



Socialising Cooperatives in Ethiopia: The Quest for Social Cooperative

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Abstract

With the emergence of the social enterprise business model, the service horizon of cooperatives has expanded beyond their members to address humanity's pressing concerns. The new wave of social entrepreneurship in the cooperative sector has forced countries to develop regulatory responses, such as creating a social cooperative form or labelling cooperatives with a primary social purpose as "social enterprise". In Ethiopia, social enterprise is growing within the cooperative sector, although it lacks a distinct form or label. The use of the cooperative form by social enterprises raises the question of whether existing cooperative law is sufficient to accommodate and promote social business or whether a special legal regime is needed. Against this background, using doctrinal and empirical analyses, this article revealed that the existing law is not prohibitive; however, it is inadequate in creating a clear legal identity, addressing regulatory concerns, and fostering a supportive ecosystem. Therefore, this article recommends introducing a social cooperative through either a dedicated special law or an amendment to existing cooperative law, in a manner that adequately addresses the special regulatory concerns posed by its hybrid nature.

Keywords

Social Enterprise;
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Sustainable
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1. Introduction

As a form through which humans cooperate for common interests, the cooperative has evolved significantly over the last 200 years.¹ As defined by the International Co-operative Alliance (ICA), it is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.² The 2016 Cooperative Proclamation of Ethiopia similarly defines a cooperative as an autonomous association with legal personality, democratically controlled by persons united voluntarily to meet their common economic, social, and cultural needs and other aspirations that cannot be addressed individually, through an enterprise jointly owned and operated in accordance with cooperative principles.³ As the name implies, the foundation of a cooperative lies in cooperating to address the common needs and concerns of members. As described by Altman, a cooperative is a voluntary network of individuals who own or control a business that distributes benefits to members.⁴

Although indigenous cooperatives, such as *Iqub*, *Idir*, and *Debo*, have a long history in Ethiopia, formal cooperatives are a recent development of the twentieth century.⁵ Indigenous cooperatives, such as *Iquib*, *Idir*, *Debo*, *Senbete*, and *Mahabir*, respectively, have characteristics comparable to modern savings, insurance, labour, spiritual, and solidarity cooperatives.⁶ Even though Ethiopia has a longstanding tradition of cooperative practices, cooperatives established under cooperative

¹ Morris Altman, 'History and Theory of Cooperatives', in *International Encyclopedia of Civil Society* (2010), pp. 563–568.

² ICA, ICA Statement on the Cooperative Identity (1995), pp.1-3.

³ Cooperative Societies Proclamation No.985/2016.Art.2(1).

⁴ Altman, *supra* note 1 at 563–566.

⁵ Dejene Aredo, 'The Informal and Semi-Formal Financial Sectors in Ethiopia: A Study of the Iqub, Iddir and Savings and Credit Co-Operatives', (1993), pp. 1–10.

⁶ Iquib (Equb) mean traditional rotating savings and credit association while Idir mean traditional association for mutual aid during emergencies. Debo means collective labour where community members help one another on rotating basis. Senbete and Mahabir is faith-based mutual association that provide spiritual solidarity and social support. See also Aredo *supra* note 5 at 9–35; Dejene Aredo, 'The Iddir: An Informal Insurance Arrangement in Ethiopia', *Savings And Development*, Vol. 34, 2010, pp.50–57; Kau Veerakumaran G, *Ethiopian Cooperative Movement*, 1–15, https://www.academia.edu/9873353/Ethiopian_Cooperative_Movement (last visited Sept. 17, 2025); Alula Pankhurst & Damen Haile Mariam, 'The "Iddir" in Ethiopia: Historical Development, Social Function, and Potential Role in HIV/AIDS Prevention and Control, Northeast African Studies', Vol. 7, 2000, pp. 35–40; Dagne Mojo, Terefe Degefa & Christian Fischer, 'The Development of Agricultural Cooperatives in Ethiopia: History and a Framework for Future Trajectory', *Eth. J. Soc. Sci. Hum*', Vol. 13, 2018, pp. 49–50; Delelegne Tefera, Jos Bijman & Maja Slingerland, 'Agricultural Co-Operatives in Ethiopia: Evolution, Functions and Impact, *Journal of International Development*, Vol. 29, 2016, pp. 29–30.

law are primarily inspired by Western models rather than indigenous cooperatives.⁷ Due to the country's failure to recognise, incorporate, formalise, and modernise them, traditional cooperatives continue to coexist alongside formal cooperatives. Since the imperial period, cooperative societies have undergone several legal reforms under subsequent regimes.⁸

Cooperatives have evolved over centuries from informal mutual aid practices into a worldwide movement spanning diverse sectors.⁹ While cooperative practices existed long before, the modern one emerged in the 19th century following the formation of cooperatives based on principles formulated by the Rochdale Society of Equitable Pioneers (UK) in 1844.¹⁰ In the late twentieth century, globally, cooperatives underwent significant reform, including the creation of social cooperatives, which typically focus on serving the interests of a broader community rather than the traditional member-centred model.¹¹ The idea that cooperatives can serve as social institutions that address society's socio-economic and environmental problems is foundational to social cooperatives.¹² A social cooperative is a cooperative for the benefit of society, not just its members. However, it is not donation-dependent like traditional charities. Since its first formal appearance in Italy in 1991 with the adoption of a law creating a specific legal form for it, social cooperatives have become a new type of co-operative in various countries, including Portugal (1996 and 1998),¹³ Spain (1999), France (2001), Poland (2006), Greece (1999 and 2011), and South Korea

⁷ Habtamu Girma, 'The Legal Status and Nature of Cooperative Societies in Ethiopia: A Critical Study of the Existing Legal Frameworks' (LL.M Thesis, Haramaya University, 2019), pp.35-50; Adugna Wodajo and R. Karunakaran, 'Willingness of Informal Shoe Shiners to Join Cooperatives: Evidence from Hawassa City, Ethiopia, Journal of Rural Development', Vol.44. No.1. pp. 1-14.

⁸ Girma, *supra* note 7 at 23-26.

⁹ Vera Negri Zamagni, 'A Worldwide Historical Perspective on Co-Operatives and Their Evolution' in Jonathan Michie et al.(eds), *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford University Press, 2017), pp. 97–113.

¹⁰ Altman, *supra* note 1 at 563-570; Flávio Luiz Von Der Osten et al., 'What Does the 7th Cooperative Principle (Concern for Community) Really Mean?', *Manag Rev Q*, Vol. 75, 2025, 1813–1815; International Cooperative Alliance, Guidance Notes to the Co-Operative Principles, 1–13, <https://ica.coop/sites/default/files/basic-page-attachments/guidance-notes-en-221700169.pdf> accessed on 16 January 2025.

¹¹ Jacques Defourny & Marthe Nyssens, 'Social Cooperatives: When Social Enterprise Meets the Cooperative Tradition, Journal of Entrepreneurial and Organizational Diversity', Vol. 2, No. 2, 2013, pp. 11-33.

¹² Daniel Hernández Cáceres, 'Social Enterprises in the Social Cooperative Form' in Henry Peter et.al. (eds)), *The International Handbook of Social Enterprise Law: Benefit Corporations and Other Purpose-Driven Companies* (Springer, Geneva, 2023), pp. 173-177.

¹³ Portuguese Cooperative Code No. 51/96 and Law No. 119/2015; Legal Regime of Social Solidarity Cooperatives Decree-Law No. 7/98; Framework Law on the Social Economy Law No. 30/2013.

(2011).¹⁴ Some countries, including Belgium (1995), Finland (2003), Lithuania (2004), the United Kingdom (2005), Italy (2005), and South Korea (2007), follow a more open approach that labels and regulates cooperatives with explicit and primary social aims as a “social enterprise”.¹⁵ Creating a social cooperative as a special legal structure for social enterprise businesses and labelling cooperatives with an explicit and primary social aim as a “social enterprise” are among the regulatory approaches adopted by countries.¹⁶

In Ethiopia, a social cooperative is not recognised as one type of cooperative. At the same time, there is no labelling of a cooperative with a primary social mission as a social enterprise. The idea that cooperatives are dedicated to serving the common needs of their members is central to Ethiopia’s cooperative laws.¹⁷ Despite some social orientation that can be inferred from guiding principles and values, legally, cooperatives are defined as associations of members for the benefit of their members. Despite this, the idea of combining business and social objectives has been growing across sectors, including cooperatives. As a British Council study shows, cooperatives, which account for 10% of all social enterprises, are the most common legal form adopted by social enterprises in Ethiopia.¹⁸ Although they are not formally registered or recognised as such, cooperatives that adopt the social enterprise business model are *de facto* social cooperatives. Due to market and government failures, various socio-economic and environmental problems remain unaddressed. Due to its social focus, the social business model enables cooperatives to address the needs and concerns of the wider community that traditional economic actors have left unaddressed. The existence of social enterprises within cooperative structures raises the question of whether the existing cooperative regime is sufficient to accommodate and promote the development of social

¹⁴ Spanish Cooperatives Law 27/1999; Polish Social Cooperatives Act; Development and Modernization of Mental Health Services Law 2716/1999; Social Economy and Social Cooperative Enterprise Law 4019/2011; South Korea Framework Act on Cooperatives; Defourny & Nyssens *supra* note 11 at 11-33.

¹⁵ Law of 13 April 1995 Company with a Social Purpose; Social Enterprises Act No. 1351/2003; Law on Social Enterprises of the Republic of Lithuania Law No. IX-2251; The Community Interest Company Regulations 2005 (SI 2005/1788), enacted pursuant to Part 2 of the Companies (Audit, Investigations and Community Enterprise) Act 2004; Law No. 118 of 13 June 2005 Delegating the Government concerning the Regulation of Social Enterprise; South Korea Social Enterprise Promotion; Defourny & Nyssens *supra* note 11 at 13-15.

¹⁶ Defourny & Nyssens *supra* note 11 at 11–13; Antonio Fici, ‘Models and Trends of Social Enterprise Regulation in the European Union’ in Henry Peter et.al. (eds), *The International Handbook of Social Enterprise Law: Benefit Corporations and Other Purpose-Driven Companies* (Springer, Geneva, 2023), pp. 153; Daniel *supra* notes 12 at 173.

¹⁷ Farm Workers' Cooperative Decree No. 44/1960; Cooperative Societies Proclamation No. 241/1966; Cooperative Societies Proclamation No. 138/1978; Agricultural Cooperative Societies Proclamation No. 85/1994 Art.2; Cooperative Societies Proclamation No. 147/1998, Art.2; Cooperative Societies Proclamation No. 985/2016, Art.2.

¹⁸ British Council, *The State of Social Enterprise in Ethiopia* (British Council, Addis Ababa, 2017), pp. 1–23.

enterprises, or whether there is a need to amend the existing cooperative law or introduce a specific legal framework for social cooperatives to foster social enterprise within the cooperative industry. To answer these interrelated questions, the study primarily employs a normative approach to examine the adequacy of existing cooperative legal texts in relation to potential regulatory concerns. Additionally, an empirical approach is employed to illustrate the current state of social cooperatives in Ethiopia.

This article is divided into four major sections, each with a title and subtitle, maintaining a cohesive thread. The first section defines the research problems and the relevant methods used to answer the questions. The second section provides the conceptual framework of cooperatives and social cooperatives, including their fundamental principles, history, and state of development in Ethiopia. Additionally, it illuminates what is meant by 'social cooperative,' its relationship to the concept of social enterprise, and the current state of its global legal development. Section three is the core of the article, which is dedicated to answering the researcher's questions. This section addresses whether existing law is adequate to accommodate and promote the business model of social cooperatives. Additionally, it examines the social cooperative regulatory model that best fits Ethiopia based on the country's context and international experiences. The last section provides concluding remarks and recommendations based on the study's findings.

2. Conceptual Frameworks

2.1. Evolution of Cooperatives

A cooperative is a member-centred organisation in which resources are pooled to pursue common socio-economic objectives. In both its informal and formal settings, it has long been a vital player in Ethiopia's socio-economic development. Over time, it underwent several phases shaped by socio-economic and political factors.¹⁹ The historical development of cooperatives in Ethiopia can be broadly classified into two major phases: pre-modern and modern. The pre-modern and modern eras, respectively, refer to the periods preceding and following the introduction of formal

¹⁹ Mojo, Degefa, and Fischer, *supra* note 6 at 51–55.

cooperative law. The adoption of the first cooperative law (Decree No. 44/1960) marked the transition from the ancient to the modern era of cooperatives.²⁰

2.1.1. Pre-Modern Era (Before 1960)

Although its formal appearance is recent, cooperating and working together have been part of Ethiopia's long history through traditional self-help institutions.²¹ Such cultural or indigenous cooperatives, based on the principles of reciprocity, mutual assistance, and solidarity, reflect the longstanding tradition of mutual aid and self-help in Ethiopian societies. *Equb*, *Edir*, *Debo* (*Jiggi/Wonfel*), *Senbete*, and *Mahiber* are the most common cultural cooperatives in Ethiopia. *Equb* is a long-standing, traditional, and community-based rotating savings and credit cooperative that predates modern banking.²² Although the formal start date is unknown, studies indicate that it has been practised in urban and rural Ethiopia for centuries as a collective savings and credit system.²³ Currently, it is used by millions throughout the country as an indigenous bank alongside the modern financial system.²⁴ Another indigenous cooperative is *Edir*, a traditional insurance association that provides its members with necessary financial and non-financial support in the event of death, accidents, and other life events.²⁵ Its emergence dates back to the early twentieth century, and it continued to operate as the most common financial and social institution throughout the country. Cooperative efforts for mutual support during times of need form the foundation of social capital in Ethiopia, fostering social cohesion, reciprocity, and trust. *Debo* is another traditional cooperative, especially in rural Ethiopia.²⁶ It refers to a collaborative arrangement in which members make voluntary labour arrangements on a rotating basis to carry out activities such as ploughing, harvesting, or house construction for the benefit of all members. *Senbete* is another cultural cooperative, which is primarily a religious association among followers of a specific religious group.²⁷ Members of this cooperative usually meet on weekends to share spiritual and

²⁰ Mojo, Degefa, and Fischer, *supra* note 6 at pp. 49–77.

²¹ Aredo, *supra* note 5 at 1–10.

²² Abbi M Kedir, 'The Economics of Rotating Savings and Credit Association: Evidence from Ethiopia, International Conference on African Development Archives. 93', 2005, pp. 1–15.

²³ Girma Begashaw, 'The Economic Role of Traditional Savings and Credit Institutions in Ethiopia / Le Role Economique Des Institutions Traditionnelles D'epargne Et De Credit En Ethiopie, Savings and Development', Vol.2, 1978, pp.249.

²⁴ *Ibid*, 249–255; Kedir, *supra* note 22 at 5–7.

²⁵ Dejene Aredo, *The Informal and Semi-Formal Financial Sectors in Ethiopia: A Study of the Iqqub, Iddir and Savings and Credit Co-Operatives*, 28–30 (1993).

²⁶ Veerakumaran, *supra* note 6 at 5–6.

²⁷ Kiros Habtu, 'Classifying Informal Institutions in Ethiopia' (Termpaper, Wageningen University, 2012), pp.20–25.

social affairs and assist members in need. In addition to its economic benefits, it facilitates spiritual and social support among members. To conclude, the longstanding traditional cooperatives have laid the groundwork for modern cooperatives and continued to operate in parallel with them.²⁸

2.1.2. Modern Era (Post 1960)

Although Ethiopia has a long history of cooperative practices, the modern cooperatives were not the result of the evolution of cultural cooperatives.²⁹ Instead, just like other laws transplanted from Western legal traditions in the 1960s, cooperative law was also a result of the transplantation of the Western model in the twentieth century, inspired by the need to modernise economic activities. Since then, cooperative societies have undergone several legal reforms.³⁰

Imperial Era (1960-1974)

Farm Workers' Cooperative Decree No. 44/1960 was the first cooperative law to introduce and institutionalise agricultural cooperatives. The membership of these cooperatives was limited to farmers with large landholdings, primarily from the feudal class.³¹ The exclusion of landless and smallholder farmers, who constitute the majority, from membership was a significant flaw of the law.³² The cooperatives' services were also limited to richer farmers and to areas with cash-crop cultivation, excluding poor farmers and other regions.³³ To address shortcomings and modernise the sector, the Cooperative Proclamation No. 241/1966 was enacted as the first comprehensive law of cooperatives, allowing various types of cooperatives. Unlike its predecessor, which was limited to farmers, it introduced five types of cooperatives: multipurpose, savings and credit, consumer, artisan, and farm workers.³⁴ In addition to legal reform, the government established an independent regulatory body and training institution and arranged a cooperative investment fund within the

²⁸ Mojo, Degefa, and Fischer, *supra* note 6 at 49–50.

²⁹ Mojo, Degefa, and Fischer, *supra* note 6 at 50–53.

³⁰ Yimer A. Gebreyesus, 'Saving and Credit Cooperative Societies in Ethiopia: A Quest for Comprehensive Laws', *International Journal of Cooperative Law*, Issue III, 2022, pp.62-79.

³¹ Bezabih Emana, 'Cooperatives: a path to economic and social empowerment in Ethiopia' ILO Working Paper No. 9, 2009, pp.4-10.

³² Cooperative Proclamation No 241/1966, Art. 2 &5; Mojo, Degefa, and Fischer, *supra* note 6 at 52.

³³ Kifle T. Sebhatua and et.al, 'Exploring variability across cooperatives: economic performance of agricultural cooperatives in northern Ethiopia, *International Food and Agribusiness Management Review*', Vol.24, Issue 3, 2021, pp-401-403.

³⁴ Mojo, Degefa, and Fischer, *supra* note 6 at 52-53.

Development Bank of Ethiopia.³⁵ Despite efforts to modernise and promote cooperatives, by the end of the imperial regime, there were 149 cooperatives.³⁶ Cooperatives of the imperial era were subject to limitations, including closed (restrictive) and compulsory membership, excessive dependence on government support, a lack of autonomy, and a top-down approach to cooperative establishment.³⁷ The membership also lacked inclusivity and genuine voluntarism.³⁸ For instance, an agricultural cooperative was limited to landowning members, excluding landless individuals. Despite these shortcomings, the Imperial era set the first legal foundation for cooperatives.

The Derg Era (1974-1991)

Following the end of the imperial era, the Derg regime (1974-1991) abolished all formal cooperatives, except urban saving and credit cooperatives.³⁹ Derg abolished private land ownership and subsequently adopted Cooperative laws (Pro. No. 71/1975 & Pro. No. 138/1978), organising cooperatives based on Marxist principles to end exploitation by the feudal system. The regime primarily utilised cooperatives as instruments for mass mobilisation, equitable resource distribution, branding, and the adoption of socialist principles.⁴⁰ As a result, rather than exercising autonomy, cooperatives were used by the government to organise peasants, control prices, levy taxes, and extend government control over the people.⁴¹ Coop Pro. No.71/1971 primarily aimed to achieve a socialist agricultural transformation and a socialist marketing system by mobilising and equitably distributing resources. The law established a peasant association (mandatory for all farmers), an agricultural producer cooperative (for smallholder producers), and a services cooperative. Because of strong political control and compulsory membership, cooperatives became an instrument of the socialist political movement rather than an autonomous organisation. The scope was also limited to agricultural cooperatives.

³⁵ Mojo, Degefa, and Fischer, *supra* note 6 at 52.

³⁶ Mojo, Degefa, and Fischer, *supra* note 6 at 53-55.

³⁷ Mojo, Degefa, and Fischer, *supra* note 6 at 53.

³⁸ Mojo, Degefa, and Fischer, *supra* note 6 at 51-53.

³⁹ Emana, *supra* note 31 at 3-6.

⁴⁰ Negussie Efa Gurmessa et al., 'Partial credit guarantee and financial additionality for smallholders' coffee cooperatives: experience from Ethiopia, *Development in Practice*, Vol.32, Iss. 8, pp.1049-1062.

⁴¹ Engdawork Desta, 'Agricultural Producer Cooperatives: Some Lessons of Experience from Ethiopia, *GeoJournal*' 36, 1995, pp. 353-360.

Hence, Proclamation No. 138/1978 was enacted to include other types of cooperatives (such as housing, credit, and handicraft). Like its predecessor, this law left cooperatives at odds with their principles; instead, they were used as political tools. Generally, the sector was subject to several limitations, including involuntary membership, unregulated government interference, and unfairly regulated output prices. At its peak, cooperatives numbered 10,524, of which 80% were agricultural cooperatives.⁴² Forced by socio-economic and political factors, the Derg, in its last days, introduced a mixed economic policy, and most cooperatives, particularly producer cooperatives, were dissolved due to their initial socialist orientation and compulsory membership. In the early 1990s, there were 3,841 cooperatives in the country.⁴³ Following the fall of the regime, most of those who survived the economic policy reform were looted.⁴⁴

The Present Era (1991- Present)

The fall of the socialist regime in 1991 marked a new beginning for cooperatives in Ethiopia. During the transition, the government viewed cooperatives with suspicion because of their ties to the Derg regime. At the same time, the public perceived cooperatives as socialist associations with low incentives to create private property. It took some years for the government to change this view. The people were also suspicious of the cooperative's sustainability in the new, primarily capitalist political order. Amidst this confusion, the adoption of the Agricultural Cooperative Societies Proclamation No. 85/1994 marked a turning point, changing the fear and suspicion surrounding the sustainability of cooperatives under the new regime.⁴⁵ Unlike its predecessors, this law adopts several key principles of cooperatives, including voluntary membership, distribution of profits in proportion to members' contributions, and autonomy.⁴⁶ However, the Proclamation was primarily limited to agricultural cooperatives to address the problem farmers faced in accessing inputs and markets.⁴⁷ Subsequently, to modernise the law and facilitate the formation of various types of cooperatives, Cooperative Proclamation No. 147 was issued in 1998. This proclamation is the first cooperative law to incorporate all modern cooperative principles,

⁴² Mojo, Degefa, and Fischer, *supra* note 6 at 54.

⁴³ Mojo, Degefa, and Fischer, *supra* note 6 at 53.

⁴⁴ Mojo, Degefa, and Fischer, *supra* note 6 at 54.

⁴⁵ Tefera, Bijman and Slingerland, *supra* note 6 at 431–453.

⁴⁶ Agricultural Cooperative Societies Proclamation No. 85/1994, Art.2-5.

⁴⁷ Agricultural Cooperative Societies Proclamation No. 85/1994, Art.2 and 5.

including the principle of concern for the community.⁴⁸ The law of 1998 and its amendment (Proclamation No. 402/2004) recognised cooperatives as voluntarily formed, democratically governed, and autonomous institutions with legal personality. Besides, it broadens the activities of cooperatives beyond agriculture to include saving and credit, housing, artisanal, consumer, fishery, and mining. The modernisation of the law and the expansion of cooperative activities have led to the growth of cooperatives and the emergence of higher-level cooperatives, including unions and federations.⁴⁹

Finally, Cooperative Proclamation No. 985/2016 was enacted to provide a modern, flexible, and comprehensive framework for the cooperative sector. In addition to re-embracing modern principles of cooperatives, the new law is transformational in that it allows cooperatives to provide services to non-members under contractual arrangements with the government and supporting organisations.⁵⁰ Under this arrangement, cooperatives primarily serve as a distribution channel for goods or services that the government or other organisations otherwise distribute. Additionally, it established structures such as federal and regional cooperative agencies and envisioned a Cooperative League to assume promotional roles previously held by the government. Consequently, the Directive further detailed standards for the establishment and operation of cooperatives.⁵¹ This modern legal framework aligns Ethiopian cooperatives with international cooperative principles while tailoring them to local realities and contexts. Based on its evaluation, the ICA has rated Ethiopia's legal settings as “cooperative-friendly”.⁵² Lastly, following the fall of the Ethiopian People's Revolutionary Democratic Front (EPRDF), the new regime has maintained the existing cooperative laws.

2.2.Growth Trends of Cooperatives

Despite seasonal declines during regime changes, cooperatives have been growing in number, membership, and capital since their formal introduction in the 1960s.⁵³ At the end of the imperial

⁴⁸ Cooperative Societies Proclamation No. 147/1998.

⁴⁹ Tefera, Bijman & Slingerland, *supra* note 6 at 431–443.

⁵⁰ Cooperative Proclamation No. 985/2016, Art.23.

⁵¹ Cooperatives Organizational Directive No. 896/2022, Art.17.

⁵² International Cooperative Alliance Africa, ‘Legal Framework Analysis Ethiopia National Report’, 2021, pp-15-18.

⁵³ Mojo, Degefa, and Fischer, *supra* note 6 at 50–61; Veerakumaran, *supra* note 6 at 1–40; Tefera, Bijman, and Slingerland, *supra* note 6 at 29–35.

era in 1974, there were only 149 cooperatives.⁵⁴ During the Derg regime, the number increased due to the compulsory membership policy. The fall of the Derg regime, however, resulted in a sudden decline in the number of cooperatives.⁵⁵ Following the end of the socialist era, successive reforms led to the development of comprehensive, modern cooperative laws, which facilitated the growth of primary cooperatives from fewer than 8,000 in 1991 to over 100,000 as of 2024.⁵⁶ At the end of the imperial era, although official statistics are lacking, the number of members was estimated at a few thousand. Compared to members of formal cooperatives, which numbered 4.5 million at the end of the Derg regime, the number is currently estimated at 25 million, which is one-fifth of the Ethiopian population.⁵⁷ Despite the challenges it faces, the cooperative is growing in terms of numbers, members, capital, employment creation, and socio-economic contribution.

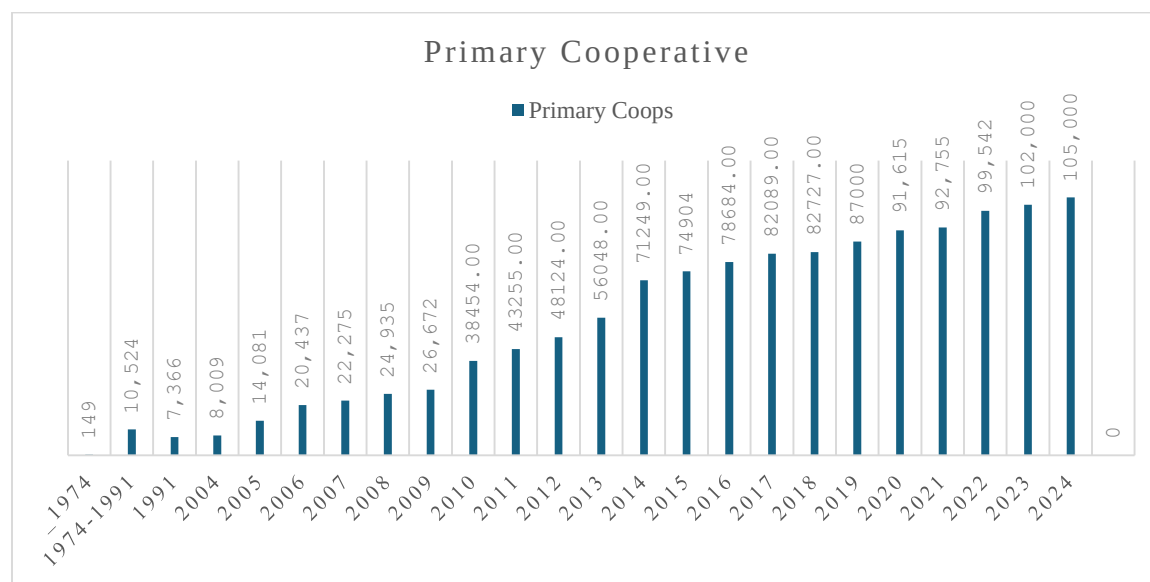


Figure 1- Number of cooperatives growth trends in Ethiopia⁵⁸

Source: Compiled from FCA Report and Online Sources

⁵⁴ Mojo, Degefa, and Fischer, *supra* note 6 at 52; Veerakumaran, *supra* note 6 at 1-32; Tefera, Bijman, and Slingerland, *supra* note 6 at 29-35.

⁵⁵ Muthyalu Meniga, 'Growth and Challenges of Cooperative Sector in Ethiopia, international Journal of Scientific Research, Vol.4, 2015, pp.353-356.

⁵⁶ ICA Africa, Mapping: Key Figures National Report: Ethiopia, (2021), pp.1-5.

⁵⁷ Desalegn Fekadu Etefa, 'Socio-Economic Development Contributions of Cooperatives and Encountering Challenges in Ethiopia, Journal of Economics and Sustainable Development', Vol.13, No.1, 2022, pp.32.

⁵⁸ International Cooperative Alliance Africa, Mapping Key Figures National Report Ethiopia, (2021); Federal Cooperative Commission, Annual Reports from 2002-2022 (Unpublished).



Figure 2- Cooperative membership growth trends in Ethiopia⁵⁹

Source: Compiled from FCC Reports and online sources

2.3.Principles of Cooperatives: Focusing on Concern for Community

Principles of voluntary and open membership to join and leave without discrimination, democratic member control based on equal voting rights, member economic participation through contribution to capital and participation in profit, institutional autonomy and independence during self-governance, and provision of education, training, and information for stakeholders, cooperation among cooperatives, and community concerns constitute the foundation of modern cooperatives.⁶⁰ The ICA adopts these principles as a normative identity of cooperatives.⁶¹ The seventh principle, “concern for community,” is relatively new and was adopted in 1995 after extensive discussions.⁶² This principle requires cooperatives to be concerned with their communities and to work towards their sustainable development, as approved by their members.⁶³ Before their introduction, cooperatives were, at least in theory, considered institutions solely concerned with the common needs of their members.⁶⁴ In fact, some scholars claim that “concern for community” has long been part of cooperative practices; thus, the ICA's adoption of it reinforces existing practices rather than

⁵⁹ Ethiopian Cooperative Commission, Annual Reports from 2006-2022 (Unpublished).

⁶⁰ Cooperatives Europe, Cooperative Identity, Values and Principles, accessed on 25 September 2025; International Cooperative Alliance, *supra* note 10 at 1-12.

⁶¹ International Cooperative Alliance, *supra* note 10 at 1-12.

⁶² Osten et al., *supra* note 10 at 1813–1815.

⁶³ Cooperative Proclamation No. 985/2016, Art.5.

⁶⁴ Osten et al., *supra* note 10 at 1813–1815.

constitutes a new development.⁶⁵ Despite this, since 1995, cooperatives have been recognised as economic and social institutions that pursue both economic and social values.⁶⁶

The core problem of the doctrine of common concern lies in the absence of a common understanding of what it means.⁶⁷ The question of whether concern for the community is a mimicry of corporate social responsibility and stakeholder theory is highly controversial. Some argue that there is substantial overlap between the two, while others claim they are different.⁶⁸ Due to its diverse interpretations as members of a cooperative, stakeholders (such as employees, co-operators, consumers, and suppliers), a local community, or even a global community, the scope of “community” is also far from consensus. Its status relative to other values, such as members' democratic control and economic participation, which promote members' interests, is also unclear. In cases where the interests of the broader community contradict those of individual members, what will be the hierarchy of community interests? Can management pursue community interests at the expense of member interests? There is no clear-cut answer to the question of prioritisation. There is also controversy as to whether concern for community is an intrinsic or extrinsic value. The normative status of concern for the community is also not clear. Is it a simple guiding principle or something that has a binding effect on cooperatives and their management? What is the scope of concern for the community? Is it about reducing adverse effects or creating a positive impact? Does this principle create justiciable rights and interests for the community? What does it mean when it says a cooperative should be concerned about the community? Is it different from the idea of community or social responsibility, which is common in the corporate world? Is it different from the idea behind stakeholder theory, which requires a firm to consider the interests of various stakeholders? If it is different, what makes it so? If not, why is it necessary to replicate social responsibility or stakeholder theory? How are scholars understanding the principle, and how are

⁶⁵ Airton Cançado et al., ‘Principle of «concern for Community»: Beyond «social Responsibility» in Cooperatives, Boletín De La Asociación Internacional De Derecho Cooperativo’, Vol.48, 2014, pp.192–198.

⁶⁶ Ian MacPherson, ‘Cooperatives’ Concern for the Community: From Members Towards Local Communities’ Interests, Euricse Working Paper, No. 46, 2013, pp. 1–10.

⁶⁷ Osten et al., *supra* note 10 at 1813–1820.

⁶⁸ Airton Cançado et al., El Principio de “Interés Por La Comunidad”: Más Allá de La “Responsabilidad Social” de Las Cooperativas, Boletín De La Asociación Internacional De Derecho Cooperativo, No.48, 2014, pp.191-200; Airton Cançado et al., ‘Beyond Mimicry: A Critique of “Social Responsibility” in Cooperatives, Amazing Power of Cooperatives’ (Quebec 2012 International Summit Conference, Quebec, Canada, 2012), pp.597-608; Samantha Vo, ‘Concern for Community: A Case Study of Cooperatives in Costa Rica, 24 Journal of Community Practice, Vol. 2016, pp. 56; International Cooperative Alliance, *supra* note 10 at 1-5.

cooperatives implementing it? Is concern for the community an intrinsic value embedded in cooperative identity or an extrinsic value, such as social responsibility? What is the motivation behind concern for the community? Long-term maximisation of member interests through building reputation and visibility, or Philanthropic sacrifice or gift without waiting for reciprocity? What is the connection of this principle with the idea of social enterprise and the emergence of the social cooperative model? Is it equivalent to adopting a social enterprise business model? Some attempts are made to illuminate the principle of concern for community and answer some of these questions; however, they are insufficient to establish a theoretically and empirically grounded understanding.⁶⁹ Of course, these questions are not abstract; they are critical and pragmatic and require further, independent research.

In its simplistic understanding, the principle of concern for the community requires cooperatives to go beyond members' financial interests to address the socio-economic and environmental problems of the local community.⁷⁰ During the operation, it should consider both the positive and negative impacts on society and the environment.⁷¹ The principle requires that the degree and form of concern for the community be determined by the members' decision, rather than by the government or the law.⁷² This weak normative status makes the principle not substantially different from social responsibility. Concern for the community has economic, social, environmental, and cultural dimensions, each requiring cooperatives to support, invest in, or promote the community's broader, multidimensional development.⁷³ In practice, concern for the community means different things for cooperatives depending on their type and sector of operation. It may involve fair pricing, sustainable production, local sourcing, reducing the carbon footprint, offering loans, a socially responsible supply chain, financing local development projects, or considering stakeholders' interests. Beyond practical application, the principle has relevance in anchoring cooperatives in stakeholder theory, serves as a counterweight to market failures, and connects cooperatives with

⁶⁹ Cançado et al., *supra* note 65 at 191–197; MacPherson, *supra* note 66 at 1–15; Osten et al., *supra* note 10 at 1815–1820.

⁷⁰ Osten et al., *supra* note 10 at 1813–1815.

⁷¹ Claudia Sanchez Bajo, 'The Principle of Concern for Community: what is community,' ICA Research Cooperative Congress, 2021, pp.2-4.

⁷² Cooperative Europe, *Cooperative identity, values and principles*, < <https://coopseurope.coop/cooperative-values-and-principles/>> accessed on May 26, 2026.

⁷³ Johnston Birchall, 'Co-operative Values and Principles: A Commentary, Journal of Co-operative Studies', Vol. 90, 1997, pp.79-80.

social economy movements. Despite its practical and theoretical relevance, balancing and prioritising community and members' interests, defining the scope of concern and community, and measuring non-financial impacts remain challenging, as studies conducted in Costa Rica show that most cooperatives are negligent about the concern for the community, while some understand community narrowly as equivalent to members.⁷⁴ The principle of concern for the community among cooperatives in Ethiopia is yet unexplored.

The concept of Concern for Community has influenced the growth of social cooperatives; however, they are not identical. A social cooperative is a specific type of cooperative that institutionalises and capitalises on the principle of concern for the community.⁷⁵ For a social cooperative, this is more than a guiding principle; it constitutes its primary mission.

3. The Concept and Laws of Social Cooperatives

3.1. Social Enterprise and Social Cooperative

Social enterprise and social cooperative are interrelated, but different business concepts.⁷⁶ In recent decades, both have gained prominence in both academic and policy circles.⁷⁷ Despite sharing similar values and a mission, they differ in terms of scope.⁷⁸ Social enterprises are broadly defined as organisations that apply a market-based approach to achieve social objectives, often striking a balance between mission and financial sustainability.⁷⁹ This hybrid business model is not confined to a single legal form; it may take various forms, including traditional legal structures and emerging

⁷⁴ Vo, *supra* note 68 at 56-58.

⁷⁵ Adam Sofia and Douvitsa Ifigeneia, 'Theoretical Foundations of Social Enterprise, Cooperative and Voluntary Action Principles and Values: Complementarities, Contradictions and Their Implications, 8th EMES International Conference on Social Enterprise' 2021, pp.1-18; Hernández Cáceres, *supra* note 12 at 173.

⁷⁶ Adam Sofia and Douvitsa Ifigeneia, 'Theoretical Foundations of Social Enterprise, Cooperative and Voluntary Action Principles and Values: Complementarities, Contradictions and Their Implications, 8th EMES International Conference on Social Enterprise' 2021, pp.1-18.

⁷⁷ Hernández Cáceres, *supra* note 12 at 173-189; Fici, *supra* note 12 at 153-171.

⁷⁸ Defourny and Nyssens, *supra* note 11 at 1-10; Hernández Cáceres, *supra* note 12 at 173-180.

⁷⁹ Ofer Eldar, 'The Role of Social Enterprise and Hybrid Organizations, Columbia Business Law Review,' Vol. 92.No.1, 2017, pp.92-194; Jacques Defourny & Marthe Nyssens, 'Defining Social Enterprise' in Nyssens Marthe (ed), *Social Enterprise At The Crossroads of Market, Public Policies and Civil Society*, (Routledge, London and New York, 2006), pp.3-5.

hybrid structures, such as benefit corporations, community interest companies, or social cooperatives.⁸⁰

On the other hand, social cooperatives are a specific organisational form based on cooperative principles and a commitment to a social mission. It is a special cooperative form designed for social enterprise. Historically, following its emergence in Italy in 1991, the social cooperative constituted the first special corporate structure created for social enterprise.⁸¹ It is a subtype of social enterprise that blends cooperative values with emerging social entrepreneurship. Social cooperatives combine the principles and values of cooperatives with the pursuit of explicit social objectives, such as providing welfare services or integrating disadvantaged groups into the labour market. Profit is a secondary objective relative to the objective of creating positive social and environmental impacts. Social cooperatives thus represent a cooperative-based model of social enterprise.⁸² In other words, a social enterprise is a business conducted for the benefit of society, while a social cooperative is a distinct form of cooperative that facilitates such business.⁸³

3.2.Social Cooperative and the Principle of Concern for Community

A cooperative is built upon principles that guide its purpose, membership, governance, and relationships. Among these, the principle of concern for community holds special significance in redefining the purpose and identity of cooperatives. This principle requires cooperatives to go beyond member economic interests and work for the sustainable development of the local

⁸⁰ Eldar, *supra* note 79 at 92–95; Antonio Fici, ‘Recognition and Legal Forms of Social Enterprise in Europe: A Critical Analysis from a Comparative Law Perspective, *European Business Law Review*’, Vol. 27, 2016, pp.25–30; Dana Brakman Reiser, Steven Dean & Giedre Huber, *Social Enterprise Law: A Multijurisdictional Comparative Review* (Larcier-Intersentia, Brussels, 2023), pp.13-114.

⁸¹ Triponel Anna and Natalia Agapitova, ‘Legal Frameworks for Social Enterprise: Lesson from A Comparative Study of Italy, Malaysia, South Korea, United Kingdom and United States’ (World Bank Group, 2016); Carlo Borzaga, ‘Social Enterprises and Their Ecosystems in Europe. Updated Country Report: Italy’ (2014), Carlo Borzaga, ‘Social Enterprises and Their Ecosystems in Europe:Country Report Italy’ (European Union, 2020); Simone Poledrini & Carlo Borzaga, ‘Social Enterprise in Italy A Plurality of Business and Organisational Models’ in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe Theory, Models And Practice* (Routledge, New York 2021), pp. 131; Antonio Thomas, ‘The Rise of Social Cooperatives in Italy, *Voluntas: International Journal of Voluntary And Nonprofit Organizations*’, Vol. 15, 2004, pp.243.

⁸² Hernández Cáceres, *supra* note 12 at. 173-175.

⁸³ Carlos Vargas Vasserot, ‘Social Enterprises in the European Union: Gradual Recognition of Their Importance and Models of Legal Regulation’ in Henry Peter et.al. (eds), *The International Handbook of Social Enterprise Law: Benefit Corporations and Other Purpose-Driven Companies* (Springer, Geneva, 2023), pp.36-39.

community. Although some scholars have attempted to differentiate it from “social responsibility”, there is little meaningful difference.

The connection between the principle of concern for community and social cooperatives and social enterprises remains unexplored. The principle of concern for the community is related to social cooperation but not identical to it,⁸⁴ and the main difference between the two lies in their scope and normative values.⁸⁵ In terms of scope, concern for the community applies to all cooperatives irrespective of their type and activities.⁸⁶ In contrast, a social cooperative is a specific cooperative form that is dedicated to serving community interests rather than members’ economic interests. In this sense, it is possible to say that a social cooperative is a special type of cooperative dedicated to institutionalising and maximising community interest.

Social cooperatives not only institutionalise concern for the community but also prioritise the community's interests. Because of social cooperatives' dedication to improving societal welfare, the way “concern for community” is understood and applied differs between social and conventional cooperatives. For a conventional cooperative, the principle allows the cooperative and its management to equate the community's interests with those of the members, rather than prioritise the latter. In fact, because the cooperative's concern for the community is subject to members' approval, one could argue that conflicts of interest are rare. The problem is that, if a conflict of interest arises, the principle of concern for the community does not require cooperatives and their governing bodies to pursue the community interest at the expense of members’ economic interests. In this situation, cooperatives pursue the community interest only if members unanimously consent, which is usually difficult to secure. Because of this problem, cooperatives usually pursue the community's interest without compromising members’ interests. Whenever there is conflict, unless the member decides otherwise, the member's interest prevails. In contrast, for a social cooperative, “concern for community” goes beyond considering community interests during operations.⁸⁷ It is about being primarily devoted or dedicated to serving the socio-economic

⁸⁴ Vo, *supra* note 68 at 57.

⁸⁵ Osten et al., *supra* note 10 at 1813–1818.

⁸⁶ MacPherson, *supra* note 66 at 10-18.

⁸⁷ MacPherson, *supra* note 66 at 2-11; Nina Boeger, Shaping Corporate Reform: Social Enterprise, Cooperatives, and Mission-Led and Employee-Owned Business, in the Cambridge Handbook of Social Enterprise Law (2019), pp-123-125; Thomas, *supra* note 81 at 245; Fici, *supra* note 16 at 153-157.

needs of the community. In this sense, for a social cooperative, concern for the community constitutes the foundation and purpose of establishment.

Another difference lies in the level of commitment they demonstrate in maximising community welfare.⁸⁸ Concern for the community does not require a cooperative to primarily serve community interests at the expense of members' economic interests; rather, it simply requires cooperatives to consider the community's well-being in their operations. Accordingly, cooperatives may use different approaches to reduce their negative impact or create a positive social impact. As a result, the level of commitment and normative value it establishes is usually weak and discretionary. Community interest is not at the core of conventional cooperative business; instead, serving members' common needs remains central. In contrast, in social cooperatives, the community's interests take precedence over members' economic interests.

As a result, social cooperatives are not only considerate but also dedicated to maximising community interests. In case of concern for the community, the law recommends and encourages cooperatives to be considerate about the sustainable development of their communities through policies approved by members. Cooperatives work for the community based on the approval of members. In the absence of such approval, neither the law nor regulators require cooperatives to work for the public good. As a result, the principle does not create a strict and enforceable legal obligation. In contrast, because pursuing the community's interests is at the core of social cooperative business, the law obliges them to prioritise social purpose. Meaning, social cooperatives have a stronger social commitment than what the principle of concern for the community requires. Despite the difference, the doctrine of “concern for the community” facilitates the development of social enterprise within cooperatives. Likewise, social cooperatives institutionalise and solidify concern for the community.

Social cooperatives are a distinct type of cooperative that focuses on enhancing the well-being of the wider community.⁸⁹ In addition to the recognised cooperative principles, they adhere to principles tailored to their specific context. The central tenets of social cooperatives include the

⁸⁸ Hernández Cáceres, *supra* note 12 at 174.

⁸⁹ European Commission and OECD, *Social Cooperatives Law in Italy: Adjustment of an Existing Cooperative Law to Support Social Enterprise Development*, <https://betterentrepreneurship.eu/en/case-study/social-cooperatives-law-italy-adjustment-existing-cooperative-law-support-social> accessed on 26 September 2025; Defourny and Nyssens, *supra* note 48 at 1-5; Fici, *supra* note 16 at 12-17.

primacy of social purpose over profit.⁹⁰ The primacy of social mission over profit-making goals is what makes it a typical form for social enterprise and differentiates it from conventional cooperatives.⁹¹

Its dependence on income earned from commercial activities differentiates a social cooperative from a nonprofit organisation, which relies on donations and grants. The initial ICA principles were formulated on the premise that cooperatives are dedicated solely to serving members' common needs. Later, with pressure from global movements toward sustainable and inclusive development, the ICA articulated the principle of concern for community.⁹²

This has a great deal to teach us about the evolution of the social business within cooperatives before the emergence of social cooperatives. Considering community interests has been part of cooperative practices, which was later formulated as a principle after extensive discussions. However, with its adoption as the seventh principle, the idea and practices of community concern became common to the cooperative's formal identity. Adoption of the principle of “concern for community” is foundational to the development of social enterprise among cooperatives. In fact, there is no empirical research demonstrating the impact of the doctrine of concern for the community on the development of social enterprise and its legal regime. At least, integrating community interests with cooperative practices made it possible to use cooperatives for purposes beyond members' communal interests. In some countries, such as Italy, the introduction of the social cooperative form preceded concern for the community.⁹³

The principle of concern for the community urges cooperatives to work for the sustainable development of their community, not just members' economic needs. It requires cooperatives to be considerate of community interest in addition to co-operators' interests. However, the fundamental question here is whether the introduction of this principle alone can make every cooperative a social cooperative. Concern for the community supports the development of social enterprise within the cooperative sector. However, having a concern for the community alone cannot make a

⁹⁰ Defourny and Nyssens, *supra* note 48 at 16; Hernández Cáceres, *supra* note 12 at 173–175.

⁹¹ Hans-H. Münkner, ‘How Cooperative Are Social Cooperative? Cooperativismo e Economía Social’ (2016), pp. 60–61.

⁹² Osten et al., *supra* note 10 at 1817–1819.

⁹³ Thomas, *supra* note 81 at 243–246; Simone Poledrini & Carlo Borzaga, *Social Enterprise in Italy A Plurality of Business and Organisational Models*, in *Social Enterprise in Western Europe: Theory, Models and Practice*, (Defourny Jacques & Nyssens Marthe eds 2021), pp. 131, 131–135.

given cooperative a social cooperative or social enterprise.⁹⁴ This is because although the ICA principle requires cooperatives to be considerate of community development, it is not clear how much concern and what legal commitments are expected of cooperatives. Hence, the degree, type, and sustainability of community concerns may vary among cooperatives. In addition, the community's status on the hierarchy ladder, relative to members' interests, is undefined and remains subject to members' decisions. While some cooperatives serve community interest as a secondary value, others may treat it as a value equivalent to members' needs. This makes the principle of concern for the community primarily subjective, discretionary, unsustainable, and abstract.

The principle of “concern for community” neither obliges cooperatives to work for the community nor forces them to pursue social causes as their prime objective.⁹⁵ Instead, it simply uses a diplomatic approach that requires cooperatives to be concerned with the community and to work for community development with their members' consent. Notably, at least the expansion of social cooperatives and their legal regime is influenced by the doctrine of concern for community; however, it does not prioritise social purpose over profit. Social cooperatives prioritise community well-being over financial gain, reinvesting surpluses into their mission rather than distributing them as profits. Unlike a cooperative, in which users and investors are the same, this may not be the case for a social cooperative, as users may be either outsiders or insiders, depending on the circumstances. In the case of worker-integrative social cooperatives, which aim to create employment opportunities for disadvantaged groups and are owned by the same individuals, the users and investors are the same person. On the other hand, in the case of a social cooperative that aims to impact society by providing goods or services to non-members, the users and investors are distinct groups.

In addition to the doctrine of social primacy, democratic and participatory governance is the defining feature of a social cooperative.⁹⁶ The terms “democratic” and “participatory” refer to two interrelated aspects. Like conventional cooperatives, social cooperatives operate on a democratic basis, typically following the one-member, one-vote rule.⁹⁷ However, unlike that of a cooperative,

⁹⁴ MacPherson, *supra* note 66 at 10-15.

⁹⁵ Osten et al., *supra* note 10 at 1820.

⁹⁶ Ian Adderley, ‘Co-operatives and Social Responsibility, *Journal of Cooperative Studies*’, 2024, Vol.57. No.3, pp.64-67.

⁹⁷ Hernández Cáceres, *supra* note 12 at 174-177.

whose governance is reserved for members, the governance of social cooperatives is participatory, allowing various stakeholders, including investors, workers, beneficiaries, and community members, to have a say through mechanisms such as consultation, voting, observation, or representation on management bodies. A social cooperative is a multi-stakeholder organisation that usually focuses on worker integration and social inclusion. Because of this focus, they are referred to as social-integration, social-welfare, social-initiative, and social-solidarity cooperatives.

As data from countries indicate, social cooperatives strive to provide employment and social integration opportunities to disadvantaged groups, including people with disabilities, migrants, individuals with low levels of skills, the elderly, and the unemployed. In addition to their integrative role, they provide essential goods and services, such as education and healthcare, to the community, usually at fair prices. Like cooperatives, social cooperatives are characterised by autonomy and independence. A social cooperative is a multi-stakeholder organisation that collaborates with various stakeholders, including governments, while remaining autonomous in its decision-making. Primarily, social cooperatives focus on sustainable development and community welfare. Hence, a social cooperative is a cooperative for the community, not for its members.

3.3.Types of social cooperatives

Social cooperatives represent a subtype of social enterprise that combines cooperative values with explicit social objectives. Its development is significantly influenced by the Italian model, which pioneered the introduction and classification of social cooperatives following the enactment of Law 381/1991.⁹⁸ This law formally categorised social cooperatives into two types: Type A and Type B. Since then, this typology has shaped both academic discourse and legal frameworks in other jurisdictions. Type A social cooperatives primarily engage in the provision of social, health, and educational services. Activities they operate include nursing homes, vocational centres, rehabilitation centres (for drug addicts or former prisoners), and a care centre for older people and those with disabilities. Through service provision, this type plays a positive role in filling gaps left by the state welfare system.⁹⁹ Type B social cooperative primarily focuses on integrating

⁹⁸ Poledrini and Borzaga, *supra* note 93; P. Villotti, S. Zaniboni & F. Fraccaroli, *Social Cooperatives in Italy*, 40 ENCEPHALE (2014).

⁹⁹ Villotti, Zaniboni, and Fraccaroli, *supra* note 98 at 120; Jacques Defourny & Marthe Nyssens, *Social Cooperatives: When Social Enterprise Meets the Cooperative Tradition*; Fici, *supra* note 87 at 155.

disadvantaged groups such as people with disabilities, low-skilled, former prisoners, migrants, people with an addiction, and long-term unemployed into the labour market.¹⁰⁰ Addressing structural barriers to employment faced by such groups is a social purpose served by such social cooperatives.

Services and work-integration social cooperatives are not mutually exclusive. One cooperative can be a hybrid, combining both service and integrative cooperative models by simultaneously providing services and creating employment. A notable example is a social cooperative that offers rehabilitation services to former prisoners and employs them. The Italian typology has influenced the social cooperative dichotomy in several European countries and beyond. Countries such as Spain and Portugal followed a similar classification.¹⁰¹ Some countries introduced social cooperatives without classifying them as integrative and service social cooperatives. In this regard, countries like South Korea and France permit cooperatives to operate in both service provision and worker integration domains without requiring dichotomisation.¹⁰² There are also countries, such as Poland, that focus solely on work integration, particularly for unemployed and disadvantaged individuals.¹⁰³ The division of social cooperatives into two types represents an important legal innovation. The international diffusion and adaptation of this typology underscore its versatility and relevance in terms of promoting welfare and social inclusion through service provision and employment. At the same time, the adoption of a new approach that enables social cooperatives to engage in both worker integration and the delivery of social services demonstrates an alternative to regulatory design.

¹⁰⁰ Catherine Davister, Jacques Defourny and Olivier Gregoire, 'Worker Integration Social Enterprises in the European Union: An Overview of Existing Model', WP no. 04/04, 2004, pp.3-25.

¹⁰¹ Vasserot, *supra* note 83 at 37-40; Sílvia Ferreira & Joana Almeida, 'Social Enterprise in Portugal Concepts, Contexts and Models', in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe: Theory, Models and Practice* (2021), pp.183-190; Millán Díaz-Foncea et al., *Social Enterprise in Spain From a Diversity of Roots to a Tentative Typology of Models* in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe: Theory, Models and Practice* (2021), pp.200-209.

¹⁰² Anna and Agapitova, *supra* note 81 at 1–15; Francesca Petrella et al., 'Social Enterprise in France at the Crossroads of the Social Economy, Solidarity Economy and Social Entrepreneurship' in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe Theory, Models and Practice* (Routledge, New York 2021), pp. 69–75.

¹⁰³ Ingo Bode, Adalbert Evers & Andreas Schulz, 'Work Integration Social Enterprises in Europe: Can Hybridization Be Sustainable?' in Nyssens Marthe (ed), *Social Enterprise at the Crossroads of Market, Public Policies and Civil Society* (2006), pp.237-240; Davister, Defourny, and Gregoire, *supra* note 100 at 23.

3.4.Global Trends in Social Cooperative Law Development

In Europe, social cooperatives constitute the primary legal form for social enterprises. As various studies confirm, the emergence of social enterprises in Europe is closely linked to the cooperative movement. Italy was a pioneer in introducing social cooperatives following the enactment of Law 381/1991. Since then, many European countries have adopted this cooperative type. Portugal's "Social Solidarity Cooperatives" (Decree No. 7/98), Spain's "Social Initiative Cooperatives" (Law 27/1999), France's "Collective Interest Cooperative Society" (Law no. 624/2001 & Law no. 856/2014), Hungary Social Cooperative (Act X of 2006 and Act CXXV of 2012), Greek's Social Cooperative (Laws no. 2716/1999, Law no. 4019/2011 and Law 4430/2016), Belgium's social enterprise ("*Entreprise Sociale*") status for cooperative (2019), Croatia's Social Cooperative (Law No. 764/2011), Czech Republic Social Cooperative (Law no. 90/2012), and Poland's Social Cooperative (Law 651/2006 and its amendments 742/2009, 1567/2015, 2494/2017) prove higher recognition of social cooperatives in Europe.¹⁰⁴

In Africa, no single country has a special law of social cooperatives. Although the legal structure labelled as "social cooperative" is lacking, the existing cooperative laws of most countries are flexible enough to accommodate cooperatives with a social mission. As a result, cooperatives that strive to address the socio-economic problems of the broader community often operate within conventional structures. Exceptionally, South Africa has recognised and defined a social cooperative in its general cooperative law. Per this law, it is defined as "a non-profit co-operative which engages in the provision of social services to its *members*, such as care for the elderly, children, and the sick".¹⁰⁵ Although the term "social cooperative" is used, they are dedicated to members, just like traditional ones. This makes its full recognition in South Africa questionable.

¹⁰⁴ Ferreira & Almeida, *supra* note 101 at 182–183; Millán Díaz-Foncea et al., 'Social Enterprise in Spain From a Diversity of Roots to a Tentative Typology of Models' in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe Theory, Models and Practice* (Routledge, New York 2021), pp., 200–203; Francesca Petrella et al., 'Social Enterprises in France, Portugal and Spain Between Path Dependence and Institutional Creation?' in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe Theory, Models and Practice* (Routledge, New York 2021), pp. 271–280 (Defourny Jacques & Nyssens Marthe eds., 2021); Ifigeneia Douvits, 'The Work Integration Social Enterprises In Greece', (Ciriec-Espana, Revista Juridica De Economia Social Y Cooperativa, 2020); Angelos Kornilakis, 'Report from Greece: The New Law on Social Enterprises in Greece, European Company Law Journal', Vol.14, Issue 3, 2017, pp.1-5; Ioannis Nasioulas, 'Social Cooperatives in Greece: Introducing New Forms of Social Economy and Entrepreneurship, International Review of Social Research, Vol.2, No.2, 2015, pp.151-171; Ingo Bode, Adalbert Evers & Andreas Schulz, 'Work Integration Social Enterprises in Europe: Can Hybridization Be Sustainable?' in Nyssens Marthe (ed), *Social Enterprise At the Crossroads of Market, Public Policies and Civil Society*, (Routledge, London and New York, 2006), pp.237-239; Poledrini and Borzaga, *supra* note 98 at 131–134.

¹⁰⁵ South Africa Co-Operatives Act No.14/2005.

Like Africa, Asia is also lagging in adopting the social cooperative model. Only a few countries have special legal frameworks that explicitly accommodate cooperatives with social objectives. The term "social cooperative" is known in a few countries, including South Korea.¹⁰⁶ In countries with explicit, specific recognition, social cooperatives are growing in both number and social impact, including job creation. The existence of over 15,000 social cooperatives in Italy (2021), 1,400 Sociétés coopératives d'intérêt collectif (SCICs) in France (2024), 1,516 Community Benefit Societies in the UK (2024), and 2,980 social cooperatives in Hungary (2019)¹⁰⁷ shows the growing trend of social cooperatives.

3.5.Social Cooperative Regulatory Approach

Countries follow different approaches in regulating social cooperatives,¹⁰⁸ ranging from a lack of a dedicated regulatory framework to regulation through special law.¹⁰⁹ Countries that lack a dedicated regulatory framework treat social cooperatives the same as conventional cooperatives, without considering their social purpose. In such countries, the social mission of social cooperatives lacks legal and administrative recognition. Additionally, they are not usually entitled to special or preferential treatment due to the lack of a clear legal identity. The positive social impacts created are also not subject to mandatory reporting, auditing, and disclosure requirements. They also lack legal existence and exist only in practice, without official recognition. Despite this, countries that opt for this approach may, in the meantime, introduce a special regulatory scheme for social cooperatives.

On the other hand, countries that have a special framework for social cooperatives regulate them using different approaches, including regulation as a distinct legal form (with special or specific law or within general cooperative law, as regulation as one type of cooperative), regulation as one actor within the law of social economy and/or regulation within the framework of social enterprise

¹⁰⁶ Eric Bidet and Hyung-Sik Eum, 'Social Enterprise in South Korea: History and Diversity, *Social Enterprise Journal*, Vol.7, 2011, pp. 69–71.

¹⁰⁷ European Commission, Hungary - EU Social Economy Gateway, https://social-economy-gateway.ec.europa.eu/my-country/hungary_en accessed on 30 September 2025.

¹⁰⁸ Fici, *supra note* 16 at 151–171.

¹⁰⁹ Remigijus Civinskas et al., 'Social Cooperative Model Choices in the Socially Unsustainable Environment: Evidence from Lithuania, Sustainability', Vol.15(15), pp. 2–7.

law.¹¹⁰ Such diversity in regulatory design reflects differences in legal traditions, policy choices, and socio-economic contexts.¹¹¹

3.5.1. Regulation of Social Cooperative as a Distinct Legal Form

As countries' experiences show, the regulation of social cooperatives as a distinct legal form, separate from conventional cooperatives, can be achieved either through a dedicated social cooperative law or by treating social cooperatives as a special type of cooperative under the general laws of cooperatives. Both approaches are similar in recognising social cooperatives as a distinct entity, separate from companies or conventional mutualistic cooperatives. Both approaches also have their own strength and shortcomings.

With the enactment of Law No. 381 of 199, Italy became the first to enact a specific law dedicated to social cooperatives.¹¹² Since then, it has influenced the development of laws of social cooperatives in Europe and beyond.¹¹³ Countries that opt for the Italian model have a distinct law on social cooperatives that differs from the laws governing companies, cooperatives, and even social enterprises. In fact, when necessary, the special law of social cooperatives makes cross-references to relevant provisions of cooperative or company law. The Italian law on social cooperatives categorises social cooperatives into Types A and B.¹¹⁴ The former refers to social cooperatives dedicated to providing social services, while the latter is an integrative model dedicated to integrating disadvantaged groups into the labour market.¹¹⁵ Despite this theoretical and legal dichotomy, in the real world, it is common to see social cooperatives that simultaneously provide social services and create job opportunities. Some countries have created social cooperatives for the public interest without such categorisation.

Following Italy, Portugal, Greece, and Poland, France is among the countries that have enacted special laws for social cooperatives. In Portugal, Decree No. 7/98 regulates “social solidarity

¹¹⁰ Defourny and Nyssens, *supra* note 9 at 1–3; Fici, *supra* note 16 at 151–165.

¹¹¹ Vasserot, *supra* note 99 at 41–43; Bernard Enjolras et al., 'Social Enterprises in Norway Models and Institutional Trajectories; in Defourny Jacques & Nyssens Marthe (eds), *Social Enterprise in Western Europe: Theory Models and Practices* (2021), pp. 166–170.

¹¹² Thomas, *supra* note 81 at 243–245.

¹¹³ Fici, *supra* note 16 at 155.

¹¹⁴ Fabrizio Cafaggi & Paola Iamiceli, 'New Frontiers in the Legal Structure and Legislation of Social Enterprises in Europe: A Comparative Analysis, EUI Working Paper Law 2008/16', 2011, pp.5–7.

¹¹⁵ *Ibid*, 7–9.

cooperatives” that provide both social services and jobs for vulnerable groups.¹¹⁶ In Greece, Law 4019/2011 and Law 4430/2016 introduced three types of social cooperatives: social cooperative integration enterprise, social cooperative social care, and social cooperative collective.¹¹⁷ As the name implies, they are dedicated, respectively, to integrating volunteers into the labour market, providing welfare services, and providing goods or services in the community’s collective interests. Poland also has the Act on Social Cooperatives (2006), which focuses on integrating disadvantaged workers. France has also developed the Collective Interest Cooperative Society (*Société Coopérative d’Intérêt Collectif*) through Law No. 2001-624 of 17 July 2001.¹¹⁸ These cooperatives focus on the production and supply of goods and services of collective interest and social utility.

Countries including Spain, South Korea, and Hungary have established social cooperatives as a type of cooperative under general cooperative law. In Spain, the law of social cooperatives is decentralised and largely regional; several regions have introduced their own laws.¹¹⁹ The National Cooperative Law 27/1999 introduced “Social Initiative Cooperatives”, largely similar to the Italian Model.¹²⁰ Accordingly, without a profit motive, the Social Initiative Cooperatives provide social services or engage in economic activities that ensure the labour integration of the disadvantaged. In addition to Law 27/1999 and regional laws on social cooperatives, Spain has Law 44/2007 and Law 5/2011, which are relevant to social business. In Hungary, Act X-Law of Cooperative of 2006 introduced the social cooperative as a type of cooperative dedicated to social causes.¹²¹ Social cooperatives in Hungary are primarily integrative, focusing on creating employment for disadvantaged groups, who are also expected to be co-operators. South Korea is another country that regulates social cooperatives under the general law of cooperatives. The Framework Act on Cooperatives (2012) defines a social cooperative as a cooperative that carries out business activities related to enhancing the rights, interests, and welfare of residents, or provides social

¹¹⁶ Ferreira and Almeida, *supra* note 101 at 182–183; Petrella et al., *supra* note 104 at 271–275.

¹¹⁷ Nasioulas, *supra* note 104 at 153–160; Kornilakis, *supra* note 104 at 1–7.

¹¹⁸ Petrella et al., *supra* note 104 at 274–277.

¹¹⁹ Petrella et al., *supra* note 104 at 276.

¹²⁰ Vasserot, ‘Social Enterprises in the European Union: Gradual Recognition of Their Importance and Models of Legal Regulation’ in Henry Peter et al. (eds), *The International Handbook of Social Enterprise Law: Benefit Corporations and Other Purpose-Driven Companies* (Springer, Geneva, 2023), pp.27–36.

¹²¹ Juliana Kiss and Melinda Mihaly, ‘Social Enterprises and Their Ecosystems in Europe: Country Report: Hungary’, (European Commission, 2019), pp.1–93.

services or jobs to disadvantaged people, but is not run for profit. Although the social cooperative is regulated under the general cooperative law, the applicable regulations are detailed.

In addition to creating special laws or regulating social cooperatives within the general cooperatives, some countries opt for a more flexible approach that permits cooperatives to pursue any legitimate purposes, including social goals, without restriction. In such countries, any cooperative is free to pursue a wider social mission beyond members' interests.

3.5.2. Regulation of Social Cooperatives within the Law of Social Enterprise

The third approach, followed by countries in accrediting cooperatives with a social goal, is through social enterprise law. In such countries, a social cooperative is not known as such; instead, it is labelled a social enterprise once it fulfils predefined criteria. Many countries have opted for this approach in regulating cooperatives with a social purpose. Italy's *Impresa Sociale* (Social Enterprise) of Law 118/2005 and Legislative Decree 155/2006, Slovakia's Act No. 112/2018 on Social Economy and Social Enterprises, Slovenia's Social Entrepreneurship Act (2011), Latvia's Social Enterprise Law of 2017, and Lithuania's Law on Social Enterprise in 2019 (No. XIII-2427) are among law which allow cooperatives with social aim to get the status of social enterprise.¹²² Additionally, Colombia's Law 1901 of 2018 on Collective Benefit and Interest Companies and Belgium's social enterprise status of 2019 have systems that certify cooperatives with a social mission as social enterprises.

3.5.3. Regulation of Social Cooperatives with the Law of Social Economy

The third and emerging regulatory approach adopted by countries in regulating social cooperatives is through the general law of the social economy. Those who opt for this approach support the growth of social cooperatives within the social economy. Slovenia's Social Entrepreneurship Amendment Act (2018), Romania's Law No. 219 of 2015, Spain's Law No. 5 of 2011, France's Law No. 856 of 2014, and Portugal's Law No. 30 of 2013 are among the laws that create a framework for the social economy.¹²³ Additionally, Ecuador's Law of the Popular and Solidarity

¹²² Villotti, Zaniboni, and Fraccaroli, *supra* note 98 at 125; Defourny Jacques & Nyssens Marthe, Social Enterprise in Central and Eastern Europe Theory, Models and Practice (Defourny Jacques & Nyssens Marthe eds., 2022), pp.1; Remigijus Civinskas et al., 'Social Cooperative Model Choices in the Socially Unsustainable Environment: Evidence from Lithuania, Sustainability', Vol 14, 2023, pp. 11566.

¹²³ Díaz-Foncela et al., *supra* note 101 at 203-209; Francesca Petrella et al., 'Social Enterprises in France, Portugal and Spain Between Path Dependence and Institutional Creation?', in Defourny Jacques & Nyssens Marthe (eds.), *Social Enterprise in Central and Eastern Europe Theory, Models and Practice* (2021), pp.204.

Economy No.444 of 2011, France's 2014 law on Social Economy, Greece's Law 4430 of 2016 on the Social and Solidarity Economy, Uruguay's Law No. 19848 of 2019 on Social and Solidarity Economy, and Mexico's Social and Solidarity Economy Law of 2012 have regulated cooperatives with social purpose under the umbrella of social economy.¹²⁴

4. Social Cooperative and Its Law in Ethiopia

4.1.The State of Social Cooperatives in Ethiopia

According to the 2021 report of the Federal Cooperative Agency (FCA), there are more than 92755 cooperatives in Ethiopia with 21,043,370 members. The same report shows that there are 21,328 primary savings and credit cooperatives, with 5,384,559 members and 18.54 billion ETB in savings and shares. As studies show, a cooperative is one of the legal forms used by social enterprises in Ethiopia.¹²⁵ According to a 2017 study conducted by the British Council, cooperatives, which account for 10% of social enterprises in Ethiopia, are among the most commonly used legal forms, following sole proprietorships, which constitute 22%.¹²⁶ Overall, the British Council estimated that there were 55,000 social enterprises in Ethiopia.¹²⁷ In this sense, the number of social enterprises that use a cooperative form is estimated to exceed 5,000. Based on the British Council's findings, the distribution of social enterprises across legal forms is as follows.

¹²⁴ Petrella et al., *supra* note 123 at 208; Carlos José de Cores Helguera, Patricia Di Bello & Natalia Hughes, *Innovation in Uruguayan Business Law: The Benefit and Collective Interest Companies and Trusts* in Henry Peter (eds), *the International Handbook of Social Enterprise Law: Benefit Corporation, and Other Purpose-driven Companies* (2022), pp.921-925.

¹²⁵ Desalegn Disassa, 'The Social Enterprises in Ethiopia: Critical Analysis of Legal and Institutional Frameworks' (Haramaya University 2019).

¹²⁶ British Council, *supra* note 18 at 1-54.

¹²⁷ *Ibid.*

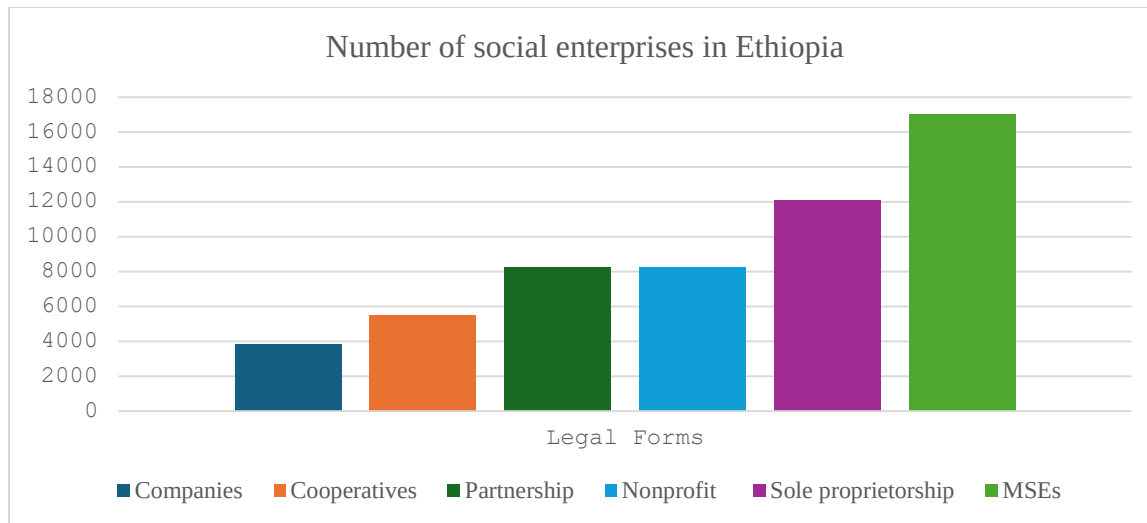


Figure 3: Number of social enterprises (as of 2017)¹²⁸

As studies show, traditional self-help associations, which have long been part of Ethiopian history, form the foundation for the emergence and development of cooperatives in Ethiopia. Those social institutions that are the foundation for cooperatives were not blind to social causes, though they are typically mutualistic organisations. Cooperatives have been active in addressing society's socio-economic problems. Even before the formal introduction of the principle of concern for community, cooperatives were serving non-members and investing in community development. For instance, it is common to see worker and consumer cooperatives that sell essential goods to non-members at low prices, while agricultural cooperatives provide agricultural inputs to non-members. Even though the idea behind social cooperatives is part of cooperative practices in Ethiopia, the law lags in expressly recognising them as such. In fact, the laws governing cooperatives recently incorporated the principle of concern for the community and allowed cooperatives to provide goods and services to non-members. These two changes are transformational in formalising the social dimension of cooperative business and reforming the mutualistic core of cooperatives. Although entitlement to serve non-members and a duty of concern for the sustainable development of the local community are important in enabling cooperatives to consider their social responsibility, they are not adequate to institutionalise and promote social cooperatives, which are primarily committed to social causes.

¹²⁸ British Council, *supra* note 18 at 1-54.

4.2. Justifying the Social Cooperative

In Ethiopia, although the social cooperative is not formally introduced, it is commonly used by social enterprises.¹²⁹ The number of social enterprises using a cooperative form is high in Africa. For instance, based on a 2017 estimate, 12,183 of 43,933 social enterprises in Kenya are registered as cooperatives.¹³⁰ This figure is very high, with a prevalence rate of 68% compared to the total number of cooperatives in the country (17,916).¹³¹ In Morocco, out of 20,000 social enterprises, 10,472 (52.36%) were registered as cooperatives. Of the 15,700 total cooperatives, 10,472 (66.7% of the total) were estimated to be social enterprises.¹³² In Ethiopia, around 55,000 social enterprises operate, of which 10% are cooperatives. Principles such as concern for the community, cooperation, and democratic control make cooperatives a relatively suitable legal form for businesses that prioritise society. In some countries, social enterprises have their roots in cooperative movements. Initially, the cooperatives were conceptualised as member-centred businesses, and later they broadened their scope to include services for non-members and local community development projects. In the meantime, this extension led to the emergence of social cooperatives.

In Ethiopia, using existing cooperative forms to pursue social purposes requires the introduction of social cooperatives. Several factors justify the introduction of social cooperatives as a distinct type of cooperative dedicated to social enterprise businesses. These factors underscore its distinctive roles in addressing the societal challenges of the 21st century. The *first* justification is the unique potential of social cooperatives to combat social exclusion and improve social welfare. Social cooperatives are specifically designed to address social issues such as poverty, unemployment, and social exclusion. It also targets disadvantaged groups and tries to integrate them into society sustainably. One of the major negative effects of a member-centred firm is the social exclusion of those who cannot afford to pay or compete in the market. In contrast, social cooperatives are well-positioned to address social exclusion by employing disadvantaged groups and providing essential goods and services at affordable prices. In some countries, such as Italy

¹²⁹ British Council, *The State of Social Enterprise in Ghana*; British Council, *The State of Social Enterprise in Nigeria* (2022); British Council, *The State of Social Enterprise in Kenya* (2017); British Council, *Social Enterprise Landscape in Morocco* (2017); British Council, *'State of Social Enterprise in Algeria'*; British Council, *supra note* 12.

¹³⁰ British Council, *The State of Social Enterprise in Kenya* (2017), pp. 40.

¹³¹ *Ibid.*

¹³² British Council, *Social Enterprise Landscape in Morocco* (2017).

and Poland, the law requires social cooperatives to employ a certain percentage of disadvantaged individuals. Social cooperatives can also contribute to social inclusion through community empowerment by involving communities in decision-making, providing opportunities to participate in economic activities, and offering training.

The hybrid nature of the business and its role in addressing gaps left by the public and private sectors are additional factors that justify its status as a social cooperative. Social cooperatives serve people, planet, and profit. Profit is not at the core of the social cooperative mission. Instead, it reinvests most of the profit toward social ends rather than distributing it to co-operators. By blending social and economic missions, it ensures sustainability across social, environmental, and economic dimensions. Additionally, the introduction of the social cooperative is an emerging global trend in the recognition of social enterprise that is worth adoption. Even in the cooperative sector, there is a movement that requires cooperatives to go beyond members' interests to address the challenges facing the local communities in which they operate. To align with global trends, creating a social cooperative tailored for community-centred cooperative businesses is justified. The country context and state of social enterprise growth are other factors that justify its introduction in Ethiopia. A study conducted by the British Council has shown that social enterprise is a growing sector. Even in its present form, the cooperative is widely adopted by social enterprises. Cooperative principles, which usually align with the very nature of social enterprise, make social cooperatives a fitting legal form. Social enterprises operating in Ethiopia are also urging policymakers to develop a regulatory framework that ensures their viability, amplifies their voice, supports their growth, and maximises their impact. In this sense, the existing local context also proves the need for social cooperatives.

The importance of social enterprise in supporting sustainable development goals and addressing societal and environmental problems is unquestionable. Unlocking the full potential of social enterprises requires creating an enabling environment that supports the sector by fostering a clear identity that signals the business's social nature and attracts potential investors, users, beneficiaries, employees, donors, and other stakeholders. In addition, creating an incentive scheme, such as a tax benefit, funding, a grant, or special treatment in public procurement, that supports the growth of social enterprises requires a system that distinguishes this institution from traditional businesses.

In this sense, the need to create an enabling ecosystem for social enterprises justifies introducing social cooperatives as one means of regulating them.

4.3. Adequacy of Existing Laws and Quest for Reform

Social cooperatives, which combine cooperative principles with an explicit and primary social aim of welfare provision and labour integration for the disadvantaged, have attracted the interest of policymakers over the last few decades. Since its first formal appearance in Italy, many countries have adapted the model to fit their socio-economic context. Although the idea of doing business for social ends has been growing in the sector and the country has implemented successive reforms to modernise its cooperative law, the term “social cooperative” remains unfamiliar. The principles of concern for the community and the freedom to serve non-members based on contract were introduced with the legal reforms of 1998 and 2016. The presence of these principles, along with the incorporation of solidarity, social responsibility, and care for others as fundamental values, is foundational to supporting the development of social cooperative businesses. The existence of principles and values relevant to social business raises the question of whether the existing regime is adequate to accommodate and promote a social cooperative model dedicated to a broader social cause beyond mutualistic concerns.

4.3.1. Adequacy to Permit or Accommodate

The first fundamental question in evaluating adequacy is whether existing cooperative laws permit cooperatives to focus solely or primarily on serving the community, rather than their members. Examinations of cooperative principles, values, objectives, and mandates reveal that cooperatives are primarily self-help organisations formed by and for their members. They are a member-centred organisation dedicated to members’ mutual benefits, addressing their common socio-economic and environmental problems. The concepts of fulfilling social responsibility, promoting others’ sustainable development, and serving non-members under contract are new developments in Ethiopia’s cooperative jurisprudence. These principles are instrumental in embracing the idea that cooperatives should focus on developing the local community and protecting the environment. However, fulfilling social responsibility and providing goods or services to third parties solely under contract is not sufficient to fully embody the concept of a social cooperative. As the name implies, a social cooperative is a cooperative for the broader society rather than for its members. On the hierarchy ladder, members’ interests come after those of the community or the environment.

In case of conflict or competition, the social goal takes priority over members' interests. In this regard, although the law of Ethiopia does not prohibit pursuing a social mission or serving the community (at least as a secondary goal), it remains silent on the possibility of pursuing a social mission solely or of prioritising it over its members' interests. The absence of legal security for prioritising and protecting the social mission left the matter to the members' discretion and, at the same time, proved the inadequacy of existing laws.

4.3.2. Adequacy to Promote

To be adequate, the law must have a system that promotes and supports the development of social cooperatives. Promoting the sector requires a legal identity, governance, and market structure that align with its dual purposes. The primary function of the law is to provide explicit recognition and a clear identity. The question is whether the existing cooperative laws in Ethiopia provide clear and explicit recognition and a distinct identity for social cooperatives. The laws of Ethiopia have recognised different types of cooperatives based on their products (producer versus service cooperatives), levels (societies, unions, federations), and membership (consumers, workers, farmers, artisans, etc.). However, there is no explicit recognition of social cooperatives as a distinct type. Actually, what makes cooperatives distinct is their focus on addressing problems faced by the wider community.

In contrast to the traditional mutualistic cooperative, a social cooperative is a social enterprise or enterprise for society, as the name implies. It is a social-help, not self-help, cooperative. The existing cooperative laws provide modern and comprehensive foundations for various types and levels of mutualistic cooperatives. Additionally, it has established a special regulatory agency, adopted modern principles, and clearly recognised the cooperative's right to serve non-members. Despite this, the law does not create a social cooperative type as found in other countries. Ethiopian law (at least by silence) allows cooperatives to pursue a social purpose or serve the community (through production or service provision) as a legitimate goal. Still, it does not treat them as a distinct entity dedicated to social causes. Such an approach of treating them as traditional cooperatives not only limits their visibility to stakeholders but also limits their positive impact and sustainability.

The second function of law is to set a governance structure that serves various stakeholders and serves two purposes. Here, the question is whether the existing law establishes a democratic and

participatory decision-making system that promotes a social mission and balances stakeholders' interests. The cooperative laws of Ethiopia have enshrined democratic governance, in which all members have fundamental membership rights, including equal voting rights and the right to serve in management. This democratic governance is consistent with social cooperative values; however, the governance structure is defective in terms of ensuring the participation of stakeholders other than members. The existing law establishes governance in which members manage the cooperative for the benefit of members. This makes it non-participatory and less considerate of other stakeholders. The dedication of social cooperatives to the broader society or environment through welfare provisions, labour integration, and environmental protection makes the participation of stakeholders, such as beneficiaries, in the governance process essential. The beneficiaries may participate in the governance process through representation or consultation. However, the existing governance structure is insufficient to ensure stakeholder participation and protect their interests.

The dual purpose of social cooperatives necessitates a regulatory structure that enables and balances the pursuit of dual purposes and the service of multiple stakeholders. This structure ranges from defining and prioritising the mission to setting fitting governance mechanisms. However, the law is defective in this regard. Neither is the social purpose defined and prioritised, nor is the management body mandated to pursue and prioritise the social mission. The law also lacks a system for reporting, measuring, disclosing, and auditing social impact. The regulatory bodies, at both the federal and regional levels, also lack a clear mandate and adequate competence to assess social impacts. Due to these shortcomings, the law does not fit the regulatory needs of social cooperatives. To conclude, although the existing law allows cooperatives to pursue a social mission as a legitimate goal alongside members' common interests, it lacks comprehensiveness in providing clear recognition and identity, ensuring stakeholder participation, protecting the interests of various stakeholders, and fostering a pro-social environment.

Creating an enabling environment for social cooperatives to compete and grow in the market is the third function of law. The adoption of internationally recognised principles makes the existing cooperative law among the most modern in the world. The incorporation of the seventh cooperative principle and the entitlement of a cooperative to provide goods or services to a third party are among the new developments that make the existing law transformative. However, there is no statutory preferential treatment in public procurement or fiscal policy that uniquely supports social

cooperatives. Due to the lack of a specific legal identity for a cooperative dedicated to a social purpose, it is challenging for various stakeholders to distinguish among such cooperatives. This makes the law ineffective at connecting social cooperatives with stakeholders, including beneficiaries, investors, customers, and donors or grantors.

Globally, despite differences in regulatory approach, many countries have enacted laws for social cooperatives. In Ethiopia, there is no dedicated law for social cooperatives. Although the existing law accommodates blending member benefits with societal benefits, it is insufficient to address regulatory issues arising from the interplay between the mission to serve members and the broader community. Among other things, it is not sufficient to create a distinct legal identity, to enshrine multi-stakeholder governance, to protect and promote diverse interests, and to offer tailored support. To address the shortcomings of the existing regime and to cope with new developments in cooperative jurisprudence, the author advocates introducing social cooperatives as a distinct legal form for social enterprise in Ethiopia.

4.3.3. Fitting Regulatory Approach

Countries follow different approaches, including regulating social cooperatives as a distinct legal form (with a specific law or within general cooperative law), regulating under social enterprise law, labelling cooperatives with a social purpose as “social enterprise”, and regulating under the law of the social economy.¹³³ All these approaches have costs and benefits that need to be examined, considering the country context. In Ethiopia, the concept and law of the social economy are uncommon, and hence regulating within the social economy framework is ill-suited to the country's context. Regulating social cooperatives through labelling as a social enterprise reduces transaction costs that would otherwise be incurred in converting to a dedicated type. However, it is defective in terms of creating a clear and secure legal identity. Hence, at least for the moment, regulation through the creation of a specific social cooperative type by special law or amendment of cooperative law is suitable for creating a clear legal identity and supporting its development.

¹³³ Fici, *supra* note 16 at 10; Boeger, *supra* note 87 at 153-155. Rado Bohinc & Jeff Schwartz, ‘Social Enterprise Law: A Theoretical and Comparative Social Enterprise Law: A Theoretical and Comparative Perspective, Ohio State Business Law Journal’, Vol 15, No.1, 2021, pp .1-6.

5. Concluding Remarks

Since its formal establishment in 1960, the cooperative has undergone several reforms that have led to the modernisation of its laws and subsequent growth in the types, numbers, membership, capital, and impact. Despite this, the article reveals a significant gap in existing laws in accommodating the growing practice of social enterprise within the cooperative. The law's failure to introduce a social cooperative as a cooperative dedicated to addressing social problems is a major shortcoming. Even in its absence, cooperatives remain a legal form commonly utilised by social enterprises. This widespread use is facilitated by the incorporation of the principle of "concern for the community" and the right of cooperatives to provide services to non-members. Despite this, the existing regime is fundamentally designed on the assumption that cooperatives are mutualistic and member-centred organisations. As a result, although it is not prohibitive, the law is inadequate to accommodate and promote mission-driven social cooperatives, which prioritise societal interests over members' interests. Specifically, the existing laws are short of defining social mission and prioritising it over members' interests; creating a clear legal identity; setting a governance structure that mandates prioritising societal interests and ensures stakeholder engagement; facilitating tailored support; providing scientific and standardised social impact reporting, measurement, and disclosure; and mandating regulatory bodies to inspect social impacts. The inadequacy of existing laws can hinder the development of social cooperatives. To support the development of social businesses within cooperatives, many countries have established social cooperatives as distinct legal entities. Therefore, to cope with the global trend and market needs, address shortcomings of existing laws, and support the development of social enterprises within cooperatives, this study calls for the introduction of a social cooperative legal type through either a dedicated special law or an amendment of existing cooperative law in a manner that adequately addresses regulatory concerns.

Conflict of Interest

The author declares no conflict of interest.