

Review Article

# Determinants of the Performance of Farmers' Cooperatives in Ethiopia

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## Abstract

Farmers' cooperatives play a crucial role in Ethiopia's agricultural development by enhancing market access, providing inputs and financial services, and improving smallholder farmers' bargaining power. Despite their potential, many cooperatives struggle due to economic, governance, and environmental challenges. While various studies have explored these issues, an up-to-date and comprehensive synthesis of the literatures is essential to aggregate those findings and explore the common themes towards the key determinants. Therefore, this review synthesizes over two decades of researches to explore the determinants of the farmers' cooperative performance in Ethiopia, focusing on economic, institutional, social, environmental, and technological factors. Access to credit, effective governance, and social cohesion emerge as critical determinants of cooperative success. Additionally, external support and technological adoption enhance their growth, while environmental factors such as climate variability present significant risks. Then, the review concludes, most of the cooperatives perform below the expected, that collaborative work between the members themselves and the government is invaluable for increasing the efficiency of cooperatives, and in turn, achieves the ultimate goals of improving the farmers overall wellbeing. Hence, the review would like to provide policy recommendations such as strengthening cooperative governance structures, enhancing credit access, promoting adoption & technology provision, and encouraging sustainable land management practices which would increase resilience and productivity of cooperative members.

## Keywords

Agricultural Development, Cooperative Performance, Determinants, Smallholder Farmers, Ethiopia

## 1. Introduction

### 1.1. Background

Farmers' cooperatives in Ethiopia are vital to agricultural development by enhancing market access, providing inputs and financial services, and improving the bargaining power of smallholder farmers [5, 17]. Cooperatives enable smallholders to overcome challenges associated with fragmented agriculture, particularly through collective action, allowing them

to engage in competitive markets. Over the past two decades, government support and rural development policies have driven the substantial growth of cooperatives in Ethiopia [10]. Despite this growth, many cooperatives struggle due to economic challenges, governance issues, and environmental stressors [7].

Ethiopia's agrarian economy, with agriculture accounting for about 85% of employment, relies heavily on cooperative

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structures to aggregate smallholders, enhance productivity, and improve market access [22]. However, while some cooperatives have flourished, others have underperformed, raising questions about the determinants of their success. Various factors, economic, institutional, social, environmental, and technological, interact in complex ways to influence cooperative performance [2, 3]. Given Ethiopia's unique challenges, such as climate change, population pressure, and infrastructure limitations, understanding these determinants is essential for improving cooperative performance.

## 1.2. Statement of the Problem

Despite their potential, many cooperatives in Ethiopia struggle due to poor governance, limited access to resources, and market constraints, leading to suboptimal performance [5, 10].

According to [1, 11, 19, 20], Cooperatives are crucial for enhancing the livelihoods of smallholder farmers, yet their performance remains inconsistent due to challenges like financial mismanagement, weak governance, and limited market integration. These studies have identified barriers such as weak leadership, financial constraints, and social fragmentation, but there has been no comprehensive review synthesizing these findings. Understanding the key factors that differentiate successful cooperatives from those that underperform is critical for promoting rural development, poverty reduction, and food security in Ethiopia. Therefore, the review fills such gap by aggregating evidence from over two decades of research to understand the determinants of cooperative success or failure in Ethiopia. It aims to provide a comprehensive assessment of these factors and offer policy recommendations for improving cooperative outcomes.

## 2. Methodology

### 2.1. Search Strategy

A systematic search of academic databases such as Scopus and Google Scholar were conducted using key terms including “farmers' cooperatives,” “Ethiopia,” “determinants,” “performance,” “agriculture,” and “cooperative success.”

### 2.2. Inclusion and Exclusion Criteria

The review included qualitative and quantitative studies published since 2000, focusing on Ethiopian farmers' cooperatives. Studies not specific to Ethiopia or cooperatives in non-agricultural sectors were excluded, ensuring the review focused on Ethiopia's unique agricultural context.

### 2.3. Data Extraction

Key information extracted from the studies included determinants of cooperative performance, methodologies used,

and regional contexts. The data were categorized into economic, institutional, social, environmental, and technological determinants, and synthesized to identify common themes and differences.

## 2.4. Data Synthesis

A thematic analysis approach was used to group the determinants into predefined categories, with a narrative synthesis describing the impact of each determinant. The strength of the evidence for each determinant was assessed based on the number of studies identifying it as significant.

## 3. Results and Discussion

### 3.1. Economic Determinants

**Access to Credit:** Access to credit is one of the most frequently cited determinants of cooperative performance in Ethiopia. Cooperatives providing members with access to credit are better positioned to invest in modern inputs, enhance productivity, and increase market access [1, 2, 9]. However, many cooperatives, particularly those in remote areas, struggle to secure financial resources. Cooperatives near urban centers are more likely to access formal credit, whereas rural cooperatives face significant credit shortages, limiting their financial sustainability [5]. Loan defaults, exacerbated by inadequate financial literacy, further undermine cooperatives' financial viability [23].

**Market Access:** according to [10, 16], market access is another critical determinant of cooperative success. Cooperatives connected to reliable, profitable markets generally outperform those with limited market integration. Remote cooperatives, hindered by poor infrastructure and high transportation costs, struggle to connect to markets, reducing their financial sustainability [12]. Export-oriented cooperatives, such as those involved in coffee production, benefit from international demand, while cooperatives relying on local markets face challenges like price volatility and market saturation [22].

### 3.2. Institutional Determinants

**Governance and Leadership:** Effective governance is crucial for cooperative success, ensuring transparency, accountability, and member participation [5]. However, many Ethiopian cooperatives suffer from poor governance, which often leads to internal conflicts and financial mismanagement [22]. Leadership training and capacity-building programs are essential for improving governance and enhancing cooperative performance [13, 23].

**External Support:** The Ethiopian government and NGOs have played a significant role in supporting cooperative development, providing financial and technical assistance [2]. However, the sustainability of this support has been ques-

tioned, as cooperatives that rely too heavily on external aid struggle to become self-sufficient [8]. A recent work by the CGIAR, explored drivers of cooperative formation, emphasizing the role of government and external support in encouraging membership and improving cooperative outcomes [6]. This reflects the institutional determinants discussed, particularly around governance and external support [5].

### 3.3. Social Determinants

**Social Cohesion and Trust:** Social cohesion and trust among members are vital for cooperative success. Cooperatives with strong social bonds tend to have higher member participation, leading to better performance [22]. However, internal conflicts, often arising from ethnic diversity, can hinder cooperative functioning [1]. Trust in cooperative leadership is also critical, as members are more likely to contribute financially and repay loans when they trust the leadership [18, 22].

**Member Participation:** High levels of member participation contribute to cooperative success, as engaged members are more likely to invest in the organization's success [8]. However, participation is often low in rural cooperatives, where members may not fully understand the benefits of active involvement [2, 11]. A recent research in Eastern Ethiopia demonstrates that cooperative membership significantly improves the wellbeing of smallholder farmers by enhancing access to inputs, technology, and better markets [14]. This is consistent with previous findings on the importance of market access and social cohesion [22].

### 3.4. Environmental Determinants

**Climate Change:** Climate variability, including droughts and floods, poses significant risks to cooperative performance, particularly in vulnerable regions [8]. Cooperatives operating in these areas often experience reduced productivity and financial strain. A study on dairy cooperatives in Northern Ethiopia highlights how adopting climate-smart agricultural practices has improved resilience to environmental challenges [4]. This echoes the earlier discussions around natural resource management and the importance of sustainability for long-term cooperative success [12].

**Natural Resource Management:** Cooperatives implementing sustainable land management practices, such as soil conservation and water management, are more resilient to environmental challenges and perform better in the long term [12, 15].

### 3.5. Technological Determinants

The adoption of modern agricultural technologies, such as improved seed varieties and irrigation systems, significantly enhances cooperative performance [2, 21]. Cooperatives that invest in these technologies are more competitive in both domestic and international markets.

### 3.6. Interactions between Determinants

The determinants of cooperative performance are interrelated, with success often depending on how these factors interact. For instance, cooperatives with strong governance are more likely to have access to credit and markets [5]. Social cohesion and trust among members also contribute to effective governance, as engaged members are more likely to participate in decision-making processes [23]. Additionally, external support from government and NGOs can help cooperatives overcome financial and institutional challenges [10].

## 4. Conclusion and Recommendations

### 4.1. Conclusion

Most of Farmers' cooperatives in Ethiopia are under their potential performance towards achieving the overall benefit of member farmers. The performance of those farmers' cooperatives is shaped by a complex interplay of economic, institutional, social, environmental, and technological factors. Access to credit, governance, social cohesion, and technological adoption emerged as critical determinants. Addressing these factors through targeted interventions can significantly enhance cooperative performance, and in turn, promote rural development and poverty reduction.

### 4.2. Recommendations

- a. Enhancing access to credit: Financial institutions and the government should collaborate to provide affordable credit to cooperatives, enabling them to invest in technology and infrastructure.
- b. Strengthening governance: Leadership training programs should focus on improving transparency and accountability within cooperatives.
- c. Promote technology adoption: Extension services should encourage the adoption of modern agricultural technologies to enhance productivity and competitiveness.
- d. Support sustainable land management: Cooperatives should implement sustainable land and resource management practices to improve resilience to climate change.

## Abbreviations

CGIAR	Consultative Group on International Agricultural Research
NGOs	Non Governmental Organizations

## Author Contributions

Melesse Zeleke Agegnehu is the sole author. The author

read and approved the final manuscript.

## Conflicts of Interest

The author declares no conflicts of interest.

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