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The Efficiency of Cooperatives and their Influence on Poverty Alleviation: An Institutional Analysis in the Ethiopian Dairy Sector

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Abstract

The presentation will focus on the organisation of cooperatives in the dairy sector in Ethiopia and discuss their contribution to poverty alleviation.

Starting October 2008, literature surveys, mainly from the International Livestock Research Institute in Addis Ababa, supported by expert interviews were implemented. During a field trip in February 2009 an in-depth situational analysis has been conducted combining extensive observations and semi-structured interviews with different stakeholders.

In the scope of the interdisciplinary Ethiopian-German research cooperation “Food Value Chain Analysis - Institutions, Challenges, Education. The Case of Dairy in Ethiopia” the authors examined the efficiency of organisational structures in the dairy value chain. The dairy sector in Ethiopia consists to a large extent of smallholders practising backyard farming with only a few animals. Due to a vast amount of fasting days there is no constant demand for fresh milk throughout the year. Furthermore, farmers face problems of fodder and water shortages, lack of extension services and a lack of power due to institutional inconsistencies. Cooperatives are an important key element to enable smallholder market access, a constant supply of fodder and extension services, and to strengthen their position based on collective action. Cooperatives constitute the opportunity to use natural resources sustainably and to contribute to poverty alleviation.

Based on the findings of the New Institutional Economics, we used the transaction cost approach by Menard to show the inefficiencies and institutional problems within the organisation structures. We identified informal relationships, imbalances of power, opportunistic behaviour and conflicting interests in the management as the main factors hampering efficiency. For future improvements there is a tremendous need to increase transparency of internal decision processes combined with a continuous capacity building of the cooperatives' members.

Keywords: Dairy value chain, Ethiopia, institutional analysis, natural resource management, organisational structures, poverty alleviation, transaction costs