands, where 80% of all SACCO members live; agricultural coops are more active in the highlands with nearly 70% of all members.
3. The registration fee and share value per SACCO member is 63 ETB in the lowlands; for agricultural coops it is five times higher: 311 ETB. In the highland membership is much more expensive.
4. 71% of the SACCO members in the lowlands are women. In agric. coops this is only 35%.
5. The capital per member is some 400 ETB for SACCO, some 900 for agricultural coops in the lowlands and 1.400 for agricultural coops in the highlands.

To assess the profitability via these data is very difficult. One could assume that the value of the present assets minus the initial capital in terms of registration fee, share value and seed funds (and savings) would be the operational profit of the coop since its inception. In the case of the SACCO's in the highland this works out fine: their present assets are nearly 1 million ETB, while all their sources of capital and their saving together are 0.8 million ETB. The gap of 0.2 million ETB is their profit; in this case it represent the interest paid on loans. However applying this logic to the SACCO on the lowlands shows that these are making a loss. Their total assets are nearly 3 million ETB, but their total of all sources of capital and their savings is slightly over 3 million ETB. Looking at data of individual SACCOs one can only conclude that these data are incongruent.

This was confirmed during field visits; the best dataset that could be obtained was from the Moyale office. Comparing the data of 29 SACCO in this districts for 2008 and 2010 showed that:

- only in 13 cases it was possible to identify the same coop in both datasets
- in 6 out of these 13 cases the capital in 2010 was lower then the capital in 2008 combined with the savings made. This includes SACCO's which reportedly are doing well (e.g. in Xile Mado).

The next table is another illustration of the poor statistics on SACCOs.

Table: savings of coops in Dhas in different sources

SACCO	Actual data Zonal CPO	AFD DATA	
		Sept. 2009	Feb.2010
Dibayu Gayo	5,360	10,540	8,350
Kufa Anole	2,200	11,160	9,450
Dumensa	1,085	8,990	8,335
Choroka	1,085	11,700	5,360
Latu	1,400	11,310	10,580
Total	11,130	53,700	42,075
Average	2,226	10,740	8,415

It is clear that the data submitted by AFD to CPO have not been used; it is also clear that AFD did not check their own data for consistency. In the AFD data the SACCOs were “de-saving” between Sept. 2009 and Febr. 2010. An incomprehensible idea. During the field visit in Dhas woreda the CPO staff explained the SACCO’s were doing well. Data on the wall of their office featured the actual capital of the SACCO in the table; this showed that on average they had gained 9,700 ETB on a seed fund of 28.000 ETB.

What the real situation of these SACCO is, remains unclear, but it is very clear that the most data (of both CPO and NGOs) are inconclusive and can not be used for practical analyses.

Looking at the agricultural coops we see that those in the highlands have a profit of 13 million with a initial capital of 14 million. For lowlands coops the profit is 2.6 million on a capital of 4.3 million. The profit per member is 540 ETB for lowland coops (1,232 ETB in the highlands). These outcomes should be considered as very rough estimates only. As the coops on average are 4-5 years old, the profit per year is 100-150 ETB/member. Again, considering the weakness of the data, these conclusions have to be taken as only very rough estimates.

5 RESEARCH FINDINGS

In this chapter first of all an overview is given on what the coops have in common: the way they perceive themselves and the way they operate. In the second paragraph a more detailed assessment is made of the each of the four major types of coops visited: Livestock Marketing Coops, Incense and Gum Cooperatives, Milk processing coops and Saving And Credit Cooperatives. The focus in this second paragraph will be on the impact of the coops: what is the benefit of the coop and who gets this benefit? In the third paragraph the support system will be described

To assess the performance of the coops, a definition is needed on what a coop is supposed to be. Here we use the following definition: *A coop is a business financed, owned and managed by members which delivers services to its members.* In the case of Borana zone the service is the marketing or processing of the members' produce. In other cases it can also be input supply or mechanisation services.

5.1 General findings

General principles

In all coops the people spoken to had a clear idea of what a cooperatives is supposed to be. To them a coop means that people work together on a voluntary base in order to work on their common interests. Decisions are take together (in a democratic manner) and the profit is shared.

These elements are reflected as well in the definition of AFD in its workshop on coops in July 2008: *Cooperative is an economic entity organized by people having common interest through reasonable capital they have so that can be able to share the result (profit or loss) and where members' democratic participation is highly expressed (AFD, 2008).*

This does not cover all elements of our definition as it lacks the element of *providing services to the members*. We will see what this means in the next paragraph when we look at the members.

Membership

People see membership from four perspectives: members buy shares, participate in decision making, contribute voluntary labour and share in the profit. What is lacking is the idea that members are the prime clients of a coop: a coop delivers services to the member (marketing or processing). All coops visited however bought (much) more produce from non-members than from members. This violation of a basic cooperative principle¹ has severe consequences for the poor: coops buying from non-members try to do so a the lowest possible price. Coops buying from members will use normal market prices and then divide any profit (or loss) in the form of dividend at the end of the year.

Another observation is that although membership is claimed to be open, in practice very few new members join in. This is related to the fear of people that allowing more members, will lead to the dilution of the value of each members share. This is particularly important as NGOs mostly give large seed funds; generally 25.000 - 50.000 ETB to coops which collected 5.000 - 10.000 ETB from members. Seed funds should be indivisible and profits generated by it administrated separately (and not allocated to members via dividend). In Borana this does not happen.

¹ NGO staff rightly points out that the International Cooperation Association does not pay any explicit attention to the idea that members are client of the coop (see www.ica.org). This is indeed strange and even flawed in the view of the researcher

Management and organisation

All coops have a clear idea on their internal organisation. Mostly they have a Board of 5 (or 7) people, purchasing and sales committees and an audit committee. Some have a special supervisory committee to check the work of the purchasing/sales committee.

Several coops allocated both tasks, of purchase and of sales, to the same committee; in this way they can be held accountable for the total profit. This is to avoid quarrels between purchase and sales committees, accusing each other of poor performance.

All work is done on a voluntary basis. Generally a per diem system is used when people have to leave the community to perform their tasks. Next to transport costs, the amount for food is 20-35 ETB/day. They 'net salary' or reward for the time invested is 10 ETB/day. Not a real incentive considering the responsibilities. Some coops use a rotation system so that all contribute equally.

The leaders in terms of management are the chairperson, the vice-chair, the secretary and the cashier. Often the few people in the community that are literate perform these tasks; particularly shopkeepers are popular as secretary and cashier as they are the only ones with experience in administration. The leaders do not get any reward for their tasks. In a few cases a NGO (especially AFD) pays the salary of a manager or administrator of the coop.

Administration

The administration of most coops consists of a notebook in which all kind of information is scrawled down: payments made, minutes or decisions on meeting, advances (loans) taken by members, profit calculations etc. When auditors come they generally first have to sort all this information before they can do the actual audit.

As there are very few banks in the area depositing money is time consuming and expensive. And as withdrawing money from the bank requires approval from the CPO, many coops keep relatively high amount of money in cash. Some have a safe for this (given by an NGO) but all too often this money is handled by the cashier cum administrator who will be tempted to meddle it with his/her own cash; especially when (s)he runs a small business. Auditors say they invariably find a cash-shortage. In these cases the cashiers has to sign that (s)he will pay back.

The SACCO are distinctly better in this respect; they have a 'saving booklet' for each members in which their transactions (saving and loans) are recorded. In one case there was an systematic error in the way savings were recorded, but this was easily solved.

Conflicts

Several of the coops visited suffered from internal conflicts. The main reasons are:

- misuse by purchasing and sales committees
- misappropriation by leaders
- poor administrative skills
- mixing up coops and private money
- unrecorded and/or irresponsible lending (to members or authorities)
- limited access to banking services
- too long periods between audits.

Misuse of funds is enhanced by the high rates of illiteracy. In several coops the number of people that are able to read and write is limited to a handful. This limits the choice for leaders and administrators. For example the mistakes noted above in the administration of a SACCO was made by a recently appointed volunteer who was elected after the other two literate members of the group proved unreliable. He seemed to be the last literate candidate of the group.

5.2 Impact of cooperatives

When assessing the impact of coops the focus is on the assumption that coops are a sustainable way to improve the income of the poor. This assumption is based on a two notions:

- poorer segments of society are member of the cooperatives
- members can benefit from their coop in two ways:
 - they get better prices for their produce
 - they share the profit of the coop in terms of dividend.

Getting a better price for the produce is most easy when there is no other market outlet. In the visited coops such a situation has not been found; but it is possible that coops in isolated villages are the only way to sell products. Yet, one has to realise that if private traders are not interested, it might be a good indication that the potential profit is very limited indeed (due to small amounts and/or small margins).

Of course ‘the price paid to the members’ and ‘profit in terms of dividend’ are interlinked: if a coop pays high prices to members for the produce, the profit will be less. Normally a coop pays market prices to its members and the real benefit of members is the dividend paid at the end of the year. This means that the profit of a coop and, thus the benefit of it’s members, depends on its capacity to:

- *sell at higher prices*
This is possible when the coop has a substantial share of the market which will give it a better negotiation position vis-à-vis potential buyers.
- *add more value to the produce*
This can be either in the form of processing or in selling the produce higher up in the value chain. In Borana lowlands the latter means: selling the produce in the highlands.
- *work with lower costs than private traders*
This can be achieved by working with volunteers and by working with larger quantities to profit from economics of scale.

So the turnover of a coop is very important. A substantial amount of produce is needed to be efficient, to be able to negotiate good prices and to get access to highland markets. Another option is to diversify the business of the coop, in Multi Purpose Coops. These however have the highest risk of ending up in mismanagement and conflict. Before turning our attention to the coops, the next table is included to show the important of keeping the money flowing. The first line shows the inflation in Ethiopia since 2003. The other lines show what this means in practice.

Table: inflation and price trends

	2003	2004	2005	2006	2007	2008	2009	2010
Inflation (%)	4	18	2	12	13	17	44	8
Value of 100 ETB in 1.1.2003	96	81	80	71	63	54	37	35
Exchange rate USD	8.8	8.9	8.8	9	9.2	9.8	11.8	16
Value of 100 ETB in USD	11.4	11.2	11.4	11.1	10.9	10.2	8.5	6.3
Impact on incense coops with 30.000 ETB								
Incense price (ETB)	2	2.25	2.25	3	3.75	5	6.75	7
Qt. of incense for 30.000 ETB	150	133	133	100	80	60	44	43
Gross margin per kg of incense	0.5	0.55	0.6	0.65	0.7	0.75	0.8	1
Total profit	7,500	7,333	8,000	6,500	5,600	4,500	3,556	4,286
Profit in USD	852	824	909	722	609	459	301	268
Impact on goat coops with 30.000 ETB								
Price of a 20 kg goat (ETB)	70	90	100	110	135	170	205	240
Nr. of goats for 30.000 ETB	429	333	300	273	222	176	146	125
Gross margin per goat	20	22	24	27	30	33	36	40
Total profit	6,000	6,000	6,000	5,786	5,455	5,211	4,500	4,000
Profit in USD	682	674	682	643	593	532	381	250

N.B. The price of incense is based on NGMPE data; price of goat meat for 2003, 2004 and 2010 are from publications and for the other years they are interpolated.

The table shows that the purchasing power of a given amount of money has decreased by 65% since 2003. Combining the inflation with other price trends we see that incense coops that had 30.000 ETB in 2003 could buy 150 qt of incense and earn 852 USD with it. Today the same amount of money would be enough to buy 43 qt which would generate a profit of 268 USD. To get the same profit as in 2003, a coop would need 95.000 ETB. For goats the situation is the slightly better: 82.000 ETB today has a similar earning capacity then 30.000 ETB in 2003. So a coop has to triple its capital between 2003 and 2010 only to maintain its capacity to generate profits. In an economy with high inflation it is better to have assets than to keep money in the bank. Let us see if the coops manage to do this.

Livestock Marketing Coops (LMC)

The six LMC visited can be clustered in 2 groups of three: one in Moyala and one in Dubluk. In each cluster there is a lead LMC created in 2003 by traders living in or near the towns. LMCs along the main asphalt road Moyale-Yabello followed their example; also there small traders are dominant. The outer ring of the cluster is formed by LMC in isolated areas (off the main road).

Of all agricultural coops only the two lead LMCs from Xile Mado and Dubluk managed to beat inflation. Being close to the main markets of Moyale and Dubluk they were successful in livestock marketing in the period when the demand was high and the margins were good. When the margins were shrinking, they shifted their core-business. They focused on fattening or hauling construction materials. They could do this due to the fact that the (key) members are urban based traders who understand markets very well and who have the connections needed to mobilise (social) resources; both secured access to free grazing areas and Xile Mado managed to direct government support.

The success however is limited to the business dimensions. They did not service their members. They did not sell animals of members. Actually, being traders they use the coop to collude in lowering the price of livestock. This is a paradox: while a marketing coop is supposed to break the monopoly of local traders, it does strengthen it. These conclusions are supported by Aklilu and Catley (2009), who conclude that members of the LMCs are 'either small scale traders or middlemen residing in major settlements' and by Teklewold et al. (2008) who proved that coops pay lower prices to pastoralists than private traders.

An interesting observation is that in the period that the Xile Mado coop could make substantial profits, it chose not to do so. When the overall profit was 25 ETB/goat the coop decided that only 2 ETB of this would be kept by the coop and all the rest would go to the member-traders (who collected the goats from Kenya). This is presented as a very good thing to do; but it meant that when the coop faced more competition it did not have enough capital to compete the private traders.

The LMC's close to Moyale and Dubluk and along the asphalt road tried to copy the behavior of the lead LMCs. An important part of their members are also traders, but they have less resources. They have understood that the margins in livestock trade are very small and that trading as a coop is a tricky affair. They want to shift to fattening and they are looking for access to grazing areas. Some already talk about transforming their LMC into a SACCO.

LMCs in more isolated areas have less traders as members and they are much less successful. Most get stuck in quarrels related to livestock trade and the CPO and NGOs do not manage to assist them in solving the disputes. Even in case the conflicts are solved, it is doubtful whether the trust among members can be sufficiently restored to start a new business.

Milk processing coops

Milk coops did not lead to any real increase in income for the members. If they operate it is only for a few months per year and with very low turnover and virtually no profit. This does not only apply for the three milk coops visited but for all 7 coops found in Borana (see CARE milk value chain report).

All coops are initiated by NGOs who fail to make a proper business plan. The butter produced is of better quality than local butter but no attempt is made to capture the additional value. Butter is sold like local butter. Also the skimmed milk needs to be marketed better. One option could be that the families who deliver the milk take it back at a reasonable price and give it to the calves. In none of the cases were options like these discussed or explored.

Incense Marketing Coops (IMC)

All incense and gums are created in (rather) isolated areas, as this is where the produce is collected. Their turnover is very small; all have more money than they can use. In most cases the Gross Margins are small; about 1 ETB/kg. This is due to the competition with private traders. These traders are generally more efficient as their incense trade is embedded in a larger business that involves more activities and people.

The low utilisation rate of capital (money and assets like stores), combined with the small margins, leads to a very low net profit which is less than the inflation rate. So IMC slowly lose their capacity to generating income.

The coop in Elway is different; there are no competing traders there and the coop has a margin of 3 ETB/kg. This is achieved by paying only 4 ETB/kg to collectors (all others pay 6 or 7 ETB). The key to understanding this, is the membership. This coop (like all incense coops) buys mostly from non-members. Members benefit from a low price while the collectors suffer. Similar to LMCs dominated by traders. Unfortunately much of the profit in this coop ended up with a local shopkeeper. Ironically, he could very well be the trader who stopped trading incense when the coop was created.

SACCOs

It is cheaper to enter SACCOs and they are generally better managed. No conflicts have been reported so far; probably as their operations are much more transparent. Everybody is witnessing when people take a loan. It also seems SACCO members are more pro-active in changing the leadership when they sense there might be problems. This is caused by the higher level of ownership due to the savings people put in the coop. The high level of ownership also means people are very selective in allowing others to join the SACCO.

The most mature SACCO's gives loans of over 3.000 ETB today. Loans are used for petty trade, small livestock trade and to prevent too early sales of livestock. So far the SACCO's did not report any repayment problems. However a considerable number of people (25%) left the SACCOs, but they do this after repaying their loans. There might be more repayment problems than acknowledged. It is quite possible that people borrow money from third parties to repay the loans. Only time will tell.

5.3 Support system

5.3.1 Government support

Cooperative Promotion Office

The CPO has office at zonal and woreda level. CPO implements the cooperative law, which is well in line with international standards and the training provided to the CPO staff is thoroughly. At woreda level one find typical a small group of young professional who know what a coop is and how it is supposed to function.

At zonal level CPO has 13 staff members and in each woreda about 5 (only in Yabello it has 11). Their tasks are to supports and supervise coops. In practice their main activities are:

- Assist coops in making statutes and by-laws
- Register coops
- Approve Business Plans and withdrawal of money from their bank account. There is no rule on this in the cooperative law, but it is a rule of the banks that those who support the opening of an account have to agree on withdrawals
- Train coops
- Audit coops
- Assist coops in court cases.

Despite the young, enthusiastic and well trained staff, there are major problems with the performance of CPO. The biggest problem is that they number of audits done is only 40 per year (20 by the zone and 20 by the woreda's). This is only 10% of all coops. As a result many the conflicts in many coops do not resolved. In 2010 the lawyer at zonal level reported 22 court cases of coops. The amount of money disputed was 650.000 ETB; this is 25% the reported profit of all coops. Next to this the lawyer estimates that another 30 cases are solved outside court by PA-administrators and elders. This means that today one third of all agricultural coops have a serious conflict. This fits very well with the number of conflicts found on the visited coops. Such a high rate of conflicts means that few coops will survive a period of 10 years or more.

Another major problem is the total lack of reliable data. As already mentioned in chapter 4 the data available at zonal level are extremely poor. Several of the coop described in chapter 5 could not be found back in the data provided by the zonal office. Even basic issues like the names of the coop, the number of members or the savings are confusing.

One reason for the poor data is the very large turnover of staff. In several instances the researcher met with CPO staff who were just posted on their present position for a few months. Another reason is the lack of skills to collect, store and analyse data. The data for this study were retrieved from a computer at CPO that is managed by a new secretary and which has no system to store data: no proper directory structure nor clear file names.

In terms of efficiency, CPO scores low as well. Their annual salary costs are over 100.000 ETB per office (both zonal- and woreda office). With a budget of 40.000 ETB at zonal level and 15.000 ETB at woreda level, the total costs of the CPO in the lowlands is at least 1.300.000 ETB. This equals half of the profit made so far by all agricultural coops. With number 7.200 members of the coops, the annual costs are nearly 200 ETB/member.

A last problem is the overly bureaucratic approach. While illiteracy is a major problem, still all members of the coops must sign the statutes and by-laws. What is the meaning of asking illiterate people to sign every single page of a document of 30 pages? And then: CPO does not even have sufficient funds to make a copy of these documents. Most of the time NGOs are doing this for them

5.3.2 NGO' s

NGOs have been involved on the creation of most coops. They provide different forms of support:

- Formulation of statutes and by-laws,
- Registration at CPO
- Training on issues like leadership, business planning, administration
- Non Formal Education (literacy and numeracy)
- Assist in opening a bank account
- Technical training and exchange visits
- Equipment/ Stores/ shops
- Basic documents (like saving booklets etc.)
- Seed money.

In total they gave 3 million ETB as seed money to SACCOs and agricultural coops. Unfortunately the data of the zonal CPO are not clear on how many coops were supported by NGO but it seems most of them are. AFD has been mostly involved. Also CARE and SOS-Sahel have been active in this field. Of the present project partners CIFA, Acord and GPDI have been relatively less involved.

The work of NGOs is crucial for the cooperative movement in Borana. Yet, the NGOs suffer from a number of shortcomings. The most fundamental is that they have limited analytical capacities; most programmes are designed by Addis-based staff and when studies have to be done, external consultants are hired. Their reports are often simply shelved. In several instances new studies are commissioned without any reference to the previous work done. During the research it proved that extensive value chain studies made less than a year ago are not available in the Yabello offices. The exchange of experience and studies among NGOs is also very limited.

Other weaknesses are:

- Working with projects of a few years at a maximum, means a quick turnover of staff and a limited institutional memory
- A poor understanding of business aspects: the time and energy needed to built up market linkages and trust among business partners is grossly underestimated. Also the need to ensure clear incentives for people to work for coops is not understood.
- Technical issues receive insufficient attention. In all NGOs there is not a single expert on technical or trade aspects of livestock, incense, soap etc.

The attitude of NGOs towards business development is poor as well. NGOs have a rather romantic/-simplistic idea on 'pure pastoralists' who are supposed to be honest and willing to work endlessly as a voluntary for a coop. Traders on the other hand are seen as selfish and egoistic.

Some reasoning on coops is simply inconsistent. One example is that when a coop is created illiteracy and a lack of business skills are seen as major problems. However when a coop ends up in conflict as nobody knows how to administrate it, this is not seen as the result of the lack of skills, but it is attributed to the behaviour of one (corrupt) individual. So, being optimistic forever, the NGOs simply suggests to replace the corrupt person by a new leader; assuming this time things will be different.

The uncritical attitude toward coops means that no costs/benefit analysis is made of the support. The total costs of the support are enormous and the question remains whether a more straightforward business approach would not generate more jobs and income. In the final analysis, working wiouth coops seem and attempt at social engineering (trying to influence who gains what) by NGOs without sufficient reflection (leave along measuring) on whether it works.

6 PRIVATE TRADERS

6.1 Introduction

Some 20 private traders were interviewed during the research. Sometimes in Focus Groups (Dillo, Dubluk, Higo), sometimes individually. In several cases the interviewed traders proved to be member of a coop. Even the largest traders of all, selling 1000 goats per week to the highlands is member of a LMC (in Dubluk). A special case is the Utuba Gumi, a so called 'community based company' in which 63 people invested 10.000 ETB or more to start a livestock trading and fattening enterprise. Also some milk and butter traders were interviewed. Unfortunately two planned interviews with incense traders had to be cancelled; so most information on this stems from a detailed interview with the manager of the NGPME in July 2010.

6.2 The actors

The marketing of livestock starts at the level of 'encampments'; all over Borana zone there are small , village level traders purchasing animals on a cash base. They buy in their own neighborhood and on bush markets. The estimated number of small traders in lowlands of Borana is well over 1000.

To understand their perspective, the price for goats is used as this is the most easy indicator of how prices develop along the value chain. Small traders pay pastoralists 12 ETB/kg of Live Weight when they buy in the encampment; and 12.5 on bush-markets. The traders sell the animals within a few days on secondary markets which are far from the Yabello- Moyale road, like Dillo, Teltele, Arero and Borbor. They sell either to intermediate traders or to commissioners of large traders at 13-13.5 ETB/kg. So the Gross Margin for a local trader on a 20 kg goat is ca. 20 ETB; the net profit is 15 ETB or 8%. For bulls the gross and net margin are generally resp. 250 and 125 ETB; or about 5%.

This profit is without the costs of living for the trader. Many small traders handle less than 10 goats per week. This means they have net margin of 200 ETB/week or 30 ETB/day. About half is needed for their food along the way. Their final net income is hardly more than the salary they pay to people trekking their animals; and similar to the 15 ETB/day that the Productive Safety Net Programme pays for its beneficiaries (for daily labor).

The animals bought at the secondary markets are taken to the primary markets in Srupa, Harobeke, Elway, Dubluk and Moyale. Goats fetch 14.5 ETB/kg there; so the net margin is similar. Traders at this level have a higher net income, as their turnover is mostly higher. Many traders here started their business by selling off their own animals; in Dubluk six cattle traders started by selling, on average, six cattle. They were on average 10 years in the business and all of them were still selling most animals on credit. They estimated that in Dubluk there are 30-40 trader of their size and 200 in the lowlands of Borana. They can trade like 10 cattle per week and their net income could be in the order of 100 ETB/day. The better off among them invested in a house in Yabello which ultimately could serve as a collateral for a loan. To run their business optimally they said they would need a working capital of 150.000 ETB (enough to handle 50 animals).

On the primary markets the system differs per species. Bulls mostly bought by feedlot owners who tend to buy on credit. In the case of goats abattoirs are the main buyers who work via permanent links with large traders (who sometimes work as commissioner as well). The camel market is controlled by very few large buyers who have commissioners on all markets. The margins on the primary market are higher (roughly double: so 40 ETB/goat and 200 ETB/bull) for those who work with their own capital. The margins for commissioners are much lower; e.g. 20 ETB/goat and 50 ETB/bull.

On most markets one also find brokers: people who connect sellers and buyers. They are sometimes necessary due to language problems, but they are also used to create trust among both parties. When the sale is on credit they are responsible to ensure the payment by the buyer. People hate them as they do nothing 'productive' and they are suspected to manipulate the prices or to simply lie on the price. Indeed one of them admitted that he could sometimes increase his normal fee of 30 ETB/head of cattle to 100 ETB when dealing with an ignorant pastoralist.

An interview with one of the five large private goat traders revealed that he delivers 10 trucks of goats per week to 'Organic' abattoir in Mojo. He has agents on all important goat markets; most of them he pays in advance so that they can buy for him. One of his risks is that they run off with the money.

He needs large numbers of goats (150 or 300 on a single day); in markets like Dubluk he has two agents who buy goats at 14.5 ETB/kg and sell them to him at 15.5 ETB/kg. This means they could earn some 400 ETB/day. A major concern at this level is the health status of the animals. If the goats have been poorly fed and watered before coming to the market their condition and their weight can deteriorate quickly. Examples are given of very high mortality rates in some occasions.

The large traders estimates that 60% of all goats are bought on credit. Those who take on credit tend to be irregular buyers. They can buy for three months in Dubluk and then move to Teltele. This means that there are suddenly too many goats in Dubluk and people ask him to buy as many goats as possible. He will do so, but on credit. When buying on credit the price is 0.1 ETB/kg higher.

One truck costs about 50.000 ETB for the goats and 3.000 for the transport. With two trucks per day and being paid only two weeks after delivery the working capital of the enterprise already exceeds 1 million. Add to this the advances needed to his agents who pass this on to their agents. Like other chain actors he feels the next actor in the chain, the abattoirs are manipulating the market. He would like to get more capital so that he can deliver directly to exporters of life animals. He also likes to have access to a feedlot in the highlands where he could feed and water his goats and even keep them a while when prices are too low.

Lastly the researcher spoke to an entrepreneur, from Yabello, who rents a feedlot in the highlands. He is fattening 200 animals and does this 2-3 times per year. He buys bulls at 280 kg and sells them after 2 months at 330 kg. The profit is reasonable. His main constraints is a lack of capital. He likes to have its own feedlot and he hopes to develop into a life animal exporter. He shows that it is possible for a Boran to get a share of the added value created in the highlands.

The latter is the ultimate aim of a special actor: Ubuta Gumi, a so called community based company. Created as a LTd in 2008, it has 63 share holders now; they are pastoralists (incl. the Abba Gadaa), civil servants and traders. The total share value is 700.000 ETB. The manager, who is leaving his position, explained that the company has undertaken several activities; but so far they only made losses. They first tried to enter into the goat business, but failed. Then they tried transport (buying two truck from a loan) and failed. Then they fattened 200 animals, but as they had to keep them 4 months; i.s.o. the normal 8-20 weeks, it lead to a loss as well. At present 500.000 ETB of the initial capital still remains (the trucks were sold). Outsiders see the different views and ideas among the shareholders as a major problem.

A few word on *milk marketing*. Milk trade is entirely private. The main issue is seasonality. In the dry season production plummets while the substantial amounts consumed at home change much less. And as the demand in towns is inelastic, prices increase dramatically in the dry season. Quality is another problem; obviously linked to the transport problems that make it difficult to get milk in towns in time.

Demand in town is very high; the most interesting supply chain is from Srupa in Moyale. In isolated areas camels are milked at midnight, after which the milk is carried for a 4-5 hours through the night

(first 2 hours by pastoralist, then 2 hours by traders) before being placed in trucks that carry it 300 km to Moyale. There the milk is collected by business partners (mostly family members) of the senders and sold on the market. In Yabello supply is problematic. Recently a milk shop was opened but supply is still insufficient due to poor transport and a lack of a functioning business network. Also in Bule Hora (in Borana highlands) and other places there is unmet demand. Where the best supply could be found and how to set up a reliable supply system would warrant further research.

6.3 Constraints

In the whole livestock marketing system, the two most important constraints were found to be the poor marketing infrastructure and the severe shortage of capital.

Poor marketing infrastructure

This refers to poor roads or even a total lack of roads that leads to high transport costs for the animals due to trekking. The cash expenditures for trekking as such are not very high, but the losses in terms of weight and even mortality can be very high. This is enhanced by the lack of water, resting places and feeding opportunities along many of the main routes. For example trekking costs goats from Dillo or Teltele to main markets in resp. Dubluk and Elway is risky and can for a large part explain the price differences between these markets.

Severe shortage of working capital

Traders have to pay pastoralists in cash for the animals; yet often they have to deliver their animals on credit to the buyers from the highlands.

At lower levels in the system this pattern is repeated: a cattle trader on a primary market will try to obtain animals on credit from traders on secondary markets who again get the animals from bush-markets or directly from pastoralists. At this lower level one finds traders who deal with 5 goats per week; hoping to make a margin of 20 ETB/head.

The amount of capital involved in the system is huge. Every week 5 million ETB is transferred from the highlands to banks in Yabello. This is in the hands of a few people; on the market in Elway one man carried a suitcase filled with 100 ETB notes and at least half of the animals were bought by him.

The shortage of cash applies to the whole value chain. It starts at the very top when exporters only get paid by their clients in the Middle East after delivering the produce. Every now and then the whole chain is upset when these clients do not pay promptly. The exporter or feedlot owners then have come to Borana and tell to the sellers: I can take this animal for this price, but I can only pay when I get paid. Often the traders are not in a position to refuse this.

In such a system those who have sufficient capital to survive the shock of delayed payments are in control of the market and are able to make the best margins over longer periods. Several respondents said that one needs 3 million ETB to be successful in the livestock trade.

For most smaller traders the best thing to do is to build up a network of reliable trading partners and to pool capital together with trusted colleagues. This is what happens on a rather large scale; at all levels in the system. It was reported mostly by village level traders (in Higo, Dillo, Magado, Dubluk). For example five traders give all their money to one of them, who uses it for his trade. Then a second one takes his turn. In this system no interest is charged.

Attitude towards private traders

Discussions with pastoralists, *gadaa* leaders and NGO staff revealed that all of them have a very negative attitude towards traders. They consider them as exploiters of hard working pastoralists. Prices for livestock are not seen as a balance between supply and demand, but as something the buyer

imposes on the seller. Interestingly enough with shops it is considered the work the opposite: shop keepers impose their prices on the buyers.

The negative attitude applies too all traders; also local traders handling a few goats per week are seen as getting excessive profits. So any suggestion that NGOs could support traders is met with disgust. Why supporting those who already have so much? Coops on the other hand are viewed extremely positively: they are good as they help the poor.

This attitude is a kind of ideological position. As such it is nearly immune to real life facts and to 'normal' economic reasoning:

- When members of successful coops turn out to be traders, this does not alter the position that support to coops is good, but support to traders not.
- People do not believe that supporting traders leads to better prices. All agree that when transport costs are reduced (better roads) the price traders pay for animals will go up. Yet, when the costs for capital are reduced, people believe traders will simply make more profit.
- Traders misuse monopolistic positions, but when a coop has no competition, this is not supposed to happen; although this is clearly the case with the Elway incense coop.

6.4 Access to capital

All traders stressed the need to have access to more working capital. Giving seed money to coops is one way of easing the capital constraint. However we have seen that while this was used for livestock trade until 2007 today this is mostly used to purchase animals for fattening.

The banks in the area would like to provide more capital; yet they need collateral for their loans. As most trader have no assets loans are outside their reach. This touches on a key-problem of pastoralist systems. The key assets in the system are the animals, the fodder and capital. It is not surprise that those who control these resources make the best profits: in production and in trade. In a developed society, having animals and legal access to fodder could be used as collateral for getting access to capital. And this capital would allow for a diversification of the economy. The Borana however can not use their assets to increase their access to capital: animals are movable property that is hard to control and the immovable fodder is communally owned and not formally registered.

Many livestock traders expressed that taking a formal loan with a formal interest is non-islamic. So they prefer informal loans among themselves. At the same time several of those expressing this did not see any problem in taking loans from a SACCO. All livestock traders responded positively to the suggestion to create SACCO among livestock traders. Such SACCOs could collect more savings than others and stimulate further cooperation in livestock trade (on transport; feeding etc.). Obviously such SACCO have the risk that the members collude to lower the prices for pastoralists; we have seen that this is already the case in the more successful LMC's. This could be countered by supporting more SACCO's in one or in adjacent areas in order to enhance competition.

7 CONCLUSIONS AND RECOMMENDATIONS

7.1 Conclusions

Cooperatives

The lessons learned on livestock coops are:

- Coops with experienced traders are successful but coops with ‘pure pastoralists’ have a very high risk of ending in conflicts
- Much of the initial success was based on paying pastoralist less
- Margins in cattle trade became very small due to strong competition of private traders
- Livestock off-take did increase but the turnover of LMCs is too small to create a permanent link to the highlands
- Most LMCs want to shift to fattening; yet the profit of this is based on access to free pastures. It is not in the interest of poor pastoralist if coop members (traders) get access to these free grazing areas via ranches or ‘kalo’

The main lessons learned from incense coops are:

- When IMC’s compete with local traders, margins are extremely low; but when there is no competition, collectors suffer because most produce is from non-members
- IMC are very inefficient users of their capital (due to seasonality)
- All want to go into other activities: mostly livestock trade or fattening.

The lesson learned from milk coops is that NGOs simply dropped the equipment in the coop and let the women struggle with all the problems. The same applies to the soap coops supported by AFD. Today SOS-Sahel tries a more comprehensive approach, on which the jury is still out.

The main lessons learned from SACCO are:

- SACCO are reasonably well organised and successfully manage to mobilise saving and to provide substantial loans to members
- The majority of the members are women and entering a SACCO is relatively cheap
- Conflicts do arise, but people signal them earlier and take action
- Member selection is crucial. This means more SACCO’s should be allowed in one PA.

Traders

Private trader have entered all possible businesses in Borana. Most combine different businesses: livestock traders are pastoralist at the same time and incense traders run shops. The main constraints of traders at all levels is a lack of working capital. This reduces their turnover and therefore their margins. Loans from banks require collateral which traders do not have. SACCOs could be the best tool to enhance their access to capital.

Support actors

CPO is inefficient and only very partially effective. The very high turnover of staff and the limited analytical capacities make it very difficult for them to play a leading role.

The NGOs have more capacities in terms of money and staff, yet they work with projects that have a limited time horizon. Their support is well appreciated, yet they need to specialise; some can focus on SACCOs and others on specific value chains so that they can provide more comprehensive support to coops in these chains.

Summary

The most important constraint in all value chains is lack of working capital; particularly for actors based in Borana. This means that a substantial share of the total profit ends up with actors based in the highlands who have better access to capital (as well as to markets). Other basic problems are poor quality products and a lack of skills and information and a lot of trust among value chain actors.

Providing training and seed money to agricultural coops can reduce the capital constraints; yet very few of them are able to beat inflation. Most operate with small turnovers and low margins. There are no examples of coops that managed to negotiate better prices. No coop has paid dividend so far. The only case of higher income for members comes from the lead LMC's in the pre-2007 period of booming livestock prices. These members were predominantly traders.

In general marketing activities have low margins due to severe competition of private traders who are more efficient (as they have a more diverse business, more capital and more knowledge and skills). So most marketing coops want to start livestock fattening; yet this is a hidden form of privatisation of communal grazing area. On top of this, one third of all coops suffer from serious conflicts. Illiteracy and a lack of business experience seem the major causes.

SACCO's serve the poor better. It is more easy to become member and to avoid conflicts. As a lack of capital is the main constraint in all value chains, more SACCO with more capital is a better way of increasing the income of the poor than more agricultural coops.

7.2 Recommendations

Improve access to capital via SACCOs and support to SMEs

SACCO are more sustainable and reach more women and poor. It is easier to become member and they suffer much less from conflicts and misuse of funds. They focus on injecting more capital in the economy, which is crucial as the lack of working capital is the main bottleneck in the system.

To make optimal use of the potential of SACCOs, the approach has to be diversified and intensified:

1. Start SACCO of different levels: poor, medium and rich families
2. Pay even more attention to capacity building:
 - a. Alternative Basic Education,
 - b. business planning
 - c. record keeping and coop administration. A
FD has experience in starting Village Saving and Loan Associations that were informal; CPO later considered these illegal and they had to be registered. This old experience has to be revived.
3. Provide close follow up to all SACCOs in order to recognise and identify 'hidden' repayment problems in an early stage
4. Provide Seed Funds in 2 or 3 trances. Now CPO is regulating the access of coops to their bank account, but this is not their proper role and having much money in a bank deposit is unproductive (inflation). If a project keeps the money in hard currency, it will retain its value.
5. When a SACCO is mature (e.g. saving 8.000 ETB or 2-3 rounds of savings) use it as a platform for other business improvements. This can be via
 - a. Enhance the capital and business capacity of the SACCO by providing a guarantee fund to the bank where they can take a loan. The question is whether this is legally possible. Another issues is who will own the guarantee fund when the project is phasing out. It could be handed over to CPO with a strict regulation.
 - b. Informal groups of some members engaging in a business together (e.g. goat trading)
 - c. Individuals who use the credit of the SACCO to start a small business
 - d. A new, formal cooperative.

In all cases the SACCO remains legally, administratively and financially independent of the new initiative. The new support is ideally provided by another project so that people know that it is another business and the new initiatives can not undermine the SACCO.

6. The initiative under point 5 can be supported in different ways:
 - a. Match making or market linkages
 - b. Seed money (if a coop is set up)
 - c. Small grants for micro-enterprises via a competition (with veto right for SACCO)
 - d. Guarantee for a loan (via a fund at the bank).
 - e. Training of technical issues/ business planning/ exchange visits

Review existing agricultural coops

Considering the limited profit of most agricultural coops and the risk of conflicts, the creation of such coops should be stopped for a while. All existing coops should be reviewed and appropriate support programmes be designed. This can be done in two steps:

1. Visit all coops and assess their capacities and their market potential
 - a. Audit them'
 - b. Asses the leadership/ conflict history
 - c. Asses the market option
2. Discuss with members what they want in terms of leadership, management and activities:
 - a. If poorly functioning: Stop and distribute the shares
 - b. If medium:
 - i. more training (bookkeeping), supervision and market links
 - ii. facilitate a change in activities: many IMC's are interested to become a LMC and many LMC's went into fattening or want to become a SACCO
 - c. If good: more seed money (or guarantee fund for a loan),

Start new initiatives only from a value chains perspective

The NGOs have fallen in the traditional gap of assisting coops with production before knowing whether there is a market. This is most evident with the Aleo Vera soap and the butter coops; but it does apply to the others as well.

So before any new coop is created or support offered, a Value Chain Analysis or a market survey has to be done to identify intervention opportunities. If and when there seems to opportunities on the market, the next step would be to identify who is best positioned to take advantage of this. The answer should not be automatically a coop of poor (pure) pastoralists. Often it will be more logical to support private entrepreneurs in (small towns) or to support entrepreneurial members of SACCOs (see above).

Bio-Enterprise

SOS-Sahel has already invested heavily in a Bio-Enterprise in Yabello. It is supposed to link primary coops in rural areas with urban customers and wholesalers. The idea is logic; whether it will work depends on two question:

- Can sufficient turnover be generated to cover all costs?
- How to structure the ownership and management in such a way that the organisation becomes profitable and sustainable?

The following stages have to completed in setting up this Bio-enterprise

1. Survey the supply and demand of the key-products:
 - a. Incense and gum
 - b. Aleo vera (now soap, but later other products as well)
 - c. Scent wood
 - d. Honey
2. Assess the resulting turnover, Gross Margin and Net Margin

3. Design the management set up. The best option seem to:
 - a. Rent the premises to one or more entrepreneurs who have to use it for the products described above. The entrepreneurs can be selected; or if there are more candidates, a tender can be organised.
 - b. Monitor if they do this and monitor if they really buy from rural areas
 - c. Assist the entrepreneur in marketing his produce; e.g. exchange soap with coffee unions in the highlands
 - d. Assist the entrepreneur in training his staff and in training the suppliers
4. While this is going on:
 - a. Improve the performance of the primary coops
 - b. Increase the networking among them
 - c. Set up one or a few Unions of primary coops
 - d. One source of income can be the rent of the premises
5. If the union is strong enough (e.g. after 5 years) it might be invited to participate in the tender for running the Bio-Enterprise.

Milk marketing

The milk value chain is special in the way that all attention has been focused on milk processing which proved to be a failure so far. Still there seems to be room to improve the marketing of fresh milk. SOS-Sahel has been looking at milk marketing in Yabello and this could lead to some pilot activities to support private traders. Potential interventions could be:

1. Link the milk coops in Elway and Srupa to milk selling enterprise in Yabello
2. Assist this enterprise with transport or fridge (to keep milk till the next morning to create a 'morning market').
3. Connect 1 and 2. The support to the entrepreneur in Yabello has to be passed on to the coops; e.g. the entrepreneur is given a fridge as a loan which has to be repaid by paying the coops an extra 0.5 ETB/litre. This extra money has then to be invested in the coop (e.g. in jerry-cans for the transport).

Feed markets

Access to feed is the key to any profit. Fattening animals on communal grazing areas is most profitable. The interesting question is to which extend investments in feed are profitable:

- How is the feed market developing? Is a peri-urban fattening industry in the making?
- Is it worth to import concentrate from the highlands? And what is the optimal way of using concentrates?
- What is the value of crop residues and how does this relate to the value of the crop itself? Do crop residues justify more fields ('*obruu*')?
- What is the value of hay and of standing hay on pastures (incl. '*kalo*') and how can poorer segments of Boran society benefit more from this value? Are milking goats an option?

Specialisation of NGOs

The NGOs need to specialise and attract more specialised staff. This staff should have the analytical capacities to design programmes so that this is no longer done by people in Addis. Considering the past experiences, the most logical specialisation among NGOs operating from Yabello is:

- AFD should focus on SACCOs; incl. Alternative Basic Education, leadership, cooperative administration and Business Planning
- SOS-Sahel should focus on interventions in non-livestock products and milk marketing
- GPDI should focus on feed issues like fodder production, feed markets and bull fattening.

More business development skills

All NGOs should increase their capacities for business development. This includes value chain analysis, match making, business finance and marketing.

LITERATURE

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ANNEX I: TERMS OF REFERENCES

The Potential Role of Cooperatives and Private Entrepreneurs in Increasing the Income of the Most Vulnerable Groups in Borana, Zone, Ethiopia.

A. Background:

The Joint office of Trócaire/CAFOD/SCIAF has a livelihood programme that is focused in Tigray, peri-urban areas and the Southern Ethiopia. The overall goal of the programme is To contribute to the attainment of food security and well being of all Ethiopians in a manner that enables the sustainable management of natural resources for the benefit of all men and women. It has four key results, namely,

1. Improved agricultural production and productivity
2. Improved access and control over resources by pastoralist community
3. Increased Income for men and women
4. Local institutions are established and strengthened

As part of this livelihood programme Trócaire secured funding from the EU food Facility budget line for a project entitled “Building Resilient Pastoralist Communities”(BRPC) which is implemented in consortium with ACORD, AFD, CIFA, Cordaid, GPDI, ILRI and SOS Sahel. The overall goal of the project is Pastoralist communities in Borana Zone develop increased productive and income generating capacity which reduce their vulnerability to volatile food prices. It has five key results namely,

1. Increased and better quality community managed sustainable grazing lands
2. Improved and sustainable access to community-managed water resources for human and livestock consumption.
3. Increased food and income from the production and marketing of livestock and livestock by-products.
4. Increased income from the production of high quality non-livestock products to facilitate improved household access to food.
5. A strong and functioning partnership between traditional structures and local government which addresses pastoralist

Results three and four of BRPC feed into result three of the programme. Traditionally Trócaire/-CAFOD/SCIAF and her partners have assumed that working with cooperatives was the most effective way to achieve result three of our livelihood programme however value chain analysis carried out in the BRPC project has highlighted a number of weaknesses in this methodology namely

1. Cooperatives in Borana are not necessarily sustainable
2. Cooperatives in Borana do not necessary have a positive impact on the most vulnerable groups in a community and may actually have the opposite effect in some cases.
3. Coops are not necessarily profitable if we analyse with a greater focus on real profitability

Despite these severe shortcomings our partner organisations still see cooperatives as the best vehicle to promote increased income. The explicit aim of their support to cooperatives is to increase the income of the members who are supposed to include the poorer segments of the community. Secondly NGOs hope that coops enhance the social capital in the community. The idea is that around a cooperative other interests can be organised (e.g. opening a shop or discussing rangeland management issues). At the same time many partner NGOs are reluctant to engage with the private sector. They feel that trader already make excessive profits and they do not want to add on to that. Most also fail to see how supporting private players might have a positive impact on the (poorer) community.

B. Objectives

Overall Objective To provide Trócaire/CAFOD/SCIAF and her partners with detailed research to guide future value chain work in Southern Ethiopia with specific reference to Borana Zone.

Specific Objectives

1. To what extent are the underlying assumptions for our support of cooperatives correct

- Does cooperative membership lead to increased income. If yes how is this managed?
- Are the most vulnerable sections of the community members of the cooperatives? If yes, does this lead to increased incomes and/or less vulnerability. If no, what the key impediments to involvement.
- Do cooperative lead to increase social capital for members. If yes, how can this be measured and how does this affect the most vulnerable in the community.
- Do cooperatives lead to increase bargaining power for cooperative members? If yes, how is this managed and how does it affect the most vulnerable in the community. If no, what are the key impediments to this?
- Is it more beneficial to be organised in a cooperative rather than informal groups such as Saving and Credit Groups.

2. What should the role of Trócaire/CAFOD/SCIAF be in supporting cooperatives to ensure it leads to increased incomes for men and women?

- What types of cooperatives are the best vehicles to ensure the most vulnerable groups in the community can increase income in a sustainable manner?
- Under what preconditions can support for cooperatives lead to sustainable increased income for men and women with reference to the most vulnerable groups.
- Under what preconditions can support for cooperatives lead to increased social capital for men and women with reference to the most vulnerable groups.
- When preconditions are fulfilled what kind of support to cooperatives is most effective to ensure increased incomes for men and women.

3. Can Trócaire/CAFOD/SCIAF work with private entrepreneurs to help ensure increased incomes for men and women?

- To look briefly at some of the key assumptions we make about private entrepreneurs especially if they make excessive profits based on exploitative business practices.

Building Resilient Pastoralist Communities dci-food/2009/214-156 GPDI 1.1 SOS Sahel

- How could Trócaire/CAFOD/SCIAF and her partners engage with private entrepreneurs to benefit the larger community especially the most vulnerable groups.
- What pre-conditions can support for private entrepreneurs lead to increased income for men and women with reference to the most vulnerable groups.
- When preconditions are fulfilled what kind of support to private entrepreneurs is most effective to ensure increased income for men and women.
- Can support to cooperatives and private entrepreneurs be combined? If yes what are the most effective ways for this to happen.

C. Research methodology

Document Review and Tool Formulation Phase: The consultant will carry out an in-depth review of documents relating to the issue including documents related to the previous and on-going experience by Trocaire/CAFOD/SCIAF. However the consultant is expected to have know and/or have access to information on Value Chain theory and practice on an international and Ethiopian level, Ethiopian commercial law and practice, Ethiopian cooperative law, and Ethiopian cooperatives in practice especially in Pastoralists areas. The consultant will develop specific tools which may

include questionnaires, surveys etc to carry out the detailed analysis. These tools should be designed in conjunction with Trocaire/CAFOD/SCI AF and their partners to ensure they are viable and usable.

Field Work Phase: The consultant is expected to visit existing cooperatives and private entrepreneurs in the Borana and possibly other Zones to achieve the objective of the study. It could also include focus group discussions, participatory assessments and semi-structured interviews. The consultant will ensure adequate consultation with and involvement of the stakeholders, in keeping with the interactive approach favoured by Trócaire/CAFOD/SCI AF. The key informants of project progress will be the partners who have worked with cooperatives, the government Cooperative Promotions Office, members of existing cooperatives and vulnerable groups in the community. The consultant will summarise the field work at the end of the mission and present preliminary findings in a two-day workshop which will be organized for all stakeholders including: all consortium member.

Synthesis Phase: This phase is mainly devoted to the preparation of the final report. If the consortium considers the draft report to be of sufficient quality, they will circulate it for comments to the European Union and other stakeholders. On the basis of comments expressed by the stakeholder group, the consultant will revise the draft report and submit to Trócaire/CAFOD/SCI AF. Comments on the substance of the report may be either accepted or rejected and in the case of the latter the consultant must explain the reasons in writing.

D. Timetable

Documents review and tool formulation	3 days
Field Work including workshop	25 days
Preparation and submission of draft report	3 days
Submission of final report	4 days
Total maximum days	35 days

E. Expected Outputs

1. Inception report

The consultant will prepare an inception report (not more than 10 pages) to be submitted to Trócaire/-CAFOD/SCI AF within five days of the start of the consultancy. In the report the consultant will describe the initial findings of the document review, explain the tools to be used in the research and provide a clear programme of work including highlighting the foreseen challenges in collecting the necessary data.

2. Report

The consultant will provide a concise report (not more than 25-30 pages) as follows:

A draft report in English based on the required format with 2 hard copies and electronic copy no later than one week after the end of the field mission. The findings and recommendations need to take in to account the outcomes of the workshop with stakeholders.

A final report with 2 hard copies including all annexes and one electronic copy, taking into account the comments of provided by Trócaire/CAFOD/SCI AF within 6 days of receiving the comments. *The final report should include an executive summary synthesizing the key findings and recommendations in the report and should also include the sources of all data and materials provided.*

The main sections of the report shall be as follows:

Executive Summary: No more than two pages, this should focus only on the key issues including the validity of the relevance of the action, outline the main analytical points, and clearly indicate the main

conclusions, lessons learned and specific recommendations. Cross-references should be made to the corresponding page or paragraph numbers in the main text that follows.

Main Text: The main text should start with an introduction describing all relevant background information in relation to the research. The body or core of the report should follow the key objectives of the research.

Conclusions and Recommendations: These should be the subject of a separate final chapter and can if necessary be split into recommendations for Trocaire/CAFOD/SCIAF and for implementing NGOs in Borana. The key recommendations will vary but should be practical in nature.

Annexes: These should include, *inter alia*, all relevant hard data collected, methodologies applied for the study and terms of reference, list of persons/organisations consulted, documents reviewed, other technical annexes and schedule/time table of the research.

3. Workshop

A two-day feedback workshop will be organized in Yabello and the findings of the research will be shared and discussed with key stakeholders with a focus on Trocaire/CAFOD/SCIAF partner staff..

F. Research Team

The Lead Consultant

- A Masters level qualification in a relevant field for example Agricultural Science, Rural development, business management etc.
- At least 10 years experience in value chain and/or cooperative development work with at least three years international experience.
- At least two research publications in Ethiopian or international journals and/or books.
- Working knowledge of cooperatives in Ethiopia including cooperatives in pastoralist areas.
- S/he should have a good consultancy reputation in similar areas.
- S/he is expected to have experience in community-based development projects, planning, implementation and review/evaluation of rural development projects.
- S/he should be analytical and also have outstanding writing skills

G. Submission of the Tender

A detailed outline of the methodology to be used as well as an action plan will be drafted by the consultant who proposes to take the lead in the evaluation. Technical and financial proposals should be submitted within five days of receiving these terms of reference. A detailed Curriculum Vitae of the lead consultant should be submitted.

ANNEX II: ANSWERS TO SPECIFIC OBJECTIVES

Below the specific question of the ToR are answers. The answers can be found in the main text as well, but here they are summarised.

Specific Objectives

1. To what extent are the underlying assumptions for our support of cooperatives correct

- Does cooperative membership lead to increased income. If yes how is this managed?

Yes and no. *Yes* in the sense that coops do make profit and they do have capital of which the members are co-owner. The profit is generally less than inflation. Only the most successful livestock marketing coops managed to beat inflation in the period before 2007. It were the trader-members who profited most from this.

No in the sense that so far no dividend has been paid. People use the coop as a way to save money.

- Are the most vulnerable sections of the community members of the cooperatives? If yes, does this lead to increased incomes and/or less vulnerability. If no, what the key impediments to involvement.

Member are generally better off in their community; especially traders are key-members of the most successful livestock coops. It is cheaper to become member of a SACCO; they have much more female members.

- Do cooperative lead to increase social capital for members. If yes, how can this be measured and how does this affect the most vulnerable in the community.

The final balance is hard to measure. People appreciate the training they and they do like the idea of working together in their community. At the same time many coops end up in conflicts that destroys the available social capital.

- Do cooperatives lead to increase bargaining power for cooperative members? If yes, how is this managed and how does it affect the most vulnerable in the community. If no, what are the key impediments to this?

Not really. Generally coops have only a small share of the total market. None of them managed to get really better bargains.

- Is it more beneficial to be organised in a cooperative rather than informal groups such as Saving and Credit Groups.

SACCO have a number of advantages above coops: it is cheaper to join and they suffer less from conflicts.

2. What should the role of Trócaire/CAFOD/SCIAF be in supporting cooperatives to ensure it leads to increased incomes for men and women?

- What types of cooperatives are the best vehicles to ensure the most vulnerable groups in the community can increase income in a sustainable manner?

SACCO's

- Under what preconditions can support for cooperatives lead to sustainable increased income for men and women with reference to the most vulnerable groups.

SACCO's with even more attention than today on Alternative Basic Education (literacy and numeracy) and with close supervision to detect potential problems in an early stage. When SACCO do well: increase their capital. When individual members do well: give them extra support.

- Under what preconditions can support for cooperatives lead to increased social capital for men and women with reference to the most vulnerable groups.

Do not start more agricultural coops in isolated areas where people do not have the skills (literacy and business experience) to run a cooperative. If market analyses suggest there are opportunities to start a coop, identify the most suitable areas from a business point of view. Probably this is more close to the small towns.

- When preconditions are fulfilled what kind of support to cooperatives is most effective to ensure increased incomes for men and women.

See main report.

3. Can Trócaire/CAFOD/SCIAF work with private entrepreneurs to help ensure increased incomes for men and women?

- To look briefly at some of the key assumptions we make about private entrepreneurs especially if they make excessive profits based on exploitative business practices.

No excessive profits were found. Competition is high and margins are small. Very few large traders have substantial incomes; but they use this to diversify their business.

- How could Trócaire/CAFOD/SCIAF and her partners engage with private entrepreneurs to benefit the larger community especially the most vulnerable groups.

The negative attitude of NGOs and local leaders makes it very difficult to engage directly with private traders. With the present staff it is also doubtful whether traders would engage with the NGOs. Therefore it is recommended to use the tool of SACCO to reach more small and medium size traders. It is also recommended to increase the business skills of the NGO staff. This increase the chance that in the future they can engage with traders.

- What pre-conditions can support for private entrepreneurs lead to increased income for men and women with reference to the most vulnerable groups.

Avoid monopoly situations; or in positive sense ensure competition among traders.

- When preconditions are fulfilled what kind of support to private entrepreneurs is most effective to ensure increased income for men and women.

See main report.

- Can support to cooperatives and private entrepreneurs be combined? If yes what are the most effective ways for this to happen.

Yes, it could be. See the example in the main report on milk marketing.

ANNEX III: ITINERARY

The following itinerary was followed.

Date	Responsible	Programme
27/11	SOS	Interview main milk trader in Yabello
28/11	AFD	Harobake market (tax collector/ elder/ two livestock traders (incl. agents)
29/11 Monday	SOS	Women selling (camel) milk and butter in Elway on the street Elway Milk processing Cooperative (butter) that entered in livestock trading Urgaa Dakara Incense and Gum Coop in Elway Milk processing Coop (butter) in Srupa Camel trader in Srupa
30/11 Tuesday	AFD	FGD with 8 livestock traders in Dubluk; some were member of a LMC as well Oda-SACCO in Dubluk also with overlap in member from a LMC Care Yabello office on WIGGS Panos office in Yabello (on SACCOs) <i>Planning the Validation Workshop (participants)</i>
1/12 Wednesday	AFD	Cooperative Promotion Office and Pastoral Promotion Office in Dillo Mature SACCO at Dillo town ; FGD with goat traders (SACCO members) New SACCO halfway Dillo and FGD with four goat traders (and members of the SACCO)
2/12 Thursday	SOS	Goat trader in Yabello Elway livestock market (traders/broker/ tax collectors) PDO-marketing expert in Yabello; collect some market data
3/12	AFD	Commercial Bank of Ethiopia Oromia International Bank IMX- Zonal office Oromia Credit and Saving Share Company Stay with pastoralists family
4/12	Ali/Ebisa	Stay with pastoralist family
5/12		Reporting/ Travel to Moyale
6/12	CIFA	Coop Promotion and Pastoral Development office Tile Mado LMC Ibsa Jireenya Livestock Fattening Cooperative at Tile Mado Jiruuf Jireenya LMC near Moyale Coop. of Animal Health Workers in Moyale Livestock Marketing Union
7/12	CIFA and AFD	Goro IMC at Erder Dhas Woreda Coop Prom. Office and Pastoralists Dawiti-Kayyoo IMC at Borbor
8/12	ACORD	Livestock Marketing Coop in Higo IMX office in Mega
9/12	SOS	Zonal CPO for more data and discussions Zonal Productive Food Safety Network
10/12	Gayo	Coop. Prom. Office and Pastoral Office in Teltele SACCO in Saba PA LMC in Saba PA
11/12		Visit opening of the SOS-Sahel exhibition Short FGD with 6 <i>gadaa</i> leaders
12/12		Prepare workshop
13/12		Workshop at Dryland Research station. Meeting with manager Utuba Gumi Discussion with Borana entrepreneur renting feedlot in Mojo
14/12		Workshop to elaborate findings with project partners
15/12		Morning: participate in discussion on new project proposal Travel to Addis
16/12		Debriefing with partners headquarters staff
17/2		Arrival in NL

ANNEX III: DETAILED FINDINGS PER COOP

Livestock Marketing Cooperatives

Xile Mado LMC

The Xile Mado coop is the flagship of the LMC's. It is situated in Xile Mado village, 20 km north of Moyale, along the main road to Yabello. It was created in 2003 with support of the PARIMA project. Its membership was drawn from a SACCO with the same name, a SACCO that still exists parallel to the LMC. The LMC started with 60 members; half of them being women. The value of one share was 100 ETB and some bought up to 10 shares. The total share value was 15.000 ETB. The coop received 23.000 ETB seed money from PARIMA. Today the coop has 100 members; virtually all new members are men.

The charismatic chairman of the LMC explained how the coop started to function in 2004: *“By that time the trade was not yet as hot as it is today. There was a huge demand from the highlands. We collected thousands of goats every month and delivered to Luna abattoirs. As these number could not be found in our area, people went far into Kenya to buy goats; we also invited other coops to deliver to us. Prices were very good and so were the margins of 20-30 ETB/goat. And our coop worked very efficient; we only took a margin of 2 ETB/goat; so members (or other coops) got a margin of 20 ETB or more. LUNA abattoir as so happy with the results, that they gave the coop a reward of 5,000 ETB.*

Over time however the coop faced more and more constraints. In some cases a buyer from the highlands did not pay for the animals for months; effectively paralyzing the operations of the coop. At the same time private traders became more interested in the market and proved to have deeper pockets. Due to their involvement the margins in the (goat) trade went down. The audit report of Xile Mado showed that their net margin on livestock trade in the last two years was some 25.000 ETB on a turnover of 1 million ETB. So the net margin was only 2.5%.

In 2009 the coop stopped marketing goats from Kenya and entered in a new business: hauling sand and stones (gravel) from rural areas into Moyale town. As they managed to get government support (80.000 ETB) in obtaining a truck, the net profit was very high: well over 200.000 ETB.

Ado Roba Livestock Marketing Union

The leadership of the Xile Mado initiated a discussion with other coops to create the Oda Roba Pastoralist Marketing Union (Oda Roba LMU) that will focus on livestock trading. It is a second level coop. The next table shows the basis data on the contribution of each of them:

	Members	Capital	Present Share	Planned extra share	Planned members
Xile Madoo	83	500.000	100.000	50.000	100
Roba Naga	86	240.000	50.000	50.000	100
Ibsa Jiregna	56	50.000	30.000	20.000	75
Demekinsa Ofkabano	42	100.000	30.000	20.000	70
Yirfo Jirigna	37	130.000	30.000	20.000	60
SUB-TOTAL	304	870.000	240.000	160.000	405
Medo Nagayo (MPC)	215			30.000	
Jerigna Umata (MPC)	105			30.000	
TOTAL	624	870.000	240.000	220.000	

N.B. Ibsa Jiregna has not yet started. It will get seed money from Care which it will pass on to the Union.

Xile Madoo is dominant in all dimensions. It has over half of the capital and provides 40% of the present shares. The total share value is expected to be 460.000 ETB. Next to this they will get 155.000 ETB as seed money from CIFA, who will also help them to construct an office (total value 250.000 ETB). So the starting capital of the Union will be 600.000. The four LMC's operating at present have a total capital of 870.000 ETB. In 2009 they traded 1.370 animals with a value of 4 million ETB. So their turnover/capital ratio is nearly five. The leaders agreed that this is low for a trading business in which capital can be (and has to be) used permanently. The reasons they gave were: people are not motivated to work for the coop and it difficult to work with money that is communally owned and "belongs to the poor". In case the Union manages to reach a turnover of its capital of five with livestock trade with a net margin of 2.5%, it could gain 75.000 ETB/year.

In any case the Union is working towards a full recognition by the government. It has to deal with some skepticism here, as the Geda union that was created some years ago as a union of LMCs in Borana collapsed due to mismanagement. Oda Roba LMU does not only want to focus on livestock trading; they also hope to get access to land in the highland to operate a feedlot there. They also try to get access to pastures in Borana to fatten animals.

Jirenya LMC in Dubluk

This coop was visited by the researcher in May 2010. It is also one of the first LMC created (in 2003) and it along the Yabello-Moyala road in a small town with a major livestock market. It has 24 members; most of them are livestock traders.

The following data provide the basic economic data of this coop:

Table: Basis data on the Jirenya LMC in Dubluk

Year	Capital	Bulls	Profit	Profit/bull (ETB)	% profit on capital	Inflation	Profit in USD
2003	49,000	15	1,530	102	3	4	174
2004	80,530	61	7,413	122	9	18	833
2005	87,943	205	19,920	97	23	2	2,264
2006	107,863	312	30,971	99	29	12	3,441
2007	138,834	943	46,042	49	33	13	5,005
2008	184,876	73	18,730	257	10	17	1,911
2009	203,606	107	32,225	301	16	44	2,731
2010	235.000	70	55.000	786	23	16	3,438

N.B. The data in the first 3 columns for 2003-2009 were collected from the coop in May 2010. The data on 2010 come from an interview with some members in December 2010. The data in the last four columns are calculated by the researcher.

The table shows that this coop managed to beat the inflation over the whole period, except for 2008 and 2009. If the initial capital of 49.000 would have grown with the rate of inflation it would have been 141.000 ETB at the end of 2010. The actual capital is double this amount. This is a major achievement. With only 24 members the profit per members over this 8 years has been nearly 9.000 ETB. Again a major achievement.

Another conclusion is that most profit was made in 2005-2007. In this period the coop made 23%-33% profit on its capital. The members explained that by that time the demand was so high that the coop could not deliver sufficient bulls as they did not have the capital to do so. So next to using their own capital, they invited other coops to deliver bulls through them. The coop asked a fee of 25 ETB/head for this. So the profit per head was low in this period, but this is an average composed of many animals with a profit of 25 ETB and a smaller proportion bulls with a high profit. Using the data in a simulating model shows that the profit of bulls owned by the coop was some 500 ETB/head.

So things were very good in 2007, yet the problem was that a trader from the highlands did not pay the animals taken for 8 months. The response of the coop has been twofold: reduce the number of animals bought and shift from trading to fattening. For this they use the former state owned ranch in Dubluk where animals can graze for a very low price of 10 ETB/head/month.

Ibsa Jirenya LMC

This LMC is the second LMC in Xile Mado. The chairman and secretary explained that the coop was created in 2005 when 30 members each bought 3 shares of 100 ETB. Next they saved 10 ETB/month for 2 years. So in total they had some 16.000 ETB. They started to build an office, but never got beyond the stage of collecting the stones for the foundation. They did manage to get a 'kalo' of 40 ha from the Kebele administration. They rented it out for 2 years; for 5.000 ETB/year. So in 2007 they had some 26.000 ETB and bought 25 animals for fattening. This was profitable but they do not have exact data. They estimate the profit at 500 ETB/head or 12.500 ETB on total. They do know that the 'kalo' was rented once more (so after 2007) for 5.000 ETB.

This is more or less all they know; as they just replaced the previous leaders who refused to explain in a transparent way what happened in the last few years. They also know that there is 4.600 ETB in the bank account and they estimate there is 12.000 ETB in cash and a cow. The latter is given by one of the previous leaders as a recognition of his debt to the coop. This total capital of less than 20.000 is less than half of the estimated capital of 43.500 ETB (all income described above).

The present leaders took over 3 months ago; this was after a struggle of 1,5 years to hold the previous leaders accountable. In this process the Kebele administration was crucial in forcing the leaders to step down. The CPO did not manage to do an audit or to assist in another way. That something was wrong could have been recognised 3 years ago; e.g. when the leaders refused to open a bank account.

For the future they want to repair the 'kalo' and enter into the fattening business. They also want much more training; especially on administrating the coop. They are among the ten members who are literate but they do not feel capable enough. They estimate that the majority of the members are 'pure pastoralists' while one third has experience in livestock trading. The previous leadership were pastoralists; the present leaders are traders.

Jiruuf Jirenya LMC

This LMC operates in a village 10 km North of Moyale town. It was created in 2004 by 10 members who each contributed a young bull to the coop. These were fattened for 3 months on a 'kalo' of 27 ha. given by the Kebele administration. After they were sold the money was given to the members, except 500 ETB which was kept as the share of each member. This money (7.500 ETB) was used to start trading in animals, at markets like Moyale, Harobeke and in Kenya. The trade was intense; often they made two trips per week. The last transaction was to buy 26 animals for 33.000 ETB in Aug. 2010 and sold them in November for 46.000 ETB. The profit of 39% was partly due to devaluation of the ETB in this period. The transaction were actually done in KSh; in this currency the profit was 22%.

Over time more members joined. Now they have 44 members (10 women); following an advice from the CPO the share value is 200 ETB to allow poorer members to join as well. In total the paid in shares are some 25.000 ETB (as some others bought more shares later on). In 2009 the LMC had a capital of 50.000 ETB. This means that in the period 2004-2009 they managed to beat inflation. In 2009 CARE gave them 30.000 ETB seed money (the RREAD program); with the 13.000 ETB profit of 2010, the total capital should be 93.000. The chairman said that in reality it was 85.000 ETB.

He went on to explain that they have had several problems as well. In 2006 they lost 8 animals due to drought (with a value of 18.000 ETB). He also complained that there was no profit in animal trading

via the coop; in 1.5 year they made 32 trips to different markets and the net result was zero. He himself has a village shop and is involve din livestock trade as well; and so do 17 other members. They found it difficult to make profit on trade with the coop as a purchasing committee of 5 people is expensive and leads to a very complex making process that easily ends up in a conflict. When asked why they can not simply share the money and trade individually, he said it was not possible to get a 'kalo' as an individual. To rent a 'kalo' would costs 3.000 ETB for 6-7 animals; this is 450-500 ETB per head, equal to the whole profit over the fattening period. When asked about the value of their 'kalo', he said: we can divide it in three part and each part can be rented for 5.000 ETB per year. Yet, the local community would not agree when the coop would rent it out to a third party (they tried it in 2006 but the deal was canceled due to the drought at that time).

Magado - LMC

This LMC was not on the list of coops to be visited, but several members of the SACCO visited in Magado were also member of this LMC and they were eager to talk about it. They said the LMC had 47 members. They had been trained and given seed fund by AFD; somehow this was successful as the coop had a substantial capital. Yet, the trust in the livestock trading took a severe hit when a highland buyer did not paid for animals delivered for 8 months; indeed they delivered their animals to via the Dubluk coop (Magado is some 10 km south of Dubluk; on the Yabello- Moyale road). They also reported internal problems with a lack of trust in the purchasing and the sales committees and some problems with losses of animals due to poor feeding. So to avoid further risks in the last year 17 members took a loan of 4,000 ETB and paid 100 ETB/month as interest while repaying the principle in 10 months. This means an effective annual interest rate of over 24%. Most of those who took the loans were livestock traders. So the effectively tired to transform the LMC into a SACCO; although they knew this was not legal.

Higo LMC

In an interview with 14 members of this LMC it was learned that it was created in 2005 on instigation of AFD. The coop had 35 members organised in 5 sub-groups. The shares were 200 ETB and AFD gave 45.000 ETB as seed money. Now they have 3 members.

Their first deal was to supply a number of goats to GPDI for restocking drought affected communities in Dhas. Each sub-groups earned 350 ETB on this. After that the group got caught in a conflict. In 2007 they provided 33 animals (with a value of 42.000 ETB) to the Dubluk LMC to be sold in Mojo. These animals were on credit and the buyer did not pay. On top of that there were many accusations on misuse of funds. The supply of animals came from 9 different coops but only two of them had a representative during the sales. Higo was not one of those two and never hear the real prices. Maybe the secretary of the coop (employed and paid by AFD) knows but he left the coop and so did his successor (paid by CPO and living now in Yabello). At the moment they have 34.150 ETB in the bank and 10.000 cash. Another 15.000 ETB is missing; this is borrowed to nine members who do not repay.

The 2007 conflict blocked any further action; even during the visit some members who did not pay their loans back explained that they still intended to do that. The question why they did not continue to operate with the money they do have provoked a stern: "Impossible, we first have to sort out this problems". People expected more support from AFD and CPO; they also needed more training so that they can run the coop themselves. At the same time they recognise that when all money would be returned and everything would be clarified, they might lack the mutual trust needed to re-start the operations.

They saw the lack of control over the money as the key problem. Some were member of a SACCO as well and said that the system of witnesses when people take a loan is essential. They said two of the four SACCOs created by AFD were functioning well in Higo, but two others had problems as well.

They stressed the need for regular checks of the books; so far no audit was done and too many things were blurred, undermining the trust in the coop.

Livestock fattening coop in Saba

This coop with 32 members is just in the process of starting up. Each member bought one share of 100 ETB. GPDI added 60.000 ETB as seed money. One day before the visit they purchased 8 bulls for fattening. The idea is to have 15 bulls in total and to fatten them in a zero-grazing system. The group had just completed an appropriate pen near the water well of the village.

In the business plan the bulls are bought for 3.000 and sold for 6.700 ETB after 2 months. Their daily ratio is planned to be 4.5 kg of crop residue and 12 kg of concentrate. With an estimated costs of resp. 2.2 and 1.5 ETB/kg, this leads to a total feeding costs of 28 ETB per day. With some additional costs for water, minerals and veterinary drugs the total costs were estimated to be 1.886 ETB for 60 days; so the net a profit is expected to be 1.800 ETB per bull.

GPDI already bought the necessary crop residues from Teltele for 2.2 ETB/kg and ‘concentrate’ from the highlands for 1.65 ETB/kg. It is strange that the concentrate is cheaper, and indeed it seemed to be of very low quality. So the actual costs are higher and the transport costs still have to be added to it: it was 0.35 ETB/kg for crop residues and 0.6 ETB/kg for the concentrate. So the actual feeding costs per day is 38 ETB/day and the costs will be 2.500 ETB/bull for 60 days. With the actual purchasing price of the bulls of 3.200 ETB on average, the sales price needs to be 5.700 ETB in two months from now. With the upcoming drought in the area this seems (very) unlikely. GPDI responded by saying that they will try to connect the coop with buyers from the highlands, but with only 15 animals to sell, this will be complicated and relatively expensive. Sustainability might be problematic as well; so far the members were not involved in the purchase of the feed, they did not even know the prices of it.

Some of the eight members in the meeting expressed severe doubts about the fattening concept. They said it was too much based on the success of fattening Konso bulls by Konso people. Yet, Konso fatten their animals over a much longer period. When asked what the members would do themselves at home with concentrate and crop residues, their priorities were: lactating cows and calves.

The researcher doubts the feasibility as well: when one third of the costs are transport costs, it seems that fattening is more efficient in places with no transport costs; e.g. when the bulls are fattened in the highlands the feeding costs are 10 ETB/day lower; with 60 days this is 600 ETB. This can be partly offset by lower costs for land and labour in the lowlands; indeed the coop in Saba wants to pay the herdsmen an extremely low salary of 120 ETB/month (4 ETB/day). Yet, this can not compensate the transport costs. So although it is a very good idea to start an experiment on feeding it would be more logical to state this in either Yabello or Teltele. It would also be logical to see how supplementary feeding can be combined with some free grazing.

CAHW coop in Moyale

This coop was created in 2003 by 13 Community Animal Health Workers (CAHWs). The aim was to secure the access to good and cheap veterinary drugs to the members. The share value was 200 ETB/-member. LVIA supported it with 14.000 ETB and with some drugs. The latter were however not of the type needed so 75% had to be disposed after it expired. The coop opened a shop in Moyale town.

The coops failed in 2007 (although in CPO data it still has 40.000 ETB). The main problems were shop managers taking money (in total 8.300 ETB) and CAHW taking drugs without paying (1.700 ETB). At the same time 5 commercial veterinary drug shops are operating in Moyale.

Incense Marketing Cooperatives

Goro Incense and Gum Coop in Erder

The coop was registered in 2006. It started with 38 members and has 46 now. All paid 200 ETB for their share. AFD gave it a seed fund of 100.000 ETB. The researcher talked with 11 members and the staff (manager and bookkeeper paid by AFD).

It is registered as a Multi Purpose Coop, but the main activity so far has been marketing of incense. When it started its activities, there was only one incense trader in the village who paid a very low price to the collectors. When the coop was created he increased his price; he even paid such a high price that the coop had to increase their price as well. This went on for some time until both paid the same price.

Today there are two traders in Erder; like the coop they purchase incense for 7.5 ETB, and they sell to a trader in Moyale for 8.5 ETB/kg. In 2009 they bought nearly 20 qt. from their sister coop in Dawiche-Borbor; so far in 2010 this was 6 qt. The next table shows the economic data of the last year.

Item	Purchase		Sales		Profit	Inventory
	Quantity	Price	Quantity	Price		
Incense (pg)	11,315	89,835	9,685	87,165	12,000	1630
Gum (kg)	700	5,150	450	4,388	1,237	250
Grain (kg)	155	50,650	153	56,610	5,960	100
Soap (piece)	500	870	300	950	75	200
Sent wood	369	910	322	1,288	378	47
Identity cards	316	1,106	16	136	80	300
TOTAL		148,521		150,366	29,730	

The following observation can be made on these data:

4. Total turnover is less than 1.5 times their capital
5. Total profit was nearly 20,000 ETB. As AFD paid 15,000 in salaries (manager, bookkeeper and storekeeper), the net profit is 5,000 or 3% of the invested amount.
6. The profit not enough to cover inflation.

Next to paying the seed money and the salaries, AFD provided them with three very nice buildings. Now it is in the process of reducing its subsidy and the coop wants to continue to diversify. The soap production is minimal. People said it was halted as they do not know where to get the necessary vegetable oil and caustic soda. The price might also be a problem; although the members deny that (as they are not aware of the real prices of the ingredients).

They had some leadership problems, but they complained to the CPO (Dhas woreda) and he promised to give back 3.644 ETB. So far he has not done so. He migrated.

Incense and Gum Coop in Dawit-borbori (Mata-arba PA of Dhas woreda)

The vice-chairman and two members of this coop explained that it was created by 62 member who bought one share of 100 ETB each. It was registered in 2007. Today they have 57 members. AFD gave them twice seed money: 32,000 in 2008 and another 30,000 in 2010.

The coop is active in an isolated areas and they are basically ensuring a market for incense. Initially they bought at 4 ETB/kg but now this is 7 ETB/kg. Every two weeks they bring the produce to Borbor where agents from the large trader from Dubluk buys all they have. Actually this trader has agents as well in their village (Dawe). The competition is so strong that most of the times all competitors use the same prices. Due to competition the gross margin is very small: purchase 7 and sell at 8 ETB/kg.

They estimated to make 18 trips per year with a total quantity of 10.560. This gives an investment of 73.920 ETB and a gross income of 10.560 ETB. One of their main concerns is weight losses. They gave an example that when you store 40 qt of incense for 1.5- 2 months it could loose 500 kg. Such a loss of 12% eats the whole gross margin of 1 ETB/kg. All agreed that the net profit was too low to run the coop. To compete with the agents of the trader will always be difficult as they get advances from the large trader in Dubluk and as they are more efficient because the incense is integrated in other activities. And despite their efforts he coop remains a relatively small player; the 6 qt kg they deliver per trip to Borbor is 20% of the 30 qt that the trader needs to get a full truck.

Sochi Gudina Incense and Gum Coop

This coop was visited in the July 2010. The coop started in 2006 with 32 members. In 2008 they got 20.000 ETB from AFD who gave them a store and trained them in technical organisational aspects. Their capital in 2010 was 38.000 ETB. They buy incense in the short- and long dry season. The peak turn over is 12 qt/week. They sell to a trader in Wachile who sell it to the large trader in Dubluk. They sell as quick as possible, to prevent weight losses. There are 3 big traders in Borana and 15 small traders supplying them. Recently 4 small traders organised 220 qt of incense. Some small traders; who get an advance from the trader in Dubluk. In this system the coop is only a price taker; they are also not able to make a distinction between members and non-members.

Their main problem is their inability to sell in the highlands where prices are better; e.g. 12 ETB/kg in Dila. They need more capital to collect sufficient quantities to enter into a 'highland-deal'. To reach this they need to cooperate with other coops; AFD tried to organise this in 2009, but it failed. In 2008 the coop tried to impose a ban on private incense and gum trade, in cooperation with NGPME, but this failed. It seems the initial love between the coops and NGMPE cooled down quickly. The director of NGPME in Yabello claims coops are too loosely managed and not able to control their members. Advancing money to coops was not an option for him; yet he advance up to 5.000 ETB to traders.

The coop leader felt that as traders control the transport, it is hard to by-pass the local big trader. Another problem is the frequent conflicts between Borena and Somali tribesmen in the area. Lastly they had a problem with their bank account; they gave their chequebook to a CPO staff member who said he needed it in order to give them a 100.000 ETB support from the government.

Data on the prices of the coop and of the NGPME show that the price of incense went up since 2003; particularly in the earlier years. When the prices went up, so did the turnover. The last two years however it stagnated at below 100 qt./year. The data also show that the turnover of the capital was fastest in 2006/07; in 2007/08 not even all the capital was used. This suggest that after AFD provided them the seed fund the claim that they need more capital is unrealistic. They could use their present capital much more efficient. The in-efficiency is reflected in the profit as well. In the first year the profit was 65% of their capital; later on it dropped dramatically. Now it has dropped to 6%. The reason is that the Gross Margin has gone down dramatically over the years. This could be interpreted as a good sign, if the coop passes on the profit to its members by buying for higher prices. Yet, as we have seen the coop is just a price taker and these data simply reflect the market fundamentals.

Due to the lower margins, the profit per member has been halved from 100 to 50 ETB. Those who were member from the beginning gained 225 ETB by now. Yet, due to inflation 225 ETB today is worth less than 163 ETB in 2006. And the capital is still in the coop; no dividend was paid till now and paying serious dividends would mean that the coop has no capital left to do any business.

The data used so far do not include some of the costs of the coop that are paid for by AFD. This refer to the salary of the administrator. If the coop would have to paid this and if a minor depreciation would be calculated for the store, the coop would have run at a loss in the last two years.

Linking the data of the coop with the prices of the NGPME showed that initially the coop managed to get a better price than the one of NGPME, but in the last two years their price is about 1 ETB/kg less. At the same time the share pastoralist get from the export price increased from 18% to 26% between 2004 and 2008. This increase is possible due to an increased efficiency in the marketing system due to higher turnovers, improved infrastructure and possibly increased competition.

Elway Incense and Gum Coop

This coop started three years ago with support of CPO and it had 50 members; later SOS-Sahel supported them with 60.000 ETB seed money and the membership increased to 123 (73 being women). The share value is only 30 ETB and the registration fee 15 ETB. The coop is split in to 8 groups of 15 people who have their own leader. Collectors can get 20 kg in 3 days; with a price of 4 ETB/kg this means an income of 28 ETB/day.

Before the coop two trader used to buy incense in the village. Now they try to keep other traders at bay. So far they are successful with this. In 2008 the coop bought 40 qt; in 2009 60 qt and in 2010 100 qt. In all these years they bought the produce at 4 ETB/kg. Sometimes they even go far into the bush (up to 40 km, near to the Kenyan border) and buy incense at 2 ETB/kg only. The produce is sold to the NGPME who collect it with a truck that can carry 16 qt. Initially they sold at 5 ETB/kg but now this is 7 ETB/kg. Losses are a major concern: even if well done 4-5% is lost due to impurities and evaporation.

One and a half year ago an audit was done: it showed a gross margin of 14.000 ETB. The net profit was 7.000. The capital of the coop was found to be 67.000 ETB; so 7.000 was lacking in the cash count. One leader, the local shop keeper, promised to pay it back. So far he has not done it. The audit still have to be rectified by the members; in the first general assembly planned for this, insufficient people turned up. In the second GA man people came, but this time the CPO staff did not turn up.

The audit showed that the coop had 40.000 ETB in a bank deposit that was never used. The CPO does not allow them to use it, as they do not need it. To buy 100 qt requires a maximum of 40,000 ETB, but when this is done in turns 20.000 is more than enough to run the business. With an inflation of 44% (2009) and an interest rate of 3.5% on deposits, this means that the coop is rapidly loosing its capital.

The members agree that the profit is too small; they want to transform the coop in a Multi Purpose Coop with a focus on livestock marketing.

Milk Processing Cooperatives

Elway milk processing coop

This coop was created 3 years ago when CARE gave them a milk processing equipment to make butter. The 114 members paid a share of 30 ETB and build a store/office together. CARE gave 30.000 ETB as seed money. The machines was only used during the opening ceremony. Although people were trained, they were hesitant to use it there was no market for the skimmed milk' and the price of the butter was insufficient to cover all costs. When a thief tried to force the door, they removed the equipment but while doing so a spare part got lost. Until today nobody managed to replace it.

To do at least something the coop started to fatten some livestock: they bought 10 bulls of which one died; the next round they had 8 bulls (2 of which are not yet sold) and yesterday they bough 6 bulls. The animals are fattened on the 'obruu' of some members. This lead to friction in those households as they are not paid for this. There is some friction in the coop as well as both the purchase and the sale committee refuse to disclose the prices. Only the secretary knows this; she is the owner of the largest shop / bar/ restaurant in town.

A check later with the secretary showed that the first 10 animals were bought for 20.000 ETB. One died and eight were sold for 17.025. In the next round 8 were bought for 15.640 ETB. Recently they were sold with the remaining one of the first round for 19.065 ETB. So the net profit has been 240 ETB, or 1% of the invested capital. The price of the last batch (6 bulls) was unknown to her as well.

So the coop never really functioned. Today all member pay 2 ETB/month as a contribution to the salary of a guard who looks after the non-functioning equipment. As this is going on for more than a year now some women in the group said their husbands started to refuse to pay this as they did not see the point. The women themselves said they will continue to contribute in order not to lose their share of the equipment.

Coop members do work together at 'olla' level (so in encampments) in bringing milk to the Elway market; yet they never discussed the option to market milk together in Yabello where prices are better.

Srupa milk processing coop

This coop does function, but only on a very limited scale. It processes 17 litres of milk per day during two months per year. They can not do more as they do not have a market for the skimmed milk; without selling this, the whole exercise leads to a loss. The 27 l./day is indeed a minute quantity in Srupa where private traders daily take 12.000 litres to Moyale (a trip of 300 km).

Hormata milk processing coop in Boku PA of Miyo woreda

This coop was visited in May 2010. Their situation is very similar to the one in Srupa. The equipment works, but the turnover is very low and the profit is only 10 ETB/day. The women want to engage in livestock trading, but they are not allowed by the CPO.

Soap Cooperative

The mission visited a soap coop in Arero district in July 2010. It was created on instigation of SOS-Sahel. Fifteen of the 34 members have been trained in soap production. They work in 3 groups (of 11, 11 and 12 people). Each day one group makes soap. It takes three hours to produce 168 pieces. They market the soap in nearby bush-markets and in Arero. Selling on markets further away lead to too high marketing costs.

The costs for the basic inputs (vegetable oil, caustic soda) are 2.3 ETB/piece. With 5% losses and 0.6 ETB/piece marketing costs, the total costs are 3 ETB/piece. A sales price of 4.5 ETB/piece was found to be a suitable price. To organise the sales requires a manager (salary of 400 ETB/month). With an annual production of 15.000 pieces the gross margin is some 20,000 ETB. Subtracting the fixed costs of 6.000 ETB leads to a net profit of 14.000 ETB. With 100 production days, the daily net profit is 140 ETB or 12.5 ETB/ person, or slightly less than the 15 ETB/day paid for daily labor in the village (the rate of the Productive Safety Net Programme pays 19 ETB/day as well).

Next to the marginal economics, the main problems are to identify sufficient markets for the soap. The initial assessment was that people found the ratio between the price and the quality attractive, but later reports are more cautious about this. Another problem is the sustainability: how to organise the supply of vegetable oil and caustic soda. We have seen that the Erder MPC had difficulties to maintain production after AFD withdrew. SOS-Sahel aims to create a Bio-Enterprise in Yabello that could organise the supply of inputs to soap coops and sell their produce, but this will involve considerable additional costs and whether this can be profitable is no easy to say at this stage.

Saving and Credit Cooperatives

Oda SACCO in at Madhacho PA in Dire woreda

The SACCO started in 2003 with 37 members: 19 men and 18 women. They have several committees to run the SACCO: an executive committee, an audit committee, a loan committee and a saving committee. Lastly they had a committee of 3 elders to resolve conflicts. In total 17 people were involved in these committees.

Each members paid two shares of 100 ETB as well as 10 ETB registration fee. Together with a seed fund of 15.000 from AFD this gave 22.770 ETB as starting capital. Initially the members saved 5 ETB/month; later this was increased to 10 ETB/month; in total 25.900 ETB was saved (or 8 ETB/-month/member). Together with 18.048 ETB paid as interest on loans, the total capital was 66.718 ETB at the time of the visit. Most of this, 62.510 ETB, was borrowed to 19 members against an interest rate of 10.5%. This means a loan of 3.290 ETB per member. Over time they had completed seven rounds of loans of one year with a total value 269.182 ETB, to 139 people (76 men; 63 women).

Interestingly when these data are compared with the data from the zonal CPO and of AFD there are many inconsistencies. To start with the name: while this coop was presented by AFD as being Oda, the SACCO under this name in all databases has 100 members; while a SACCO under the name of Badhaadhaa in Magaddoo has data which are much more similar than the one presented here. In the databases this SACCO has a capital of 27.000 ETB in 2008 and 72.000 ETB in 2010. According to the data both Oda and Badhaadhaa received 25.000 ETB as seed fund (i.s.o. the 15.000 ETB reported during the visit).

Over time there were considerable changes in the membership: 20 people left the coop (e.g. as they moved to Moyale) and 25 new ones joined (this information can also not be traced in the CPO and AFD data). Some did not leave the coop voluntary, yet all who left did repay their loans. Sometimes under pressure of the elders in the 'peace committee'. The leadership was changed twice (or even three times?!); the last time three months ago. The number of members that can read and write is limited; next to the present secretary who recently took office few are literate. The administration of the SACCO was reasonable but a quick check of the books showed that the new secretary had not yet fully understood the registration system for the savings.

As the savings collected throughout the year can not be used in the loan cycle and can not be taken to a bank, it is used for what they call the social fund (which differs from the general meaning of social fund): members with special needs take the saving of one month (in principle 370 ETB) against a 5% interest rate. Next to this all members contribute 1 ETB/month for the running costs of the SACCO. All loans are disbursed with all member as witnesses.

Huluko, SACCO in rural Dilo

This SACCO was created only 8 months ago. It has 42 members; during the visits 14 women and 14 men were present. All paid 100 ETB for a share, 30 ETB for registration fee and they saved 10 ETB/-month. With the seed fund of 30.000 ETB from AFD their total capital was 37.560.

The members were very enthusiast. They started to collect materials for an office and they organised Alternative Basic Education session on two days per week. Six people had some form of education before; now 20 mastered some very basic writing and reading skills. The executive committee met 4 times per month and the audit committee twice per month. Six

In 2 weeks time the first loans would be distributed. The criteria for getting a first loan were:

- only one member per family (some husbands and wives are both member)
- people who participate actively in SACCO activities
- women get priority as they take better care

- good ideas get priority (e.g. opening a small shop).

In this first round 21 people can get a loan and all need to submit a form which explains the purpose of the loan. If too many people want to start the same business they want to coordinate that. They did not want to start before being officially registered by CPO as this will allow them to open court cases against potential defaulters. Before they can start they need to change one of the signatories of their bank account as she is pregnant and will not be able to travel for some time.

They really appreciate the training on business planning that 16 of the received from AFD. They even like it to be repeated again. Of course they like the per diem they get for the training as well.

Dubana SACCO in Dillo town

This coop with 26 members (17 women) in Dillo town has a capital of nearly 40.000 ETB now. This is composed from 25.000 seed money (AFD), 2.600 ETB of shares, savings of 10 ETB/month per member. It was created in May 2007 and they completed three rounds of loans with 10.5% interest. This is not enough to compensate inflation; although this is compensated by ongoing savings. They discussed to raise the savings to 15 ETB/month. They are constructing an office; it is half completed.

They say the training of AFD on business planning was very useful. At the same time it proved that most of them are actually small livestock traders and shopkeeper. Eight members are literate. The administration did not look as good as in the Oda SACCO, but it is OK. All basic books are there. They are satisfied with the leadership; the control committee does a good job. They have a peace committee to resolve conflicts. They have an extensive system of penalties for people who delay their repayment or do not turn up at meetings. The income is used for the running costs of the coop.

The member use the loans (of nearly 3.000 ETB now) for trading goats, sugar or salt. One started a shop but stopped as she felt obliged to sell too much on credit. Part of it is used in the household cash flow. This means that it used to avoid selling assets like animals or food. The member feel that the key to success is a very strict membership policy. So far 6 people left the SACCO and 3 new ones joined. Some more applied but they were refused; among others as they came from a salt coop in Dillo town which the SACCO members consider to be non-transparent.

Jirenya SACCO in Saba

Eight members of the Jirenya Saba SACCO explained that it was created recently. It has 65 members; 63 of them are women. The share value was 100 ETB and the monthly saving is 10 ETB. GPDI promised a seed fund of 56.000 ETB. A business plan was made on how to use this: 20.000 for shoats trade, 5.000 for 'kundi', 2.000 for grain trade and 5.000 for sugar. The leaders explained that the seed money will be used for the common business while the savings will be used for a mutual crediting system. While discussing this it became clear that the women had quite a different view of what the SACCO should do then the GPDI staff. The first wanted it to be a normal SACCO while the latter had a kind of coop in mind.

Members are living far away: up to 4-5 hours of walking. Due to the current drought more than half of them have moved with their families. In Saba collecting 'kundi', a local root used in perfumes is an important source of income for women. It is found far in the bush and sold in towns like Elway and Teltele. The net income per day is a mere 10 ETB in the dry and 20 ETB in the wet season.

The women appreciated the training by GPDI, but would like more people to be involved. Only 6 people were trained at rather high costs in Teltele; this is partly due to the per diem of 70 ETB/day that participants get. People would prefer to be trained in Saba itself which would reduce the costs substantially and increase the number of participants.