

# The Role of Farmers' Agricultural Cooperatives in Farm Input and Output Services in Meskan District, Southern Region of Ethiopia

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## **Acronyms**

ARDB	Agriculture and Rural Development Bureau
DARDO	Meskan District Agriculture and Rural Development Office
DCPD	Meskan District Cooperative Promotion Desk
DFEO	Meskan District Finance and Economy Office
FAC	Farmers Agricultural Cooperative
FCA	Federal Cooperative Agency
FDRE	Federal Democratic Republic of Ethiopia
PCC	Population Census Commission
PA	Peasant Association
WFCU	Walta Farmers Cooperative Union

## **Abstract**

The present study explores some of organisational factors that affect the effectiveness of Farmers Agricultural Cooperatives (FACs) in Meskan district, southern region of Ethiopia. The research is qualitative study. Both primary and secondary data were collected from different sources to get adequate insight about the topic, to acquire information and to verify findings. Primary data were collected from two purposively selected FACs in the district. Individual interviews with 30 members of FACs, group discussion with five and six members of the management committee of selected FACs separately and group discussion with five District cooperative promotion desk (DCPD) staff were held.

This study indicated that re-structuring of FACs is not member driven but... In addition to this technical supports that are provided by DCPD staff are not designed in the way that FACs enable to help them. This situation leads members to perceive FACs as government institutions. Moreover, it identified that there is poor communication between the management committee of the FACs and their members.

The study also pointed out that the educational status of most Management committee of the FACs is low and they didn't get adequate training. Due to lack of capacity, they have problems in managing and functioning of FACs such as planning, organising, staffing and, monitoring and evaluation. In addition, it revealed that the FACs have shortage of capital to perform their activities properly.

Finally, this study indicated that the members of FACs didn't get adequate farm input especially timely supply of improved seed of the required quality. Also, the members of FACs didn't get dividend from their FACs. Besides, it revealed that members of FACs have problem in responding to demands of members, accountable to their members and adapting the activities of FACs to current situation.

# CHAPTER ONE: INTRODUCTION

## 1.1 General background

Cooperatives have a long history in Ethiopia starting from the Imperial era (1930-1974) and continuing through the military or the Derg regime (1974-1991), till now with a remarkable back and forth in terms of performance. The largely negative experiences of performance of the cooperatives led to their dissolution following the fall of the Derg regime, which created a gap until 1994 when the Government of the Federal Democratic Republic of Ethiopia (FDRE) decided to re-establish the cooperatives in a new way to promote the greater market participation of the smallholder farmers (FDRE Proclamation Numbers 85/1994 and 147/1998). This was again later reaffirmed by the sustainable development and poverty reduction program (FDRE, 2002) and the plan for accelerated and sustained development to end poverty (FDRE, 2005), in which cooperatives are given a central role in the country's rural development strategy.

Multipurpose Cooperatives otherwise called as FACs are thought to carry out different types of activities. Potential activities that can be performed by agricultural cooperatives include marketing of agricultural inputs and outputs, provision of agricultural credit, production and marketing of seeds and seedlings, processing of agricultural produces, provision of storage facilities, supply of consumer goods, operating a flourmill for grinding of food grains & other spices, mining of sand & stone, and manufacturing Hollow blocks (Veerakumaran, 2007).

FACs are established based on guiding principles that indicate a mandate to provide services that are essential and beneficial to members, membership criteria that allow for any interested farming household to join the cooperative, and a governance and management structure that encourages participatory decision-making. It is assumed that the guiding principles are preconditions to enable FACs to effectively perform to the expectation of the farmers. However, it seems that these principles are not effectively considered and consequently the effectiveness of the FACs is hampered considerably. Especially the participation of members in decision making process in most FACs is low (Bernard and Spielman, 2008).

FACs in Meskan District in Gurage zone in Ethiopia were established similarly to help improve the livelihood situation of the members through facilitating the provision of farm inputs at minimum cost and getting a better price for their produce than selling it through the channel of middlemen. However, FACs in the District seems to be not as effective as expected. Dawit (2005) reports on the ineffectiveness of FACs in Ethiopia mentioning that some of the constraints are: low management capacity, inadequate qualified personnel, low entrepreneurship skill, lack of financial resources, lack of market information, poor members' participation in the different activities such as financing the cooperative, patronizing the business activities of the cooperatives and decision making. However, there is no adequate information in the specific study area the reason for FACs are not effective.

The Government of Ethiopia established Cooperative Promotion Agencies at the Federal and the Regional level, and the Cooperative Promotion Desks at the Zonal and District level administrative units. This was to re-structure the already dissolved cooperatives during the transfer of power from the Derg regime and to support cooperatives in their activities. The idea behind the establishment of these Government bodies was that since FACs, were not economically matured, they are assisted by DCPD staff to perform their activities as efficient and effective as possible.

As the importance of FACs is recognized for the rural development process, the support of these Government agencies is necessary especially during the first couple of years after the re-establishment when they were considered to be quite weak and inactive. However, the support should have to be designed to empower the FACs instead of supporting them throughout their life. This is confirmed by Spielman (2008) as continued support of the functioning of nascent FACs from Cooperative promotion desk located at the *District* level may be necessary while at the same time exit strategies are needed to let the cooperatives graduate to a higher level of independence.

## **1.2 Problem statement**

The FACs are expected to increase the income of the member farmers by providing farm inputs at reasonable prices and facilitating marketing of their produce at a better price than when sold through the alternative channel of middlemen. However, most of the FACs in Meskan District are known to be ineffective in providing the services to the members. The FACs have problems of providing the agricultural inputs on time to their members. Their output marketing services were also low when compared with the expectations by the members. The members of FACs in the District complain about services that are provided by FACs. However, there is no sufficient information about why the FACs in the District are not functioning well.

## **1.3 Research objective**

The objective of this research is to contribute for improving the effectiveness of the FACs in Meskan District by exploring some of organizational factors that hinder the FACs' provision of farm inputs and output services to members.

## **1.4 Main and sub research questions**

The main research question is - which organizational factors affect the effectiveness of the FACs in Meskan District in providing farm inputs and output services to the members? The sub-questions include:

1. What types of services are provided to the members by the FACs?
2. How do FACs provide the services to the members?
3. To what extent do the services that were provided by FACs fulfil the needs of the members?
4. To what extent do members participate in the FACs' activities?
5. How FACs in Meskan District do organized and how do they function?

## **1.5 Limitation of the study**

This study considers only organisational factors that hinder the effectiveness of FACs. External factors that hinder the effectiveness of FACs are not considered. Since FACs that are found in Meskan District have more or less similar status, this study can generalise to the District but not to Ethiopia. Moreover, as the data collection period was the main rain and farming season, it made the case study schedule challenging as most of the farmers were busy with their activities. Conversely, the researcher tried to conduct individual interview during break times and off working days.

## **1.6 Structure of the thesis**

This thesis has six chapters. The first chapter that is the introduction part presented the general background, the problem statement, the research objective with the main and sub-research questions. Chapter two presented the conceptual framework and literature review. It discussed defining vital concepts, cooperative principles and related topics to the study. Chapter three presented the research methodology including the way how the study area is selected, the method of data collection and analysis. Chapter four presented background of the study area that includes the cooperative development in the area, and description of selected FACs. Chapter five presented the study results and discussion with respect to the objectives of the study. Finally, chapter six provides the conclusion and recommendation based on the research result.

## CHAPTER TWO: CONCEPTUAL FRAMEWORK AND LITRATURE REVIEW

This chapter presented the different authors' ideas that are related to the research topic. The first section provides the concept of effectiveness and cooperative. Then, it discusses on the guiding principles of cooperatives. Then, it provides service delivery of FACs, establishment of FACs, organisation and structure of FACs, management and functioning of FACs, conflict in FACs and participation of members in FACs

### 2.1 Definitions of Concepts

Effectiveness can be defined in several ways. Each definition has its own distinctive approach. The most influential approaches to define effectiveness are *the goal approach*, *the system resource approach* and *the multiple consistency approach* (Rollinson, 2008).

- *The goal approach* defines effectiveness as the extent to which an organization achieves its goals; which means that its main focus is on the outputs of an organization.
- *The system resource approach* refers effectiveness as evaluated against the criterion of whether an organization maximizes its bargaining position vis-à-vis the environment, in order to acquire an optimal level of scarce and necessary resources.
- *The multiple constituency (stakeholder) approach* defines effectiveness as the extent to which the organization satisfies the interests of its internal and external stakeholders.

This study adopted the meaning of effectiveness to be the extent to which the FACs satisfy the interests of their members in providing farm inputs and output services.

A widely accepted definition of cooperative is stated by ICA (1995) as, cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

The statement is often supplemented with the distinguishing features of seven principles adopted by ICA (see 2.2). Moreover, according to the 1995 statement, cooperatives function based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility, and caring for others (ICA, 1995).

After the current Government of Ethiopia has took power, FACs re-structured based on proclamation number 147/91 which is formulated in line with international principles of cooperatives. These principles are explained in the following section.

### 2.2 Principles of cooperatives

There are seven principles of cooperatives which are accepted internationally. These principles explore about how cooperatives be established or re-structured and how they function. ICA (1995) indicated these principles as; seven principles of cooperatives are guidelines by which co-operatives put their values into practice. These principles are:

## **1. Voluntary and open membership**

Cooperatives are voluntary organisations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial political or religious discrimination.

## **2. Democratic member control**

Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member one vote), and cooperatives at other levels are also organised in a democratic manner.

## **3. Members economic participation**

Members contribute equitably to and democratically control the capital of their cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their cooperative enterprise, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative and supporting other activities approved by the membership.

## **4. Autonomy and independence**

Cooperatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

## **5. Education, training and information**

Cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public -particularly young people and opinion leaders- about the nature and benefits of co-operation.

## **6. Co-operation among cooperatives**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

## **7. Concern for community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

Among these seven cooperative principles, I will focus on democratic member control, members economic participation, and providing education, training and information for discussion.

Moreover, the following explanation of basic cooperative principles is adapted from USDA (1997 as cited in Luedeman, 2005, pp40).

**The User-Benefits Principle:** Members unite in a cooperative to get services otherwise not available, to get quality supplies at the right time, to have access to markets or for other mutually beneficial reasons. Acting together provides members the advantage of economies of size and bargaining power. They benefit from having these services available, in proportion to the use they make of them. Members also benefit by sharing the earnings on business conducted on a cooperative basis. When cooperatives generate margins from efficient operations and add value to products, these earnings are returned to members in proportion to their use of the cooperative. Without the cooperative, these funds would go to other middlemen or processors.

**The User-Owner Principle:** The people who use a cooperative own it. As they own the assets, the members have the obligation to provide financing in accordance with use to keep the cooperative in business and permit it to grow.

**The User-Control Principle:** As owners, a cooperative's members control its activities. This control is exercised through voting at annual and other membership meetings, and indirectly through those members elected to the board of directors. Members, in most instances, have one vote regardless of the amount of equity they own or how much they patronize the organization. In some instances, high-volume users may receive one or more additional votes based on their patronage. Equitable voting is assured, often by limiting the number of additional votes any one member can cast. This protects the democratic control of the membership as a whole. Only members can vote to elect directors and to approve proposed major legal and structural changes to the organization. The member-users select leaders and have the authority to make sure the cooperative provides the services they want. This keeps the cooperative focused on serving the members, rather than earning profits for outside investors or other objectives.

### **2.3 Service delivery of FACs**

Multipurpose Cooperatives otherwise called as FACs are thought to carry out different types of activities. Potential activities that can be performed by agricultural cooperatives include marketing of agricultural inputs and outputs, provision of agricultural credit, production and marketing of seeds and seedlings, processing of agricultural produces, provision of storage facilities, supply of consumer goods, operating a flourmill for grinding of food grains & other spices, mining of sand & stone, and manufacturing Hollow blocks (Veerakumaran, 2007).

In relation to this FCA (2009) indicated that FACs in Ethiopia provide farm input services as fertiliser, improved seed, beehives, small farm tools and chemicals. During current year about 70% of fertiliser used by farmers is imported by farmers' agricultural cooperative unions that are established by primary FACs. Also, FACs provide farm output services as cereals, coffee, animal and animal products.

However, FACs in Meskan District mainly provides farm input and farm output services to members and non members. Farm input services that are provided by FACs are fertiliser and improved seed. Whereas farm output services that are provided by FACs are maize, wheat, teff and sometimes sorghum and pepper.

## **2.4 Establishment of FACs**

The Federal Cooperative Agency (FCA) of Ethiopia was created in 2002 to organize and promote cooperatives at the national level as a means of promoting smallholder commercialization. Its ambitious five-year development plan (2006–2010) aims to provide cooperative services to 70 percent of the population through the presence of at least one such organization in each peasant association (PA) (the lower government unit in rural village) by 2010. Under the Government of Ethiopia's current strategy, each PA is expected to have a FAC in place by 2010, through which 60 percent of the agricultural outputs will be marketed and 90 percent of agricultural inputs supplied (Bernard and Spielman, 2008).

In relation with this Bernard, et al. (2008) identified that in Ethiopia, most cooperatives were initiated under the influence of an external partner: 63% were created by Government institutions, 11% by donor agency or NGOs, and only 26% by members themselves. As indicated in the same study encouragement for the creation of cooperatives mostly follows a top-down approach. In other words, PA with cooperatives created by government institutions do not self-select but are rather externally selected by the cooperative promotion agents.

## **2.5 Organisation and structure of FACs**

According to Prakash (n.d), to a great extent FACs are indispensable for accelerating the development in general and agriculture in particular. The remedy lies in streamlining their activities in a manner in which they could increase their own resources and improve their technical and managerial capabilities to safeguard the interests of their members. Such streamlining would be possible if the management responsible for cooperative promotion and development and for managing their day-to-day operations is responsive to the needs and aspirations of the members.

FACs governance and management systems and capacities are still under development. While many FACs members express some degree of satisfaction with the services provided by their cooperative, issues such as participation, responsiveness, accountability and adaptability are concerns raised often by members (Spielman, 2008). In this regard Pierre and Collion (2001) mentioned that accountability to members is essential, but it is possible when members contribute financially to their organization. This is the basic condition for them to feel involved, and demand accountability from their leaders.

## **2.6 Management and functioning of FACs**

The management committee of FACs lack managerial skills mainly due to inadequate training support available within the cooperative Movements. Due to limited resources at the FACs, it has been difficult for them to sponsor their management committee for training. The management committee members have very little opportunities to interact with their counterparts. Their understanding and appreciation of cooperative operations remains limited to their cooperatives. The need is to expand their horizons of knowledge and understanding to improve the quality of management of their own co-operative institutions. Such opportunities and exposures are considered absolutely essential if the management members are to play effective and fruitful roles in the business activities of their cooperatives and deliver a higher level of economic satisfaction to the members (Prakash, n.d, pp2).

In relation to this Veerakumaran (2007) indicated that management committee of FACs are not having adequate training to maintain their accounts properly. Therefore, FACs need to be supervised, inspected and audited at regular intervals, failing which, the members of the management committee working in the cooperatives may ignore accountability to the general body.

According to USDA (2002, pp10), effective management committee are critical to cooperative success. Their position as the link between members and cooperatives makes them responsible for meeting member needs while maintaining the viability and cooperative character of the association. Given the complex and fast-changing circumstances facing cooperatives today, developing strong leadership at the management level will be a continuing challenge in the 21<sup>st</sup> century.

## **2.7 Conflict in FACs**

FACs are characterized by multiple involvement of members as owners and suppliers of capital, as clients and (for some) as employees. These roles can lead to conflicting interests. The nature of these conflicts will vary with the regulations under which FACs operate – their own by-laws and national laws relating to different forms of association. An example of the difficulties posed by these multiple roles for members relates to the scale and pricing of services offered to clients. The need to provide dividends to members' capital, repay loans, and accumulate capital for investment suggests FACs should try to maximize profits and returns to capital. However, members may be more interested in access to low cost services through low prices (Chirwa et al., 2005).

In line with this FAO (1998, Pp8) expressed that in any cooperative context, conflicts are bound to arise because a number of different people with different interests work together. People who are involved in a conflict feel insecure and uneasy and often do not know what to do about it. Conflicts have a tendency to become worse the longer they exist. Sometimes unresolved conflicts can disturb the work of an organisation for a long time. That is why conflicts need to be solved. Sometimes, for example, members may not be satisfied with the services or activities of their cooperative. However, if there is poor internal communication, rather than raising criticisms, members may withdraw from business with the cooperative, believing that criticism would be futile or even damaging to them. In the long run, unresolved problems of communication can endanger a cooperative's existence.

## **2.8 Participation of members in FACs' activities**

Different authors define participation in different ways. However, I prefer to stick on the following definition because it is more appropriate to my topic than others that I have found. The World Bank definition as cited in Leeuwis (2004) expresses participation as a process through which stakeholders influence and share control over development initiatives and the decisions and resources which affect them.

In Africa, from inside the co-operative movement itself, FACs have faced the challenge of leadership, management and general governance complexity. Liberalization needed a new type of leadership and managerial capacity. Apart from legislative setbacks, co-operatives came to face the realities of markets in that they needed entrepreneurial management. But to date, many FACs, have not yet cultivated the management committee members who have better educational level due to lack of appropriate incentives to attract them (Ortmann and King, 2006).

Various sources explain that there are different levels of participations. The World Bank public participation guideline for stakeholders in the mining industry (2002) as cited in SAIEA (2005) identifies three levels of participation:

- ❖ Passive participation – this level involves only the dissemination of information to stakeholders after decision has been made, such as disseminating information during an awareness campaign;
- ❖ Consultative participation – stakeholders are consulted before the organization makes a decision but they do not share decision-making responsibility.
- ❖ Interactive participation – stakeholders are involved in collaborative analysis and decision-making.

According to FAO (1998, pp 7), FACs are participative self-help organisations in that the members are also co owners and have both the rights and obligations of participating in goal-setting, decision-making and control or evaluation processes of their cooperative. Members decide upon the services to be provided and benefit from what is produced or obtained by the FACs. There should be incentives for them to contribute their own resources (capital, labour, produce) to the development of the FACs. A major reason for the failure of FACs is the lack of participation of members. It is extremely important that members act as both users and owners in the development of cooperative organisations through participation at three levels (FAO 1998, pp 7):

- Participation in provision of resources (input participation) e.g. contribution of capital, labour, delivery of produce,
- Participation in the decision-making processes of the cooperative organisation as a member in the general assembly, section meetings, work groups, as elected management committee and other committees.
- Participation in the produced benefits (output participation), by sharing the surplus earned during the year by the cooperative enterprise, in the form of dividend for their participation in FACs business activities, interest on share capital, or the use of joint facilities and services.

In relation to participation of members in decision making process in Ethiopia, Bernard and Spielman (2008) indicated that there is relatively low level of member participation in decision-making processes in FACs. While this may be expected for everyday technical decisions, it is more surprising for the general decisions relating to the organization's size, activities and functioning.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

This chapter presents how the study area is selected, the method of primary and secondary data collection, and methods of data analysis.

### **3.1 Selection of study area**

The research was conducted in Meskan District because it is one of the Districts in which members of the FACs are complaining about the services provided by the FACs in Gurage Zone of Southern Region of Ethiopia. Moreover, from July 1, 2003 to August 30, 2008 the researcher was working in the district as manager of the Walta Farmers Cooperative Union (WFCU), and practically knew the problems on ground. The researcher also knows the District Cooperative Promotion Desk staff, most the FACs as well as some of members of management committee of the FACs that would ease the research data collection.

### **3.2 Method of data collection**

#### **3.2.1 Primary data collection**

This research is a qualitative study. The data were collected through different ways to help able verify the information collected from different sources. Two FACs were purposely selected in the Meskan District. Through discussion with MDCPD staff, Enseno FACs was selected among the relatively well functioning FACs, and Mekicho FACs was selected among the relatively malfunctioning FACs in terms of satisfying members' interest. This enabled the researcher to gather balanced information from both sides.

Focus group discussions with five management committee members and one chairman of controlling committee of Enseno and five management committee members of Mekicho FACs were held. In both FACs, all committee members are male. Also, focus group discussion with five District Cooperative promotion desk staff was held. The selection of Staff was based on their professional proximity to the FACs. During the focus group discussion, there was the possibility of interactions of ideas among group members. As a result, the researcher was able to gather several important issues that are related to the topic.

Individual interviews with 15 male and 3 female, totally 18 members out of 368 members of Enseno FAC, and 10 male and 2 female, totally 12 members out of 226 members of Mekicho FAC were held. The numbers of male and female members have been taken based on the proportion of number of male and female members in FACs. Individual member respondents were selected randomly. Focus group discussions as well as individual interview were conducted using checklists which were prepared based on research problem. The discussions were held using Amharic language, i.e., the national language of Ethiopia and the official working language in the area. The researcher carefully translated the points of individual interviews and group discussions to English.

#### **3.2.2 Secondary data collection**

Literatures were reviewed to get comprehensive information about the research questions and related ideas and to help verify findings. For this, latest books, articles and other relevant publications on FACs and their functioning that focus on management performance were consulted. Moreover, different related documents which are found in MDARDO, MDCPD, WFCU and in the Enseno and Mekicho FACs offices were reviewed.

### **3.3 Method of data analysis**

Data that have been collected from interview and focus group discussion was analysed by using descriptive analysis. Specifically, the different ideas obtained from individual interview, group interview and key informant interview were triangulated each other. The information that is generated is presented using tables, percentages and figures. The analysis of the data was conducted based on criteria in the literature review focussing on organisation of the FACs, management and functioning of the FACs, participation of members in the FACs and needs of members of FACs. SWOT analysis was also employed to scan the internal and external environments of the FACs.

## **CHAPTER FOUR: BACKGROUND OF THE STUDY AREA**

This chapter presents the overview of cooperatives in Ethiopia, description of Meskan district, overview of cooperative movement in Meskan district and description of the sampled FACs in the district.

### **4.1 Overview of Cooperatives in Ethiopia**

Organized marketing of output is important to Ethiopia as the system has not been developed well. The country's agricultural sector accounts for about 40% of national GDP, 90% of exports, and 85% of employment. Moreover, it has been dependent on smallholder production systems, as about 37% of the farming households in the country cultivate less than 0.5 ha and about 87% cultivate less than 2 ha, and only 0.9% cultivate more than 5 ha (Byerlee et al., 2007; CSA, 2003), as cited in Bernard and Spielman (2008).

The modern cooperative associations were started since the Emperor Haileselesie ruling period in 1961. These modern cooperatives were established mainly to undertake commercial agricultural production for export purpose. During this time, the first cooperative legal action was made following the Decree Number 44/1961. The main reasons for this decree was increment of unemployment, increment of rural-urban migration, increment of school dropout, and disarmament of military without proper compensation and pension. Accordingly, the first cooperatives' proclamation known as proclamation number 241/1964 was introduced. The focus of establishing Cooperatives was only on potential areas for agricultural production in order to enhance the production of economically important crops/cash crop for export and as a result, land ownership was basic criterion for membership. During that time, in most parts of the country the land was owned by few landlords i.e., only landlords were member of coops. Therefore, from the very beginning, the cooperative movement failed to meet the demand of poor peasants (Alemayehu, 1998).

In 1974, the Military government proclaimed cooperative organization proclamation number 138/1978. During this era, tremendous efforts were done to promote agricultural service cooperatives as well as producers cooperative societies. However, the cooperative movement used to suffer from a loss of credibility in the eyes of their members and the public, in general, because of the political ideology of the then existing government. Up to 1990, there were 10,524 different types of cooperatives with 4,529,259 members and capital of Birr 465,467,428 (Euro 26,387,042) throughout the country. From these cooperatives 80 percent were rural cooperatives (Alemayehu, 1998).

Even though the military government issued a proclamation to promote and support cooperatives, its main target was to promote the socialist ideology throughout the rural Ethiopia using cooperative as a means of attaining its objectives. The members were forced to form or join in to cooperatives. All the efforts made to restructure the cooperative movement based on these proclamations were essentially geared towards direct control of cooperative and turning them into government and political rather than socio economic development instruments. Finally, following the down fall of the military government, cooperative properties were stolen by their management committee and employees.

The current government has been showing its commitment to the farmers' cooperative promotion since it came into power in 1991. Initially, the Government enacted agricultural cooperative proclamation incorporating the internationally accepted principles. The intension was both to reorganize and organize farmer's co-operatives, which can work in the free market economy. The government continued its effort to promote various types of co-

operatives throughout the country and introduced co-operatives proclamation No. 147/1998. Since then different agricultural and non agricultural co-operatives have been organized and established (FCA, 2005).

Currently in Ethiopia, there are 26,128 different kinds of primary cooperatives with 4,470,081 male and 800,127 female members, totally 5,270,208 members. Among them, about 26% are the FACs. There are 171 different kinds of secondary cooperatives/unions with 3,706 primary cooperative members. Among them, about 40% are the FACs (FCA, 2009).

## **4.2 Description of Meskan District**

Meskan District is one of the thirteen Districts of Gurage Zone in Southern Region of Ethiopia. It is located in eastern part of Gurage Zone located at an altitude range of 1501-3500 metres above sea level. Butajira town, the capital of the District is situated at 133 km south west of Addis Ababa, the capital city of Ethiopia. The District has an area of 502 sq km. Among this, 178 sq km is covered by annual crops, 112 sq km covered by perennial crops, 9 sq km identified to be cultivable, 33 sq km grassing land, 39 sq km covered by natural forest, 15 sq km covered by manmade forest, and 116 sq km covered by buildings and others (DFEO, 2009).

According to PCC (2007), the total population of the District is 78,393 male and 81,491 female totals of 159,884. About 51% of the total population in the District are females. Among the total population of the District about 92% live in rural areas. It also mentioned the estimation of annual population growth rate is 2.9%. Based on this, the total population of the District in this year is estimated to be 169,291.

Meskan District is bounded by Silte Zone in the south, Sodo District in the north, Mareko and Sodo Districts in the east Muhur Aklil and Eja Districts in the west. The landscape of the district could be categorized as hilly undulating topography. Administratively it is divided into 40 kebeles.

The District receives average rain fall from 1001-1200 mm/year. The lower area receives lower rain fall than higher altitude of the District. It has average temperature of 7.5 degree centigrade to 17.5 degree centigrade. The District covers 20% of wet and 80% medium agro-ecological zones. Even though there is recurrent rain shortage especially part of the District, it is suitable to various agricultural activities which include crops and livestock. The main crops produced in the District include maize, wheat, teff, barley, sorghum and pepper. The livestock includes cow, ox, horse, mule, ass, goat, sheep and hen (DARDO, 2009).

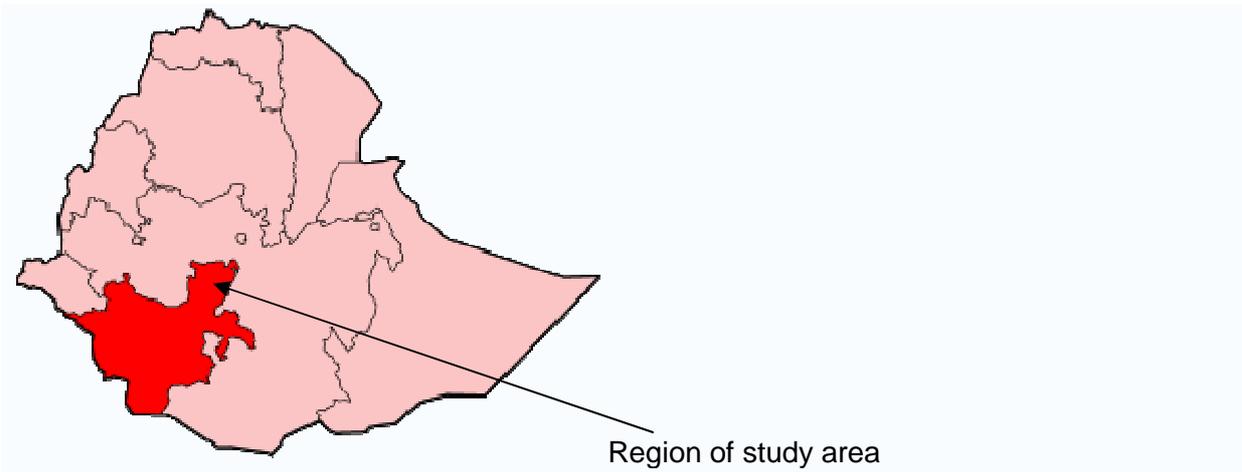


Figure 1: Map of [Ethiopia, and Southern Nations, Nationalities and Peoples](https://en.wikipedia.org/wiki/Southern_Nations,_Nationalities,_and_People's_Region)  
 Source: [en.wikipedia.org/.../Southern\\_Nations,\\_Nationalities,\\_and\\_People's\\_Region](https://en.wikipedia.org/wiki/Southern_Nations,_Nationalities,_and_People's_Region) -  
[Cached](#) - [Similar](#)



Figure 2: Administrative map of Meskan District

Source: SNNPR Finance and Economy Bureau data collection and distribution centre

### **4.3 Overview of cooperative movement in Meskan District**

DCPD was established in 1998 to re-structure the former cooperatives and to establish new ones. Based on DCPD (2009), currently there are 112 different kinds of cooperatives with 5,703 male and 2,530 female, totally 8,233 members. Among these cooperatives, 11 are the FACs that provide farm input and output services. However, three of them are not functional. The reason for one of the FAC's is because their property was stolen, and the others are dysfunctional due to the weakness of the management committee and lack of close follow-up by the DCPD staff.

The role of DCPD based on ARDB (2008) is providing education and training for members and committee members, follow-up book keeping and other activities of cooperatives, facilitating loan for cooperatives, enable cooperatives to participate in farm input and output services, inspecting the general activities of cooperatives, monitoring and evaluating the performance of cooperatives.

Based on cooperative principles mentioned in 2.2 three primary FACs found in the District together with four FACs found in the Sodo District established the Walta Farmers Cooperative Union (WFCU) in 2003. The WFCU was established with initial capital of about Birr 0.5 million (Euro 28345) to perform activities that are beyond the primary FACs. The main activities of the WFCU are providing farm input service (fertilizer, improved seed, vegetable seeds and chemicals), providing farm output service (teff, wheat, maize and pepper), providing loan to members, providing market information and providing and/or facilitating training for board of directors the union and different committee members of primary cooperatives (WFCU, 2003).

WFCU has one manager, one accountant and five supporting staffs including guards. Currently 13 members from Sodo district, 7 members from Meskan district and 3 members from Mareko district totally it has 23 members primary FACs it has 23 members primary FACs. Currently the WFCU has about Birr 1.8 million (Euro 102,041) capitals. Last year, the WFCU together with other FAC unions found in the South region established Southern Region Farmers' Cooperative Federation to perform importing farm input and exporting farm output activities.

### **4.4 Description of Enseno FAC**

Enseno FAC was established in 1977 with proclamation number 138/70. During that time it was providing consumer goods, farm inputs and mill services. In 1991, during change of the military Government of Ethiopia by the current Government, like other FACs, its properties were stolen by members and the management committee of the FAC. After the new Government settled its power, it was re-structured in 2000 based on the proclamation number 147/98. It was established with 219 male and 6 female, totally 225 members with initial capital of Birr 316,596 (Euro 17948). The value of one share is Birr 83 (Euro 5) (. The operational areas of FAC are six peasant associations, namely, the Beche gulchano, the Enseno usme, the Bati lijano, the Dida, the Batifuto and the Dobena bati. The office of the FAC is located at about 25 km in the east of Butajira town the way to Ziway town (Oromia region). The FAC has office, storage, standard money box and different financial documents. Also, it has two non-functioning mills. It is one of the members of the WFCU. Enseno FAC has four shares, Birr 20,000 (Euro 1134) in the union. Currently, the FAC has 343 male and 25 female, totally 368 members (Enseno FAC, 2000 and 2009).

#### **4.5 Description of Mekicho FAC**

Mekicho FAC was established in 1977 with proclamation number 138/70. Its operational areas are three peasant associations, namely, the Dobi, the Mekicho and the Welensho 2nd. The office of the FAC is located about 7 km west of Butajira town, the capital of district. During that time, it was established to provide consumer goods, farm inputs and loans. In 1991, during change of Government, its properties were stolen by members and management committee. After the new Government of Ethiopia settled its power, it was re-structured on October 10<sup>th</sup>, 2005 with 95 male and three female, totally 98 members with initial capital of Birr 2,546 (Euro 144). The value of one share is Birr 50 (Euro 3). Currently, the Mekicho FAC has 218 male and 18 female, totally 226 members. It has own office and storage. It became the member of the WFCU in 2007. The FAC has one share, Birr 5000 (Euro 283) in WFCU (Mekicho FAC, 2005 and 2009).

## **CHAPTER FIVE: RESULT AND DISCUSSION**

This chapter presents the findings obtained from the individual and the group discussions. The remainder of the chapter is devoted to a discussion of the findings. It includes service delivery of FACs, establishment of FACs, organisation and structure of FACs, management and functioning of the FACs, conflicts in the FACs, participation of members in the FACs activities and the SWOT analysis.

### **5.1 Service delivery of FACs**

Veerakumaran (2007) and FCA (2009) indicated that services that are provided by FACs include farm input and farm output services. Based on this in Meskan District farm input and farm output services provided by FACs are explained in the following way.

#### **5.1.1 Farm input services**

According to the information obtained from the individual and group discussions, farm inputs that were distributed by the FACs are fertilizer (DAP and urea) and improved seed, Maize (pioneer, Bh-540 & BH-1660) and Wheat (HAR-1685 & HAR-604) every year.

Farm input service is one of the main activities of FACs. Based on the information obtained from respondents, in this year during autumn (March to May) farming season, they used farm inputs by paying 100% cash. However, due to shortage of rain, crops were destroyed. Then, farmers discussed with Government representatives about crop damage and during summer season (June to August) they used farm inputs by paying 50% down payment.

In the District Farm inputs were provided by the WFCU. As mentioned during the group discussions with the management committee of the FACs and the DCPD staffs, instead of the FACs receiving farm inputs directly from the WFCU, they are forced to receive from the DARDO. This situation increases the cost of delivering farm inputs due to additional loading and unloading and it has negative effect in distributing farm inputs. Moreover, the FACs, instead of providing farm inputs directly to members, they provide it to PA representatives and members get farm inputs from them. This situation forced the FACs to share their profit to PA representatives and it has negative effect on capital formation of FACs. Also, it causes weak relationship between members and the FACs. The PA representatives used the profit for their personal expenditure. Three years farm inputs distribution of Enseno and Mekicho FACs is indicated in the following table.

Table 1 Farm inputs distribution by the Enseno and Mekicho FACs

S.N	Name of FAC	2007		2008		2009	
		Fertilizer (qt)	Improved seed (qt)	Fertilizer (qt)	Improved seed (qt)	Fertilizer (qt)	Improved seed (qt)
1	Enseno	679	128	944	216	1248	772
2	Mekicho	-	-	-	-	363	100

Source: DARDO

The above table revealed that the distribution of farm inputs by well functioning FAC (Enseno) is increased from year to year. However, the malfunctioning FACs (Mekicho) has not distributed farm inputs except during the current year. It was difficult to get information about the number of members and non members that used farm inputs. However, since most farmers in the District have more or less similar land holding size it is likely Enseno FAC will supply to more farmers than Mekicho FAC.

#### A. Types of farm input

Based on the information obtained from the respondents, 75% of Mekicho and 56% of Enseno FACs respondents didn't get improved seed as they want. They said that when they want pioneer-maize variety, they were given BH-540-maize, and vice versa. For the case of wheat seed, some respondents indicated that when they want pav-76 wheat variety, they were given HAR-1685 wheat, and vice versa due to poor demand assessment of the types of improved seed by suppliers.

The result revealed that majority of respondents in both FACs didn't get the type of improved seed variety they were looking for. Finally, they are forced to use the variety type which was not their interest.

#### B. Quantity of farm input supplies

All respondents of Enseno and Mekicho FACs identified that as there is shortage of farm input. One respondent expressed as *"the Government left them bare having no fertilizer after a repeated training of use of it, where the land became unproductive without it."*

According to the information obtained from the interview, the problem is very serious in case of the maize improved seed. This is due to the limited capacity of the source, Ethiopian improved seed enterprise. The result indicated that members in both FACs didn't get adequate farm inputs especially improved seed. As a result, they would be forced to use local seed & this led to be unproductively working.

#### C. Quality of farm input

About 83% of Mekicho and 65% of Enseno FACs respondents indicated that there is quality problem of the maize & wheat seeds distributed. Most respondents expressed that the maize seed which was distributed this year had defects, as result, it couldn't grow well. They also

identified that the improved seed which was prepared by the WFCU was not prepared well. It was a mixture of different particles that decrease the productivity of the seed. The results confirmed that there is quality problem of the farm inputs in both FACs, especially in case of the improved seeds.

#### D. Price of farm input

About 92% of Mekicho and 94% of Enseno FACs respondents pointed out that the price of the farm input increased from year to year. All respondents of the FACs explained that the price of farm inputs provided by the FACs is better than that of the middlemen. Three years average price of farm inputs in the District are indicated in the flowing table.

Table: 2 Three years average price of farm inputs in Meskan District

S.N	Type	2007 (price/qt)		2008 (price/qt)		2009 (price/qt)	
		Birr	Euro	Birr	Euro	Birr	Euro
1	Fertilizer DAP	395	22	788	45	722	41
	Urea	334	19	579	33	525	30
2	Improved seed Wheat	356	20	507	29	636	36
	Maize	753	43	1030	58	1279	73

Source: WFCU

The result revealed that the price of fertilizer in 2008 was doubled as compared to that of 2007 while it slightly decreased in 2009. The price of the improved seed also has been increasing from year to year. The price increment of farm inputs is out of the control of both FACs. As mentioned by one of respondents "FACs distribute farm inputs at Birr 10-20 (Euro 0.56-1.12) lower than the price of middle men per quintal. Enseno FAC distributes farm inputs to members and non members from its store. However, due to weak performance of management committee of Mekicho FAC, the members of the FAC are forced to incur additional cost to get farm inputs from District town instead of getting from their FAC store. .

#### E. Time of farm input

About 83% of Mekicho and 67% of Enseno FACs respondents explained that the farm inputs are not provided on time. Some respondents indicated that although there is improvement as compared with the previous years, it should have been further improved. The respondents added that the farm inputs should be arrived at hand at least two weeks before sowing date. The result confirmed that the timing of provision of farm inputs in both FACs needs to be improved.

#### 5.1.2 Farm output services

It refers to provision of marketing services of farm produces by FACs. Based on information obtained from individual and group discussions, farm output services that were being provided by the FACs are Wheat, Maize, teff and sometimes pepper and sorghum.

FACs that are members of the WFCU get loan from the WFCU to purchase farm outputs based on their annual business plan. However, as mentioned in the DCPD (2009) during current year only three FACs in the District were performing farm outputs service. This is happened probably due to the low business management skill of the management committee members of the FACs. From the experience the management committees of FACs particularly lack planning and organising skills of business activities. This is indicated by FCA (2009), as since the members and the management committee of the FACs have low knowledge of business management; they can't perform their responsibility properly.

The competition for purchasing farm produce is very high. Middlemen use different strategies to get more farm outputs from farmers. These strategies include using brokers, promoting bad image of FACs and providing loan for farmers during harsh season to be returned to them in the form of farm outputs. Moreover, middlemen can decide price and quality of farm outputs easily them. However, in FACs every decision is made by management committee and it took time. Due to these reasons, the numbers of quintals of farm outputs that are purchased by those few FACs are small. Even though the performance of FACs in providing farm outputs service is low, they serve for members as alternative outlet for their produce.

Three years farm outputs services of Enseno and Mekicho FACs are indicated in the following table.

Table 3 Farm output services of Enseno and Mekicho FACs

S.N	Name of FAC	2007		2008		2009	
		Wheat(qt)	Maize(qt)	Wheat(qt)	Maize(qt)	Wheat(qt)	Maize(qt)
1	Enseno	58	150	701	2	1618	103
2	Mekicho	-	-	89	-	-	-

Source: DCPD

The above table indicated that well functioning FAC (Enseno) provided farm output services in each year while, malfunctioning FAC (Mekicho) didn't provide farm output service except few quintals of wheat in 2008. It was difficult to get information about the number of members and non members that sell their farm output to FACs. However, since most farmers in the District have more or less similar land holding size it is likely Enseno FAC will buy from more farmers than Mekicho FAC. FACs sell their produce either to WFCU or to other private traders during the price of outputs become high.

#### **A. Price of farm output**

All respondents of Enseno and Mekicho FACs pointed out that there is increment of the price of farm outputs although it has not increased as that of the farm inputs. For the FACs' purchased farm produce, members got better price than obtained from the middlemen. This is confirmed by all respondents of Enseno FAC as, the FAC purchase farm output by adding Birr 5-10 (Euro 0.28-0.56) per quintal for all crops that the FAC plan to buy when compared with the price of middle men. In addition to this, the bargaining power of the members

increased because they have alternatives to sell their produce. The result indicated that members of well functioning FAC (Enseno) get better price for their farm output when compared with members of malfunctioning FAC (Mekicho).

### **B. Time of farm output**

78% of respondents of Enseno FAC explained that the FAC didn't start buying farm output on time. They used to take time to survey the markets to decide up on the purchasing price and to prepare the purchasing fund & other necessary materials, such as balance, store, sack, etc. As a result members of Enseno FAC are forced to sell their farm output to middle men to solve their problem on time. However, all respondents of Mekicho FAC explained that the FAC didn't provide farm output service for members. The management committee of Mekicho FAC mentioned price fluctuation as the reason for not purchasing farm output during current year. This is probably due to fear of taking risk for farm output business.

## **5.2 Establishment of FACs**

According to the discussion with management committee of Enseno and Mekicho FACs, the FACs were established during previous Government of Ethiopia. However, they were re-structured after the existing Government came into power. Individual respondents who became the member of these FACs during re-structuring time raised similar issue with that of management committee.

The discussion with DCPD staff revealed that Enseno and Mekicho FACs were established, based on the cooperative proclamation number 138/77 during the military regime. Then, they were re-structured (established based on principles of cooperatives) based on a new cooperative proclamation number 147/98 after current Government came into power in 1991. The DCPD staff also explained that these FACs were re-structured by informing members who live in the operational area of the previous FACs about the importance of re-structuring FACs.

Finally, those who had interest to re-structure the FAC were called for meeting by DCPD. During this meeting, after briefing about the importance of the cooperatives and the ways to re-structure by DCPD staff, establishment committee were elected to prepare necessary pre-conditions for registration. These pre-conditions include requesting auditor from District Cooperative Promotion desk, preparing annual draft plan, preparing draft by-law and calling general meeting. In this meeting, the audit report, the annual plan and by-law of FACs were approved by members. In the same meeting different committees such as management committee, controlling committee, loan committee, purchasing and selling committee, education and mobilisation committee were elected by members.

The presence of members during restructuring of FACs varies from cooperative to cooperative. However, most members of the previous FAC were not presented during re-structure. The reason behind this is lack of trust on FAC to be re-structured. Different documents of the FAC to be re-structured were presented by representatives of establishment committee or DCPD staff to members. Then, after members discussed on each points, they approved it by vote. Election of committees was held by vote after members proposed candidates. The documents together with the minutes of the general meeting, lists of members and committee members, and other necessary documents for registration were sent to registration body. Then, if the FACs was registered, it would start functioning officially (ARDB, 2008).

The result from the individual respondents, the management committee of the FACs, and the DCPD revealed that Enseno and Mekicho FACs were re-structured due to the initiation of the DCPD staff. This is confirmed by Bernard, et al. (2008), as, in Ethiopia, most FACs were initiated under the influence of an external bodies - 63% were created by government institutions, 11% by donor agency or NGOs, and only 26% by members themselves.

**Membership criteria:** 80% of respondents mentioned only paying membership fee as criteria for membership. 17% of respondents mentioned paying membership fee, being a farmer and obeying for by-law as criterion for membership and 3% of respondents mentioned as they didn't know the criterion for membership. However, membership criterion as mentioned in the FACs' by-laws are: minimum age of 14 years, ability to pay registration and membership fee, obeying for the by-laws, living in the operational area of the FAC, being a farmer and being mentally normal.

The result indicated that membership criteria for those who wanted to be the member of the FACs are not as such problem. However, most members of the FACs didn't know or understand their FAC's by-laws. This implies that members are not concerned about their cooperatives.

## **5.3 Organisation and structure of FACS**

### **5.3.1 Structure of the FACs**

Rollinson (2008) indicated that organisational structure divides the task of the whole organisation into manageable sub-tasks and allocates them to organisational units that are held responsible for their completion. In FACs different activities of FACs are allocated to different committee members.

When members were asked to describe the types of committee in FACs, 67% of Mekicho and 61% of Enseno FACs respondents mentioned only management committee, 25% of Mekicho and 28% of Enseno FACs respondents mentioned some of the committee and 8% of Mekicho and 11% of Enseno FACs respondents mentioned as they didn't know the types of committee that are found in the FACs. However, the management committee of the FACs and the DCPD staff explained the structure of the FACs as indicated in their by-laws in the following way:

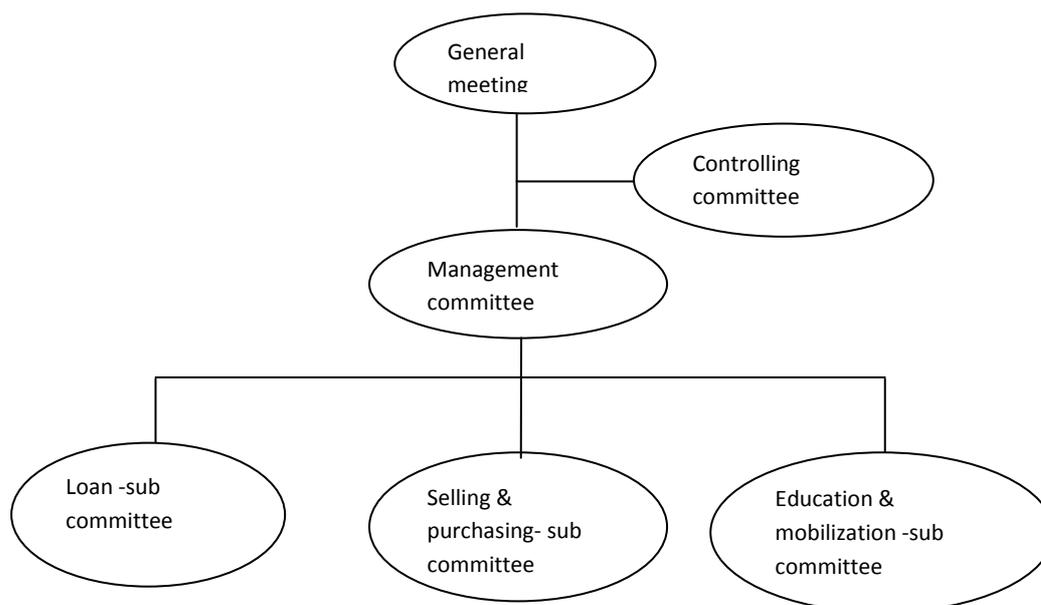


Figure: 3 structure of FACs

Source: Enseno FACs (2000) and Mekicho FAC (2005) by-laws

As mentioned in the by-laws of the FACs the roles of the general meeting and different committee members were expressed as follows.

**General meeting:** It is a meeting at which all members of the FAC are participated. It is often held once per annum and there will be urgent general meeting as required. The general meeting is the highest decision making body of the FACs. The major roles of the general meeting include approving by-laws, approving audit report, approving annual plan and report. Moreover, it elects management committee, controlling committee and other relevant sub- committee members. The service year of all committee members is three years. However, if they are elected for the 2<sup>nd</sup> time, they can serve for six years. If the by-laws of FACs require improvement, the members of general meeting will discuss about amendment. However, services to be provided to members will be discussed during approval of annual plan.

**Controlling committee:** The controlling committee has three members- the chairman, the clerk and a member. As the name indicates, their role is to control the activities of the management committee, and the current and the fixed assets of the FACs. The controlling committee is responsible to report about its activity to the general meeting.

**Management committee:** Most of the time, the management committee has 5-7 members. They are the chairman, the vice chairman, the clerk, the cashier, the book-keeper and the members. Its main role is managing the activities of the FACs based on the by-law and follow-up the activities of the subcommittee. It is responsible to report to the general meeting about activities of the FACs.

**Loan sub-committee:** The loan committee is one of the sub-committees that has three members - the chairman, the clerk and a member. Its main role is managing loan especially

farm input loan as checking loan documents whether they are signed properly or not before distributing farm inputs.

**Purchasing and selling sub-committee:** This committee is one of the sub-committees which have three members - the chairman, the clerk and a member of purchasing and selling committee. As the name indicates, the main role of this committee is purchasing and selling of outputs.

**Education and mobilization sub-committee:** As the other sub-committees, it has three members - the chairman, the clerk and a member. Its main role is awareness creation for non-members to be members by briefing about importance of cooperatives.

The results from respondents revealed that majority of respondents of both FACs didn't know the types of committee that are found in their FACs.

### 5.3.2 Election of the management committee members

When members were asked to explain how different types of committee were elected in FACs, 78% of Enseno and all of Mekicho FAC respondents respond as they were elected by members. The rest 22% of Enseno FAC respondents mentioned as they didn't know how different types of committee were elected. The result revealed that most respondents of both FACs understood how different committee members in their cooperatives were elected.

**Service year of management committee of FACs:** as mentioned in 5.3.1 the service year of management committee of FACs is three years unless the committee member was elected for the second time. If a committee member elected for the second time he can serve for six years. However, all of the management committee of Enseno FAC and some of management committee of Mekicho FAC are serving beyond their service year without being elected for the second time. This is shown by table 4 as follows:

Table 4: Service years of the management committee of the FACs

Name of FAC	Service Year, number of years		
	1-3 year	4-6 year	7-9 year
Enseno	-	4	2
Mekicho	3	2	-
Total	3	6	2

Source: Own study

The result revealed that all management committee members of well functioning FAC serve beyond their service year without being elected for the second time. Also, about half management committee of malfunctioning FAC serve beyond their service year. More experienced management committee of Enseno FAC enable the cooperative to be well functioned when compared with less experienced management committee of Mekicho FAC. However, this implies that the FACs are not respecting their by-laws regarding election of committee members. This is confirmed by FCA (2009) as most cooperatives do not elect their management committee based on their by-laws.

### 5.3.3 Responsiveness, Accountability & Adaptability

**Responsiveness:** the information obtained from the respondents indicated that the management committee of the FACs didn't respond to members' demand. They didn't meet the common interests of members in providing services. In case of the Enseno FAC, 61% of respondents mentioned that only two of the management committee members, i.e., the Chairman and the cashier tried responding the demand of the members. As a result the FAC provides better service than Mekicho FAC. In case of the Mekicho FAC, all respondents mentioned that the management committee were not able to respond to the demand of the members. The FAC didn't provide services that members required from it. Failure of the management committee of the FAC to meet the common demands of the members, probably leads the FAC to be unsuccessful. This is expressed by Prakash (n.d), as success of FACs would be possible if the leadership responsibility for cooperative promotion and development and for managing their day-to-day operations is responsive to the needs and aspirations of the farmers.

**Accountability:** About 67% of Mekicho and 61% of Enseno FACs respondents identified that the management committee of the FACs are more accountable to the DCPD than to their members. 33% of Enseno FAC respondents mentioned that they are accountable to both, 25% of Mekicho FAC respondents mentioned that they don't know, 6% of Enseno FAC respondents mentioned that they are accountable to members, and the rest 8% of Mekicho FAC respondents mentioned that they were not accountable to anyone in practice.

The results revealed that majority of management committee of both FACs are more accountable to the DCPD than to the members. This is happened due to the low involvement of the members in cooperative activities. This is confirmed by Pierre and Collion (2001), as accountability to members is essential, but it is possible when members contribute financially to their organization as it required. This is the basic condition for them to feel involved, and demand accountability from their leaders.

**Adaptability:** all respondents of Mekicho FAC and about 60% of Enseno FAC respondents mentioned that the management committee of the FACs have problem in adapting cooperative activities to current situations. The discussion held with the management committee of the FACs pointed out that they have low capacity and they didn't get training that enables them to adapt FACs activities to current situation.

The results indicated that in both FACs responsiveness and accountability of the management committees of the FACs and adaptability of the FACs activities to the current situation are not as expected. This is confirmed by Spielman (2008), as FACs' governance, management systems and capacities are still under development. In terms of satisfaction, issues such as responsiveness, accountability and adaptability are related concerns that have been raised often by the members.

## 5.4 Management and Functioning of the FACs

### 5.4.1 Planning of farm input and output services

The DCPD as well as the WFCU used to request the primary FACs to prepare and report to their annual business plan so as to prepare their own annual plan. To prepare the annual business plan of an organization, it requires adequate knowledge and skills. As indicated in Table 2, most of the Management Committee members of the FACs have low educational

level. In addition to this the discussion with management committee of FACs revealed that as they didn't get adequate training about how to prepare business plan and how to perform their activities. One of the committee members explained this issue by saying: *"I am the chairman of the Controlling committee of the FAC; however, I don't know how to perform my activities properly because I didn't get training"*. This is confirmed by Prakash (n.d, pp2) as, the management committee of cooperatives lack managerial skills mainly due to inadequate training support available within the cooperative movements. Due to this fact, the limited number of management committee of FACs try to prepare the annual business plan of the FACs traditionally by putting only figures for quantity of farm input and output. The educational level of management committee of Enseno and Mekicho FACs is shown in the following table.

Table 5 Number of the management committee members at different educational level.

S.N	Name of FAC	Educational level		
		1-4 Grade	5-8 Grade	9-10 Grade
1	Enseno	-	3	3
2	Mekicho	1	2	2
	Total	1	5	5

Source: Own study

The result revealed that the management committee of well functioning FAC (Enseno) have better educational level when compared with the educational level of management committee of malfunctioning FAC (Mekicho). However, the total result indicated that 55% of educational level of committee members is from 1<sup>st</sup> grade to 8<sup>th</sup> grade. From the experience, these educational levels are not adequate to run the activities of the FACs properly in the frequently changing environment. This is confirmed by USDA (2002, pp10), as given the complex and fast-changing circumstances facing cooperatives today, developing strong leadership at the management level will be a continuing challenge in the 21<sup>st</sup> century.

As mentioned in ICA (1995) providing education and training for members is one of the seven principles of cooperatives. However, from the individual and group discussions it is pointed out that member of the FACs didn't get adequate education and training. Seldom members were given very brief general information about cooperatives by DCPD staff. On the other hand, they didn't get any training regarding how to be benefited from the FACs and how to bring change in their life through their cooperatives. This is confirmed by Chambo (2009, pp5), as members of FACs didn't get adequate education and training services that enable them to bring about change they needed, but rather to impart general knowledge about co-operation.

#### 5.4.2 Organization of farm input and output services

During the group discussion, the management committee of the Enseno FAC explained that they tried to allocate human and material resources to provide farm input and output services. According to the information from the management committee of the Mekicho FAC,

they started to provide farm input services to the PA representatives this year. However, they didn't provide farm output services. They added that, since they are new for providing farm input services, they have problem of organising the service. As indicated in chapter 5.4.1, besides the absence of training, most activities of the FACs are performed only by 2-3 committee members. As a result, usually it is difficult for the FACs to arrange human, financial and material resources on time to provide services to members.

### 5.4.3 Staffing

The discussion with the management committee of the FACs indicated that they didn't hire staff. The management committee of the Enseno FAC indicated that they have provisional book keeper who performs the book keeping activities during weekends by per diem.

All the day to day activities of the FACs are performed by too limited committee members who didn't have adequate educational background and busy on their own activities. The FACs to exist in frequently changing environment, they need to be competent. To be competent, the FACs need to hire qualified personnel who can run the activities of cooperative by exploring changing environment. The management committee of the FACs respond that the major reason for not hiring staff is lack of capital. This is pointed out by FCA (2009), as some management committee of cooperatives didn't want to hire staff and they try to perform day to day cooperative activities in addition to their personal duties. Due to this fact, various decisions, purchases and sales couldn't be performed on time.

### 5.4.4 Monitoring and evaluation

According to Shapiro (2001) monitoring refers to the systematic collection and analysis of information as planned activities of an organisation progresses. It is aimed at improving the efficiency and effectiveness of an organisation. It helps to keep the work on track, and can let management know when things are going wrong. Whereas evaluation is the comparison of actual project impacts against the agreed strategic plans. It looks at what you set out to do, at what you have accomplished, and how you accomplished it.

As pointed out from the discussion with the management committee of the FACs, they didn't monitor the FACs farm input and output provision services. This is because of mainly lack of capacity to monitor and evaluate their activities and unable to meet each other. From the discussion with the DCPD staff, it was noted that their monitoring system of the FACs is not planned. This is indicated by one of the members of the management committee of the FACs, saying that "the *District Cooperative Promotion Desk staffs need to follow-up our activities regularly*". The evaluation system of the DCPD staff is also found weak. Both FACs are not evaluated until they are re-structured.

**Auditing:** it refers to the examination of the objective evidence underlying the financial data as reported. The DCPD staff didn't audit FACs regularly based on their by-laws. As mentioned in the by-laws of the FACs, the cooperatives need to be audited at least once per annum. However, the Enseno FAC was not audited after August 9, 2005 and the Mekicho FAC was not audited after it is re-structured. The DCPD staff explained the reasons why the FACs were not being audited on time are the frequent change in the structure of the DCPD and inadequate number of staffs.

The result revealed that the activities of the FACs are not adequately monitored and evaluated. As a result, the management committee of the FACs can misuse the limited resources of the FACs and it will be difficult to understand the positions of the FACs. This is confirmed by Veerakumaran (2007) as, since many FACs management committees are not

having adequate training to maintain their accounts properly, FACs need to be supervised, inspected and audited at regular intervals.

## **5.5 Conflict in FACs**

According to Thomas (1992) Conflict refers to the process which begins when one party perceives that another has frustrated, or is about to frustrate, some concern of his. According to the information obtained from the individual interview, 53% of the respondents mentioned that there is no conflict between management committee and members, and among management committee. 30% of the respondents mentioned that there is conflict between management committee and members, and among management committee. 17% mentioned that they didn't know whether there is conflict between management committee and members, and among management committee.

Discussion with management committee of Enseno FAC revealed that there is conflict among management committee during purchasing of farm outputs regarding quality and price. However, they explained as they manage the conflict as soon as possible through discussion and continue their activities as usual. The management committee of the Mekicho FAC explained as there is no conflict between the management committee and the members, and among the management committee members. However, informal discussion with one management committee of the Mekicho FAC pointed out that as there is conflict between them about settling payments and they couldn't manage it. During discussion with DCPD staff, they expressed as there is conflict among management committee due to most activities of the FACs were performed by limited number of committee members and finally conflict was caused during approval of accomplishment.

The result revealed that as there is conflict among the management committee during decision making about price, quality and settling of payments. This is expressed by Chirwa et al. (2005), as there will be conflict among management committee of FACs during the scale and pricing of services offered to clients, the need to provide dividend to members and the repayment of loan. Also, in some cases, there is conflict between management committee and members during members unable to get adequate farm inputs. Moreover, the result indicated that the management committee of well functioning FAC (Enseno) managed the conflict as it was happened. Conversely, the management committee of malfunctioning FAC (Mekicho) couldn't manage the conflict among them and it affected the FAC functioning. This is confirmed by FAO (1998, pp 8) as, sometimes unresolved conflicts can disturb the work of an organisation for a long time.

## **5.6 Participation of members in the FACs activities**

According to FAO (1998, pp 7), members of the FACs need to participate in decision making of their organisations as in general assembly and committee meeting, Participate in provision of resources as Contribution of capital and delivery of produce, and participate in the produced benefits as distribution of dividend. However, currently the practical situation of participation of members in the FACs activities is explained in the following way.

### **5.6.1 Participation in decision making**

**General assembly:** ICA (1995) indicates that Cooperatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions through general assembly. Conversely, all respondents of Enseno and Mekicho FACs mentioned that there is no regular general assembly in the FACs. The DCPD staff and the management committee of the FACs also mentioned that there is no regular general assembly. The management committee of Enseno FAC mentioned the reason for this as the

FAC was not audited for a long time they couldn't express financial report. However, most members are eager to hear the financial report of the FAC. The management committee of the Mekicho FAC mentioned that they were not functioning well, and they couldn't manage to call the general meeting.

As mentioned in USDA (1997 as cited in Luedeman, 2005, pp40) under the User-Control Principle; as owners, a cooperative's members control its activities through voting at annual and other membership meetings. However, the result revealed that Enseno and Mekicho FACs didn't call regular general meeting although it is indicated by their by-laws as it should have been held at least once per year.

The members of FACs do not participate in the decision making process of the FACs. As a result all decisions that need to be decided by members were decided by management committee of FACS. This is indicated by Bernard and Spielman (2008) as, there is relatively low level of member participation in decision-making processes relating to the organization's size, activities and functioning of FACs. Also as expressed by the World Bank (2002) as cited in SAIEA (2005), members of FACs involve in passive participation level i.e., they are told about the results of decision.

**Committee meeting:** The management committee, the controlling committee and other sub-committees have regular committee meeting as stated in their documents. However, as pointed out from the group discussion, practically there is no regular committee meeting. Limiting numbers of committee members meet occasionally during the delivery of farm input and output services. As the researcher observed during the data collection and as majority of respondents explained, activities of the FACs are performed by 2-3 committee members. Most of the committee members are not willing to serve the FACs because they are busy by their own private activities and other social responsibilities. Moreover, there is no adequate incentive that motivates them to work in the FACs. This is noted by Ortmann and King (2006), as many Agricultural Cooperative organizations have not yet cultivated the the management committee members who have better educational level due to lack of appropriate incentives to attract them.

## **5.6.2 Participation in provision of resources**

### **A. Contribution of capital**

As pointed out from the discussion with management committee of FACs, the FACs have problem of lack of capital. Almost all activities of FACs were performed using loan. For example, the management committee of Mekicho FAC couldn't repair their store due to lack of capital. One way of increasing the capital of FACs is selling additional shares to members.

As indicated by ICA (1995) members need to contribute capital as it is required by their cooperatives. However, according to the information obtained from respondents, they didn't buy additional share from the FACs. Some members explained that the reason for not buying additional share is lack of information about buying additional shares. One respondent explains by saying *"I don't need to buy additional share because I didn't benefit from the previous share"*.

Discussions held with management committee of the FACs & the DCPD staff revealed that members are not interested to buy additional share. This is because members didn't get any benefit better than the non-members. Both the members and the non-members were equally getting farm input & output services. Since farm inputs were purchased by loan from bank using Government budget as collateral, the Government forced FACs to distribute farm

inputs to members and non-members. For the case of farm outputs since FACs don't get adequate farm outputs from members, they buy from non-members too. As a result, members were not motivated to buy additional share. This is expressed by Pierre and Collion (2001), as farmers are generally willing to pay for services, provided by FACs that have a real benefit, and if they feel they are part of the organization.

### **B. Delivery of produce/ farm outputs**

As pointed out from discussions with respondents and management committee of Enseno FAC, the participation of the members in delivering their farm produce to the FAC is not satisfactory. This is happened because: (1) the FAC didn't start purchasing farm output on time; they took time for preparation; (2) the FAC purchasing days are limited, only one or two days per week; (3) the management committee of FAC are not flexible as middlemen, every decision is decided by committee. As a result, most members couldn't sell their farm produce to the FAC. Discussions with respondents and management committee of Mekicho FAC revealed that since the FAC didn't provide farm produce service, members would sell their farm produce to middle men.

The result revealed that even though there is improvement, most members of Enseno FAC didn't participate in selling farm outputs to the FAC. However, members of Mekicho FAC didn't have opportunity to sell their farm outputs to their cooperative.

### **5.6.2 Participation in the produced benefits**

**Distribution of dividend:** All respondents as well as the management committee members of the FACs confirmed that there is no distributions of dividend until the FACs were re-structured. During discussions with the DCPD staff, it was pointed out that no FAC distributed dividend to its members in the district. It is probable that this decreases the sense of ownership. The result indicated that since the FACs do not distribute dividend, the members feel that the FACs are belonging only to the management committee members rather than to the member farmers. This situation will lead the members to decrease their involvement in the activities of the FACs gradually.

### **5.7 SWOT Analysis**

This model helps to analyse internal factors as strength and weakness of the FACs and external factors as opportunities and threats that FACs need to utilize and need to prepare themselves by applying different strategies. This is shown in the following figure.

<b>Strength</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• Increase bargaining power of members.</li> <li>• Enable members to get better price for their produce.</li> <li>• Availability of office and store.</li> <li>• Availability of financial documents.</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of qualified personnel.</li> <li>• Low management capacity of management committee.</li> <li>• Lack of communication with members.</li> <li>• Low involvement of members in cooperative activities.</li> <li>• Lack of sense of ownership.</li> <li>• Lack of transparency.</li> <li>• Couldn't perform based on their by-laws.</li> <li>• Lack of capital.</li> </ul>
<b>Opportunity</b>	<b>Threat</b>
<ul style="list-style-type: none"> <li>❖ Situated in town on main road to Ziway town.</li> <li>❖ Potential for cash crop.</li> <li>❖ Near to central market (Addis Ababa).</li> <li>❖ Government support.</li> <li>❖ Availability of proclamation and different operational manuals.</li> </ul>	<ul style="list-style-type: none"> <li>❖ High competition.</li> <li>❖ Fluctuation of price of produces.</li> <li>❖ Shortage of improved seed.</li> <li>❖ Increment of the price of farm inputs from year to year.</li> </ul>

Figure 4 SWOT Matrix of the Enseno FAC  
Source: Own study

<b>Strength</b>	<b>Weakness</b>
<ul style="list-style-type: none"> <li>• Availability of office and store.</li> <li>• Availability of financial documents.</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of qualified personnel.</li> <li>• Low management capacity of management committee.</li> <li>• Lack of communication with members.</li> <li>• Low involvement of members in cooperative activities.</li> <li>• Lack of sense of ownership.</li> <li>• Lack of transparency.</li> <li>• Couldn't perform based on their by-laws.</li> <li>• Lack of capital.</li> </ul>
<b>Opportunity</b>	<b>Threat</b>
<ul style="list-style-type: none"> <li>❖ Situated in town on main road to Ziway town.</li> <li>❖ Near to District town.</li> <li>❖ Potential for cash crop.</li> <li>❖ Near to central market (Addis Ababa).</li> <li>❖ Government support.</li> <li>❖ Availability of proclamation and different operational manuals.</li> </ul>	<ul style="list-style-type: none"> <li>❖ High competition.</li> <li>❖ Fluctuation of price of produces.</li> <li>❖ Shortage of improved seed.</li> <li>❖ Increment of the price of farm inputs from year to year.</li> </ul>

Figure 5 SWOT Matrix of the Mekicho FAC  
Source: Own study

## **CHAPTER SIX: CONCLUSION AND RECOMMENDATION**

This chapter presents summary of the main findings and recommendations points that demand certain intervention in order to improve the effectiveness of the FACs in the Meskan District.

### **6.1. Conclusion**

Both Enseno and Mekicho FACs have problem in delivering services to members. The FACs couldn't provide adequate farm inputs on time with the required quality, especially inputs such as improved seeds.

Both Enseno and Mekicho FACs are not members' interest driven but Government. They are established by the sole initiation of the DCPD staff. Moreover, technical supports that are given to the FACs are not designed in such a way to enhance their capacity to run the business by themselves. Therefore, it made them dependent upon the DCPD. This made the members to perceive that the FACs are just the bodies of the Government institutions rather than their own ones.

Both Enseno and Mekicho FACs didn't work based on their by-laws. Especially, the management committee members of the FACs used to serve beyond their maximum service year. Moreover, the management committee of the FACs have problem in responding to the members' demand, accountability to members and adapting the activities of the FACs to the frequently changing environment.

The educational level of most of the management committee members of the FACs is low and they didn't get adequate training that enable them to perform the FACs activities properly. Also, the FACs didn't have professional staffs that run the day to day activities of the FACs. Consequently, the management committees of the FACs try to perform the activities of the FACs as they can, in addition to their personal duties. As a result, the management committee of the FACs didn't provide adequate services to the members due to lack of capacity to manage the activities of the FACs. Moreover, the FACs have not been evaluated regularly based on their by-laws. Due to this, the management committee of the FACs considered the cooperatives as their own property and they perform the activities of the FACs as they like, irrespective of the interest of the members.

The FACs have lack of capital to perform their activities properly. Most of the activities of FACs are performed by loan. Furthermore, members didn't get dividend from their capital as well as from participation of FACs activities when the FACs make profit. Due to this, members are not interested to buy additional share to increase capital of the FACs. All respondents of the Enseno and Mekicho FACs have only one share. Also, the management committees of the FACs didn't call regular general assembly to discuss about the progress of the FACs and to enable members participating in decision making process of the FACs. The management committee members used to make all decisions of the FACs without the participation of the members.

## 6.2 Recommendation

Necessary steps that demand certain intervention are summarized as follows:

- 1 The FACs need to provide farm inputs directly to their members instead of providing it through the Peasant Association representatives. Also, the quality of farm inputs, especially the improved seed should be improved. For this, the management committee of the FACs and DCPD staff need to discuss with the improved seed suppliers.
- 2 Provisions of technical supports by the DCPD staff should be in such a way that the management committee of the FACs shall develop their capacity of identifying their problems, drafting alternative solutions for their problems, and capacities to implement the solution initiatives.
- 3 The management committee of the FACs need to obey the FACs by-laws. The management committees and other sub- committees of FACs should be elected based on the FACs by-laws.
- 4 Educating and providing trainings to the management committee of FACs to enable them manage the activities of the cooperatives properly. This can be given by the DCPD staff. Moreover, training and education should be also given to the members of the FACs to have good understanding about cooperatives and their by-laws, and how to bring change in their life through cooperatives.
- 5 The FACs need to hire professional staff that can run the cooperatives day to day activities properly. If the activities of FACs run properly, the FACs can make profit for their members in addition to paying the salary of staff. Otherwise, with the current condition, they can't survive for long time. Also, the DCPD staffs need to monitor and evaluate the activities of the FACs regularly according to the FACs by-laws.
- 6 The FACs need to develop the sense of ownership of members by participating them in decision making and ensuring their benefit by providing dividend so as to solve the shortage of capital in cooperatives.

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## Annexes

### Annex1: Checklist for members

#### 1 General

1.1 Name ----- sex ---- age----- educational level -----

1.2 Time of membership

1.3 Reasons for membership

1.4 The value of one share

1.5 Types of crops produced

1.6 Land holding size

1.7 Functions of FAC

#### 2 Provision of services by FACs

2.1 Farm input service

2.2 Farm output service

#### 3 Needs of members

3.1 Type of farm input

3.2 Quantity of farm input

3.3 Quality of farm input

3.4 Price of farm input

3.5 Price of farm output

3.6 Distribution of dividend

3.7 Responsiveness of management committee for members demand

3.8 Accountability of management committee for members

3.9 Adaptabilities of the activities of the cooperative

#### 4 Participation of members in FACs activities

4.1 Decision making

4.2 Buying additional shares

4.4 Buying farm inputs

4.4 Selling farm produce

#### 5 Organization and functioning of FACs

5.1 Establishment of the cooperative

5.2 Membership criteria

5.3 Types of committee

5.4 Election of committee members

5.5 Activities of committee members

5.6 Regular general meeting

5.7 Conflict in cooperative

5.8 Communication

5.9 Decision making

5.10 Transparency and honesty

#### 6 Strengths, weaknesses, opportunities and threats of the cooperative

## **Annex 2:** checklists for management committee

### 1 General

- 1.1 Name of the FAC
- 1.2 Date of establishment
- 1.3 Number of members of FAC male ----- female ----- total -----
- 1.4 Profile of management committee (name, sex, age, educational level, responsibility, service year)
- 1.5 Mission of the FAC
- 1.6 The value of one share
- 1.7 Capital of the cooperative
- 1 Provision of services
  - 2.1 Farm input service
  - 2.2 Farm output service
- 3 Needs of members
  - 3.1 Type of farm input
  - 3.2 Quantity of farm input
  - 3.3 Quality of farm input
  - 3.4 Price of farm input
  - 3.5 Price of farm output
  - 3.6 Distribution of dividend
  - 3.7 Responsiveness of management committee for members demand
  - 3.8 Accountability of management committee for members
  - 3.9 Adaptabilities of the activities of the cooperative
- 4 Participation of members in FACs activities
  - 4.1 Decision making
  - 4.2 Buying additional shares
  - 4.3 Buying farm inputs
  - 4.4 Selling farm produce
- 5 Organization and functioning of FACs
  - 5.1 Establishment of the cooperative
  - 5.2 Membership criteria
  - 5.3 Structure of the cooperative
  - 5.4 Types of committee
  - 5.5 Activities of committee members
  - 5.6 Regular committee meeting
  - 5.7 Regular general meeting
  - 5.8 Conflict in cooperative
  - 5.9 Planning of farm input and output service
  - 5.10 Organization of farm input and output service
  - 5.11 Monitoring and evaluation of farm input and output service
  - 5.12 Staffing
  - 5.13 Directing of farm input and output service
  - 5.14 Training
  - 5.15 Communication
  - 5.16 Decision making
  - 5.17 Transparency and honesty
- 6 Strengths, weaknesses, opportunities and threats of the cooperative

### **Annex 3: Checklist for DCPD staff**

#### 1 General

- 1.1 Number of staff ----- male ----- female ----- total -----
- 1.2 Types of cooperatives in the district
- 1.3 Number of FACs in the district
- 1.4 Mission of district cooperative promotion desk

#### 2 Provision of services by FACs

- 2.1 Farm input service
- 2.2 Farm output service

#### 3 Needs of members

- 3.1 Type of farm input
- 3.2 Quantity of farm input
- 3.3 Quality of farm input
- 3.4 Price of farm input
- 3.5 price of farm output
- 3.6 Distribution of dividend
- 3.6 Responsiveness of management committee for members demand
- 3.7 Accountability of management committee for members
- 3.8 Adaptabilities of the activities of the FACs

#### 4 Participation of members in FACs activities

- 4.1 Decision making
- 4.2 Buying additional shares
- 4.3 Buying farm inputs
- 4.4 Selling farm produce

#### 5 Organization and functioning of FACs

- 5.1 Establishment of the FACs
- 5.2 Structure of the FACs
- 5.3 Types of committee
- 5.4 Activities of committee members
- 5.5 Regular committee meeting

- 5.6 Regular general meeting
- 5.7 Conflict in FACs
- 5.8 planning of farm input and output service
- 5.9 organization of farm input and output service
- 5.10 Monitoring and evaluation of farm input and output service
- 5.11 Staffing
- 5.12 Directing of farm input and output service
- 5.13 Communication
- 5.14 Decision making
- 5.15 Transparency and honesty
- 6 The roles of district cooperative promotion desk in farm input and output services (training, market information, follow-up of activities, auditing, others)
- 7 Strengths, weaknesses, opportunities and threats of FACs