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**School of Management Studies**

**Operating and Financial Performance of cooperatives in Sheka Zone**

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## **CERTIFICATE OF ORIGINALITY**

This is to certify that the project titled “Operating and Financial performance of cooperatives in Sheka Zone” is an original work of the Student and is being submitted in partial fulfillment for the award of the Master’s Degree in Business Administration of India Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/ Institution for the fulfillment of the requirement of courses of the study.

**SIGNATURE OF  
SUPERVISOR**

**SIGNATURE OF  
STUDENT**

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## **Acronyms**

BOFED	-----	Bureau of Finance and Economic development
COOP	-----	Cooperative
COOPs	-----	Cooperatives
EPRDF	-----	Ethiopian Peoples' Revolutionary Democratic Front
ETB	-----	Ethiopian birr (currency)
EU	-----	European Union
FAO	-----	Food and Agriculture Organization
FCA	-----	Federal Cooperative Agency
FGD	-----	Focus Group discussion
GDP	-----	Growth Domestic Product
ICA	-----	International Cooperate Alliance
ILO	-----	International Labor Office
MOFED	-----	Ministry of Finance and Economic Development
MPC	-----	Multipurpose Cooperatives
NGOs	-----	Non Governmental Organization
SNNPRS	-----	Sothern Nation Nationality Peoples Regional state
WB	-----	World Bank

## **Abstract**

The study is conducted with the main objective to measure the operating and financial performance of the cooperatives in Sheka Zone. An attempt is made to see their performance, specially the place of cooperatives in providing input and output market, provision of credit, capital accumulation and asset building, employment creation and income diversification to the poor society.

The study used primary data from cooperative members' household survey, key informant interview, and focus group discussion to provide background information and investigate the new opportunity and challenges created by the post 1991 policy reorientation. Secondary data are also used to supplement primary data. The analysis is carried out by applying more of explanatory, descriptive and qualitative means of analysis.

Unfortunately, however, as a result of challenges and potential constraints are created due to various reasons. The cooperatives are facing to various managerial, financial organizational and operational problems. Output market is totally left out services; there is very limited access to technologies and information net work.

Theses all limitation are mainly caused due to problem of qualified visionary and committed leadership, inadequate awareness and participation of members in various affaires of their cooperatives.

Hence, to realize the immense development aptitude of these institutions in the area of marketing, resources mobilization, capital accumulation, employment creation and income diversification to the best merit of the poor society as well as poverty reduction, the mentioned problems should be given appropriate emphasis.

Therefore there must be collective effort of all concerned bodies to find appropriate solutions to resolve the problems of the cooperatives, reduce the challenges and potential constraints, and help the cooperative flourish in the country.

# 1. Chapter One

## 1.1 Introduction Background of the study

It is visible to see the gap between the rich and the poor gets wider and wider despite the socio-economic and technological developments globally. The world has made progress in eradicating extreme poverty, but around one in five people in developing regions still live on less than \$1.25 per day, according to the UN Millennium Development Goals (MDG) report 2014.

Cooperatives have potential to promote rural development, through community development, income generation, and empowerment of the poor people to enable them to participate in the development process. It is clear that cooperatives can and do substantial contribution. They have an important role in narrowing economic gap and they are taken as a tool of poverty reduction, since they enable the individuals to achieve improved standard of living which cannot be reached in isolation.

Cooperatives are one of the essential development actors in all area of social and economic development. As Engelment (1968) and Esman and Uphoff(1984) noted, they have an instrumental value to mobilize individual resources under a single organization which in turn enable people to make collective effort to satisfy common needs and resolve common problems on mutual basis for the purpose of mutual benefit. Thus, cooperatives are valuable institutional assets to create productive employment, overcome poverty and active social integration.

Agriculture, including farming, forestry, fisheries and livestock, is the main source of employment and income in rural areas, where the majority of the world's poor and hungry people live. Agricultural cooperatives play an important role in supporting men and women small agricultural producers and marginalized groups by creating sustainable rural employment. Producer cooperatives offer men and women smallholders market opportunities, and provide them with services such as better training in natural resource management, and better access to information, technologies, innovations and extension services (FAO, 2011).

In many countries, cooperatives are primarily agricultural. In Viet Nam, 44% of all active cooperatives work in the agriculture sector. In India, more than 50% of all cooperatives serve as primary agricultural credit societies or provide marketing, warehousing and other services to

their producer members. In Kenya, 924 000 farmers earn income from membership in agricultural cooperatives, (FAO, 2011). In Ethiopia 6,566, 694 households (more than 75% from rural) or 33% of the country's population is directly getting benefit from cooperatives.

However, cooperatives around the world over are in a state of instability. In almost all parts of the world, cooperatives face in one or another way facing the same challenges. Such as past attitude (ideology), lack of committed leadership, lack of good governance (management), lack of working capital, attitude and practice of corruption, lack of knowledge and skill, lack in provision and utilization of improved technology, weak vertical and horizontal linkage within and among cooperatives, lack and inappropriate support from government and other stakeholders.

The new economy will be a network economy, and rural peoples will have to learn to function as part of networks. Supporting this, Fairbairn, (2003) stated that farmers can acquire ownership and control in the processing and handling industries. By obtaining income from these activities, and by exerting control over policy, they can prevent exploitation and keep themselves in business. This option means that farmers can prevent their autonomy and get economic benefits by working in a group.

Cooperation among people has existed since history has been record. Traditional forms of cooperation involved community members voluntarily pooling financial resources through "iqub", which was an association of people having the common objectives of mobilizing resources, especially finance, and distributing it to members on rotating basis. There were also initiatives for labor resource mobilization that were to overcome seasonal labor peaks, known as "Jigie", "Woeful", among others. There also was the idir, which was an association for provision of social and economic insurance for the members in the events of death, accident, damages to property, among others. These informal associations continue to operate in Ethiopia.

Modern forms of cooperatives were first introduced in Ethiopia in 1960. The new cooperative movement in Ethiopia was triggered by reforms made to the socio-political system. During the socialist government (the Dreg regime), cooperatives were formed to assist in the implementation of the Government's policy of collective ownership of properties. Under this system, cooperatives were forced to operate in line with socialist principles, which meant that

production and marketing of produce were undertaken through collective mechanisms. Membership to a cooperative was also compulsory, which contravened the basic cooperative principle of voluntarily participation.

Currently, cooperatives are recognized as an important instrument for socio-economic improvement of the community. This importance is recognized in their definition, which considers cooperatives to be:

*An association of persons who have voluntarily joined together to a common end through the formation of a democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate (FCA, 2007c: 1).*

The Cooperative Proclamation No. 147/1998 identified clear goals and authorities, which supported a more conducive legal environment for the formation of Ethiopian cooperatives. The goals include social, economic and other motives that require joint actions for attaining a common target.

However, the extent to which the cooperatives in Ethiopia have been able to attain these goals has not been adequately analyzed.

Many cooperatives were established in SNNPR region and the entire country to accomplish this objective. During these periods farmers were forced to pull their produces to the local multipurpose cooperatives and then price of their produce was determined by government.

SNNPR government also gave due attention for the establishment of cooperatives. Accordingly the region formulated cooperative legislation along with federal government legislation, also established government structure up to village level to promote cooperatives. Up to June 2011, in SNNPR about 8,872 (out of which 2,420 are saving and credit cooperatives) primary cooperatives were established with a membership of male 693,898 (76.8%), female 209,861 (23.2%) totally 903,759. In addition to this 44 cooperative unions were established, by taking up 1,003 primary cooperatives as members. By the time 13 cooperative unions and 2 primary cooperatives together established regional farmer's cooperative federation. Overall dominantly

these cooperatives are engaged in agricultural input-output marketing, saving and credit cooperatives.

Unlike any other similar sector in the country, Bureau of Marketing and Cooperative has made very crucial work in cooperatives movement. The first one is collection of basic data from all cooperatives across the region; second, rating all cooperatives based on minimum standard criteria. Points under minimum criteria are management and organizational efficiency, member's participation and benefit, capital, input provision and distribution, marketing system and service delivery, accounting and auditing, profitability and its role in environmental protection. The last but not the least, detailed sample study has been conducted from 85 primary cooperatives which are engaged in 17 types of businesses; 16 secondary (unions) cooperatives which are also engaged in 7 types of business; and in one regional farmer's cooperative federation.

According to Bureau of Marketing and Cooperative general assessment most of cooperatives are in critical situation. So the present study will highlight the specific operational and financial performance cooperative around Sheka zone.

## **1.2 Statement of the problem**

Operational and Financial management has a profound impact on the business efficiency of any enterprise. In a cooperative enterprise sound operational and financial planning and management is the most vital requirement for successful management. A study of business failure in cooperatives would reveal that majority of such failures resulted from the lack of proper operational and financial management. (Kebebew 1978). Too often the inefficiency and ineffective function of cooperatives is due to lack of proper input and output measurement, time management, bad debts, unwise investment, corruption, and unskilled manpower. The operational and financial management in cooperatives, though in many respects similar to the private or public sector corporations, has their own distinctive features. The principles, the practice, the legal basis performance criteria and financial bases of cooperatives are not the same as private companies or public enterprises. An understanding of the distinctive features of operational financial management in cooperatives is a prerequisite for their effectiveness and efficiency.

The success of any organization depends on many factors, including proper planning, effective execution of activities, suitable evaluation process and adoption of appropriate control measures. Most of the cooperative societies in Ethiopia are administered by people, who are either incompetent or influenced by other dominant people. As a result, the operational and financial performances of cooperatives societies are affected by many factors. At present there is no systematic measurement of the functions or activities of the cooperatives in the Sheka Zone. The study, therefore, is an attempt to provide information on the operational and financial performance of cooperative.

### **1.3 Research question**

In achieving the objective in the next section, the study will try to answer the following basic research questions.

- i. What are the operating performances of cooperatives in the study area?
- ii. What are the financial performances of cooperatives in the study area?
- iii. What are the determinants of operational and financial performance of cooperatives?

### **1.4 Objectives of the study**

#### **1.4.1 General Objective**

The general objective of the study is to measure the operating and financial performance of the cooperatives in the zone

#### **1.4.2 Specific objectives**

To accomplish the general objectives, the study has the following sub- objectives.

- To study the general operating performance of the cooperatives in the Zone.
- To analyze the financial performance of the cooperatives.



- To provide suitable suggestions for improving the operational and financial performance of the cooperatives.

## **1.5 Scope of the study**

The study is emphasized at measuring the operational and financial performance of cooperatives in Sheka Zone. The study becomes relevant as the cooperatives sector in Ethiopia particularly in Sheka Zone that has not been succeeded.

## **1.6 Significance of the study**

The main objective of the Ethiopia Government is to bring suitable economic development of cooperatives. The important resource to achieve the development of cooperatives is the operational and financial strength, so; the study is significant because it has tried to assess the measurement of operational and financial performance of cooperatives and there by achieves valuable results. It is also believed that the study would come up with basic conclusions and valuable suggestion so that the members of the cooperative improve their return and participation. Policy makers and government officials also can use for making effective decision system for sustainable cooperative growth. Researchers can use this study for further research.

## **1.7 Limitation of the study**

The study is restricted both in space and time. Due to the constraints of resource and time, from 193 cooperatives only 10 randomly selected primary cooperatives involved different income generation activities in the study area not to be covered.

The validity of certain data collected from the cooperative societies and respondents may not be such completely perfect. Even though, the result represents the conditions in Shake Zone of SNNPR Region state, the results cannot be generalized to the whole part of Ethiopia.

## **1.8 Organization of the Paper**

The thesis is organized in five chapters. **The first chapter**, introduction, covers the background and, statement of the problem, purpose of the study, objectives of the study, scope of the study, limitation of the study, and organization of the study. **The second chapter**, literature review of cooperatives, covers definition, operating of cooperative, concepts and principles of cooperative,

ratio analysis and review of empirical and studies. **The third chapter**, materials and methods, includes the study area and population of the study, research methodology &, design of the study and sample selection process, data collection method and data process and method of data analysis. **The fourth chapter**, discussion and analysis, is concerned with the development of Sheka Zone cooperatives including their establishment and origin, organizational structure, management, capital structure, human resource management, training and development, measurement of Sheka Zone Cooperatives operational and financial performance using different parameters and also the perception of members on the role of the cooperatives, opportunities and challenges of cooperatives. And lastly the **fifth Chapter**, conclusion and recommendation, covers the summary of the main findings of the study & the possible suggestions or recommendations.

## Chapter 2

### 2. Literature review

#### 2.1 Definitions and Concepts

The understanding theoretical discussion does not purport to cover the full range theory of cooperatives. When themes of cooperatives such as why cooperatives exist and what role they play in accomplishing economic benefits as well as poverty reduction, and social activities of institutional theory aimed at eliciting collective efficiency gains of the cooperatives enterprise model as a group power.

Cooperative society may, according to their nature, established at different levels from primary to the federal level (Ethiopian Federal negarite Gazeta Cooperatives societies proclamation number 147/1998. Cooperative societies at primary level are with the individual persons as members, while cooperative unions are formed at secondary level with cooperatives societies as members. Thus, in the latter case, cooperative societies in the same sector within a specific geographical region could join together to form a cooperatives union for purpose of mobilizing capital to invest in bigger business venture that is beyond the reach of a single cooperative society.

There are two definitions, commonly used towards cooperatives: - one is adopted by the international cooperatives Alliance (ICA). According to the Muradu and yonas (2007), ICA define cooperatives as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs aspirations through a Jointly –owned and democratically –controlled enterprise, they are based on the values of self-help, self responsibility, democracy, equality, equity and solidarity. The other definition is adopted by United State Development of Agriculture (USAD) in 1987: A cooperatives is a user owned, user controlled business that distributes benefits on the basis of use (Zeuli and crop 2004).

Although there is no universally accepted definition of cooperatives we can say that cooperatives is a business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the base of use. So cooperatives are enterprise that put people at the center of their business and not capital.

Cooperatives are business enterprise and thus can be defined in terms of their basic interest:- ownership, control, and beneficiary.

The main definition of cooperatives implies the following concepts about cooperatives:

**Membership is Voluntary:** - true cooperation with others arises from a benefit in mutual help; it cannot be dictated. In authentic cooperatives, persons join voluntarily and have the freedom to quit the cooperative at any time.

**User-Owner:-** imply that the people who use the cooperative member must finance the cooperative and other therefore, own the cooperative(Coop). Members are responsible for providing at least some of the cooperatives' capital. The equal capital contribution of each member should be in the equal proportion to that members' use of the coop.

**User control:-** refers that members of the coop. govern the business directly by voting on significant and long –term business decisions and indirectly through their representatives on the board of the directors. According to Zeuli and crop.(2004),coop member are the only who can vote to select their board of directors and on the other cooperative actions voting rights are generally tied to membership status.

**Distribution of benefits on the bases of use:-**describes the concept of proportionality, another key foundation for cooperatives. Members should share the benefits, cost, and risks of doing business in equal proportion to their patronage. The proportional basis is fair, easily explained (transparent), and entirely sensible from an operational stand point.

## **2.2 Value and principles of cooperatives**

Cooperatives are made up of citizens with similar needs, goals and problems; by working together. They combine their investment and influence to accomplish much more than any one person in the group could accomplish alone. Holland and Kent(2003) noted that cooperatives gives a group financial strength, greater independence and stronger voice in their own business affairs. Without cooperation, a developed society would not have existed. Almost everything we use and depend on in our everyday life is produced and brought to use the coordinated actions of money other people; almost everything made by humans produced cooperatively. According to

Alemayeh and others (2005) human societies is a dynamic network of cooperatives activity that inseparable interlinks our lives and our actions.

ICA (2004) asserts two groups of cooperatives values. The first group values the organizational structure of the cooperatives; such values include self-help, democracy, equality, equity, self responsibility and solidarity. The second group embraces the ethical values of honesty, openness, social responsibility and caring for others. In the tradition of cooperative founders, leaders, and members believes in these ethical values and try to bring them to their cooperatives organization.

Cooperative developers and advocates are brought together to take part in the cooperatives movement by shared values and approaches. According to Destahun (2007), the values includes:- democratic self governance, local control and ownership of assets, transparent processes, private sector-base business approaches and linkage to local and international cooperative developer.

The cooperative principles are guidelines by which coops put their values in practice. Various writers have analyzed the application of cooperatives principles. Although slight difference in terminology appears on the various lists, they are similar contextually. According to berhanu and other (2007), the international cooperative alliance (ICA) states that there are seven common cooperative principles. These are known as voluntary, active and open membership, democratic control, limited interest on capital, self help and mutual help, fair distribution of earnings, political racial and religious neutrality, cooperative education, and cooperative among cooperatives. This principle may not be appropriate for all coops in all environments. According to Zeuli and crop (2004), not all cooperatives adopt all the principles stated above. The basic three “defining” principles “user-ownership, user-control, and proportional distribution of benefits” are more commonly accepted as the only principles necessary to guide cooperatives.

## **2.3 Operations of cooperatives**

### **2.3.1 Purpose and function of cooperatives**

The first question, people would ask when considering establishing a cooperative could be “is the cooperative business system fit to their business?”According to Dun and Happer (2005), cooperatives address six issues.

- a) Cooperatives allow people in similar situation to work together to met common needs, and so forth.
- b) Cooperatives can help members and business to get services that are otherwise not available because the market is small or unique in some way.
- c) Cooperative may also produced and /or get market for their members' product
- d) Cooperative can provide members with increased power in the market place.
- e) Cooperative can allow their members to share earnings of a related business.
- f) Many processing cooperatives are established to help farmers to have access to the market for their commodities and participate in the value –added activities after the product leaves their farm gate.

According to Zeuli and Crop (2004), farmer's create farm supply and marketing cooperatives to help them maximize their net profits. This requires both effective marketing of their products for better prices as well as keeping both effective marketing of their products for better prices as well as keeping input costs as well as possible. The farmers organize that they are usually more efficient and knowledgeable as producers than as purchaser. By selling and buying in large volumes they can also usually achieve better prices.

Cooperatives help in transaction advantage and mobilizing members' effort and resources. They ensure flexibility and adaptable to changing market situation. They can develop demand in niche market due to their limited size and can build upon their own resources which make them autonomous and able to complete in the relevant markets. They also inspire innovation, diversification and specialization in rural production.

Cooperatives have well recognized immense development potential in overall socio-economic and other aspect of social life. ILo (2001) noted that these institution can play an important role in creating self employment opportunities, improving working and living conditions for millions of peoples, and services to area in which nether state, nor investor-drive enterprises would venture.

With respect to the economic development, ILO (2001). Cited in Birchal (2004) noted that cooperatives have significant contribution for the development of various economic parameters throughout the world. Their role in various economic dimensions such as production and services

delivery, employment creation, mobilization and income generation among other things are very enormous.

### **2.3.2 Types and Governance of cooperatives**

According to Fredreick (1997), Cooperatives are regularly described, by a number of classification schemes. The more important ways to categories are by the geographical territory served, the governance system and by the functions performs. Of all types of cooperatives were more used and effective in developing countries. ZuiGalor(1986)noted that the multipurpose cooperatives exist mainly in rural areas. In a typical traditional village cooperative development projects, channel their activities into one specific cooperative venture, through multipurpose cooperative due to the following facts.

It is difficult to find the financial resources to pay educate salaries out of the economy of one village.

It will be difficult to persuade the same members to attend several sessions of general meetings of different cooperative in the same village.

It is difficult to raise enough capital from the village to buy shares in more than one cooperative.

There is a connection between of the products of the cooperatives and the guaranties for the loan to its member, therefore the cooperatives which gives credit must have some involvement both in the cooperatives which gives credits must have some involvement both in the cooperative which produce and the cooperative which market.

Multiple cooperative is the coop for promoting members' production which is frequently found in settlement projects. Multiple purpose cooperatives describe as an all purpose cooperatives society. Multipurpose cooperative or all purpose cooperatives are organized on mutual cooperation, and are engaged in various activities involving farm guidance, marketing of farm products, supplies inputs, credit and mutual insurance business.

As stated in Ethiopian Council of minister regulation No. 106/2004, cooperative societies of different type may be organized in any economic or social sectors of the country. Cooperative societies differ from others based on their unique nature such as their working place,

establishment, function and legal personality they have. According to cooperative society's proclamation No.147/1998, there are about seven cooperative types that are given recognition and operating in the country. These are: agricultural cooperatives, housing cooperatives, industrial and artisan producers 'cooperative, consumers' cooperatives, saving and credit cooperatives, fishery cooperatives and mining cooperatives.

### **2.3.3 Cooperative movement in post -1991**

Following the downfall of the military government in 1991, several radical changes have been observed in economic and political life of the country. For one thing, the country has changed from central planned command economic policy to free market economy. It has also undergone various political and economic reforms such as decentralization, democratizations, privatization, currency devaluation economic liberalization (Hail, 2007:28-29). Accordingly, the transitional government of Ethiopia has enacted its first agricultural co-operatives law (i.e Pro.No.85/1994), which provided for the establishment and reorganization of autonomous and genuine primary level agricultural cooperatives that are supposed to operate in accordance with the rule of free market economy (ibid).

In 1996/97, Ethiopian government prepared a draft cooperative law with the mission to enable the rural and urban working people solving their socio economic problems based on their local resources basis. To this end, the new law proposed for the pooling of the responsibilities of organizing and promoting all types of cooperatives societies under a single administrative agency(i.e. a commission at federal level and bureau at regional levels); unlike Proclamation No. 138/1987 of the previous government that segregate such responsibilities to different governmental region. Accordingly, Federal cooperatives commission is established by "Cooperatives Commission "establishment proclamation No.,274/2002, which latter on renewed as Federal cooperative Agency in 2006. It is established as autonomous federal government organ, which is accountable to the Ministry of Agricultural and development (Hailu, 2007:31).

Ethiopian Government established structure at federal, regional, Zonal, and Woreda level.



Figure 1 Cooperative structural level of government

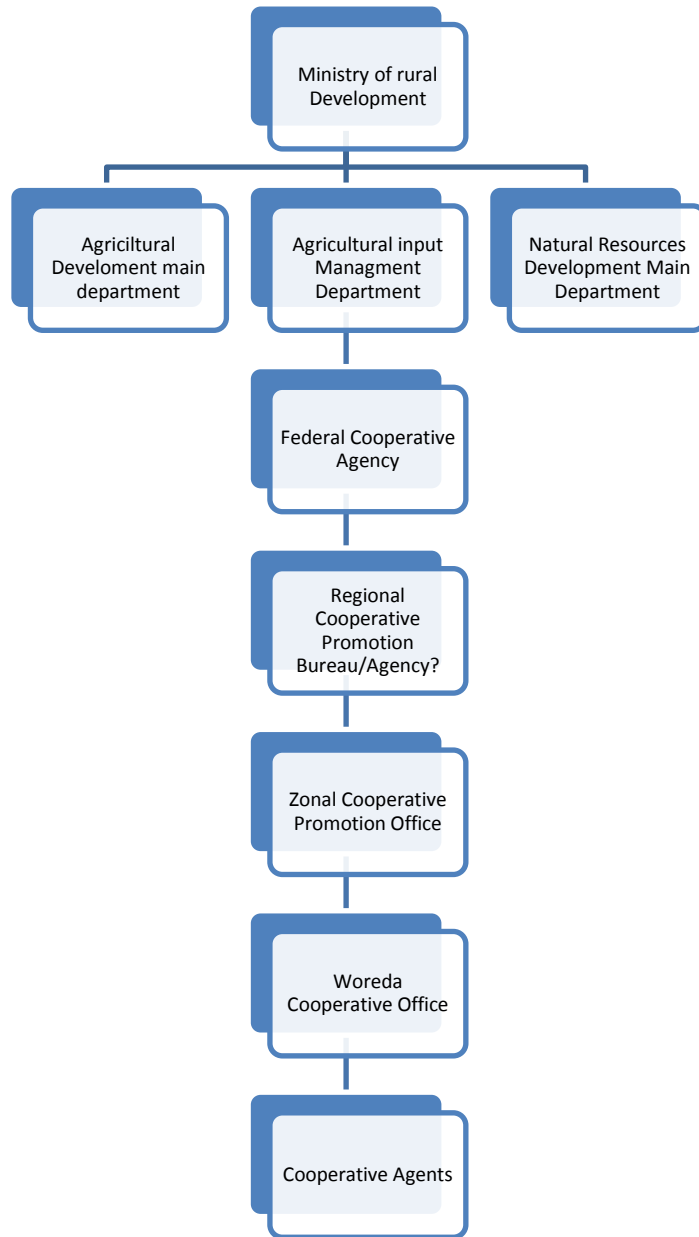


Figure .1 Taken from (Mekonnen, etal, p12-13

According to Hail (2007), the formulation and issuance of the Cooperative Societies proclamation No. 147/1998 was meant to correct the legal and policy defects of the 1994 proclamation and related cooperative laws. Accordingly, unlike its preceding proclamation, it provides a detailed policy rules with respect to issues such as: The formation and registration of cooperatives societies; the rights and duties of members of a society management of cooperatives societies; and their special privileges. Moreover, it proclaimed for the issues of asset and funds of settlement of disputes and other miscellaneous provisions. Accordingly, with some amendments made latter on to Proc.No. 147? 1998 by “Cooperative societies (Amendment) proc.No.402/2004,which, the Council of Minster has provided for its implementation by “council of Minister Regulation No.106/2004(Federal Negarit Gazeta, No.27/1998; and No.47/2004).

Furthermore, cooperative Society Proc.No.147/1998 also provides for the establishment of cooperatives, (i.e. the lowest level which is supposed to be formed by ten or more persons who live, or work within a given area, and who have common interest); the secondary level (i.e. district and regional level unions formed by two or more primary level cooperatives societies); tertiary level (i.e. federation of different unions at regional level and/ or inter regional level); and the quaternary level or cooperative league(i.e. the confederation of all level cooperatives in the country at the national level)

Due to such favorable policy environment, primary cooperatives of common interest have started forming cooperatives unions. In March 2006, there were 112 cooperatives union with 2,303 affiliated primary cooperative. In the same period there were a total of 19,1147 primary cooperatives. The number of cooperatives unions and affiliated primary cooperatives has continued to increase since then. In July 2008, the total number of unions and had increased to 2,955, making the member of primary cooperatives represented by union to rise to 12.75%. There is a significant difference in the distribution of cooperatives unions among regions in Ethiopia. Oromoia accounts for larger proportion of union, followed by Amhara and Tigray (Bezabih2009:6)

### **2.3.4 Governance of cooperatives**

Cooperatives must be well organized, financed, managed and governed by a committed membership. They must be progressive, adapting to changing business climates and responsive to their members changing needs.

According to ICA (1995), cited in Destahun (2007), cooperatives must be properly registered and expected to operate in accordance with local laws and regulations. Some of the governing instruments of cooperatives are the cooperatives by law and article of cooperation. By law of cooperatives should clearly define requirement for eligibility membership, nomination and voting of officers for fixed terms of office, quorum requirements for extraordinary circumstance and procedures for general meetings, and responsibilities of general meeting among others.

Regarding to cooperative issues Fredrick (1997), noted that effectiveness of cooperatives depend on a coordinating team that consisting of four elements –member –owners, board of directors, the manager and other responsible employees. Each part of the team has its own distinctive duties. Success is based on intelligent and active cooperation of each group.

Cooperative management implies application of management principle to cooperatives. (Nakiran, 2000). According to Davies (2000), Cooperative management can described as follow.

“Cooperative management is conducted by men and women responsible for stewardship of cooperative community, values, and assets. They provided leadership and policy development options for the cooperatives association based upon professional training and cooperative vacation and service. Cooperative management is that part of communities professional engaged to support the whole cooperative membership in the achievement of cooperative purpose.”(Davies (2002)

### **2.3.5 Challenges and Opportunities of cooperatives**

Cooperatives organizations have comparative advantage over non co-operative and non conventional business organization. According to ILO(2003),such advantages are attributable to their democratic decision –making and ability to reduce information costs; their ability to limit production and market related risks; and through their ability to carry out mutually dependant rather than one sided investments.

Holland and Kent (2003) stated that some cooperatives may provide multiple objectives for members while others are more specialized. Regardless of the type, size geographical location or purpose, all cooperatives have to provide at least one of the following opportunities. These are, improving bargaining power when dealing with other business, reduce costs, obtain products or services which are otherwise unavailable, obtain market access or broaden market opportunities, improve product or service qualities and increase income.

According to DFID, 2010 ‘working with cooperative for poverty redaction , briefing note, UK Department for international Development, London([http://www.coop.ac.uk/wp-content/2010/08/cooperative Briefing-note.pdf](http://www.coop.ac.uk/wp-content/2010/08/cooperative%20Briefing-note.pdf)) outline the roll of cooperative in poverty reduction, and present lessons study analysis from DFID’s experience of supporting cooperatives development around the world. The policy brief argues that cooperatives make an important contribution to sustained economic growth and t making market function better for poor people. Donors should respect cooperatives institutional integrity, with their distinctive model of governance and enterprise. This policy brief also outlines cooperatives contribution to poverty reduction in the following ways:

- **Contribute to sustained economic growth:** The top 300 global cooperative have a combined turnover of US \$1.1trillion. Cooperatives employ over 100 million people (more than multinational corporation)and contribute to increased agricultural productivity, expanded access to financial services and critical utilities such as electricity. Cooperatives can also make a significant contribution to GDP.
- **Help create more equitable growth:** cooperatives can help make markets work better for poor, people, by generating economic of scale, increase access to information, and improving bargaining power. Cooperatives have over 800 million members and many

operate in the informal sector where they can transform the survival activities of the poor into viable livelihoods.<sup>1</sup> Cooperative profits are re-invested in the business or shared with members so the rewards of enterprise are retained locally.

- Help tackle rural poverty: Cooperatives increase the productivity and income of small scale farmers by helping them collectively negotiate better prices for seed, fertilizer, transport, and storage. They help farmers expand market access and capture more of the value chain –for example, by getting involved in processing activities. Cooperatives are often the main channel through which smallholders’ access Fair trade certification, which guarantees a minimum price and extra funds for investment.
- Expand poor people’s access to financial services: including credit savings and some case insurance and remittance. These services can support enterprise start-up and expansion; enable the risk taking that can lead to increased profitability; and reduce vulnerability by allowing the poor to accrue savings, build assets and smooth out consumption. Cooperatives are one of the largest providers of micro finance service to the poor, reaching 78 million people living below \$2 a day.
- Provide a range of services such as health care, housing, and utilities such as water and electricity: Cooperatives have been successful in expanding access to water and electricity for poor people and reducing wastage from illegal diversion of utilities. In Bangladesh, as in the US, rural electricity cooperatives were set up to meet communities’ own needs in the absence of any external private firm seeing this as a viable market opportunity- in Bangladesh these serve about 28 million people, with start up support from DFID and USAID.
- Provide opportunity for self determination and empowerment for poor people: They foster a culture of food citizenship and enable their members to have voice and participate in a democratic process, thus having empowering development effects beyond their economic benefits.

Help with conflict resolution, peace –building and social cohesion: Where cooperatives bring together people of different religious, ethnic and political groups they can build trust and solidarity leading to greater social stability. Cooperatives have been found to contribute

to recovery from conflict by fostering positive relations between ethnic groups previously in conflict in Bosnia, East Timor, Lebanon, Macedonia, Mozambique, Nepal and Rwanda.

## **2.4 Cooperative Finance**

### **2.4.1 Principles of cooperative financing**

Cooperatives are involved in give and take by the members. If a cooperative is to provide services at cost and if members expect to benefit from its operations, then it is apparent that members must also assume the responsibility of financing their undertaking. Plans for financing must be consistent with the principles of cooperation as well as with legislation and administrative rulings. Cooperative principles of financing include the followings:

1. Member-patrons control the cooperative rather than member-investors. Control is not linked with investment as in a standard corporation. Voting in a local or primary cooperative under Wisconsin Law is on a one man one vote basis and not according to how many shares of stock a member owns as is done in Standard Corporation. The purpose of the cooperative is to provide services at cost rather than to maximize returns on the capital invested in it. Control is therefore, separate from investment.
2. The use of capital should be rewarded with small dividends when earned. This may not only induce members to invest in their cooperative but likewise to leave their money in the organization after they no longer need the cooperative's services. "Limited returns on equity capital" is a commonly accepted principle of cooperatives.
3. Cooperatives need adequate capital to function efficiently and to continue. They need reserves for depreciation, obsolescence, and unpredictable contingencies. Not only it is important to home and services requiring continued financial top credit ratings with banks and lending agencies.
4. Business should generate new capital. This means that gross margins (the difference between the selling price and the buying price) should be wide enough to cover all expenses and also provides for net margins (net earnings or savings). These net margins plus additional earnings from dividends, interest, and refunds, constitute the source out of which dividends on stock

allocated reserves, employee bonuses, provision for an educational fund, and refunds are made. Since the cooperative needs to generate capital for its future use only part of the refunds will be paid in cash and the deferred refunds will provide the needed capital.

5. Cooperative securities (shares) are compensated for only at their par value and not on the basis of their book value. This reduces speculation since their redemption value is constant. For example, if the par value of a share of common stock is \$35, then the holder will be paid \$35 for it when it is bought back by the cooperative, even though the book value (the appraised value of all assets divided by the total number of shares outstanding) might be \$40 or \$33. Only at dissolution, merger, or bankruptcy is the book value of the shares very significant.

6. Cooperatives should have the first option to purchase shares of stock to be sold by members. Generally, such purchase option is stated on the face of the stock certificate.

7. Ways and means of returning capital to members who stop to be patrons should be planned. A practical and fair stock redemption program should be instituted, possibly through the establishment of a redemption fund, so that patrons, who no longer have any need for the cooperative to get their money back, can do so without a long waiting period or difficulty in finding a buyer for the stock.

### **2.4.2 Concept of Financial analysis**

Management should be particularly interested in knowing financial strengths of firm to make their best use and to be able to spot out financial weakness of the firm to take suitable corrective actions.

Financial analysis is the process of identifying the financial strength and weakness of the firm by properly establishing relationships between the items of the balance sheet and income statement.

Financial analysis can be undertaken by management of the firm or by parties outside the firm, viz owners, creditors, investors and others. The nature of analysis will differ depending on the purpose of the analyst.

Ratio analysis is a powerful tool of financial analysis. In financial analysis, a ratio is used as a benchmark for evaluating the financial position and performance of a firm. The absolute accounting figures reported in the financial statements do not provide a meaningful

understanding of the performance and the financial position of a firm. An accounting figure conveys meaning when it is related to some other relevant information. Ratios help to summarize large quantities of financial data and to make qualitative judgment about the firm's financial performance.

The ratio analysis involves comparison for a useful interpretation of the financial statements. A single ratio in itself does not indicate favorable condition. It should be compared with some standard. Standards of comparison may consist of:

- Past ratios: - ratios calculated from the past financial statements of the firm.
- Competitors ratios:-ratios of some selected firms, especially the most progressive and successful competitors at the same point in time.
- Industry ratios:- ratios of the industry to which the firm belongs, &
- Projected ratios: - ratios developed using the projected or proforma- financial statements of the same firm.

Management is interested in evaluating every aspect of the firm's performance. The four important ratios are:

- liquidity ratios measure the firm's ability to meet current obligations;
- leverage ratios show the proportions of debt and equity in financing the firm's assets;
- activity ratios reflect the firm's efficiency in utilizing its assets
- Profitability ratios measures overall performance & effectiveness of the firm.

Measuring financial performance involves examination of various financial statements to assess the performance of a business based on its profitability, solvency, liquidity, risk, efficiency, and growth status. The primary aim is to analyze the business' past and present performance in order to identify strengths and weaknesses and to formulate feasible plans for the future (Barry *et al.*, 2000: 91).

Most financial ratios are computed from information presented in the income statement and balance sheet. It is important to note that assets in the balance sheet are usually valued at



historical cost whereas they should be assessed at current market value to compute meaningful ratios.

#### Basic Formulas of Ratio Analysis

Net working capital: The difference between total current assets and total current liabilities. It indicates the extent to which short-term debt is exceeded by short term assets.

**Formula:  $\text{Current Assets} - \text{Current Liabilities}$  Current ratio:**

This relationship indicates whether the business is able to pay current debts using only current assets. It is also called the working capital ratio. Higher ratios indicate a greater ability to pay debts. However, too high ratio may indicate poor asset management.

**Formula:  $\text{Total Current Assets} / \text{Total Current Liabilities}$**

**Quick Ratio:** Popularly called the acid test ratio, indicates the extent to which a company could pay current debt without relying on future sales. Quick assets are highly liquid, immediately convertible to cash. In addition to accounts receivable, they include marketable securities.

**Formula:  $\text{Cash} + \text{Accounts Receivable} (+ \text{any other quick assets}) / \text{Current Liabilities}$**

**Debt to Equity:** This ratio compares the amount invested in the business by creditors with that invested by members. The higher the ratio, the higher the creditors' claims on the assets, possibly indicating the cooperative in extending its debt beyond its ability to repay. However, an extremely low ratio may indicate that the cooperative is managing its assets too conservatively.

**Formula:  $\text{Total Debt (or Liabilities)} / \text{Total Equity (or Net Worth)}$**

To know our present position two considerations are important: liquidity and solvency. Three methods can be used to interpret a balance sheet: trend analysis:

- over several years ,
- Year-to-year comparison, and
- Month-to-month comparison industry analysis - compare the business to others that are similar compare to lender, regulatory requirements or standards

## **Profitability**

We are especially interested in an organization's ability to use its assets efficiently to produce profit (and positive cash flows). Profitability refers to a company's ability to generate an adequate return on invested capital. Return is judged by assessing earnings relative to the level and source of financing. Profitability is also relevant to solvency.

**Profit margin:** - a company's operating efficiency and profitability can be expressed by two components. The first is profit margin, measured by expressing net income as a percent of sales

1) **Profit margin = Net income / Net sales**

2) **Return on total asset = Net income / Average assets.**

Both profit margin and total asset turnover make up the two basic components of operating efficiency. These ratios reflect on management because managers are ultimately responsible for operating efficiency.

## **2.5 Empirical Studies**

Dr. Jeff Dorsey and Dr. Tesfaye Assefa (2005) in their study on the evaluation of agricultural cooperatives in Ethiopia, there has been rapid growth in the financial strength of the saving and credit cooperatives and achieved a total equity of nearly birr 680,000. The strongest equity position appears to be in Tigray where the debt to equity ratio was 1.43 compared to 2.65 in Oromia, 3.30 in Amhara and 3.65 in the Southern Region. It was a working principle that leverage should not exceed 3.5 in the saving and credit cooperatives.

P. Suresh Babu (2005) in his study on financial performance of the cooperative bank has analyzed the financial performance of the bank with the help of ratio analysis. He identified 49 different ratios. Based on his study of ratio analysis, the financial performance of the study unit was not encouraging and the liquidity position of the bank is not enough to meet its obligation.

David S. Chesnick (2000), in his study of financial management and ratio analysis for cooperative enterprises, identified some ratios that help analyze the cooperative's financial performance and cash flow analysis to develop its own performance measurements.

According to a study of performance of cooperatives and investor-owned firms in the dairy industry by Claudia Parliament (1989) using standard financial ratio analysis, the performance

of dairy cooperatives was found to be significantly better than the performance of dairy investor owned firms in terms of leverage, coverage and efficiency ratios and not worse in terms of profitability over the period of 1976-1987. Even without allowing for benefits that are unique to members of cooperatives and for potential public good aspects, the cooperative appear to meet or exceed generally accepted business standards, at least in the dairy industry.

According to a study of Member-funds and cooperative performance by Rajesh A.grawal, K. V. Raju, KPrathap. Reddy, R Srinivasan and M S Sriram (2002), the research examines the role of member-funds in multi-purpose cooperatives in the state of Andhra Pradesh, India. The central thesis is that member-funds, both in terms of quantity and quality, can enhance the control members exert on the cooperative. The involvement of members through their capital stake could be at various levels – by the provision of permanent capital, long-term capital and short-term capital. They expect that each of these will have differing effects on control and on the culture and systems of the cooperative. Such an effect on control is expected to directly drive cooperative performance, and indirectly enhance cooperative performance through greater usage of the cooperative by the members. Enhanced cooperative performance in turn would satisfy members, and the loop will hopefully be completed; satisfied members would place more funds with the cooperative.

Based on the study of analysis of financial statements: local farm supply marketing cooperatives, (Beverly L. Rotan 2001) the impact on ratio analysis shows the followings:

1. **Liquidity ratios-current ratio** (current assets/current liabilities) was fairly steady at around 1.5 between 1990 and 1999. The quick ratio (current assets-inventory/current liabilities) mimicked the current ratio's trend;
2. **Leverage ratios-debt ratio** was at a high of 0.47 in 1996. After 1996, the ratio started to decline, with the sharpest downturn in 1997;
3. **Activity ratios-total-asset-turnover ratio** fell from 2.13 in 1998 to 1.92 in 1999 because total sales decreased 6 percent while assets increased only 5 percent with much of the increase in inventories; and finally
4. **Profitability ratios-return on total assets ratio** fell from 7.88 in 1998 to 6.53 in 1999 because total assets increased while net income decreased (13 percent).

Lionel Williamson (1987), on his study of the farmer's Cooperative yard stick: Financial ratios useful to Agricultural Cooperatives, sound financial planning and management are two key

elements to the successful operation of cooperatives. Sound financing relates to the need for both equity and borrowed capital for operations and growth. It also involves the analysis of financial data to develop financial controls. Cooperative management should find financial ratios to be an important tool in performing this management function.

From all the previous studies the financial performances of different cooperatives were sometimes good, fluctuating, and bad. Therefore the main focus of this study is to check the financial performance of the cooperatives in the Sheka Zone.

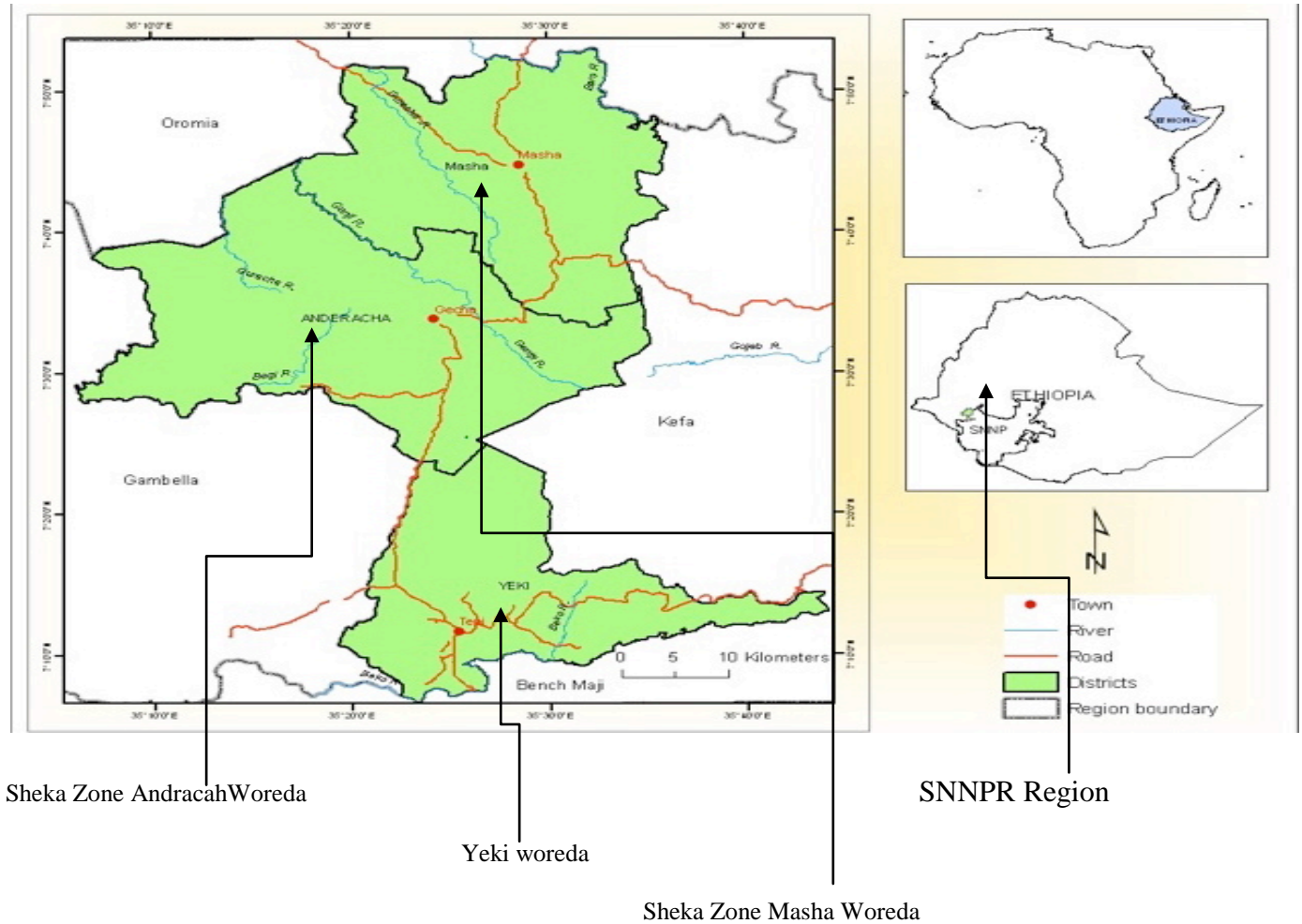
# Chapter 3

## 3. Methodology

### 3.1 The study area and Population

Sheka Administrative Zone is one among the 14 Zones and 4 Special woredas of Southern Nations Nationalities and Peoples Regional State (SNNPRS). It borders in North and Northwest with Oromiya; in East with Kafa Zone; in Southwest with Gambella Regional State; and in South with Bench-Maji Zone. There are 5 urban kebeles (among them Masha, Gesha, Teppi) and 57 rural kebeles. Based on the 2007 Census conducted by the CSA, this Zone has a total population of 199,314, of whom 101,059 are men and 98,255 women; 34,227 or 17.17% are urban inhabitants.

Figure 2:-Map of Ethiopia and Location of Sheka Zone



## **3.2 Research methodology**

This study will be conducted in Southern Ethiopian, SNNPR region, Sheka Zone.

The study area is purposely selected, because of the presence of diversified activities of cooperatives and has an access to get information easily which is believed to be helpful to better address the objectives of the study. The accessibility of the area is believed to enable the undertaking of this study under the prevailing time and financial concentrations.

The study population for this study will be the legally registered rural farmers multipurpose cooperatives with minimum operation life of three years in order to obtain data (such as annual reports, annual plan etc)

In Sheka zone there are 193 cooperatives distributed in three woreda such as 75 cooperatives in Masha woreda, 80 cooperative in Andracha woreda, and 38 cooperative in Yeki woreda. The study specially focused on these cooperatives which comprise a total of 3860 members out of which 2779(72%) male and 1081 (28%) female.

## **3.3 Designed of the study and sample selection rationale.**

The method , which will be employed to carry out the research, include literature review, collecting secondary statistical data and survey on selected case study of cooperatives. The literature attempted towards the research questions in general, providing theoretical frame work, empirical and historical experience of the cooperative movement. Overall its deal with the research question what constitute a cooperative as a business and cover the description and explanation of the cooperative identified as well as conceptual frame work.

Therefore the study will utilize data obtained from both primary and secondary source. The nature of the data will included both qualitative and quantitative to be normative and positive perspectives.

Ten cooperatives were taken for sample surveys which constitute 5% of the cooperatives in the zone using simple random sampling method The justification for this sample size is that homogenous character, and constraint of the time and finance.

After sample cooperatives selected with the above mentioned manner questioner will be administered to 200 members. That is 5% of the total members in the ten cooperatives which obtained by average amount of members in each cooperatives.(i.e.  $3860/193=20$  is expected

average number of members in each cooperatives. Then, in ten sample cooperatives were expected to have  $20 \times 10 = 200$ . So based on this expectation 100% of the member will be taken as respondents for the questioners.

Interviewing and group discussion also conducted, as supplementary to the data which will be obtained through the questionnaires.

Group discussion made with a total of 10 leaders cooperative that is one respondent from each ten sample cooperatives. In addition for the group discussion gathered information through interview from a total of 8 individuals were taken that is 2 from regional cooperative promotion office, 3 from Sheka zone union secondary level cooperative officers, 1 from regional Agricultural marketing Agency, and 2 from Sheka zone cooperative promotion office. The key informant who can give further information were selected from experts and department head.

### **3.4 Data collection method**

In order to achieve the objective of the research properly, primary and secondary data (both qualitative and quantitative) were used. The data will be selected by using a combination of different method and described below.

#### **3.4.1 Primary data**

Primary data were collected through different data collection method such as questionnaires in death interview with cooperatives leaders and officials and focused group discussion.

- i. Questionnaires;-the questionnaires includes both closed and open ended question. The open ended question were taken to find the out the respondents attitudes and perception. But more of closed ended question will be used so as to avoid complications that are inherent in open ended question during coding, summarizing, and processing the obtained information. The questioner were administered by trained by enumerators and supervised by the researcher, and the based on the result of the evaluation of testing, the questionnaires were carried to beuse for the study. The enumerators will take training for one day based on the questionnaires.

- ii. Interview with Leaders of cooperatives: - it is believed that the leaders know the major activities being performed by their cooperatives. Hence activities regarding the quality and adequate in but and output of the market, loan services provision, resource mobilization, employment creation, and communities income diversification among other things. This interview will be more complemented with unstructured and open ended question that will be used where needed so as to allow respondents to express their feeling or ideas on some issues freely and hence obtain more detailed information.
  
- iii. Focus group discussion.

For better complement of the information which was gathered, the research will conduct focus on group discussion. Group discussions were made with the experts and heads of respective governmental department with the help of checklist prepared.

### **3.4.2 Secondary data**

In addition to the primary data that were collected through the above discussion methods, secondary data were also collected from different sources. Among these sources are published and unpublished secondary data sources such as audit and other operational report and recorded of the under study cooperatives, relevant documents, internet websites, and other pertinent sources. Generally at most effort will be made together with relevant and reliable data both qualitative and qualitative from various sources through the triangulation of the aforementioned different data gathering methods.

### **3.5 Data processing and method of data analysis**

The data gathering were analyzed in terms of the study objectives already designed. In order to summarize data, tables, and graphs will be used. Moreover, Excel program will be used to process and analysis the collected data, after the data obtained through questioners, it was aggregated then it were seen in relation with the information obtained from the interview and



group discussion, And interruption of the results using the appropriate descriptive statistics such as percentage, ratio, and mean values. The non – quantifiable data will be discussed through qualitative description.

## **Chapter 4**

### **4. Discussion and Results**

The result of data generated from questionnaires, from key informant interviews and from group discussion with cooperative leaders, and personal observation and information gathered from secondary data like cooperative audit reports presented, discussed and analyzed in this chapter to measure operating and financial performance of cooperatives in sheka Zone.

#### **4.1 Cooperative in Sheka Zone**

The economic motives for joining the cooperatives are those which have a direct effect on the economic life of members. The members join the cooperatives because the promises to be the most effective instrument towards gaining increased income. The joining of cooperatives is an attempt to reap relatively higher economic advantage. This can come about by the way of cooperatively providing goods and services which are regarded as important or either not available or available but beyond the reach of the members or the members enjoy them but at very high cost.

The cooperation can thus help satisfy this motive of increased income either in the form of reducing the cost of member's business enterprise or increased revenue.

The sociological motives that influence persons towards joining cooperative can often not be determined in direct monetary terms. The urge to join may result from individual feelings of isolation and loneliness and the search for security may also be a motive for joining a cooperative. The cooperatives, in the Zone where the study was undertaken were established as a result of economic and sociological motives. From the focus group discussion members of the cooperative said that they have joined the cooperative to obtain social and economic benefits.

##### **4.1.1 Type of Cooperatives in Sheka Zone**

The cooperatives emerged out of the former agricultural services cooperatives, which were organized during the Military (1975-1991). They are recognized in 1998 on the base of the year 1998 cooperatives proclamation with the imitation to undertake various development activities. They were given a new name called farmers primary cooperatives association (community known as multipurpose cooperatives) these cooperatives are multipurpose in their nature and organized as service oriented business enterprise. The aim of these

cooperatives is to empower and ensure members participation in decision making processes, accelerate rural development, ensure food security and achieve poverty reduction. They are responsible to mobilize local resource to provide various social –economic services such as supply of modern agricultural inputs and consumer goods, and avail credit and transport service, marketing service and market information. In addition they are also responsible for the training and education of member on different development issues with relatively low cost and encourage agricultural investment such as agro processing industries, roads, schools and clinic construction.

There are a number of cooperatives associations in Sheka zone, which are currently engaged in different activities. Presently, they are 193 cooperatives which are engaged in various areas of economic activities. These cooperatives are classified in to ten kinds namely, Multipurpose, saving and credit cooperatives, beekeeping Honey production, animal fattening, spice production, vegetable and fruit production cooperatives, Coffee production and marketing, Hand craft production cooperation, Forest product cooperatives and Petty trading cooperatives,. There is one multipurpose union. Their actives and members’ size in each type of cooperatives are summarized in table 1

Table 1. Type Major Area of activities and membership Size Cooperatives

S/N	Types of cooperatives	Capital as of June 2015 Amount in ETB	Total no. of cooperatives currently operative	Members		
				Female	Male	Total
1	Multipurpose cooperatives	425,590	19	164	920	1084
2	Saving and credit cooperatives	1,211,537	64	400	605	1005
3	beekeeping and Haney production	2,469,896	22	55	350	405

	cooperatives					
4	Animal breeding fattening cooperatives	233,331	27	71	135	206
5	Spice cooperatives	72,438	3	50	38	88
6	Vegetable and fruit production cooperatives	9,904	6	19	132	151
7	Coffee production and marketing cooperatives	2,891,529	18	57	225	282
8	Hand craft production cooperation	10,300	2	11	9	20
9	Forest product cooperatives	1,782,844	8	159	156	315
10	Petty trading	146,141	24	49	255	304
	Total	9,253,510	193	1035	2825	3860
1	Union of cooperatives		1	487	3046	3533

Sources: -Sheka Zone Cooperative and Development and promotion Office report 2014

Sources: -Sheka Zone Cooperative and Development and promotion Office report 2014 According to the Bureau of Economic development and cooperative promotion office of SNNPR region, the major objectives of cooperatives are serving their members. The objectives of the cooperatives societies established under the proclamation number 147/98 including collectively protect, withstand and solve economic problem, improve the living standard of members by reducing production and service cost, provide input or services to their occupation at a minimum cost or find a better prices to their product or services, and develop and promote savings and credit services.

Furthermore it include promotion of self-reliance among members , solving problems collectively, which individual cannot solve , minimizing and reducing the individual risks and

uncertainties, developing the social and economic culture of the members through education and training and expanding the mechanism by which technical knowledge could be put in practices.

The rural development strategies of the country as well as the region, directly or indirectly encourages and set means to support promotion of cooperatives. For the achievement of the objective of cooperatives, the SNNPR region state and Bureau of economic development and cooperatives had encourage agricultural technology and techniques, provision of Inputs and improved seeds through services cooperative societies and private sector. And theses supports are respected to lead towards food self-sufficiency in foods –deficit areas. In addition to this according to the Bureau of Economic development and cooperative promotion office of SNNPR region, most of cooperatives supports by nongovernmental organization in cash and kind as well as capacity building.

Table 2 shows the involvement of cooperative in different kinds of activities

S.No	Types of cooperatives	No. of cooperatives / no of member in each woreda				% Coop involved
		Masha woreda	Andracha woreda	Yekiworeda	Total	
1	Multipurpose cooperatives	7	5	7	19	10%
2	Saving and Credit cooperatives	16	30	18	64	33%
3	Honey production cooperatives	13	9		22	11%
4	Animal breeding and fattening cooperatives	17	8	2	27	14%
5	Spice cooperatives	3			3	2%
6	Vegetable and fruit production cooperatives	3	2	1	6	3%
7	Coffee production cooperatives	3	11	4	18	9%
8	Hand craft production cooperation		1	1	2	1%
9	Forest product cooperatives	4	4		8	4%
10	Petty trading	9	10	5	24	12%
	Total no. of cooperatives	75	80	38	193	

Sources: - Primary data collected through field visit survey Jan.2016

From the table above result indicate that 64 (33%) cooperatives found in the zone involved in saving and credit cooperative this kind of cooperative is the base of any business enterprise and growth however, from the study and group discussion found that the study area has potential for Coffee, Honey and spices production but not only the cooperative but also the local communities not excitedly involved on this resources available kinds of activities. The reason of this is the lack of appropriate business; shortage of finance and lack value adds linkage market coordination. As Sheka zone is man and biosphere reserved area and to preserve environmental climate change the involvement of forest product cooperatives not advisable.

From the total 193 cooperatives those have found in the zone this study, were 10 cooperatives taken randomly from the three woredast hose have duration of three years life or more. the selected cooperatives from each woreda such as 4 from Masha,4 from Andracha and 2 from Yeki woreda are listed on table 3 below.

Table 3:-Profile of the ten randomly selected cooperatives for the study

S.N	Name of cooperatives	Year establishment	Location of cooperatives	Types of cooperative	# of members		
					Male	Female	Total
1	Gerachowedity		Masha	Animal fattening	18	2	20
2	Shunity		Masha	Saving and credit	16	13	29
3	Ganobye		Masha	Multipurpose Cooperatives	15	9	24
4	Yeresunet		Masha	Forest product cooperatives	14	12	26
5	Shunadano		Andracha	Saving and credit	22	4	26
6	Ganeti		Andracha	Beekeeping	19	3	22
7	Fana		Andracha	Coffee and spice	15	5	20

8	Tesfa		Andracha	Beekeeping and Honey production	15	5	20
9	Delebtegele		Yeki	Multipurpose Cooperatives	18	5	23
10	Ermiche		Yeki	Saving and credit	14	10	24
					166	68	234

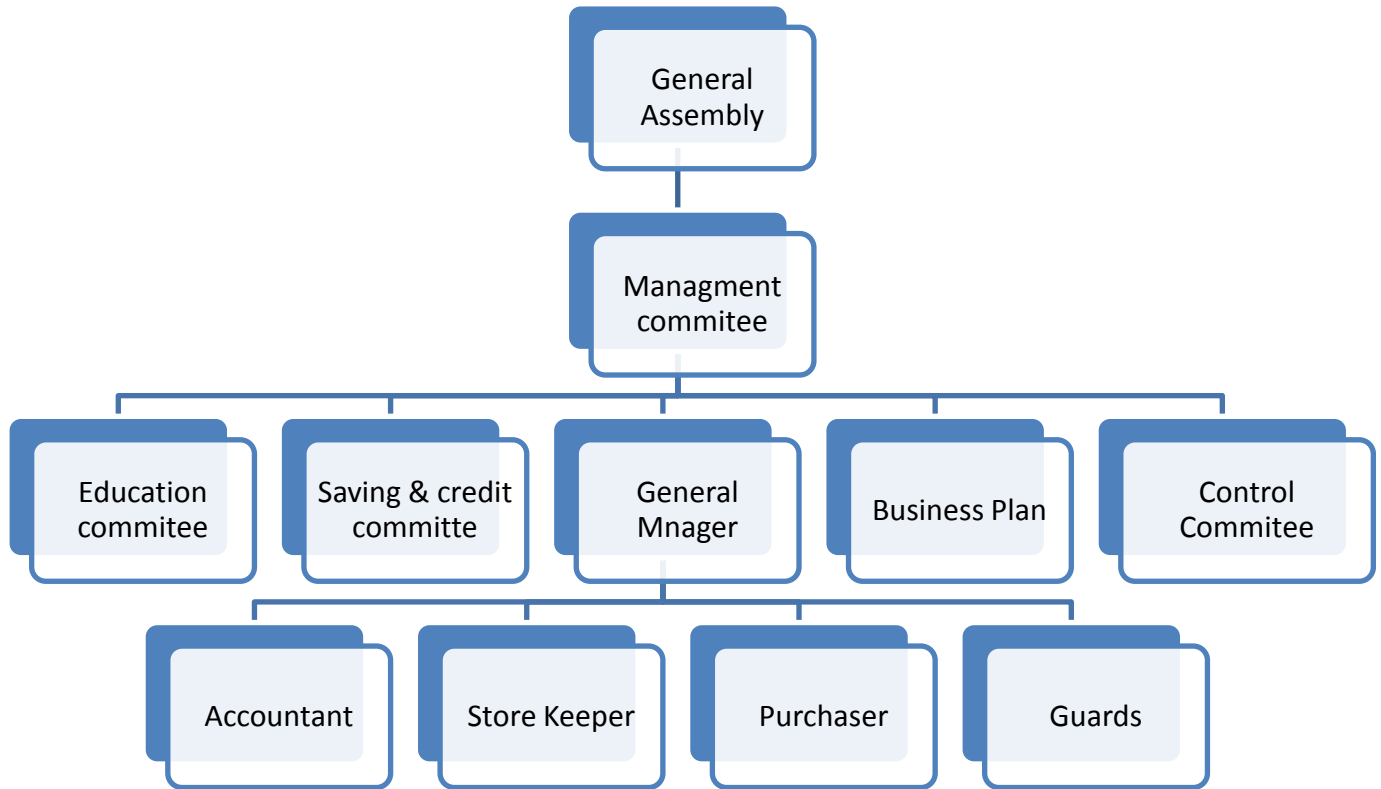
Sources: - Primary data collected through felid visit survey Jan.2016

#### **4.1.2 Organizational structure of cooperatives in the Sheka Zone**

An organization consists of people, policies, rules and regulations and system and procedures, relationship and like. An effective organization will perform its functions efficiently. A cooperative can offer to the farmer the opportunity of access to credit and required production enhancing inputs at affordable prices with reliable availability. The farmer can also reap benefits, from improved post –harvest handling, value added processing and marketing. Cooperatives currently, possess organizational structure necessary to realize their full potential and enjoy the purchasing and marketing advantage through cooperative union.

The organizational structure of primary cooperatives and cooperative union were as follow.

Figure 3 Organizational Structure of Sheka Zone cooperatives



Sources: - Sheka Zone Cooperative and Development and promotion Office report 2014

From the focus group discussion And observations this organizational was not properly functional.

The education status of the sample household head indicated that the level of literacy is not adequate in all sample coops. Nearly 21% of the sample cooperatives are not able to read and write. The sample therefore has lower literacy rate. And lowest is in Garacho and Ganete cooperatives organization in Masha and Andrachea woreda respectively, relatively cooperatives members those found in Yeki woreda complete their primary education. Table 4 shows the educational status of the sample households.



Table 4 Household head by educational status.

Education statuse	Masha woreda			Andrachaworeda					YekiWoreda		Total
	Garacho	Shunity	Gano	Yeresunet	Shuna	Ganet e	Fana	Tesfa	Delebte	Ermiche	
Illiterate	8	6	4	7	2	8	5	4	2	2	48
Read and write	6	16	11	12	15	8	9	10	6	5	100
Primary education	4	4	5	5	8	3	4	3	10	14	60
Secondary education	2	3	4	2	1	3	2	3	5	3	27
Tertiary education	0										
Total	20	29	24	26	26	22	20	20	23	24	234

Sources: - primary data collected through felid visit survey Jan.2016

### 4.1.3 Management of cooperatives in the Zone

Cooperative management is the process of pursuing cooperatives objectives utilizing the recourses available to the organization including people, capital and facilities. Organizational resources that need proper management can be categorized under:

Human resources, financial resources, Physical resources and Information resources

Whether a cooperative is a success or failure often depends on whether there is management of all aspect of the organization. Cooperative should employ knowledgeable personnel in order to meet the challenge of stiff computation in the market. In order to attract competent staff, cooperative should offer attractive term and condition of employment. Regular training courses should be mounted to improve managerial talents of the management members and employees enable them to carry out their responsibilities efficiently.

According to the Ethiopian proclamation Number of 147/1998 article 20 the supreme organ of any society shall be the general assembly and the powers and duties of the general assembly from the by – laws and from focus group discussion are as follows.

- Pass decision after evaluating the general activities of the cooperatives
- Approved and amend the bylaws and internal activities of the cooperatives
- Elect and dismiss the members of the management committee, control committee and when necessary.
- Determine the amount of share of the cooperatives
- Hear and Give decision on the work report and audit report
- Approve annual work plan and budget and decide other issues.

Management committee which is countable to the General assembly its main duties and responsibility was prepare the annual work plan, follow up regular activists, ensure proper handling of documents and book accounts, collaborate with control committee, saving and credit committee and marketing committee, and submit regular report to the general assembly, However, according to the study all the power and duties of the general assembly were not applied properly applied. This was because of the lack of capacity, skill, or knowledge or lack commitment as they have explained in the focus group discussion.

#### **4.1.4 Criteria for membership**

The membership criteria of the cooperatives are more or less similar. the ability to make initial payment, (registration fee and purchase of at least one share) is indicated as the most important criteria in all cooperatives (Table 5) as the result of this study have indicated that in addition to initial payments, willingness to make some periodic contribution is also important in the case of multiple purpose cooperatives one of the other hand, promise to buy goods and/or services from the cooperatives are not important 89%..Likewise,promise to sell products to cooperatives is not important in all cases. This shows that the members have the right to get the services and or sell their product from/to else where they like.

Table 5 membership criteria of the cooperatives

No.	Description of criteria	Critical importance		Highly important		Moderately important		Less importance		Not importance	
		No. of respondent	%	No. of respondent	%	No. of respondent	%	No. of respondent	%	No. of respondent	%
1	Ability to make initial payments	234	100%	-	0	-	0	-	0	-	0
2	Willingness to make periodic contribution	17	7%	61	26%	149	64%	-		-	
3	Promote to buy and goods and services from the cooperatives	0	0	-	0	4	2%	21	9%	209	89%
4	Promote to sell goods to the cooperatives	-	0	-	0	3	1%	6	3%	225	96%

Sources: - Primary data collected through felid visit survey Jan.2016

Moreover, the study indicate that unemployed and /or landless are also important criteria considered for membership. Household that is member of cooperatives have been assessed to various service and opportunities such as financial services, access to get agricultural input, other resource and self-employment opportunities, in the ten cooperatives, getting periodic dividend is less important reason for membership, because the cooperatives did not pay significant dividend to their members so far. The reason for indicate periodic dividend payment are lack of adequate surplus, limited operational capacity and lack of market for their product.

## **4.2 Operational performance of cooperatives**

### **4.2.1 Establishment and growth of cooperatives**

According to SNNPRS cooperative development and promotion agency cooperative can be formed for several reasons. Some of the reasons are to get agricultural inputs, to purchase consumer goods, to get necessary services at affordable price, to sell the product at fair price and generally to solve the social and economic constraints.

There are different procedures for formation of cooperatives the basic requirement of formation of cooperatives are formed when more than 10 society living in one kebele or peasant association or area request concerned bodies to form cooperatives, during the formation phase the major assignments to carry out are demand creation among the communities through awareness raising, conducting feasibility study publicizing the feasibility study to the concerned bodies so that the trust and support can be obtained and setting foundation or establishment. The founding committee register the prospective members, prepare bylaw and business plan, and approved by the general assembly and initiates operation (SNNNR cooperative Agency 2007) , however, according to focal group discussion and from interview with key informant some cooperatives are formed by members joined together from different areas by the initiation of cooperative and development and promotion office even without having business plan. This situation formed cooperative now a day have a problem of making regular meeting to discuss on how to solve their problem and run their business.

Data were collected on status of cooperatives membership and capital from Zone cooperatives and promoting office 2014 report as shown on table 6

Table 6: cooperatives membership

S.N	Name of cooperatives	Year of establishment	No. Of members			Amount Capital		
			Initial	2014	% of Variance	Initial	2014	Amount of increment during cooperatives' life
1	Gerachowedity	2012	15	20	33	19,722	75,690	55,968
2	Shunity	2010	30	29	-3%	1,230	3,908	2,678
3	Ganobaye	2011	20	24	20%	75,000	125,898	50,898
4	Yeresunet	2011	20	26	30%	112,800	282,054	169,254
5	Shunadano	2012	25	26	4%	5700	15,013	9,313
6	Ganeti	2008	15	22	47%	123000	1,291,789	1,168,789
7	Fana	2010	20	20	0	57000	115,945	58,945
8	Tesfa	2012	19	20	5%	25,000	85,943	60,943
9	Delebtegele	2010	20	23	15%	35,000	256,277	221,272
10	Ermiche	2012	18	24	-33%	13000	6,735	-6,256

Sources: - primary data collected through felid visit survey Jan.2016

As shown in table 6, In general during the minimum there year's life cooperatives on average number of members increased only by 2, and the highest member of member is registered at Ganeti cooperative by 47% or 7 members joined the cooperative. In Ermiche cooperative the number of cooperative reduced by 6. In addition to the data analysis and from the group discussion result new member those joined to cooperative not adequate due to different factors like, the productivity of cooperative was law, in related to this the law profit incurred not initiated the other society to join cooperatives, the absence of dividend payment to member also the other factors of law increment of members. The study also found out the growth of

cooperative capital during their life of work not satisfactory except Ganeti cooperative. Ganeti cooperative had cumulate capital because of production of high yield of coffee.

And the economical conditions of the exiting members also do not change, due to organize as cooperative. However, the main cause of inadequate growth of cooperative because of lack of business plan and insufficient initial finance.

## **4.2.2 Functional service**

The mission of cooperative is to assist the members in their activities by taking over one or several economic function. The achievements and the success are assessed and measured by the level of household income, efficiency, effectiveness, and extent of local economic development. The assessment requires a detail and reliable quantitative time series database for comparative analysis. Therefore, For the purpose of this study it was decided to assess and measure the performance of cooperatives by using indicators, such as services provide to the members (profit and dividend distribution cooperative financial capacity, training, information and roll of cooperatives on health, education and infrastructures development)

### **4.2.2.1 Loan Services**

The provision of loan and saving services is very critical to the rural communities due to the absence of bank in their areas. Hence, money of them is forced to get loan from individual money lenders at exorbitant interest rates. In all cases, the household indicated that individual money lenders, friend's relatives and microfinance institutions such as Omo Micro finance were sources of finance.

They revealed that before 15 years the individual money lenders were the sole provider of loan at very exorbitant interest rate. Micro finance institutions started loan provision recently at interest rates up to 15%. This shows that rural households had a serious problem in accessing loan. Now this problem is partly solved by the cooperatives. The research indicates that there is a better access of loan to venture viable areas of activities such as purchase of agricultural inputs and materials, animal fattening.

Cooperatives have good opportunity to develop saving culture and get access to loan at interest rate agreed by the members.

Finance is the backbone of any development whether it is at national, regional or household level. The result of this study revealed that the multipurpose cooperatives are more genuine and flexible in organizing savings and credit for their members than any other form of financial institution.

There roll could be pivotal in overcoming the existing demand and supply gap of the rural finance. They can facilitate the channeling of financial institution to the poor farmers. Such financial services are important in advancing poverty reduction and promoting indigenous saving investment cycle. This in turn is very helpful in creating more employment opportunities (both direct and self-employment) in rural areas and thereby enable rural poor farmers diversify their income sources both inside and outside agriculture, with its far reaching multiplier effect in fostering diverse local developments and poverty reduction through though efficient and effective utilization of the available resources.

In line with the above arguments, the performance of the ten cooperatives seems encouraging .All are providing loan facilities for various activities. Moreover, they are linking the poor farmers with different development activities and facilitating the channeling financial resources from other sources such as NGOs. This has an imperative roll for poverty reduction.

Table 7 source of loan of sampled cooperatives

No	Source of loan	Respondent	%	Remark
1	Cooperatives	142	61%	
2	Money lenders	19	8%	
3	Bank	0	0	
4	Micro finance institution	45	19%	
5	NGOs	28	12%	Revolving fund
	<b>Total</b>	234	100	

Sources: - primary data collected through felid visit survey Jan.2016

Out of those who received loan cooperatives covered 61% of the respondents which means cooperatives are the major providers of loan or credit, the others such as microfinance institutions, NGOs and Money lenders 19%, 12% and 8% respectively.

Cooperative members use loan for different purposes. From questioners and interview members take loan for the purpose of; for agricultural inputs, start new business, house construction, school fee, health and household expenses and also purchase of land on contract. The next table 8 shows the respondent's respond the purpose of the loan.

Table 8 Reason of taking loan

No	Reason for taking loan	Respondent	%
1	Purchase of agricultural input and for land contract	120	51%
2	Starting new business and for working capital	58	25%
3	Construction of houses	18	8%
4	School, heath and other household expenses	38	16%
	<b>Total</b>	234	100

Sources: - primary data collected through felid visit survey Jan.2016

From the table shown that 51% of the respondent used loan for agricultural input purchase and 25 % for starting new business or working capital those reasons are

The Result of the table indicates that cooperatives play big role in input purchase through provision of loan.

The result of this study has pointed out that the access to loan has created self employment opportunity for some of cooperatives members and enabled them to diversity their source of income.

Members are taking loan to purchase various agricultural inputs like, improved seed, animal feed, vegetable production, to undertake petty trades, to buy ox, chicken and other.



#### 4.2.2.2 Input service

Cooperatives around the study area providing production materials and machine including Honey production materials, coffee seedling and initial money for petty trading to members.

The result indicate that cooperatives could not provide all services due to various problems such as financial shortages, lack of commitment on the part of the committee members, lack of qualified human resources, lack of members' commitment and lack of integrity on the part of the workers,

Cooperatives can perform valuable function in various areas through rendering services such as agricultural inputs supply. According to ILO(2004) cooperative role is deemed to be essential especially for the rural poor people, where services are either missing and or inadequate. Cooperative have rendered different input service and introduce technologies such as improved varieties of seeds, vegetables and animals, In general they have improved agricultural input consumption levels, and they enabled cooperative to increase productivity and income. in addition to this members have benefits and enabled them to diversifying their income sources and improve their livelihood

Table 9 shows respondents' responses on input services

No	Types of inputs/activity services	yes	%	No	%	No information	%
1	Improved seed	64	27%	158	68%	12	5%
2	Loan/credit/	137	59%	97	41%		0
3	Insecticides / herbicides supply	58	25%	123	53%	53	23%
4	Basic consumable good and supplies	162	69%	54	23%	18	8%
5	Storage services	79	34%	131	56%	24	10%
6	Training on how to operate	99	42%	79	34%	56	24%

Sources: - primary data collected through felid visit survey Jan.2016

Table:-10 shows respondents' responses on availability of input with required time and place

No	Types of goods or services	Access		
		Availability of the required amount/quality	Availability of the required time	Availability of the required place
1	Improved seed	23/64	37/64	16/64
2	Loan/credit/	22/127	98/127	49/127
3	Insecticides / herbicides supply	28/58	42/58	39/58
4	Basic consumable good and supplies	102/162	87/162	53/162
5	Storage services	45/79	34/79	15/79
6	Training on how to operate	46/99	35/99	27/99

Sources: - primary data collected through felid visit survey Jan.2016

According to the Tables 10 above out of the total respondent 69% get consumable goods and supplies, 59% said get loan or credit facilities, 42% get different capacity building training and awareness on different issues. 34% storage services, 27% improved seed and 25 % insecticide and Insecticides / herbicides supply/ this shows that one of the other input services the majority of members are beneficiaries from cooperatives. However, as shown on table 7 out of 64 respondents those confirmed have got improved seed only 23 of them had access to get the required amount, 37 at the required time and only 16 the required place. Likewise loan services out of 127 affirmative respondents 22 of them only got the required amount 98, of them got at the time of request loan, and only 49 of them not required loan from the required place. Similarly the situation of getting other input service on required amount, on time and place of delivery as maintained on table 7. From interviews and group discussion result the main factors of getting input services on the required amount, time, and place are: cooperative s capability of capital, leaders capacity of input administration, problem of infrastructure, awareness of members how

on how get input service from cooperatives, and problems of leader those making favor with knowing or closely each other.

#### 4.2.2.3 Marketing services

The various products, which are expected to be marketed by the cooperatives, are Coffee, Honey, grains, vegetables, Animals and other agricultural outputs. However, the ten cooperatives didn't begin market services. There is no any record regarding market service except to express honey and coffee production delivered to the union on credit with low price.

Even though cooperatives create market for the members' products in particular and for the local community in general, they could not utilize their potential. This is due to various constraining factors, such as dependable market, limited financial capacity, lack of qualified and committed leadership and lack of members' commitment, beside problem such as lack of transport facilities, infrastructures (road) and lack of strong/functional/ apex organ such as cooperatives federation among other things have limited their marketing ability.

Table:- 11 Adequacy of market service provided by your cooperation

No	Types of product or services	Adequacy of market service provided by your cooperation					
		yes	%	No	%	No information	%
1	Honey	172	74%	21	9%	41	18%
2	Coffee and spice	148	63%	38	16%	48	21%
3	Animals and milk& milk product	47	20%	75	32%	112	48%
4	grain	35	15%	54	23%	145	62%
5	Vegetables and fruit	27	27%	110	47%	97	41%

Sources: - primary data collected through felid visit survey Jan.2016

According to the response the above table 11 cooperative arrange product market for Honey and coffee 74%and 63% respectively, however according to the respondent products like Animals, Grain, and vegetables the performance of cooperatives arrange market below 50%.

Table:- 12 Access of getting market

No	Types of goods or services	Access of getting market					
		Availability of market any time	%	Market required nearby place	%	Reasonableness of market price for the product	%
1	Honey	64	27%	97	41%	68	29%
2	Coffee and spice	75	32%	99	42%	64	27%
3	Animals, milk& milk product	101	43%	102	44%	79	34%
4	Grain	123	53%	94	40%	102	44%
5	Vegetables and fruit	136	58%	124	53%	83	35%

Sources: - Primary data collected through felid visit survey Jan.2016

According to the response on the above table 12 analysis only 27%the have access to sale their honey product on time that means the rest 73% not have access because of there is no on time market and also the residence of member and the market place long far they enforced to sale their product on discount base or on credit to union or other whole seller. the coffee product also similar problem. Because of cooperatives have not financial capable and technical limitation they are not able to support their member to buy reasonable price and help them with value add processing on honey and coffee product. Relatively other product like animals, grain, vegetable and fruit product have reasonable price. According to the study around Sheka zone there is huge problem of value add processing on honey and coffee market.

It is clear that the poor people have defined from the market service of cooperatives. The services have improved the productivity and income level of the poor. But although the cooperatives can undertake various product market services such as grain, vegetable, and dairy marketing performance of the ten cooperatives seems sluggish. The sluggish perform of the

cooperative was due to lack of performance of management, poor financial capacity, lack of literate leaders, lack of capable staff and inadequate support of zone and regional cooperatives promotion offices. As a result all the ten cooperatives were not able to improve their participation in various socio economic development activities, such as various infrastructure (schools health center, road) and promotion of small scale business.

#### 4.2.2.4 Employment Creation

According to ILO (2001) cooperative do effectively create and maintain employment. They can do this , by engaging themselves in various economic activities such as production, processing, marketing and other economic activities, this empirical evidence from various countries experience show that cooperatives can create a huge direct employment opportunities. for instance ,ILO(2001) has noted that cooperatives are the second largest employer in money Africa and Asian countries However, the role played by the ten cooperatives seems far less than adequate (table!!) direct employment of 25 local people (i.e20male and 5 female) have been created by the ten cooperatives. In addition to permanent employee all cooperative hired daily laborer when required.

Table13: Direct Employment Created by cooperatives as of June 2014

S.N	No. Name of cooperatives	No. of direct employee			Origin of the people	Economic status of employed people as been perceived by the leaders.
		Male	Female	Total		
					Local	Lower
1	Geracho	2	1	3	Local	Lower
2	Shunity	2		2	Local	Lower
3	Ganobye	5	2	7	Local	Lower
4	Yeresunet	2		2	Local	Lower
5	Shunadano	2	1	3	Local	Lower
6	Ganeti	3	1	4	Local	Lower
7	Fana	1		1	Local	Lower
8	Tesfa	1		1	Local	Lower
9	Delebtegele	1		1	Local	Lower
10	Ermiche	1		1	Local	Lower
		20	5	25		

Sources Annual report of sheka zone cooperative promotion Offices (2014)

All of them are from low income groups. The job opportunities created by these cooperatives are low salary scale (Table14).

Table14:- The amount of salary being paid by the study cooperatives

	Salary range ETB	No. of employed			%	Cumulative %
		Male	Female	Total		
1	≤ 360	14	2	16	64	64
2	360 -750	4	3	7	28	92
3	751 - 1875	1	1	2	8	100
4	Above 1875	0	0		0	100
	Total	12	7	25	100	

Sources: - primary data collected through felid visit survey Jan.2016

64% of the employees are earning a monthly salary less than or equal to ETB 360 (equivalent to 1 USD per day) . moreover, about 28% of the employee are earning a monthly wage, which is less tor equal to ETB 750(equivalent to 2 USD per day) and also 8% less than or equal to 1,875 (equivalent to 3 USD per day) this study found out that majority of the employees fall in the category of unskilled labor with law salary. The cooperatives not able to create high earning employment opportunities and or could not use the skills of professional workers due to their inability to afford the associated demand for higher composition.

Multitudes of problems have contributed for the absence and /or low level of employment and among the problems the most important once are limited financial capacity, limited operational capacity, lack of commitment, visionary, skilled, and experienced manpower; inability to expand or and diversified area of activities, operational inefficiency and inadequate profit from operation, lack of educate market accessibility intensive market computation, lack of access to technology, absence of adequate training and experience on principles and practices of cooperatives and limited participation of members.

Regarding to self-employment and income diversification, it is known as that cooperatives must assure any group of individuals to effectively combing their resources, and create self-employment opportunity that can help them to diversify their income. In line with this one, about

209 respondent 89% of the total respondents respond that their cooperative created self-employment, Moreover most of the people who are engaged in self-employment are from low income group with no skill, followed by unskilled middle income groups, which are marginalized poor section of the community.

Creation of employment is one of the most important issues in the rural areas of developing countries and it increase the income of people, improving livelihood of the rural population and create revenue for government through taxations and thereby promote poverty reduction. In the rural areas of Ethiopia cooperative seems to have high employment creation potential through promoting local investment and encouraging entrepreneurship between micro and small community based enterprise. Entrepreneurship relation is very essential in enhancing the linkage between different sectors as well as efficiently generates employment opportunity and poverty reduction.

The performance of the ten cooperatives in creating local employment opportunity (both direct and self-employment) cannot be undermined, through it is far from being adequate.

In line with this argument the study found out that some member of the four cooperative were to acquire different asset of their own (residential house, and animals like goat, sheep, chicken, and beehives).such activities have impact poverty reduction.

In the ten cooperative engagement of members in various types of activates depend on personal interest, their priority experience and access to finance.

#### **4.2.2.5 Governance of Cooperatives and participation of members**

In all cooperatives, the members' participation in various affairs of their cooperatives not to the expectation, for instant in all cooperatives, member participation in making additional investment in the shares of their cooperatives is negligible or totally absent. This is due to the absence of meaningful dividend incentive. 95.5% of the households in the ten cooperatives agreed and strongly agreed to the member of the cooperatives willingly (table 15).

Table 15 level Agreement of Members' whether they become Members willingly

	Garacho	Shunity	Gano	Yeresunet	Shuna	Ganete	Fana	Tesfa	Delebte	Ermiche	Total	%
Strongly disagree	0	0	0	0	0	0	0	0	0	0	0	0
disagree	0	2	1	2	0	0	0	2	0	0	7	3%
neutral	4	7	1	1	3	2	1	1	1	2	23	10%
Agree	7	10	9	8	9	10	8	10	14	9	94	40%
Strongly agree	9	10	13	15	14	10	11	7	8	13	110	47%
Total	20	29	24	26	26	22	20	20	23	24	234	1

Sources: - Primary data collected through felid visit survey Jan.2016

Obviously, members should be loyal to their respective cooperatives, have full commitment and participation in its activities if they feel that the cooperatives were under their full control and have power in decision making. How members participate in the major activities and decision making might be preparation and passing by laws. The bylaws could contain different regulation on price profit sharing, exception of activities, elections of leaders and assigning of individuals in different commitments. They need to feel also that there was no investment of external bodies such as government officials that impose decisions on the activities of their cooperatives.

Election in the cooperatives were held democratically without any intervention and preset by promoters or officials. Decision with the cooperatives are held by discussion, first within leadership and then by the general assembly before its implementation.

There was no intervention of officials in the decision making of the cooperatives. But six out of the eight (80%) of the members indicate that the district cooperatives promoters were unwillingly to distribute the share of profit gained by the cooperatives and on other investment decision. This indicates that there were prevalent of unwanted and unaccepted innervations of the government officials.



34% of the respondents for the questioners felt their cooperatives properties and /or money were embezzled or misused while the remaining, 9% no resend and 57% indicate that there is no embezzlement or misuse.(table 16)

Table 16 repose of cooperative member on Embezzlement or Misusing of cooperative property and /or money

Response	Question: do you feel that your cooperatives members on embezzlement or misusing of cooperative property and or money?											
	Garacho	Shunity	Gano baye	Yeresun et	Shuna dro	Ganet e	Fan a	Tes fa	Deleb tegle	Ermic he	Total	%
Yes	6	8	12	6	7	6	10	4	15	6	80	34%
Neutral	2	3	2	0	2	1	2	1	3	4	20	9%
No	12	18	10	20	17	15	8	15	5	14	134	57%
Total	20	29	24	26	26	22	20	20	23	24	234	100%

Primary data collected through felid visit survey Jan.2016

For the question regarding who embezzled the cooperative property and /or money from those who replied ye, 98% of sample population puts some management committee members responsible, where as 1.7 % said all management committee members. (Table 19)

Some of causes of embezzlement and? or misuse were short coming in technical and professional capacity of leaders to control the employees on their day to day activities, money obtained from the merchandise consumable goods at the shops stay for long time in hand of employees without frequent and efficient control. There were problems associated with expenditures.

#### 4.2.2.6 Human Resource Management of Sheka Cooperatives

Management as a science is the human aspect of management, which is responsible for enlisting enthusiastic and willing cooperation of the employees, which is the fundamental factor for efficiency and success of an enterprise. To make the organization successful and for achieving

the organizational goals, every organization should follow an appropriate and more suitable human resource management policy.

In the cooperative of the Sheka zone the personnel policy is designed by the board of the directors. The personnel policy of the cooperatives is influenced by the external society environment, organizational culture, and pressure from employee and economic viability of the organization. It was observed that in the cooperative of the Sheka zone sound personnel policy have not been observed. The personnel units which were found in the Zone were only establish unit concerned only routine service like appointment. In order to create sound personnel policy it is necessary to create full-fledged personnel department staffed with competent persons equipped with the necessary skills.

In the cooperative in the Zone, there were certain problems in the recruitment which have been diagnosed by the focus group discussion and observation. Some of these were: there was no employment procedure to recruit employee in the Zone because member were recruited in most of the cooperative with out of vacancy and enough candidates were not considered for each post to compare. In almost all the focus group discussion of the cooperative in the Zone they said that there was lack of skill manpower in the cooperative and the reason for this was:

- Most of the members were farmers and illiterate.
- The cooperative had no enough capacity to recruit skill manpower with adequate salary.

### **4.3 Financial performance of cooperative**

#### **4.3.1 Capital structure of cooperatives in Sheka Zone**

AQ capital structure is one of the basic decisions in financial management. The capital structure of the cooperatives firm, , differs from that of the company. The capital structure of a cooperatives organization is designed as to serve the main objective of serving its member at lower cost.

There are four main sources of financing of the cooperative; they are share capital, reserve fund, borrowing and grants.

1. Share capital – the initial capital of a society is the amount of share sold to individual members. Membership to cooperative is obtained by a purchase of at least one share of

stock. According the Ethiopia cooperative proclamation Number 147/1998 article 16, no member shall hold than 10% of the total paid up capital of such society. This was to ensure that no one member, by having a predominating influence in the society, shall indirectly try to control the society. However, no one member of any cooperative shall have more than one vote regardless of the number of shares he/she owned.

2. Reserve fund: -this consists of portions of annual surpluses that were not allocated to the members but retained by the cooperative after a financial year. It is unique source of finance in cooperatives. According to the Ethiopian cooperative proclamation Number 147/1998, with amendment of 106/2004, any cooperative shall deduct 30% of the net profit and allocate for reserve fund. The amount allocated for the reserve fund shall not exceed 30% of the capital of society, and it shall be deposited in the saving account of the society. The main advantages of reserve fund are there is no explicit cost involved the sources of capital and it serve as a cover protecting members from losses.
3. Borrowing: -reserve fund and share capital are not always insufficient to finance a society a society's operations and expansion. Due to the fact that most member's multipurpose cooperatives are generally poor and the fact that members are mainly farmers or producers with seasonal incomes, borrowing is necessary to finance their activities. This borrowed capital has repaid with interest at a fixed date in future.
4. Grants:- new cooperatives enterprise in less developed countries commonly receive government or foreign donor grants. The justification for grant is to provide startup capital which might be difficult to rise from members and impossible to obtain from financial institutions. Technical assistance is usually provided along with grants from foreign donors, which may greatly benefit a new cooperative.

Table 17:- Cooperative sources of fund

No	Name of cooperatives	Share capital	Reserve fund:	Borrowing:	Borrowing Micro finance institution(bank)	Grant NGOs	Total	% of grant from NGOs support
1	Geracho	17,240	25,148			33,301	75,689	44%
2	Shunity	1,230		22,760		900	24,890	4%
3	Ganobye	36,025	82,087	31,662	198,534		348,308	0%
4	Yeresunet	7,500	4,818			269,736	282,054	96%0%
5	Shunadano	1,125	13,888	72,997			88,010	11%
6	Ganeti	1,400	1,147,691			142,699	1,291,790	0%
7	Fana	106,855	9,090	25,290			141,790	0%
8	Tesfa	32,700	48,243	273,606			354,549	18%
9	Delebegele	93,584	83,713	185,150		78,980	441,27	18%
10	Ermiche	1830	4,904	27,530		13000	47264	28%
	<b>Total</b>	<b>10%</b>	<b>46%</b>	<b>21%</b>	<b>6%</b>	<b>17%</b>	3,095,216	

Primary data collected through felid visit survey Jan.2016

In summary, from the focus group discussion of the different cooperative of the zone, the main sources of capital for the cooperatives were the share capital from the members, the reserve funds obtained from the operation of the cooperatives, borrowings from banks, and, in this case until now, the government takes the collateral on behalf of the cooperatives to encourage the cooperatives movement and grant from some NGOs like MELCA. As shown on the above table 16 most of the capital structure of the cooperatives in the zone is weak because it is mostly rested on the borrowings and Donors support.

#### 4.3.2 Asset building by cooperatives

The ten cooperatives have different type and size of assets. According to the district cooperative promotion office report 2014 their asset was as follow.

Table 18 shows Asset build by cooperatives as of June 2014

S/No	Name of cooperative	
1	Geracho	75,690
2	Shunity	26,667
3	Ganobye	356,095
4	Yeresunet	293,296
5	Shunadano	88,011
6	Ganeti	1,291,789
7	Fana	141,235
8	Tesfa	359,549
9	Delebtegele	441,427
10	Ermiche	47,265

Primary data collected through felid visit survey Jan.2016

The mere capital accumulation cannot be an end by itself in changing the life of members and in promoting local economic development. To bring meaningful changes with these regards, the accumulated capital should be reinvested within the local area in building different types of assets. with in this respect, all of the surmised cooperatives have made one or more type of investment in their respective unions. But the amount of investment made by the cooperatives varies from few hundred ETB to hundred thousands of ETB (table 19)

Table 19 Different types of investment made by the cooperatives as of June2014

	Garacho	Shunity	Gano	Yeresunet	Shuna	Ganete	Fana	Tesfa	Delebte	Ermiche
Construction office			40352				-			-
Purchase of office equipment		1236		10,100			-	2150		-
Investment coffee and	12000					1000000	-			-

spice production										
Investment on warehouse store house			25,881	191,810			-			-
Investment on processing machine			3454	17860		1,162,443			115,123	-
Investment on share			10,000		3000	5000	-			-
Investment for local social activities							-			-

Source: Sheka Zone cooperative and promotion office 2014

As it is shown in table 19, three cooperatives have made investment on share in their respective union, and four cooperatives purchase of processing machine and the other two invest their capital on long term agricultural investment, these are good practice for cooperative growth and to achieve their desired goal. However, none of the cooperative invest have made contribution for various socioeconomic infrastructure development activities, in addition to this cooperatives not diversify their capital on different investment.

The study has confirmed that investment capacity of the cooperatives is undermined by multiplied of problems such as limited capital and lack of commitment on the part of the leaders. Other limitation such as practice of prohibiting cooperatives investment in some areas, lack of qualified and visionary human resources, and inadequate of awareness on cooperatives business idea are also contributing for weak investment capacity. Moreover technology constraint and operational inefficiency are among the serious problems that have limited investment capacity.

### **4.3.3 Ratio Analysis**

The nature and classification of ratio vary from organization to organization but generally a few ratios are widely used. Information about financial result of cooperatives is important for management decision. The financial statement analysis has some benefits such as identifying problems, initiating timely corrective action and identifying potential opportunities.

Using some financial ratio analysis those are appropriate to measure financial performance of the ten selected are as follow;

#### **4.3.3.1 Current ratio**

The current asset are those assets, which are easily converted in to meet the obligations which mature a short period, namely a year. The results of assets to current liabilities ratio is considered one among the key factors to decide the organizations short term financial policies.

The general accepted ratio is about 2 to 1. The higher ratio the faster creditors can expect payment. A higher ratio also can indicate excess inventory, too much idle cash or a very lenient to meet current obligations.

The current ratio of Geracho, Yeresunet, Gantiand Fana cooperatives were above the norm and this is because of too much cash, that indicate there were idle money that notable to invest on appropriate investment. The current ratio of the others seven Cooperatives are below th standard that indicate there were high payable to recorded to members.

Table: - 20 current ratio analysis June 2014

Name of cooperative	Current asset	Current liability	Ration
Geracho	75,690	0	-
Shunity	25,430	22,760	1.12
Ganobye	272,774	230,197	1.18
Yeresunet	70,860	11,242	6.3
Shunadano	85,011	72,998	1.16
Ganeti	97,084	0	0
Fana	141,235	25,290	5.58
Tesfa	357,399	273,606	1.31
Delebtegele	326,303	185,150	1.76
Ermiche	47,265	40,530	1.17

Primary data collected through felid visit survey Jan.2016

#### 4.3.3.2 Financial capacity of Cooperatives (Debit to Equity ratio)

Adequate capital is one of the fundamental requisites for sound business operation. At the same time it is one of the biggest challenge facing cooperatives. The cooperatives under this study have serious financial limitation. Instead of mobilizing financial capital and other local resources to support the achievement of their objectives, the cooperatives have taken a large volume of money from government owned, Donors and financial institution

To measure the financial capacity of cooperatives this study calculate debit equity ratio of each the of the ten selected cooperative as show below.

The debit equity ratio or solvency ratio shows the extent of which cooperative use debit to finance investment and the cooperative ability to meet interest charge and other fixed payment. This rate measures the amount of finance supplied by creditor verses the amount provides by



members. A ratio of 1to 1 ratio is generally accepted as a desirable objective. This rate indicates the relative proportion of capital provided by members and creditors.

Table 21:- The burden of Debt of cooperatives (Equity Vs debt) as June 2014

Name of cooperative	Equity	Debt in ETB	Ratio
Geracho	75,690	0	0
Shunity	3,908	22,760	5.82
Ganobye	125,898	230,197	1.83
Yeresunet	282,054	11,242	0.04
Shunadano	15,013	72,998	4.86
Ganeti	1,291,789	0	0
Fana	115,945	25,290	0.22
Tesfa	85,943	273,606	3.18
Delebtegele	256,277	185,150	0.72
Ermiche	6,735	40,530	6.72

Sheka Zone office of promotion report (2014) cooperatives audit report

Although members economic participation is one of the cooperative principles, member do not contribute to the capital of their cooperative, so cooperatives do not have other alternatives sources of capital except external bodies' loan, such as government owned initiations or private micro finance institutions.

As a result from debt to equity ratio analysis table above cooperative such Shunity, Ganaboye, shunadan, Tesfa, and Ermiche, lender had contributed more funds than member. This create less flexible in the cooperative operation as creditors would exercise pressure and interfering management of cooperatives. However, the leverage ratio indicate on cooperative Gerach, Gneti, yesernet, Fana, Dele btegele management is not taking advantage of its debt financing capacity for the purpose of to increase productivity or to diversify its productivity.

#### **4.3.3.3 Total Asset Turnover ratio**

The total Asset turnover ratios indicate how much One ETB or USD in a sales the cooperatives squeeze total asset turnover, each ETB or USD it has invested in asset. Generally, the higher a cooperative total asset turnover, the more efficiently its assets have been used.

Table 22 Total Asset turnover ratio

Name of cooperative	Net Sales	Total Asset	Ratio
Geracho	26,444	75,690	0.35
Shunity	2806	26,667	0.11
Ganobye	53,012	356,095	0.15
Yeresunet	23,651	293,296	0.08
Shunadano	3,300	88,011	0.04
Ganeti	196,979	1,291,789	0.15
Fana	6,274	141,235	0.04
Tesfa	45,120	359,549	0.13
Delebtegele	(56,144)	441,427	- 0.13
Erniche	3,956	40,530	0.10

Primary data collected through felid visit survey Jan.2016

Based on the analysis from table and clearly show on the graph above, the total asset turnover for all samples taken cooperative was low, or inefficient which indicates the cooperatives were not generating sufficient value of sales for the size of investment in assets. Therefore, these cooperatives should take steps to increase sales (asset remains the same) or dispose their investment in asset or both.

#### 4.3.3.4 Profitability ratio

The profitability ratios measure operating efficiency and ability to ensure adequate return to members. These ratios were used to evaluate the overall management effectiveness and efficiency in generation profit on sales, total asset, and owner's equity.

The net profit margin measures the percentage of each ETB remaining after all the cost s and expenses, including interest and taxes have been deducted.

Table 23 Profitability ratio of sample cooperative June 2014

Name of cooperative	Net profit (Loss)	sales	Ratio
Geracho	25,149	45,800	0.55
Shunity	2,716	2,806	0.97

Ganobye	4,785	543,551	0.01
Yeresunet	16,060	157,378	0.1
Shunadano	13,888	18,935	0.73
Ganeti	127,946	606,226	0.21
Fana	5,557	6,049	0.92
Ermiche	3,726	3,676	1.01
Tesfa	32,176	34,053	0.94
Delebtegele	(299,084)	717,501	

Primary data collected through felid visit survey Jan.2016

From Table the net profit margin contributed small ETB to profit, but Delebtegele cooperative shows that there was a loss for every ETB Sales made. From the focus group discussion the loss the occurred an in Delebtegele as a result was made less prices than purchase, this indelicate there is operational problems and not have internal control and lack of willingness functional of cooperative organizational structure.

#### **4.3.3.5 Profit and dividend distribution**

The practice of allocating benefits to members and dividends to shareholders are the principles of cooperative. It serves as incentives to promote members' participation cooperative affairs and development a sense of ownership among members.

The 1998 Ethiopian cooperatives legislation stipulate that the cooperatives society shall deducted 30% of the net profit and allocate for the purpose of reserve, expansion of business and social services provisions. The remaining net profit hall be divided among the members. The division shall be made on the base of the shares and amount of goods offered for sales to the society or goods purchased from the society by the members. In this regards, the achievement of the ten cooperatives are very minimal. For instance, within three years only Ganobye paid dividend two times; Geracho, and Ganeti cooperatives paid dividend to members only once.

The result of this study clearly indicated that the cooperatives failed to allocate profit to members due to unprofitability and debt repayment and shortage of working capital. As a result of financial constraint the cooperative were not able to repay the debt of loans on time. Thus they

have accumulative debts. This unpaid dividend to member also showed the cause for inadequate participation of members.

Table 24 show Trend in allocated profit to cooperatives Members (2012 -2014)

Name of the cooperatives	30% profit allocated to member (dividend)		Dividend paid
	Year	ETB	
Geracho	2012	2,534	
	2013	17,604	17,604
	2014	15,542	
Shunity	2012	3,954	
	2013	4,349	
	2014	4,871	
Ganobye	2012	7,915	4,773
	2013	9,326	6,178
	2014	3,349	
Yeresunet	2012	-	
	2013	-	
	2014	11,242	
Shunadano	2012	1,993	
	2013	3,562	
	2014	4,166	
Ganeti	2012	26,645	
	2013	24,534	24,534
	2014	38,383	
Fana	2012	2,056	
	2013	2,635	
	2014	1,672	
Tesfa	2012	3,433	
	2013	10,000	

	2014	23,837	
Delebtegele	2012	-	
	2013	-	
	2014	-	
Ermiche	2012	826	
	2013	-	
	2014	2,608	

Primary data collected through felid visit survey Jan.2016

#### **4.4 Opportunity of cooperatives**

According to Esman and Uphoff,(1984), the ability of local organization, including cooperatives, to promote socio-economic growth and development depends on linkage with government institutions that control and allocate various services and resource.

Cooperative needs the right environment with good policy. To have such kind of environment, there should be a positive relation between cooperatives and the state. The state has the responsibility to formulate policies that encourage the growth and development of cooperatives.

The government can support the development initiatives of cooperatives by establishing open and competitive policy, sound operating environment; providing financial and technical assistance; providing specialized training to leaders and members; avoiding negative intervention; counter acting the opposition of the interest groups; requiring government agencies and staff to protect cooperative and the right of members and reinforcing accountability and internal discipline. According to the new cooperative legalization, these ten cooperatives are entitled to receive the above mentioned services and other related supports from the government.

The cooperatives have created a good opportunity for different organizations, for Example, MELCA- Ethiopia, local NGO involves in income diversification and raising the living standard of the cooperatives members. According to Sheka Zone cooperative development and promotion office during the last five year about ETB 7, million was given as seed money to support their income generating activities.

Other opportunity of cooperative is collaboration between cooperatives. Pro. Number 137/98 article 5(6) indicate that collaboration between cooperative is essential to give better services to their members and local community at large.

It is oblivious that cluster formation of cooperative is beneficial in order to undertake agro-processing and marketing of local product, cover financial requirements, and take joint investment.

#### **4.5 Challenges of the cooperatives**

The ten cooperatives have faced challenges that affected their performance negatively and incapacitated productivity and wellbeing of their members. These challenges are presented as follows;

1. Lack of understanding and or braking bylaws; Cooperatives organization are expected to have by law, which are the requirement of the state. The bylaws clearly indelicate the responsibilities, the right and duties of members, the power, responsibilities and duties of management bodies; condition for withdrawal and dismissal from members ;objectives and activities of the organization and allocation and distribution of dividend to the member. As the result of this study indicated that the cooperatives members knowingly or knowingly were not bind by their bylaws. This situation imposed negative influence on the management of the cooperative business and the overall operation of the cooperative organizations.
2. Market constraint; According to Grodon and Kinders,(2001 cited in Woldu(2007), cooperatives have market problem of inputs and implements, which are generally too high in developing countries. In relation to this study indicate that the main problem rural societies in the study area were high price of input and production materials and law price of product. Cooperative are expected to fill the gap and might provide variety of benefits to their members. Cooperatives can purchase variety of inputs in bulk on a cheaper price and provide sales outlet to the members on a cheaper rate. Regardless the this mentioned opportunities, the cooperatives couldn't utilize it. The study found that in the ten cooperatives there is a reverse trend due to inefficient leadership and management.

3. The main objectives of cooperatives is to sell members' product directly in the market with the best price and attract members to produce the best quality which have the most demand. But the study confirmed that the members of cooperatives do not get attractive benefit for their product. Thus, members of the cooperatives sell their product to market privately at low price during harvesting time and they do not find extra benefit in selling to cooperatives. More ever they do not sell their products to cooperatives due to lack of proper management that could plan and buy members product right after harvest. Thus poor members in the cooperatives will be enforced to sell their product with low price. From this ,it is conclude that cooperatives need to organize their purchasing and selling organization to run in a business –way and attract members to hand over their products to their cooperatives.
4. Limited business diversification
5. Poor management and promotion – Sometimes cooperative promoter did not consult cooperative at full capacity for different reason such as low monthly salary, lack of budget for perdiem and transport an even the worker in the cooperatives Promotion office in relation to the member of cooperatives was minimum.
6. Cooperatives can involve into various activities. They have to strengthen themselves and engage in diversified activities. The study has pointed out that the study areas have the potential for diversification. There are suitable environment for production of Coffee, spice and honey and other idle productive resources. However there are factors that have constrained optimal utilization of existing potential. Some of the challenges are: limited financial capacity, lack of awareness entrepreneurship, limited access to modern technologies that are important for the diversified activities, inadequate governmental institution support, inadequate member participation and lack of efficient and capable management. Hence, prudent reactions to overcome these problems seem indispensable. To utilize and sustain the potential and expand the market opportunity created by the cooperatives to other potential areas lacking. Furthermore, this is essential to sustain the realized benefits of the members and enhance member's abilities in generating and diversifying income source, building asset and increase local employment opportunity, which are important to members' livelihood.

## Chapter 5

### 5. Conclusion and recommendations

#### 5.1 Conclusion

Cooperative is an important tool for better living since enable the individual to achieve heights which cannot be reached in isolation. Cooperative improve the standard of living of the people by providing them with proper education and training and by uncalculating them a spirit of cooperation. The survival of cooperatives bodies ultimately depends on attainment of the target, especially financial target.

- Fundamental cooperatives are autonomous, democratic private self-help organization controlled by members. But this doesn't mean that they could not get support from external agent like government. Zonal cooperative promotion office, supported cooperatives in their basic infrastructure needs to start the activity. However, training and follow up of cooperatives business activities, were inefficient. There is shortage and absence of technical support. The Zonal as well as the regional Cooperative promotion office doesn't have sufficient trained experts. Some of the workers in the Offices are new transferred or appointed to the position and have no sufficient training or knowledge on cooperative organization. They do not has sufficient, data and documents on the cooperatives the area.
- The study has found that all cooperatives have bylaws, which outlined the cooperatives principles and values. Moreover, the national cooperatives proclamation gives clear direction and guidelines to run cooperatives as autonomous association. But it is not well understand and put fully in action. Some cooperatives principles are violated in different ways. For instance, even if 95.5% of the households joined the cooperatives on free well base they have fear. They indicated that if they were not members of the cooperatives the local leaders will exclude them from government assistance and other benefits such as "safety –net.
- The study confirmed that there was no replacement or change of leadership in cooperative and cooperative was led by few members for longer period. The leaders do not do have sufficient training on cooperatives activities. Thus, the leaders are not capable to run the cooperatives property. There is a lack of trained managers and



employees. As the result the cooperatives do not have well organized accounting and documentation system.

- The growth in number of membership can be taken as an indicator for the good environment in the cooperative sector. The sample cooperative showed significant growth in member size. The proportion of members to the total households in the effective services area of the cooperatives was 65% and only 34% of the households are not member of the cooperatives

**Capital accumulation and asset building:** - The cooperatives accumulated capital through members' register fee, premium contribution of member, support from nongovernmental organization and from their operational scruples. Practices of raising additional capital from sale of new shares are insignificant in all cooperatives. This is absence of meaningful dividend incentive. Moreover, the accumulation of capital in these cooperatives is very weak due to constraining factors such as lack of adequate members' participation, lack of diversity activities, lack of commitment on the part of the leader, financial and theological constraint and lack of adequate organizational support. The investment they make on asset is inadequate; they try to avert risk by depositing their money in bank instead of investing in production activities. In general there is lack of capacity to make meaningful investment.

Employment Creation and income diversification is the very important economic roles expected from cooperatives enterprise. This problem is related to their capacity to diversify their activities. The overall situations with regard to direct employment creation are sluggish. On the other hand, the contribution of the cooperatives towards self – employment and income diversification appears imperative. As it is understood from the study, the cooperatives are playing important role through provision of credit /loan facilities, and creation of access to resource for the poor peoples. Consequently, their member are able to engage in various activities such as animal fattening, poultry activity petty trading, production of various vegetables by using irrigation ,and production and sales of mineral such as sand and gravel. So, in relative term members of the cooperatives are in better condition in gathering income by creating and or diversifying their activities.

In general the researcher has analyzed the financial performance on the Sheka cooperatives with the help of audit report those collected from the three woreda cooperative promotion offices and from Sheka Zone cooperative promotion office. In order to analyse the financial performance of the cooperatives the powerful tools, namely, the ratio analysis has been used.

The researcher has identified different kinds of ratios based on the objectives of the present study. On the basis of the result of the ratio analysis, the researcher found that the financial performance of cooperatives was not encouraged. In most of the cooperatives the liquidity position was not enough to meet its obligations.

From the origin and development of the cooperatives in the Zone, even though cooperatives started operation during the Derge Regime that is before 25 years ago, the cooperative in the Zone were registered recently. As per regional Zone cooperative promotion offices interview, the numbers of cooperative, members and share capital have been increasing from year to year.

According to Proclamation of 147/1998 all the managements were included in the laws of the cooperatives of the Zone. The main sources of capital for the cooperatives in the Zone were share capital from members; reserve obtained from cooperatives, borrowing and grants from NGOs, the training was not based on systematic assessment of training needs, planning, and organization of training programmers and utilization of the available training facilities in the cooperative of the Zone.

The paper focuses on the operating and financial performance of cooperatives. To answer the research questions; the questioner, focus group discussion and, interview and ratio analysis result summaries are:

**Performance of cooperative;** -Loan provision is one of major services provider by the cooperatives. They have enabled a good number of their member to access loan services for various product and services rendering activities. The volume of loan services is increase from year to year partly due to the increase in member size and partly due to the availability of loan from other sources such as governmental banks. The collateral given

by SNNPR State to bank has significantly affected the amount of loan available in the area. However, the potential of the cooperatives in creating dependable financial service for members is hindered by numbers of problems. These problems are lack of access to educate s credit services, lack of adequate and committed leadership that can mobilize financial resource and inadequate of members participation and lack of providing necessary technical support on the part of the government

**The liquidity ratio** of the ten cooperatives were below the norm this shows the cooperatives' ability to meet financial obligations within the period was not in good manner. This is because of why the liability was of greater amounts.

**The debt-equity ratio** of the cooperatives showed, in general the lenders' contribution was greater than the cooperatives' share capital contribution. the equity to total asset ratio of the cooperatives also showed more than 50% of the cooperatives assets were owned by creditors.

The net profit margin of the cooperatives showed positive amount in most of the cooperatives but the amount was at lower level and the Delebetegle cooperative contributed to loss for ever ETB in sales. This indicates the management and efficiency of each unit of sales to profit was not good. The contribution of total asset to the profit of the cooperatives shows there was inefficient utilization of asset.

The focus group discussion indicates that, the perception of the cooperative members on their role was positive.

From the discussion, interview and from analysis the researcher observed that the main reasons for the poor operating and financial performance of the cooperatives in the Zone were:

1. The main causes for the poor operating and financial performance was their inefficient management. They have been run by inexperienced, untrained and non-professional mangers and personnel that not only in the cooperatives but also cooperative promotion offices.

2. A significant part of the total capital employed was in the form of borrowed and donation capital. This was reflected in the heavy amount of interest on borrowed capital which was great financial burden, the donation also increase the dependence of the member. Because of these factors, they could not build up a sound base for self-financing.
3. The cooperatives were faced severe computation from outside the cooperatives sector. As a result of lack of marketing information, the cooperatives were unable to sell their products and most of the cooperatives have pricing problem.
4. It has been observed that in most of the cooperatives the manpower lacks expertise and professional qualification. There was poor manpower planning and this was clearly reflected in the inadequate arrangement of training and education.
5. Although all the cooperative were operate accounting record manually, there was no clear accounting systems for all the cooperatives because of this cooperative not able to generate on time financial report and also the system is open for fraud and corruption. For example like Delebetegle cooperative.
6. The financial statements of all the cooperatives were not prepared at the end of the fiscal year because of lack of skilled manpower. Therefore different types of on time decisions that can be decided at the right time were postponed and also some of the financial statements were prepared by auditors by merging different periods which are contrary to GAAP.

**Opportunity of the Cooperatives:-**The following factors were taken as opportunities created by the post 1991 economic and political liberalization and policy reform measure for cooperative development in Ethiopia.

The current Ethiopia government development strategy (the agricultural led industrial development) considers farmers cooperatives as main tools of agro-industry development and employment creation to the rural as well as poverty reduction. There is encouraging cooperative policy without prejudice to incentives permitted under investment laws and other laws.

Cooperatives have got an opportunity to be exempted from income tax, Beside the SNNPR region state is persuaded to take risk as collateral for cooperatives debt from bank.

Creation of conducive environment for the development agents such as NGOs, Donors, and international organizations, these development organization work freely to support cooperative development in the country. They give financial flow, information exchange, skill and technology transfer and development of strategic partnership.

**The challenge of cooperatives:**-According to the study showed that under the current socio –economic and political environment change, cooperatives are facing various internal and external problems. The major findings regarding the challenges are

The government offices are weak in providing technical assistance such as adequate market information, financial services, and training to leaders and staff and absence of scheduled audit services. In addition the governments offices are giving more emphasize to organize new cooperatives than strengthening the existing ones.

Lack of cooperatives professionals to run the cooperatives movement, absence of well-organized accounting or documentation system, lack of training or experience sharing opportunities for the management and the employees are the main internal challenges.

The major of the cooperative member are illiterate and even the literate ones have no sufficient knowledge of cooperative principles and values. Therefore, cooperatives without the support of cooperatives promoters will not have the capacity of use their cooperative efficiency. They do not have the capacity to control the employees and the financial transaction in their business activities.

In general it is understood that the roll of cooperative in improving the livelihood of cooperatives member and reducing poverty, is promising.

## 5.2 Recommendations

According to the study cooperatives operational result was either they earn small profit or they incurred a loss and the operational activities were limited. Based on this, the recommendations are as follow:

- Government has to be committed to establish marketing, finance, technological and educational facilities to support the cooperatives movement, government should design national trade policies that facilitate local, regional and international trade and ensure access to market information and linkage with international market and private market. Government bodies should also avoid the negative intervention in cooperative affairs. Moreover, effort has to be made to increase member's awareness on the nature of cooperatives and their rights and duties.
- The adequate, timely and sustainable support of cooperatives promotion Bureaus is indispensable to the cooperative established under their jurisdiction to ensure their sustainability and success. However, presently the bureau are far from providing these service in educate, timely and sustainable manner. Moreover, the establishment of technical advisory committee at all level of cooperative promotion bureaus can be helpful in providing cooperative extension services. There is need of advice on accounting, purchasing marketing, production techniques, and access to collective facilitate and center for the special marketing and industry information, guidance in preparing loan utilization.
- The office term cooperatives; leaders should be for a limited period. Cooperative has to be supported by professional managers and workers in order to implement cooperative vision and provide more efficient services to their members and users. Provision of relevant and adequate training on sustainable basis up to the grass root level should be considered. To this end ,emphasis should be given to short term training and cooperatives educations at certificate level parallel to higher degree programs and their by build the human recourses of such institution.
- The importance of community support for cooperatives in realizing their development potential cannot underestimate. Therefore resorting peoples' confidence on these institution through launching advocacy works using mass-medias and experience sharing

activities should be done adequate and sustainable in a way that could be reach all the target commitment.

- The government Ethiopia should be committed itself to creating a favorable environment for cooperatives development. With relatively scarce resource the government has it should be focus on the provision of physical structure such as roads and telecommunication facilities would help to reduce transport and communication costs.
- Cooperative must act as buying agent and be involved in supply chains of high value products such as honey, vegetables and fruits. These activities help the cooperative members to reduce transaction cost as well as other risks. Most of the members do not have ability to train their product after harvesting and they are obligated to sale with unprofitable prices. Cooperative must purchase members product at a reasonable price during harvest time. Government agencies and NGOs should participate in carrying cooperatives financial, technological and technical constraints.
- The cooperative should have launch market survey and adjust production according to market need by diversifying their products. The cooperative should get timely, accurate and reliable market information through different communication network to assess the local and foreign market.
- A new recruitment policy should be formulated by the government and the cooperative. Right types of qualified, experienced and professional personnel should be selected to fill accounting and management positions of the cooperatives.
- As business transaction grows large in cooperatives, the existing system of accounting could invite a fraud. The cooperative should plan to introduce a better system and hence, they have to support by the concerned government offices.
- The cooperative must issue additional shares to increase self –financing
- The cooperative must have adequate arrangement for supervision, audit and inspection to keep a check on their operations. The supervising organization or cooperation development and promotion office and others should make continues supervision and assistance in their purchase process, market assessment and gathering other important information.
- To boost the operational capacity of cooperative solving human, financial technical and technological problem is requisite. Besides, the tendency of restricting and or prohibiting

the diversification of activities (operational area) of the Cooperative can make investment by pooling their resources in economically efficient way. In addition, enhancing cooperative linkage with different development actors should be given a proper attention. The realization of crate access opportunity for rural people to different input and output market, modern technologies, training employment, and other socioeconomic opportunities enable them to improve their livelihood.

- Imitation of NGOs also have a considerable influence on the performance of cooperatives therefore, NGOs should give financial, materials, technologies, moral and technical support to cooperatives in order to improve their efficiency and productivity. Existence of cooperatives training and education institution is one of the requests for the development of cooperatives. Therefore, NGOs have to work together with government to establish such institution in the country.
- The future will require cooperatives and unions to improve marketing through networking with potential buyers by using modern information communication technologies. COOPs must have access to accurate and update market information, reliable price and volume statics in order to market products efficiently. External assistance will be required to see the transfer of these technologies at appropriate levels of complexity to the cooperative system and integration in their daily operation.



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