

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**DEPARTMENT OF RURAL LIVELIHOOD AND DEVELOPMENT**



**COOPERATIVE GOVERNANCE IN ETHIOPIA: A CASE OF TWO  
COOPERATIVES IN AMHARA NATIONAL REGIONAL STATE (ANRS)**

**A THESIS SUMITED TO THE COLLEGE OF DEVELOPMENT STUDIES  
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LIVELIHOODS AND DEVELOPMENT**

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**COLLEGE OF DEVELOPMENT STUDIES  
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*Title*

*Cooperative Governance in Ethiopia: A Case of Two  
Cooperatives in Amhara National Regional State (ANRS)*


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**DEVELOPMENT STUDIES**

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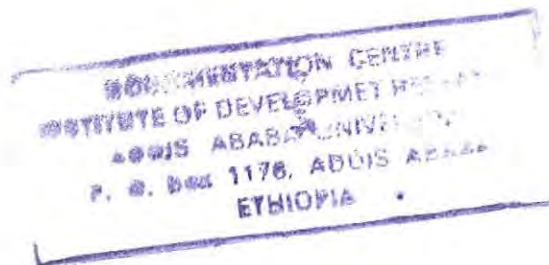
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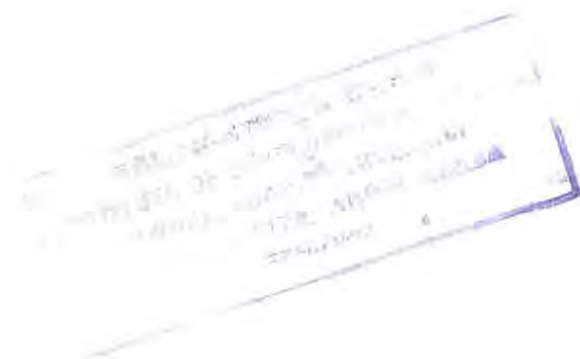
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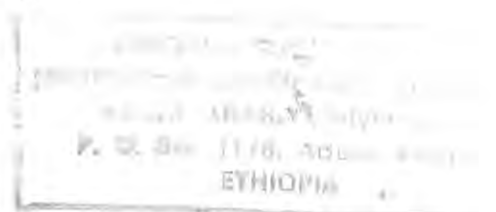
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## List of Acronyms

AAU	Addis Ababa University
ACDI	Agricultural Cooperative Development International
ADLI	Agricultural Development Led Industrialization
ANRS	<i>Amhara</i> National Regional State
ANTHC	Alaska Native Tribal Health Consortium
AVPPCS	Ankerka Vegetable Producers Primary Cooperative Society
AW	<i>Ambassel Woreda</i>
AWCPB	<i>Ambassel Woreda</i> Cooperative Promotion Bureau
AWOARD	<i>Ambassel Woreda</i> office of Agriculture and Rural Development
BOD(s)	Board of Director (s)
CAADP	Comprehensive Africa Agriculture Development
CFV	Cooperative Federation Victoria
EPDRF	Ethiopian People Democratic Republic Front
FAO	Food and Agriculture Organization
FCA	Federal Cooperative Agency
FCC	Federal Cooperative Commission
FDRE	Federal Democratic Republic of Ethiopia
GA	General Assembly
GAM	General Assembly Meeting
GSA	Government of South Africa
ICA	International Cooperative Agency
IDR	Institute of Development Research
IGE	Imperial Government of Ethiopia
ILO	International Labour Organization
MC(s)	Management Committee(s)
MPCSs	Multipurpose Cooperative Societies.
NEPAD	New Partnership for Africa's Development .
NSCC	Nova Scotia cooperative Council.
OCDC	Overseas Cooperative Development Council
OCDC	Overseas Cooperative Development Council
ORDA	Organization for the Development and Rehabilitation in <i>Amhara</i> .
PMGs	Producer Marketing Groups.



POs	Producer Organizations
RLDSs	Regional and local Development Studies
SACCO	Saving and Credit Cooperative Organization
TFMPFSPCS	Tingle Ferine Multi-Purpose Farmer's Service Primary Cooperative Society.
TGE	Transitional Government of Ethiopia
TMGE	Transitional Military Government of Ethiopia
TW	<i>Tehuledere Woreda</i>
TWCPB	<i>Tehuledere Woreda</i> Cooperative Promotion Bureau
UN	United Nations
USAID	United States Agency for International Development
USDA	United States Development of Agriculture.
USDA	United States Development of Agriculture
VOCA	Volunteers in Overseas Cooperative Assistance
WB	World Bank

## Abstract

*Democratic member control and autonomous and independent cooperative principles are the two ICA designed principles, specifically developed to address the governance cooperative. According to these principles, Cooperatives are member-governed economic and social organizations. Cooperatives as democratic and autonomous organizations are expected to ensure member-governance in their association and operation decision.*

*Despite their principles, nonetheless, in Ethiopia, in the previous regimes, the association and business operation of cooperatives were not decided by their members. Today, in contrary to the previous governments, in principle, cooperatives are recognized as member-governed democratic and autonomous organizations.*

*However, since members and the population at large was accustomed to government-governed cooperatives in the past, and the move towards member-governed cooperatives that are capable to complete and survive in the liberated market is a recent phenomenon, it seems that no considerable effort has been directed to analyze the governance of cooperatives in the face of the free market economy in Ethiopia. Having this in mind, this case study is conducted mainly with the objective of analyzing the governance of cooperatives in Ethiopia with a specific reference to Ankerka Vegetable Producers' Primary Cooperative Society (AVPPCS) and Tigle Ferie Multipurpose Farmers' Service Primary Cooperative Society (TFMFSPCS) in South Wollo Administrative Zone (SWAZ), Amhara National Regional State (ANRS), Ethiopia. To this end, two specific research questions are posed. First, what are the facilitators of cooperative governance in the studied cooperatives? Second, what are the constraints faced in the governance of the cooperatives covered in the study?*

*Selecting purposely AVPPCS and TFMFSPCS, the study adopted a case study method. Key informant interview, focus group discussion and observation method of data collection are employed to gather both primary and secondary data.*

*The findings of the case study revealed that, among others, to realize member-governed cooperatives: besides issuing supportive national legislation, still strong effort is expected from the government to prevent local government intervention and to strengthen the organizational capacity of CPBs; the businesses of cooperatives should be localized; members should participate actively in the economic and decision affairs; and representatives and employees of cooperatives must be membership-accountable. Rendering demand-oriented education and training, setting member-shared and locally-specific business activities, and Cooperation among cooperatives are the main recommendations forwarded by the researcher to ensure member-governed cooperatives.*

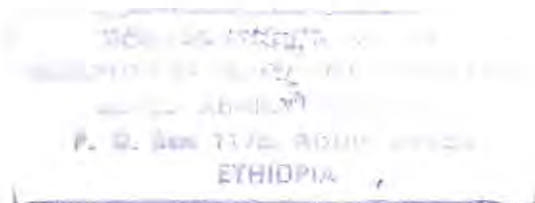
# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Groups of individuals around the world and throughout time have worked together in pursuit of common goals. Examples of cooperation can be traced back to our prehistoric predecessors who recognized the advantages of hunting, gathering and living in groups rather than on their own (Zeuli and Cropp, 2004) because the natural reaction of people is to work together for their mutual benefit (Ruiz-Mier and Ginneken, 2006). Although there is no organized information and study that shows the time when cooperatives started, like other people in the world, the community in Ethiopia has been and is using traditional cooperatives like *Debo*, *Iquib*, *Idir* to solve its socio-economic problems (FCC, 2005).

The inception of modern cooperatives started in England in 1884 by Rochdale Equitable Pioneers Society (Ruiz-Mier and Ginneken, 2006), and trace the essential roots of their structures and the underlying rationale for those structures back to the Rochdale principles and, viewed from a historical perspective, the demands we see today greater cooperative and director accountability are simply a continuation of the dynamic set in motion by the shift away from shareholder liability and director immunity (Bruun and Oleson, 2003). Governed by their members on the basis of democracy, in industrialized countries, producer organizations have been fundamental to the success of the family farm (smallholder farm), and still the dominant form of organization today (WB, 2008). Whereas in contrary to the developed countries' cooperatives, introduced to developing countries by the colonizers as part of the consolidation of colonial rules (OCDC, 2007) farmer cooperatives were introduced in sub-Saharan Africa (SSA) for the purpose of promoting production of cash crops by peasant farmers (Hussi et al, 1993; Bekele et al, 2006). In the same fashion, after independence, many governments as well as donors promoted cooperatives and other rural organizations as potential source of decentralized grass roots participation



in agricultural credit, input and commodity markets (Lele and Christiansen, 1989; Hussi et al, 1993; Bekele et al, 2006), and typically ignored existing social and economic structures and the cooperative movement in developing countries has been amply described as a system of cooperatives without cooperators (Shaw, 2006).

Modern cooperative movement in Ethiopia started when the feudal government declared Farm Workers' Cooperative Decree No. 44 of 1960, with the objective of accelerating the agricultural economy (IGE, 1960). The Imperial government also passed another cooperative proclamation (241/66) in 1966, to give legal basis for the establishment of all types of cooperative societies. But cooperatives were facing various governance problems. Against the voluntary and open membership principle, cooperatives were restricted only to farm workers (Subramani, 2005), and were organized to serve the needs of the landlords and the well off class (FCC, 2005).

After the replacement of the feudal regime by the military *Derg* government in 1974, as it is in the proclamation 138/78, cooperatives were organized to put means of production under the control of cooperatives and to transform them gradually to collective property as may be necessary, increase production, expand industries, conduct political agitation, eliminate reactionary cultures and customs, participate in the building up of a social economy, accumulate capital and to mobilize resources to sustain economic development (TMGE, 1978). As it is cited in Derese (2003), Hanson (1995) also argued that the state used to favor the cooperatives and discriminate against independent peasants in the allocation of inputs and in the type (fertility) of land the latter received and the prices the agricultural marketing corporation used to offer to their produces. The intervention of the government in the management and controlling of the cooperative affirms influenced the governance of cooperatives and resulted in passive participation of members since they lacked sense of ownership and belongingness to their cooperatives (FCC, 2005). Also cooperatives lacked the necessary autonomy and were dominated by government rules and orders (Yigremew, 1998) and cooperatives were used by the regime as

instruments of regimentation and political control over the peasant mass (Derese, 2003).

Beginning from its control of the power of government in 1991, the EPDRF government has been taking various economic and social policy reform measures. Decentralization, privatization and market liberalization policy measures were taken (Gebrehiwot and Wolday, 2001), and following the reforms, in principle, cooperatives are given an important attention by the government. The cooperative movement under FDRE is heartening that it has come out with an all new member-centered cooperative proclamation (147/98) which paves a conducive environment for the development of cooperatives (Subramani, 2005). The proclamation enshrines, among others, the basic ICA principles of cooperatives and it stipulates that the establishment of cooperatives shall be on the basis of these fundamental cooperatives principles (Mesfin, 2007).

The supportive legal measure that has been taken by the government, of course, facilitated the re-registration of old and the registration of new cooperatives in the country, including the cooperatives assessed in this study: Tigle Ferie Multipurpose Farmers' Service Primary Cooperative Society (TFMFSPCS), which is found in Ambassel Woreda (AW), and Ankerka Vegetable Producers' Primary Cooperative Society (AVPPCS) in Tehulederie Woreda (TW). The need of organizing cooperatives with a new, relatively democratic and comprehensive, cooperative proclamation is to improve the lives of the community and to reduce poverty by organizing dependable social and economic cooperative institutions (FCA, 2007).

Having the above mentioned background information; therefore, the objective of this research is to assess the governance of cooperatives in Amhara National Regional State (ANRS), South Wollo Administrative Zone (SWAZ), at Tigle Ferie Multi-Purpose Farmers' Primary Cooperative Society in Ambassel Woreda (AW), and at Ankerka Irrigation Primary Cooperative Society in Tehulederie Woreda (TW).

## **1.2 Statement of the Problem**

Democratic values are put in to practice through seven commonly accepted cooperative principles (OCDC, 2007). Defining aspects that relate to ownership and governance the first four principles, of which the democratic member control, and the autonomous and independent are the specific defining principles of cooperative governance, have a structural orientation (Ruiz-Mier and Ginneken, 2006). Cooperatives as democratic and autonomous organizations are expected to ensure member-governance in their associations and operations.

Despite their principles, nonetheless, in the past, particularly during the Derg regime cooperatives were government-governed. For instance, during the Derg regime cooperatives were not organized voluntary to meet the interest of their members (Derese, 2003) rather the formation of cooperatives was inspired from outside (socialist countries) and did not emanate from inside and the participation of local people in the design and implementation of legislation was null (Alemayehu, 1993). Alemayehu (1993) added that nearly all leaders were political activists and the managers of cooperatives are seconded by government.

As a consequence of these governance constraints, cooperatives failed to ensure member-owned and sustainable governance in their decision making and operation affairs. Teigist (2008) pointed out that that is why most of the cooperatives were unable to run their activities and failed to achieve their objectives. After reform and liberalization in 1989 many were not able to withstand market competition. As a result they either collapsed, become non-functional or continued to operate in a very inefficient way. In turn this led to a serious misconception as to their potential for employment and poverty reduction (Teigist, 2008). Despite these governance constraints experienced in the past regimes by Ethiopian cooperatives, however, if cooperatives are governed democratically and autonomously by their members, they have the potential to ensure sustainable local

development, and make their members participant in and beneficiary from national and international development processes.

In view of realizing these benefits, the EPDRF government enacted a cooperative proclamation (147/98) in 1998 in line with the cooperatives principles. Providing the legal framework for the relationship between the nation and cooperatives, formulating the rights and obligation of members and representatives in the governance of cooperatives, the proclamation asserts the government's commitment to adhere to the universal principles of cooperation as defined by the ICA, and the government's intention to respect the autonomy of cooperatives (FCA, 2006).

Going beyond principle, in practice, the proclamation paved the way for the re-registration of the old cooperatives and for establishing many new cooperatives, including the ones covered in this research. While TFMSPCS is from the re-registered old MPCSSs found in AW, AVPPCS belongs to the category of the newly established cooperatives in TW. TFMFSPCS was organized and re-registered according to the proclamation (147/98) to supply agricultural inputs and consumer goods at minimum price, to sell the agricultural produce of members at maximum price, to provide credit services to its members and to provide grain milling services to its members and the community. On the other hand, AVPPCS was organized and registered according to the proclamation (147/98), primarily to sell the carrot produces of members at maximum price, and, then, to supply agricultural inputs, including credit service at the lowest cost possible.

However, since members and the population were accustomed to government-governed cooperatives in the past, and the move towards member-governed and market driven cooperatives is a recent phenomenon, it seems that no considerable effort has been directed to assess the facilitators and constraints of cooperative governance in Ethiopia in the face of the liberalized market.

Therefore, the main objective of this study is to assess the governance of cooperative in Ethiopia, with a specific reference to AVPPCS and TFMFSPCS in SWAZ, ANRS.

### **1.3. Objective of the Study**

The main objective of the research project is to assess the governance of cooperatives in Ethiopia, with a specific reference to AVPPCS and TFMFSPCS in SWAZ, ANRS.

The specific objectives of the study are:

1. To assess the facilitators of cooperative governance in the studied cooperatives; and
2. To assess the constraints faced in the governance of the studied cooperatives.

### **1.4. Research Question**

In view of the above mentioned main and specific objectives, the research project answered the following main research question?

1. What are the facilitators of cooperative governance in the studied cooperatives? and
2. What are the constraints faced in the governance of the cooperatives covered in the study?

### **1.5. Significance of the Research**

Though ensuring democratic and autonomous governance in cooperatives is recognized in principles, yet insignificant attention is given to the governance needs of cooperatives. Despite their considerable presence in Ethiopia, also the governance of the cooperative sectors as a whole remains poorly understood, and its specific governance facilitators and constrains remain as yet largely unexploited. Given this context, the findings of the case study help to fill an important knowledge gap in understanding the cooperatives sector in Ethiopia. The study also contributes to a greater understanding of how the studied cooperatives can facilitate member

governance within their own decision making process, and can rectify non-members cooperative governance. It also empowers those who typically sit on the promotion and on the margins of policy making.

### **1.6. Scope of the Study**

As people-based organization, the governance of a cooperative deals about the decision making and economic rights of the cooperators, involves different actors in its decision making process, and serves the various interests of many beneficiaries. Keeping this in mind, the study covered the legislation of the government and the cooperatives, member participation in decision making and in economic activities, accountability of the MCs and employees of the cooperatives, governance knowledge and skills of actors, and the competence of the cooperatives, in order to assess the facilitators and constraints of governance in AVPPCS and TFMFSPCS.

### **1.7. Description of the Study Area**

The cooperatives covered in this study are found in the amhara National Regional State (ANRS), South Wollo Administrative Zone (SWAZ) at *Tehulederie* and *Ambassel woredas*. Located in the Eastern of the ANRS, SWAZ comprises 22 *woredas*.

### **1.8. Profile of the cooperatives**

#### **1.8.1. Ankerka Vegetable Producers' Primary Cooperative Society (AVPPCS)**

*Ankerka* Vegetable Producers' Primary Cooperative Society was founded in 2004 by 181 carrot producers who are residing in *Gobeya* (012) *kebele* of *Tehulederie Woreda* (TW). According to the FDRE cooperative societies proclamation (147/98) primarily, to sell the carrot produce of members at better price, and then, to supply members with agricultural inputs at lowest price. As of April 2009 the total number of member of AVPPCS raised to 267, while its capital increased to 490,820 Eth. Birr.

### **1.8.2. Tigle Ferie Multipurpose Farmers' Service Primary Cooperative Society (TFMFSPCS)**

Drawing peasant members from the then *Limo* (01) *Muhejigie* (02) and *Melakie* (03) (i.e. from three) *kebeles*, or from the current *walkit* (01) and *Begido* (02) (i.e. from two) *Kebeles* of *Ambassel woreda* (AW), *Tigle Ferie* multipurpose farmers' service primary cooperative society (TFMFSPCS) was established by 988 peasant members with 4940 Eth. Birr capital in March, 1977 (1969 E.C). Of the total members 863 were male, while the rest 125 were female. The cooperative was established to provide peasant farmers with agricultural inputs and consumer goods at minimum price as well as to sell the agricultural produce of peasant members at better price in view of improving the living standards of the peasant members. Following the promulgation of the cooperative societies proclamation (147/198), having 133,877.34 Eth. Birr capital TFMFSPCS was re-registered in Nov 1999 in pursuance with the provisions of the new proclamation (147/98) to provide its members with the above mentioned services in the context of the free market economy. Currently the cooperative has 2415 total members and 217,785.9 Eth. Birr capitals.

### **1.9. Organization of the Research**

This research is organized in to five chapters. Chapter one is the introductory one, which presents the background, statement of the problem, objective, research questions, significance, and scope of the study, deception of the study area and profile of the studied cooperatives. In chapter two, related theoretical and empirical literatures are reviewed. While the methodological framework of the research is dealt in chapter three, the analysis and findings of the study are presented in chapter four of the research. Finally, Chapter five reveals the conclusion and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Theoretical Framework**

##### **2.1.1. Definition of cooperatives**

Many people confuse cooperatives with other forms of economic enterprise like companies, trusts and closed corporations (GSA, 2004) and, much of the negative legacy carried by cooperative development is a result of labeling a parastatal, or even a non-profit charitable organization, as a cooperative (OCDC, 2007). Therefore, in any discussion of the theoretical framework of the governance of cooperative business model, it is important at the outset to clarify what a cooperative is and what a cooperative is not, in the light of the common internationally recognized and accepted ICA cooperative values and principles.

According to (GSA, 2004) cooperatives do not share the same institutional characteristics, values and principles as other forms of economic and social organizations. In the main, cooperatives have evolved as a movement at a global continental, national and local level (GSA, 2004). Cooperatives are also universal in nature since they foster values that recognize no national boundaries, constitute the free willingness of persons who try to solve their needs through their own effort and mutual assistance, i.e., organizing actions in cooperation with other performs with whom they share common needs and aims (Cracogna, 2002).

The universal nature of cooperatives is written down on the ICA statement on the cooperative identity, which after defining cooperatives formulates the basic values on which after defining cooperatives, formulates the basic values on which these organizations rest upon, and then the principles through which cooperatives put such values in practice.

Accordingly, the ICA defines a cooperative as: “an autonomous association of persons united voluntarily to meet their common economic, social and

cultural needs and aspirations through jointly owned and democratically controlled enterprise (ICA, 1995).

The definition emphasizes that cooperatives are independent of government and not owned by anyone other than the members (Brichall, 2004), rather it points out that ownership and control by members, who usually have one vote per person is a key aspect of cooperatives. A cooperative is a voluntary group-based and member owned and controlled business that can be formed for the economic and social development of its own members. Also initiated by the potential members on the basis of their voluntary will and raising equity from their members in order to create a business that would benefit them through their patronage, not from appreciation in the value of, or return on, or their equity (OCDC, 2007).

### **2.1.2. Values of cooperatives**

The governance and operation of cooperatives is grounded on a set of values that form the basis and essence of cooperative movement. The 1995 ICA statement on cooperatives identity is widely acknowledged as the authoritative pronouncement of cooperative values and principles (Shaw, 2006). In the statement the values are categorized in to two groups as basic values and ethical values. The basic values on which cooperatives based are self-help, self responsibility, democracy, equality, equity and solidarity. The basic values are not just theoretical but are an essential philosophical understanding of the seven principles that serve as the guidance's by which cooperatives put their values in to practice. Unless they are exercised in practice, these values are not unique to cooperatives (Pezzini, 2007). In the tradition of their founders cooperative members also believe in the ethical values of honesty, openness social responsibility and caring for others (ICA, 1995).

### **2.1.3. Principles of cooperatives**

Every organization has its own principles, which are to be observed for its smooth working. As organization, cooperatives have their own set of principles, which are universal in nature, recognition and acceptance.

Historically, cooperative principles have their origin in the working practices and rules, which the Rochdale pioneers had evolved, adopted for their working (Veerakumaran, 2003). These, the Rochdale principles, were scrutinized and modified by the International Co-operative Alliance (ICA) in 1966 and 1995. Six cooperative principles were drafted by the ICA in 1966, based on the guidelines written by the founders of the modern cooperative movement in England in 1884. In 1995, the ICA restated, expanded and adopted the 1966 principles to guide cooperative organizations in to the 21<sup>st</sup> century (OCDC, 2007). They are now referred to as the "Statement on the Co-operative Identity" and are internationally accepted as the one and only guide for what co-operatives are and how they should operate (ILO, 2002). The current statement on cooperative identity includes the following Co-operative principles –

**Voluntary and open membership:** Co-operatives are voluntary organizations; open to all persons able to use their services and willing to accept the responsibility of membership, without gender, social, racial, political, or religious discrimination.

**Democratic Member Control:** Co-operatives are democratic organizations 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 co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organized in a democratic manner.

**Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their co-operatives. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

**Autonomy and Independence:** Co-operatives are autonomous self-help organizations controlled by their members. If they enter into agreement with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

**Education, Training and Information:** Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

**Co-operation among Co-operatives:** Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and interregional structures.

**Concern for Community:** While focusing on member needs and wishes, co-operatives work for the sustainable development of their communities.

Today, as it is stated above, the cooperative movement embraces, and is guided by, these commonly accepted principles. These basic cooperative principles define cooperative organization, give them strength, and provide the cause and rationale for their public support, in terms of taxation, education and promotion (Frederick et al, 2002). Woven into the business fabric of cooperative operations and structure to further the economic and social goals of members, the principles are operational and behavioral rules developed to govern cooperatives (Wadsworth, 2003).

#### **2.1.4. What is Cooperative Governance?**

Before defining what cooperative governance is, it is important here to clarify what governance is. "Governance" is a word derived from the French

“gouvernance” refers to the exercise of authority and control (Agumba, 2008). Saying this about governance, then I proceed to defining cooperative governance. The Co-operative Governance Manual defines co-operative governance as: The set of relationships between the cooperative’s members, the board as representatives of members that advise management for the members and the management that has care and control of the co-operatives for members and how a business can be best governed in the interests of its owners (CFV, 2005). In other words, cooperative governance can be defined as a system by which a cooperative is directed, controlled and held to account for the manner in which power is exercised in the decision making and business operation process of the cooperatives.

In many ways cooperatives are like other businesses (Zeuli and Cropp, 2004) and basically corporate governance is the same in cooperatives as in publicly coted companies (Pellervo, 2000). However, in setting a governance structure for a co-operative, the unique characteristics of a co-operative, its values and principles (as adopted by the International Co-operative Alliance, 1995), and ethical nature must be taken into account (CFV, 2005). The first four principles have a structural orientation, defining aspects that relate to ownership and governance (Ruiz-Mier and Ginneken, 2006). Co-operative governance differs from other enterprises in that a co-operative exists for its members and, therefore, good co-operative governance must provide direction for its board and members to work in the interests of the co-operative and its members (CFV, 2005). The key differences in cooperative governance as compared to corporate governance are that each member of a cooperative generally has one vote, its directors be selected from among the membership and cooperatives are designed to reduce the costs of goods and services (Bruun and Oleson, 2003). Co-operative governance provides the structure through which the objectives of the co-operative are set, the means of attaining those objectives, and the monitoring of performance. Governance is about structure, it’s about relationships (and the roles and responsibilities of those relationships), and it’s about monitoring performance (of the co-operative). For any enterprise to succeed, whether it is a for-profit, government-owned or co-operative organization, a sound

governance model must be in place. This model must provide a framework that enables the organization to function in keeping with its aims and objectives (CFV, 2005).

## **2.2. Review of Related Empirical Literatures**

Reviewed empirical evidences reveal that governed democratically and autonomously by their members, cooperatives can ensure local-based and sustainable economic and social development. In many countries cooperatives are among the largest major enterprises in diverse fields of agricultural marketing, saving and credit, rural electricity, insurance, information /communication technologies (ICTs) and housing cooperatives have been and continue to be, a significance economic force (OCDC, 2007). In industrialized countries farmer organizations have been fundamental to the success of the family farm (smallholder farm); still the dominant form of organization of production today. In the United States dairy production and most of the specialty crop producers in California are organized in cooperatives. Also in France 9 of 10 producers belong to at least one cooperative, with market share of 60 percent for inputs, 57 percent for product, and 35 percent for processing (WB, 2008). One third of the world food production is governed by cooperative, and in dairy sector in the Netherlands nearly 85 % of all processed milk is the domain of a small number of cooperatives (Hendrikse and Veerman, 2004).

Despite these success histories, which are experienced in developed countries, in developing countries, results have been mixed, particularly where cooperatives have operated in extremely challenging environments have been instruments of the state, or unable to rapidly gain scale through interlocking cooperative networks (OCDC, 2007). The experience of the majority of cooperatives in developing countries has been difficult, and therefore, as Shaw (2006) argued a starting point for reviewing corporate governance issues has to begin with the legacy of government control and intervention into the cooperative sector in one of the developing countries, Africa.

The first formal cooperatives in Africa were usually created during the period of colonization and they have found many roots in African societies and economies (p.32), however, designed for colonial purposes they were used as

tools serving the colonizing countries' interests (Couture et al, 2002). The positioning of cooperatives in the economy as well as their organizational set up depended on certain colonial traditions (Develtere, 2008). Surprisingly perhaps, colonizing countries did not usually use their domestic cooperative legislation and policies as a blueprint to foster cooperative development in their colonies (Couture et al, 2002), rather, often served as a means to organize formers to provide products to the homeland (OCDC, 2007).

Colonial domination followed by a period of state control often inspired by the socialist system, has greatly influenced cooperative legislation (p. 74), and did not contribute to genuine democratic and autonomous cooperative development (Counter et al, 2002). For example, in Kenya, government officers were in charge of managing cooperatives, with the primary objective of ensuring the stability of cocoa production, rather than promoting genuine cooperatives that benefited their members (Kayenwee, 2002). While in all colonial models cooperators were dependent agents, in post-colonial time they became clients of semi-public cooperatives up to the mid 1990s in many countries. As a result we have witnessed cooperatives, which have been forced rather than transformed (Develtere, 2008). Cooperatives were thus treated as an extension of state control (Couture et al, 2002).

The first cooperative organizations were created in Ethiopia at the beginning of the 1960s, during the regime of Haile Sellassie I. But cooperatives were facing various governance problems. In the 1960s, two cooperative acts were passed, but mainly because of government control they were not such a useful tool for the democratic and autonomous development of cooperatives (Lelissa, 2002), because it has been constrained and challenged adopted by the government (Teigist, 2008). Against the voluntary and open membership principle, cooperatives were restricted only to farm workers (Subramani, 2005), and they were organized to serve the needs of the landlords and the well off class (FCC, 2005).

After the replacement of the feudal regime, by the military Derg government in 1974, cooperatives were more expanded as a tool for expanding and imparting the socialism ideology in the country. As it is cited in Derese

(2003), Hanson (1995) argued that the state used to favor the cooperatives and discriminate against independent peasants in the allocation of inputs and in the type (fertility) of land the latter received and the prices the agricultural marketing corporation used to offer to their produces. The intervention of the government in the management and controlling of the cooperative affairs influenced the governance of cooperatives and resulted in passive participation of members since they lacked sense of ownership and belongingness to their cooperatives (FCC, 2005). Also noted that the cooperatives lacked the necessary autonomy and were dominated by government rules and orders (Yigremew, 1998) and cooperatives were used by the regime as instruments of regimentation and political control over the peasant mass (Derese, 2003). Under the policy of state partnership with cooperatives, greater financial support, restrictive provisions were introduced in cooperative proclamation and there is overdependence of cooperatives on government, contemptuous indifference and frustration among employees as well as supportive hierarchical structures have (at the same time) created insularity (Karathikeyan, 2006) and all the cooperative principles were violated (Lelissa, 2002). Another study conducted by Desalegn also contended that producer cooperatives (PCs), at the time of Derg, were resented because they were set up without the consent of the participants, and service cooperatives(SCs) were inefficient and unable to provide the services needed by their members ,and riddled with corruption (Desalegn, 1992).

Following the change of government in the early 1990s, drastic measures intended to transform the command economy to a market-led economy were taken in Ethiopia. The government of Ethiopia cooperative promotion efforts have proceeded since 1994 even in spite of the long and tumultuous history of cooperatives in Ethiopia that started during the Imperial era prior to 1973 and continued through the Derg regime (1974-1991), at the fall of which they were dismantled ( Spielman and Bernard, undated). In 1994, in accordance with article 9(d) of the Transitional period charter, where as it has become imperative to issue legislation by which agricultural cooperative societies organized and administered the transitional government of

Ethiopia (TGE) enacted agricultural cooperative societies proclamation (85/94). According to the proclamation (85/94) cooperatives are organized by the free will of the peasants living scattered in the rural areas to solve jointly the economic and social problems facing them. In addition to this the proclamation attempts to make cooperatives play their roles properly in a free market system by getting rid-off the government intervention in the internal affairs of the cooperatives. Bringing the issue of cooperatives into focus once again, the legislation can facilitate the development of member-organized and run, and market-oriented cooperatives. In spite of comprising these positive qualities, however, it was both area and sector specific since it gave legal recognition only to agricultural cooperatives that are organized by peasants living in the rural areas.

Seven years later after the EPDRF government took the government power, another a relatively comprehensive and democratic cooperative societies proclamation No. 147/98 was proclaimed by the government on 29<sup>th</sup> day of December, 1998. In principle, addressing the subjects of cooperatives membership, controlling and benefits, in pursuance with the principles of cooperation, the proclamation provides opportunities to develop member-governed and independent cooperative organizations in Ethiopia. In practice, however, the various reviewed literatures indicated that all cooperatives have failed to ensure uniformly democratic and autonomous governance in their decision making and business operations in pursuance to the cooperative principles: while the governance of some cooperatives is democratic and autonomous, the governance of the rest cooperatives is against the principles of cooperation.

As it gives cooperators the chance to become the real owners of their cooperatives and turnaround the governance of their enterprise, the issuance of favorable proclamation was a well-come move in the development of an autonomous, self-managed and sustainable cooperative movement. The role of legislation in realizing democratic and autonomous cooperative governance is proven on ground. For example a study conducted by Tesfaye (2005) illustrated that Ethiopia provides an example of

cooperatives moving successfully from government control to member ownership. Government proclamation revised outdated provisions and supported farmer-owned and controlled cooperative democratically electing their leaders without government intervention, and cooperative were no longer state instruments. Market oriented multi-purpose agricultural cooperatives have restricted with independent BCOs and managers. Governance has improved and book of account are regularly audited. The recent growth and profitability of cooperatives in Ethiopia has removed there negative stigma overall, cooperatives have become increasingly important to individual members, the community the business sector and the national economy (Tesfaye, 2005). Moreover, an appraisal carried, out in 16 African countries including Ethiopia revealed that cooperatives are practicing democratic and autonomous corporate governance mechanisms in their management processes. In some countries that do not have a strong tradition in cooperative development, such as Ethiopia and Rwanda, government and donor support is speeding up the organization of cooperative (Develtere and Pollet, 2008).

Beside the external opportunities provided by the government, the management to cooperatives has also improved due to professionalization of cooperatives. Professional competence and capacity of CPB staffs and leaders made cooperatives to leverage existing institutional resource to compete and survive in globalized market economy and boundary-less markets. CPB leadership is enthusiastic and staffs trained by ACE are capable of providing basic skills to efficiently manage the cooperatives. Training has allowed board members to better understand their responsibilities and how to carry them out. Increasing the loyalty and commitment of leaders, the training has led to greater efficiency and accountability. Not a single case of embezzlement or misappropriation of funds on ACE- assisted cooperatives was reported (Dorsey and Tesfaye, 2005).

Another study undertaken by Tiegist (2008) to example the contribution of cooperatives in poverty reduction illustrated the presence of member and

community benefited cooperatives, and the improvement of the governance of cooperatives in Ethiopia. Cooperatives offer self employment to members whose participation in the economic activities that they make possible substantially guarantees a decent income. Grain producer's cooperatives, for example, play an important role in securing better prices for farmers throughout the year. This effort reduces the seasonal fluctuation and stabilizes the local grain markets in favor of cooperators and this is why grain farmers have not been severely affected by price fluctuations in recent years. In addition to their members, concerning for the community in consistent to their principles, cooperatives also work to improve the socio-economic condition of the community. Yirga chefie coffee farmers' cooperative union (YCCFU) for example, supports 21 students in institution of higher learning in the country every as well as if provides to 250 orphans annually. In the same fusion Diban Diba primary cooperative society made a contribution of 7.500 Ethiopia birr towards the construction of a watering point and the purchasing of chairs at local primary school in 2005 (Tiegist, 2008).

Although the proclamation (147/98) was a well come move in the development of member-governed, an autonomous and sustainable cooperative movement, still there are cooperatives that failed to ensure democratic management processes in their corporate governance process because of various constraints. Interference of local government officials in the internal management affairs of cooperatives is one of the constraints of governance in cooperatives. For example, Woldu (2007) contended that cooperatives are not free of government officials. The local political leaders persuade farmers to join cooperatives in order to achieve their own political objective, which was highly practical in Ethiopia during the Derg regime (Woldu, 2007).

Passive member participation is also constraining the governance of cooperatives. Woldu (2007) pointed out that one of the problems in cooperatives is violation of cooperative principles, which is visualized both by members and leaders. In which is visualized both by members and

leaders. In principle, designed to ensure or serve members benefits, and controlled by their members, cooperatives should be democratic in membership. But in reality members don't have any say in the profit and loss of the cooperatives (Woldu, 2007). Also Develtere and Pollet (2008) illustrated that cooperatives were not viable organizations as they were not securing member commitment. In many African's countries the members have a more loose relationship with their industrial cooperatives this is the case for 1,500 handcraft cooperatives in Ethiopia (Develtere and Pollet, 2008)

Cooperatives also showed weakness with respect to their management. Although professionalization of cooperatives is a major element for leading cooperatives to greater efficiency and accountability, however, a study conducted by Mesfin in 2007 to assess the opportunities, performance and constraints of coffee producing farmers' cooperatives union in southern nation nationalities regional state (SNNRS), in 2007 pointed out that CPBs are suffering from lack of professional staffs. CPBs are stifled with people who were transferred from other offices due to, among others, inefficiency and lack of vacant positions resulted from structural change, and the commitment and loyalty of these people to provide the necessary support to the cooperative activities is very low (Mesfin, 2007). Moreover, a research carried out by Hailu (2007) contended that the governance of the multipurpose cooperatives covered in his study is not market-oriented and member-benefited. The multi-purpose cooperatives could not provide sustainable and dependable market opportunities for their members with regard (Hailu, 2007).

Records are essential for many collaborative enterprises (Matthews, 2004) but lack of comprehensive and accurate records is constraining the governance of cooperatives in Ethiopia. Ganesan, (2006), for instance, illustrated that cooperatives have not properly guided to keep certain books and records uniformly to the grass root level primary the cooperatives. The cooperatives are not adopting the periodicals or reports to be sent to the

higher level cooperatives bureaus to review performance of the societies now and then (Ganesan, 2006).

Besides the constraints that are directly related to the weakness of the corporate governance of individual cooperatives, problems that are resulted from the weak cooperation of cooperatives have been constraining the governance of cooperatives. A cooperative research conducted by Develtere and pollet (2008), for example, indicated that lack of cooperation among cooperatives is one of the constraints of governance in cooperatives. Secondary and tertiary cooperatives thus bring the benefits of economies of scale and leverage, though they are not achieved sufficiently in Ethiopia due to absence of such integration among most of the cooperatives. Ethiopian is yet to establish secondary structures, which means that still there are cooperatives societies dependent on the government and donors for any attempts at representation and integration (Develtere and Pollet, 2008).

Despite the mixed illustrations reviewed above, but what is certainly apparent is that most countries have moved from a situation where government and state apparatus were heavily involved in cooperatives towards a situation where this is less so. Studies conducted in developing countries showed that there is resurgence of cooperatives in changing global economy. A major resurgence of private cooperatives is occurring in countries such as Ethiopian and Honduras, where agricultural cooperatives participate in direct marketing and in formerly closed auctions for exporting (OCDC, 2007). However the degrees of distance of the government and cooperation now have from the cooperative sector differs from country to country (Develtere and pollet, 2008).

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1. Research Approach**

Taking into consideration various factors, a given research may adopt experimental survey or a case study approach. According to Yen (2003), (cited in Brown 2007), a case study research approach is generally used in a study when the research requires the researcher to look at the individual or the organization under study from multiple perspectives to build a detailed understanding of phenomena. The distinctive need for case studies arise out of the desire to understand complex social phenomena in brief the case study method allows investigators to retain the holistic and meaningful characteristics of real life events and are desirable when contextual conditions are important and pertinent to studying a particular phenomena. Also the ability to trace changes overtime is a major strength of case studies which are not limited to cross sectional or static assessments of a particular situation as well the case study is preferred in examining contemporary events when the relevant behaviors cannot be manipulated (Yen, 2003).

Following this, this study adopted the case study method as this method allows the researcher to retain the holistic and meaningful characteristics of democratic and autonomous cooperative governance from the perspective of various cooperative governance actors and the complex economic and social phenomenon. As community concerned member governed legal economic and social organization the issue of cooperative governance is complex since it is likely influenced by many contextual condition such as government legislations, nature of markets, internal cooperative governance principles, member participation, and accountability of representatives and employees.

Besides the contextual conditions that affect the governance of cooperatives in general the explanatory and exploratory nature of the research questions of the study demands the researcher to draw upon multiple sources of information and make linkages between certain events that happened over time for instance information concerning changes in: institutions of

cooperative governance legislation of governments and cooperatives; member participation; and accountability of representatives may provide insight into the relationship maintained between cooperatives and the government, the degree of control members put in the decision making and operation of cooperatives, and the adaptability of the governance of cooperatives into the changing market situations.

Furthermore, in this study analyzing historical and contemporary facilitators and constraints of cooperative governance such as past and present general market and specific cooperative legislations of government and their practice on ground, and members, representatives, employees and promoters behavior cannot be manipulated as in experimental laboratory research. Instead multiple data sources are drawn upon to assess the objectives of the research. Under such a circumstances, where the researcher has little or no control over the variables being studied the adoption of the case study method in this research is appropriate and justifiable. To this end in this study multiple sources of data were drawn upon to assess the various facilitators and constraints of governance in the studied cooperatives from multiple perspectives.

### **3.2. Sources, methods and Instruments of data collection**

#### **3.2.1. Sources of data collection**

Both primary and secondary data source were included in the study. Taking into consideration the knowledge and experience they have on the subject under study, primary data was gathered from: five past and current officers of the MCs; three employees of TFMFSPCS; eight staffs of CPBs; two staffs of the Agriculture and Rural Development offices; and one member of woreda cabinet by holding interview with them. In addition to the above mentioned key informants, primary data was collected from the discussion of the members participated in the focus group discussions (FGDs). Consisting of seven participants for each, two FGDs were conducted in the cooperatives. Likewise, the researcher observed the business activities of the cooperatives in person. Moreover, secondary data was collected through reviewing related government legislations and cooperatives bylaws, reports, minutes and other

documents. As interview data can be subject to poor recall response bias and flexibility therefore as Brown (2007) claimed secondary sources of information such as organizational documents and archival data complements and strengthen data that was acquired through the interview and discussion methods.

### **3.2.2. Methods and instrument of data collection**

To answer adequately and successful the research questions of the study, key informant interview, focus group discussion and observation method of data collection were employed in this study. The key informant interview was held with the above mentioned individuals that have detailed personal experiences and better expertise knowledge on the subject studied. The focus group discussion was made by members to discuss, share, compare their experiences and finally to forward their conclusion regarding the facilitators and constraints of cooperative governance. At lastly, in order to assess member and market responsiveness of the governance of the cooperatives the researcher observed in person the marketing activities of the enterprises. Listing the key themes and sub-themes, interview schedule was used as an instrument of data collection in the key informant interview, and discussion schedule was used to moderate the focus group discussions.

### **3.2.3. Method of sampling**

From the total 71 primary cooperatives found in Thuldere (43) and Ambassel (28) woredas, Ankerka Vegetable Producers', and Tigle Ferie Multi-Purpose Farmers' Service, primary cooperatives were purposively selected from TW and AW respectively for the research. The main criteria used for the selection was the performance of the cooperatives. Besides its performance its proximity and easy access of information were also considered in selecting TFNFSPCS. Since the researcher is familiar to the study area, particularly to the area where TFMPFSPCS is located, TFMPFSPCS is selected depending on the knowledge of the researcher. Whereas, accepting the recommendation given during the defense of the proposal of this research, AVPPCS is selected purposely depending on the information given by Ato Tesfaye W/hana, process owner of cooperative promotion of SWAZ

CPB. Through telephone interview, Tesfaye reported that AVPPCS is one of the well performing cooperatives in the region, even in the country.

#### **3.2.4. Methods of data analysis**

Once the data are collected, edited and categorized into different groups both qualitative and quantitative data analysis techniques were used in the analysis. Although the research used both data analysis techniques, due to lack of organized quantitative data/or, due to the reluctance of the CPBs the cooperatives to give such data, the research depended more on qualitative data analysis method. The qualitative data was analyzed using narrative texts, while the quantitative data was analyzed using simple descriptive statistics such as percentage. Inference was made for the qualitative and quantitative data. Finally, the result of the analyzed data is presented in the form of tables and figures such as pie-charts and line graphs.



## **CHAPTER FOUR**

### **DISCUSSIONS AND FINDINGS OF THE STUDY**

#### **4.1. Assessment of the Facilitators of Cooperative**

##### **Governance in AVPPCS and in TFMFSPCS**

###### **4.1.1. Supportive Cooperative Legal Framework**

Rural organizations can fully develop their potential as self-managed if the country's policy and legislative framework is favorable to private business initiatives and group activities (Hussi et al, 1993; Shaw, 2006). The establishment of an appropriate legal framework to recognize cooperatives as a legal and distinct economic and social organization in the light of the international cooperative identity statement of ICA is the first most responsibility of governments, and central to the development of self-regulated and self-controlled cooperatives sector. Governments may affect the governance of cooperatives positively or negatively by issuing supportive or non-supportive legal framework respectively. Therefore, it can be argued that it is relevant and logical enough to assess the legislation of a country in analyzing the governance of cooperatives.

The issue of cooperative legislation in Ethiopia was first brought up by the first cooperatives law issued in 1960. Since then, Ethiopia has issued five cooperative legislations. Replacing the fourth cooperative legislation called agricultural cooperative societies proclamation No. 85/94, the current cooperative proclamation No.147/98 was promulgated in 1998. As it is stated in its preamble, the proclamation is enacted in accordance with article 55(1) of the FDRE constitution. Being in line with the cooperative principles and the constitution of Ethiopia, among others, the proclamation is expected to enforce cooperative autonomy and may stipulate the creation of cooperatives whose governance is not subject to authorization and state interference.

Incorporating the universally accepted ICA cooperative principles under article 5 of the proclamation, and guided by them, the EPDRF government

has provided a supportive legal framework that accepts the autonomy of the management, member-orientation of cooperatives, and integration of cooperative into the market economy. Acknowledging the universally accepted definition, for instance, in article 2 of the legislation, a cooperative is legally defined as follows.

*A cooperative society means a society established by individuals on voluntary basis to collectively solve their economic and societal problems and to democratically manage same.*

Legally, a cooperative is a voluntary member-based economic and social organization established to meet the economic and social needs of members who participate democratically in the management of cooperative society. Though the definition doesn't adopt word by word, the definition of cooperatives provided by ICA, giving cooperatives a legal treatment that takes in to consideration their universal traits according to the ICA statement of cooperatives identity, the legal definition of cooperatives shows the respect the government gives to cooperative autonomy. Stating the way the government considers cooperatives as regard to their membership, ownership, control and purpose, as Cracogna (2002) illustrated, the definition cited in the legal framework can facilitate the practice of democratic and autonomous decision making in cooperatives. The legal definition of cooperatives is of paramount significance since it is the chore up on which any legislation rests. Thus the correct definition of cooperative is a mile stone for any cooperative law and it should lead to draw a distinction from other forms of legal organization such as corporation, associations (Cracogna, 2002). Accordingly, providing legitimacy to cooperatives as bona fide social and economic organization, the government provides an opportunity for individuals to work together to address problems they are facing. In addition to this, emphasizing and formally acknowledging the special characteristics of cooperatives such as objectives, membership, control, etc., the legislation enables cooperatives to ensure cooperative-based corporate governance in their associations and operations.

Besides the definition, including the 1995 statement of cooperatives principles, one of which is autonomy and independence, not as a legal norms, but as a sanction against any abuse of the name of cooperative, in principle, the legislation prevents the negative interventionist action of the government within the organization structure, management and other activities that should be left entirely to cooperatives. Thus, the legislation asserts the government's commitment to adhere to the principles of cooperation as stated by ICA and the government's intention to respect the autonomy of the corporate governance of cooperatives.

Recognizing cooperatives as unique legal organizations, the proclamation provides some opportunities and to benefit from the advantages drawn from these opportunities. A recent study entitled "Empowering Smallholder Farmers in Markets" conducted by Bijman et al (2007) on producer organizations (POs) illustrated that formalization of POs has important advantages in ensuring legal, democratic, autonomous and sustainable corporate governance in cooperatives. According to the study, POs are categorized into eight typologies, one of which is the "cooperatives and associations" category, where a cooperative is a firm, usually the members as owners. The arguments put forward for formalization are the following. First, a formal legal status provides POs, just like other legal persons, with the ability to enter into contracts and to borrow money. Second, without a legal framework, each group of associated individuals must determine the nature of their relationships to each other and their governing structures. Third, a formal PO and its can more easily be protected from abuse such as fraudulent use of funds or misuse of name of or identity of the PO. Fourth, a special legal status also facilitates the international collaboration of POs, for instance, in dedicated federative organizations. Fifth, having a legal status clarifies the rule on liability of POs and its members (Bijman et al, 2007).

The presence of such an enabling cooperative legal framework is the first most important condition. However, it would be an illusion to think that modern market economy needs only a simple political and legal structure (ILO, 2002). A supportive cooperative legislation can only maintain non-

intervention, and a policy of laissez-faire. The law alone cannot bring about a cooperative movement but it can provide a sound foundation for cooperative organization (ILO, 1996). Although the strongest external influence in developing countries are usually from the government as a political institution, it will depend on the internal condition of the cooperatives itself whether it is capable to lessen, to beaten or to make a synthesis of the external influences (Soedjono, 2002).

#### **4.1.2. Bylaws of the Cooperatives**

Bylaws are a set of written rules that the cooperative uses to govern itself. They define the rights and responsibilities of members, directors and management (Spriggs, 2003). Defining the internal governance structure, therefore, a bylaw is an important institutional aspect to practice democratic and autonomous governance in cooperatives. In this respect, in content, the cooperatives covered in this study have bylaws that have the potential to realize member- governance. Constituting the ICA cooperative principles, the particulars provided in article 11 of the proclamation (147/98) and adapted to their specific natures, the bylaws of the cooperatives state the rights and duties of members, duties of the GA, and the procedures followed in the election of the member of representatives. Furthermore, fixing terms of office for the various committees and officers, setting quorum requirement, defining extraordinary circumstances, and requirement for legibility of membership, with others, the bylaws of the cooperatives have the strength to facilitate and ensure democratic and autonomous governance in the cooperatives.

As the above analysis shows, fulfilling all legal requirements and setting forth the main issues relating to cooperatives governance, in principle, the bylaws of the sampled cooperatives showed the strength of the governance of the organizations. However, since cooperatives are democratic member controlled economic and social organizations that must be governed by their members (ILO, 1996), the strength of the bylaw of cooperatives in facilitating democratic and independent cooperative governance cannot be judged only on the basis of its contents. Equally, even more, to the contents, member

participation in making decisions over the contents of the bylaws is vital to determine whether the governance of the cooperatives is democratic or not. In this regard, (i.e. member participation in making decisions over the contents of the bylaws) this study revealed that the governance of the cooperatives is different. As it is discussed in detail in section 4.2.4 of this research, while the governance of AVPPCS is democratic, member inclusive, controlled and oriented, the vice versa is the case in TFMSPCS. Since the members have participated actively in the approval of their bylaws, the governance of AVPPCS has adapted a bottom-up approach in designing its internal governing principle. Although members govern their organization through approving and amending the cooperative governing principles-the articles of incorporations and bylaws (Zeuli and Radel, 2005,), the members of TFMFSPCS haven't approved the amended bylaw of the cooperative, and it can be argued that, in country to the bottom-up, the cooperative utilized a top-down governance approach in framing its bylaw.

## **4.2. Constraints of Governance in AVPPCS and TFMFSPCS**

### **4.2.1. Government Intervention**

For cooperatives, to be recognized by the government and other concerned bodies, as autonomous group-based private organizations, and to govern their relationships with these governance actors, ICA developed the fourth cooperative principle. Part of the principle states that cooperatives are autonomous self help organizations controlled by their members (ICA, 1995). This used to be assumed, but spelling it out as a principle means that cooperatives have to be independent, genuinely member-owned business, avoiding the dangers of servility and dependence on political powers (Brichall, 2004; Pezzini, 2007).

To this end, the current government of Ethiopia promulgated the cooperative societies proclamation No.147/98 in 1998. Indorsed in its preamble, the proclamation is enacted in accordance with article 55(1) of the FDRE constitution. Being in line with the cooperative principles and the constitution of Ethiopia, in principle, others, the proclamation can enforce cooperative autonomy and may stipulate the creation of cooperatives whose

governance is not subject to authorization and state interference. Although the legislation may not be the sole factor, as Table 4.1 shows that cooperatives have increased in number and have diversified in type in the study area.

Table: 4.1. Purpose and number of cooperatives established Pre-EPDRF and during EPDRF (as of February, 2009)

Cooperatives by purpose	# of cooperatives established pre-EPDRF	# of cooperatives established during EPDRF	Total # of cooperative currently
Multipurpose cooperatives (MPCSs)	18	0	18
Single purpose cooperative (SPCs)	0	53	53
Total	18	53	71

*Prepared by the Researcher*

Besides the re-registration of the old MPCSSs, many new types of cooperatives such as housing, saving and credit, construction, stationery, bee cooperatives are registered to run their operation on the basis of cooperative principles. Recognizing them as self-help, member-controlled and member-based organizations, potentially, the proclamation can protect cooperatives from being instrument for extracting resource from the farmers, and has protected. They are not supplying agricultural products to meet industry's raw materials and urban populations' food demands as well as they are not used for imparting political ideology among the people.

However, despite the essence of the democratic and autonomous principles of cooperatives, still local governments interfere in the governance of cooperatives. All of the key informants and the participants of FGD argued that local government officials interfere in the controlling of the MPCSSs. Although governmental financial support to cooperatives, if requested, may be important for cooperatives to successfully overcome the transition period

(Couture et al, 2002), all of the respondents responded that the financial support given to the cooperatives is not demanded-driven, the criteria for being beneficiary from, and the activities to be financed by, the credit are decided by the government, and the profit gained from the interest rate of the credit is allocated according to the decision of the government.

According to article 16 of the FDRE cooperative proclamation (147/98), making decision over the amount of the initial and additional financial capital is the authority of members. Article 16 (2) states;

*The society may sell additional shares, if it is found necessary to promote the financial capacity of the society subject to the decision of the general assembly.*

Of course, a cooperative as open membership organization, in principle, it is open to all volunteer persons who need and are able to use the services the cooperative provides, and willing to accept the responsibilities of membership. Yet, as owner, members have the full authority to determine the specific attributes required for membership. Hence, among others, without, spoiling the democratic nature, members decide the number of members that join the cooperative within a given period of time. Accordingly individuals who need and are able to use the services and willing to accept the responsibilities of membership will join the cooperative through purchasing the minimum share capital and paying registration fee as it is determined by the general assembly. In spite of this fact, however, in TFMFSPCS intervening in the authority and disrespecting the decision making right of members, local governments determine the number and attributes of eligible individuals, and thereby in the association process of the cooperatives.

Article 35 of the proclamation (147/98), states;

*A society shall not extend loans other than to its members or a society established under this proclamation.*

The financial support given in the form of credit is not only unrequested but also it is not member-oriented. In Ethiopia, in principle, any member shall have, among others, the right to obtain services and benefits according to

his participation in the society. Whereas disrespecting the provision of the proclamation, the value of equality and the open membership principle, members are not equally beneficiary from the credit service. In contrary membership, the credit is granted to farmers who may be a member or non-member and who are qualified for the specific program or project, which the loan is allocated for. But for the non-members who are beneficiary, in order to take credit they must purchase the minimum number of share capital and pay registration fee. Although it do not change the discriminatory characteristic of the MPCs, but one of the key informant from the cps of AW stated that even through it is not yet practiced, such members (members who are not beneficiary from the specific loan) have the right to get the loan if they can pay 30% of the credit they borrow as a prepayment.

Member economic participation is the third principle. Brichall (2004) illustrated that members contribute equally to the capital in order to become members, and then members receive limited compensation on capital subscribed as a condition of membership on capital subscribed as a condition of membership. They also allocate surpluses for the usually purposes if developing the business and building up reserves. Once they have done this unlike philanthropic organizations they can-and should be allowed to distribute surpluses back to members (Brichall, 2004). Reaffirming the principle, article 21(f), of the proclamation (147/98) states;

*The general Assembly of a society shall decide on how the annual net profit of the society is distributed.*

More specifically article 4(1-2) of the cooperative societies (Amendment) proclamation No 402/04 states:

*Any cooperative society shall deduct 30% of the net profit allocate for the reserve fund (Article 4(1)). Until it shall not exceed 30% of the capital of the society, and article 4(2) is red the distribution of the remaining net profit shall be determined by the General Assembly (GA)*

Despite these provisions, however, the key informants reported that because of the decision of the government the profit earned from the interest of the credit is not allocated to be used for a dividend to members. This implies

that due to the interference of the government in the internal governance of the MPCs, members are not exercising their powers in the decision making of their own enterprise, and are not also rewarded from the benefit of their organization on the basis of their participation on the business of their enterprise.

Cooperatives are voluntary organizations (ICA, 1995) formed by the free will of the members, without forcing of their decision from outside (Veerakumaran, 2003). Also countless studies of subsidized agricultural credit schemes in least developing countries (LDCs) have shown that concessional credits generally do more harm than good (Adams et al, 1983; Rouse, 2006). Although concessional credits should not be used as incentives for group formation (Rouse, 2006), nonetheless, the financial assistance given to the poor who were non-members and are beneficiary of the given program, the government is using the MPCs as instrument for implementing the poverty alleviation, food security, extension package and other programs, and still there is bureaucratic control of cooperatives in Ethiopia, but with a decreased extent. Also through its intervention, the government is making the membership in the MPCs conditional.

Although governmental financial support to cooperatives, if requested, may be important for cooperatives to successfully overcome the transition period (Couture et al, 2002), however, the evidence from this research revealed that the credit dispersed to the poor through TFMFSPCS is unrequested; rather, allocated by the government, the loan is provided to farmers residing in the *kebeles*, where TFMFSPCS operates.

Finally, it was argued by all of the interviewees that the unrequested credit given to the beneficiaries residing in a specified administrative unit by the government through TFMFSPCS has created problem in the financial management of the cooperatives. The loan is given to individual on the basis of program and without considering their repayment capacity, members and the population at large do have a misconception about the credit. Consequently they do not manage the finance for productive purpose; instead most of them spent the money on such activities like drinking

alcohol and purchasing electronics. Particularly, the development agents, and the promoters strongly argued that the beneficiaries of the credit, believe that the credit is unrepayable, and they do neither utilize it effectively and efficiently nor they do worry about its repayment. Particularly since the year 2005 large amount money has been transferred through the MPCs and only insignificant amount of money was repaid. For instance, out of 91445.18 Eth.Birr loan distributed by TFMFSPCS in the year 2005, only 22924.00 Eth. Birr is repaid till the year 2008. The main reason for the low credit repayment performance of the cooperative is the misconception beneficiaries developed. One of the key informants, from TFMFSPCS strongly claimed that borrowers believe that the credit is not given to them to improve their socio-economic situation; rather they consider it as an action taken by the government for its own sake. This indicates that the unrequested government financial support is contributing its own share for their poor regulation. This coupled with the negative governance experience members had in the past may create additional image problems on cooperatives.

In addition to the above presented intervention local government officials interfere in the management of the cooperatives. Cooperatives are autonomous self help-organizations controlled by their members (ICA, 1995), which have to be independent, genuinely member-owned business, avoiding the dangers of servility and dependence on political power (Brichall, 2004; Pezzini, 2007). Nonetheless, the findings of this research indicated that the governance of cooperatives is influenced by the interference of government officials. For example, the key informants reported that government officials interfere in the human resource and asset management activities of the cooperatives.

The governance structure of cooperatives specifies that while hiring a manager is the responsibility of the BODs, hiring other employees is the duty of the manager of the cooperative (ILO, 1996). In spite of this reality, misusing their political authority, the political officials of local government interfere in the employment, firing and job assignment of staffs of both

cooperatives and CPBs. Against the independence principle of cooperatives, for instant, *kebele* level government officials hire and/or dismiss officers of MC and employees of cooperatives on the basis of their personal relationships, without the knowledge of the CPBs and members. Furthermore, as it is evidenced in 2004 and in 2008, *wereda* level officials constrained the governance of cooperatives by interfering in the assignment of staff of CPBs. They influenced adversely the governance of cooperatives by assigning trained and experienced CPB staffs in other departments, and on the contrary, by staffing the CPBs with unskilled and inexperienced employees. Thereby, they created problems on the controlling and decision affairs of cooperatives through influencing adversely the promotion and supervision activities of CPBs.

Besides the above mentioned government related governance constraints, negative interference of government officials in the asset, i.e. in the land, management of the cooperatives is also identified as another governance constraint in the study. As it is stated in the preamble section of the Federal Democratic Republic of Ethiopia Rural Land Administration and Land Use Proclamation No. 456/2005, the right to ownership of land is exclusively vested in the state and in the people. Any person, either natural or artificial, has a right only to acquire land and to use on it.

As privately owned artificial person organization, cooperatives have only landholding and utilization rights. Confirming the land legislation, article 31(1: a) of the cooperative legal framework states;

*Without prejudice to incentives permitted under other laws, cooperatives societies, which are organized and registered in pursuance with the cooperative proclamation (147/98), are entitled to acquire land as determined by a Region or a City accountable to the Federal Government.*

As well, as owner of land, the state has absolute power to expropriate landholding rights of cooperatives where it believes that the land should be used for a better development purpose and to ensure the interests of the people to acquire direct or indirect benefits from the use of the land and to consolidate sustainable socio-economic development. However, as

landholder whose holding right has expropriated, cooperatives are entitled to payments of compensation for their property situated on the land and for permanent investment they made to such land (FDRE, 2005b).

Although cooperatives should be treated as any other private enterprises (ILO, 1996), local governments constrain the controlling of the assets of the cooperatives through treating differently the studied cooperatives and, due to the interference of local government officials, cooperatives are not equally beneficiary from the land utilization right they have. For example, the key informants from the researched cooperatives and the CPBs argued that, despite the autonomy principle of cooperation and the favorable national cooperative legislation, the landholding right of cooperatives, particularly MPC, is expropriated by the local government officials without giving them any compensation for their property situated and/or for the investment they made on the land. They also argued that the actions they take against the preferential treatment of local government officials do not get answer from the concerned bodies. Instead, their voices are usually considered as political and anti-development movements rather than a question of legal civil rights.

#### **4.2.2. Weak Organizational Capacity of CPBs**

By definition, a cooperative is an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise (ICA, 1995). The definition indicates that cooperatives are person-owned organizations that undertake their business operations by their own in a competitive environment, without the intervention of any external body.

But if we look to the developing countries where the cooperatives are on the average still weak, and they are unable to carry out their affairs by their own; i.e. they are not sufficiently self-reliant (Soedjono, 2002). This suggests that for the cooperatives of developing countries, including Ethiopia, to run their operation soundly in the market, among others, they are in need of positive-intervention from outsiders. With this end in view, in accordance with Article 55 of the proclamation (147/98), the EPDRF government

established an appropriate authority. Where, as it is stated under article 2(7) of the proclamation (147/98);

*'Appropriate authority' means an organ established at federal level or a bureau or an organ established for the same purpose at federal or city administration level, to organize and register cooperative societies and to give training, conduct research and provide other technical assistances to cooperative societies.*

At present, Ethiopia being a federal state, the structure of FCA reflects the different administrative levels in the country (federal, regional, zonal or *woreda*) (Teigist, 2008). During the *Derg* regime, cooperatives were regulated by various government bodies: Ministry of Agriculture and Settlement concerning agricultural cooperative societies; Handcrafts and Small Scale Industries Development Agency concerning artisans', producers' and service cooperatives; the Ministry of Urban Development and Housing concerning housing cooperatives; and the National Bank of Ethiopia concerning thrift and credit cooperatives (TMGE, 1978).

In fact, since the regulatory, promotional and technical services are provided by a single cooperative promotion bureau to all types of cooperatives unlike the situation which was during the *Derg* regime, the structure of the CPBs may provide suitable ground for promoting cooperatives in a coordinated manner. In a situation where most of the cooperatives in the study area are not self-reliant, organizing well-equipped CPBs is critically important for developing member-owned, member-controlled and competitive cooperatives. Although the CPBs are established by the government to provide the functions mentioned above (i.e., article 2(7)) for the development of democratic, self-help and self-reliant cooperatives across Ethiopia, however, the organizational capacity of the CPBs contacted by the researcher in the study area is found to be weak and the bureaus are not providing the functions they should provide to cooperatives. The key informants from the CPBs reported that since the Zonal and *Woreda* level CPBs are structured under their corresponding level OARD, the CPBs are still influenced by another structural problem. Because the organization of the CPBs is not sound enough to ensure an independent organizational structure that secures their administrative and financial autonomy. For

instance, as the key informants reported, the officers of OARD do not have correct attitude towards CPBs, and they don't give equal attention and opportunities to the CPBs. In spite of the complexity of the tasks of the CPBs, the officers do not perceive the CPBs as a bureau that undertake meaningful activities, and that is why usually the checklists, which are distributed by the OARD to control the activities of the different departments found under OARD, are not given to the CPBs, and the staffs of the CPBs are assigned by the OARD officials to carry out the work of other departments. In addition to this, the CPBs do not receive equal opportunities in terms of resources and capacity building programs. To strengthen their response the key informant presented their argument by comparing the structure of CPBs that was in use a decade ago with the performance of cooperative at that time. Although it was not at the *woreda* CPBs, comprising three departments (promotion and registration, auditing, and marketing), before 1998, being accountable to the Amhara regional cooperative promotion bureau (ARCPB), the zonal CPBs were structured as an independent office. The structure of the CPBs was suitable to discharge their functions autonomously for the development of member-controlled, market-oriented and sustainable cooperatives. During that time, according to the key informants, supported by autonomous zonal CPBs that were staffed by motivated and experienced personnel, cooperatives were capable to compete in the free market economy with their competitors like *Anbassel* Wholesale Trading Enterprise (AWTE).

Furthermore, lack of adequate number and qualified staffs is the other factor that weakened the capacity of the CPBs (see Tables 4.2 and 4.3). Practice has taught the promotion of self-reliant and sustainable producer group enterprises, where none-existed before, cannot be done without the assistance of properly trained, well motivated and equipped group promoters (Rouse, 2006). Recent cooperative evaluation report conducted in 2005 by Tesfaye and Dorsey for USAID/Ethiopia, also, pointed out that cooperative training rendered for CPB staffs, by the agricultural cooperatives in Ethiopia (ACE) program, has improved their capacity in discharging their responsibilities. The training provided to the CPB staff was instrumental in

supporting primary cooperatives, where they played a major role in promoting formation and providing basic training to re-structured and new cooperatives, such as saving and credit cooperatives (SCC) being formed in large members and at rapid rate (Tesfaye and Dorsey, 2005). Whereas, Table 4.2 shows that the capacity of the CPBs to control and supervise the application of the cooperative principles in the governance of the cooperatives is hindered by inadequate number of employees.

Table: 4.2. Number of posts and unfilled posts in the two *woreda* CPBs, by work process (excluding the *kebele* level cooperative promoters)

Work process	# of positions	# of filled position	# of unfilled positions
Cooperative promotion work process (CPWP)	16	9 (56.25%)	7 (43.75)
Cooperative accounting and legal service work process (CALSWP)	14	4 (28.57%)	10 (71.43%)
Total	30	13 (43.33%)	17 (56.67%)

#### **Prepared by the Reseacher**

In addition to inadequate number, the staffs of the CPBs who already occupied the above 13 positions haven't gained adequate cooperative education, and the capacity of the CPBs is weakened more by the poor quality of the employees of the CPBs, and they are not promoting cooperatives efficiently. Though cooperative education in certificate and diploma programs started during the reign of Emperor Haile Sellassie (FCA, 2006), as of the knowledge of the researcher, producing university graduated cooperative professionals in degree program is a recent phenomenon in Ethiopian. Cooperative education at higher education level in first degree program started in four universities (Haramaya, Ambo, Hawassa and Mekele) in 2004. Currently, the program is also being given in the five newly opened Universities (Axum, Wollo, Medawellabu, Mizan Tepi and Wollega universities). In addition to these Universities, cooperative education is being given in some Agricultural Colleges. Mekelle University (in cooperative marketing) and Ambo College of Agriculture of Gimma

University, (in cooperative business management and in cooperative Accounting and Auditing) are producing cooperative professionals in post graduate program. Although this indicates the attention given by the EPDRF government to develop professionally managed cooperatives, among others, since the effort is a recent one, currently most of the cooperatives and the CPBs are not staffed by cooperative professionals; rather they are managed by para professionals. For example, as of February 2009 it was observed that out of 18 CPBs staffs, of which 13 working at *woreda* bureaus plus 5 cooperative promoters working in *kebeles* of the two *woredas*, only 7 (38.89%) are cooperative educated promoters (see table 4.3).

Table: 4.3. Cooperative education of CPB staffs including *kebele* level cooperative promoters.

Certificate	Number of cooperative graduated employees			Number of non-cooperative	Grand Total
	<i>Woreda</i>	<i>Kebele</i>	Sub-Total	Graduated employees	
Degree	0	0	0	2 (11%)	2 (11%)
Diploma (12/10+2/3)	2 (11%)	5 (28%)	7(39%)	4 (22%)	11 (61%)
12 complete				5 (28%)	5 (28%)
Total	2 (11%)	5 (28%)	7 (39%)	11 (61%)	18 (100%)

*Prepared by the Reseacher*

In the context of the above analysis, it can be argued that rendering cooperative training to the staffs of CPBs, equips them with the general and specific knowledge and skills required for understanding the special characteristics of cooperatives and to carry out their specific responsibilities in the CPBs. In spite of this situation, however, the key informants argued that the staffs of the CPBs didn't attain appropriate cooperative training. That is, the trainings were inadequate, discontinuous, and were not

practical-oriented. For instance, one of the *kebele* level cooperative promoters, who graduated in 2005 from *Ardaita* Agricultural College in cooperative business management, in diploma program (12+2), reported:

*Although my friends in other department such as natural resource, gain training usually three or four time per a year, since my graduation I haven't received any training, and I haven't adequate practical knowledge and skills to promote cooperatives activities effectively. Also, I don't have a good attitude towards my profession and cooperatives.*

An active role in cooperative promotion is, of course, envisaged for cooperative organizations, and provision of promotional services such as education and training are among the functions governments must give to cooperatives (ILO, 2002) through developing and strengthening programs for the education of members, elected leaders and professional managers (UN, 2001). In Ethiopia, CPBs are responsible to promote genuine cooperative movement, which can solve society's economic and social problems by building the capacities of the cooperative societies so as to improve the implementation capacity of the sector; bringing about societies attitudinal change towards cooperatives; and working to strengthen the market competitiveness of the smallholders' produces and services (FCC, 2005).

However, according to the outcome of this case study, with others, due to the above mentioned problems, the CPBs do not hold adequate and regular cooperative promotion and supervision services. In turn, lack of such services from the CPBs combined with others resulted in lack of member oriented, market-oriented and undemocratic cooperative governance. The interviewees who were involved as key informants, for instance, argued that the CPBs do not provide adequate education and training to members, leaders and employees of cooperatives as well as they don't render such meaningful managerial supports on marketing, auditing, etc. and technical supports on agricultural produces. Furthermore, the CPBs are not promoting the product of the cooperatives so that they may find market, and facilitate condition in order to bring consumers and producers to direct transaction in the market.

### **4.2.3. Lack of Locally-Embedded Business Activities**

Any business organization can be defined in terms of three basic interests: ownership, control and beneficiary (Wadsworth and Duffey, 2001). Cooperatives are different in these three interests, and the corporate governance of cooperatives is unique, demanding and delicate (Pezzini, 2007). Cooperatives are motivated by the desire to benefit their member by providing them with goods and/or services in line with the particular set of the cooperative values and principles (Ruiz-Mier and Ginneken, 2006). Respecting the principles, successful cooperatives are locally embedded voluntary associations (Delevtere and Pollet, 2008), and by virtue of locally owned and controlled, cooperatives can solve local problems by mobilizing local resources in to a crucial mass (Zeuli and Radel, 2005) and allow for local human, economic, and natural resources to be maximized with a great deal of local control and for long term sustainable economic development in areas that traditionally have had little opportunity to engage in economic processes ( Brennan, 2005).

By forming collective action, in formal or informal POs, farmers can reduce production risks and improve quality (Bijman et al, 2007). Developing 'countervailing power' in the form of market power is a form of protection from outside opportunities (Valentinov, 2007). Among others, framing their business activities in line with their principles, cooperatives can provide members with economic and social benefits, primarily by rendering the goods and services required by them at the lowest cost possible.

To this end, as it is indorsed in TFMFSPCS (1999), intending to: solve collectively the common problems; promote the self-reliance; and improve the living standards of member-farmers, by coordinating their knowledge, wealth and labor, TFMFSPCS attempts to:

- supply members with agricultural inputs such as fertilizer and selected seeds, and consumer goods at minimum price;
- sell the agricultural produce of members at maximum price;

- provide members with credit services; and
- Provide members and non-members with grain milling service.

However, the study revealed that the cooperative has failed to undertake these business activities and to mobilize large scale resources from members, with others, because the business activities of the cooperative reflect neither members' nor the community's interests. The business activities are not contextualized to the real local demand found there on the ground.

Table: 4.4. Chemical fertilizer (UREA+DAP) Supplied and distributed by AWOARD to farmers.

Fertilizer	Year								
	93/94	94/95	95/96	96/97	97/98	98/99	99/00 - 06/07	07/08	08/09
Supplied	56*	134.2	153.27	373.40	673.40	3.93*	No data	43.00	886.23
Distributed	31	78	63.27	219.67	384.12	3.93		31.36	639.21
Undistributed	25	56.2	90	153.73	289.32	0		11.64	247.02

Source: AWOARD (2009)

\* Only UREA

\*\*Used only for the spring (Belg) Season

The MPCs including TFMFSPCS were re-registered to perform the above mentioned business activities to improve the living standards of member-farmers. Of course, in principle, the business activities of the cooperatives do not have any defect. However, examined from the perspective of the specific local economic and market conditions in the study area, where the cooperatives operate their business, the activities cannot be put and practice on the ground. For example, table: 4.4 shows that small amount of fertilizer supplied by the government is not taken by the farmers. Under

such a circumstance where there is low fertilizer demand, it can be argued that incorporating 'provision of agricultural inputs' as business activity in the bylaw of the cooperatives is not feasible

Despite the failure of TFMFSPCS, nonetheless, if cooperatives are governed democratically in accordance with the specific local context in which they operate business, they have the potential to improve the livelihood of the smallholders. Cooperatives are universal in nature, since they foster values that recognize no national boundaries (Cracogna, 2002). At the same time, cooperatives are direct extension of the occupations or business of their members which means that they are prepared, and member-owners are in constant, often daily, contact with the cooperative enterprise and ownership in cooperatives has a close connection to membership and the use of service (Pellervo, 2000). Because cooperation in fact is born with the purpose of profiting members as consumers, workers or producers (Pezzini, 2007), and the areas of business cooperative should be developed so that they fit the ownership structure and the objectives of the cooperative firm (Skurnik, 2005; Jussila et al, 2006).

#### **4.2.4. Passive Member Participation in Decision Making**

Democratic values are put into practice through seven commonly accepted cooperative principles, the second of which is democratic member control (OCDC, 2007). The democratic member control principle states that cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions (ICA, 1995). Members control their cooperatives by: shaping the legal framework in the articles of incorporation and bylaws; casting votes on major business decisions (for example amalgamation); and the authority they delegate to the board through a democratic election process (Wadsworth and Duffey, 2001). Having this theoretical conception, this section of the study assessed, firstly, the governance of the sampled cooperatives in terms of analyzing member participation in approving and amending bylaws.

As it is presented above, as owner, directly, members govern their cooperatives, among others, through approving and/or amending the governing legislations of the cooperatives like bylaws. Bylaws, as the name suggests, are like laws with some provisions considered as contracts that define the rights and responsibilities of members, directors and management (Spriggs, 2003). This suggests that, as a founder who finance and transact with the cooperative, members make contract by framing bylaw of the cooperatives, and, as one contracting party, therefore the first most responsibility of members in the governance of cooperatives is participating in the approval and amendment of bylaws to define the internal governance structure of their cooperatives. In so doing, members make contractual agreements with their cooperatives on matters like objectives, practices, membership restrictions, rights and responsibilities of members, representatives, employees, election of representatives, procedures of decision making by members and the board, patronage allocation and distributions, issuing a loan, using a member's resource or arranging the safe-keeping of resources such as cash.

In principle, developed according to the ICA cooperative principles, containing the particulars provided in article 11 of the proclamation (147/98), and adapted to their specific nature, both of the cooperatives have bylaws, which have the potential to ensure democratic and independent corporate governance process in their internal affairs. The bylaws of the cooperatives state the responsibilities and rights of all governance actors. However, due to the special nature of cooperatives as member-oriented, democratic and economic organizations (ILO, 1996), the strength of the bylaw of cooperatives in facilitating democratic and independent cooperative governance cannot be judged only on the basis of its contents. The researcher argues that, equally, even more, to its contents, member participation in making decisions over the contents of the bylaws is vital to determine whether the governance of the cooperatives is democratic or not.

In view of assessing member participation in making decisions over the contents of the bylaws, the participants included in the key informant

interview and in the group discussion, were asked about the participation of members during the formation and approval of the bylaws of the cooperatives. Collected from these sources, the data was analyzed and the outcome of the analysis gained from the two cooperatives indicated extremely opposite findings. While the governance of AVPPCS is democratic and autonomous, but in the case of TFMFSPCS, the vice versa is true.

Respecting the democratic principle of cooperation, the members of AVPPCS have participated in the governance, among others, through designing and approving the governing principles of their cooperatives. For instance, one of the key informants from AVPPCS stated;

*All of the founding members (181 members) have attended the first official membership meeting. After members made extensive discussion over the provisions, the bylaw was approved by members. Also three representatives who were elected by members to facilitate the organization of the cooperative have participated in the formation of the bylaw.*

Assessed in terms of member participation in shaping bylaw, the governance of AVPPCS is member inclusive, member-controlled and democratic. Adhering to the value of democracy and the democratic member control principle of cooperation, and confirming with ILO (1996) and Bijman et al (2007), members opted the appropriate legal form according to their needs and on the basis of their practical experience. The cooperators choose the appropriate legal form for their cooperative and make bylaws according to their needs and on the basis of their practical experience and interest, and internationally recognized cooperative principle (ILO, 1996; Bijman et al, 2007).

In TFMFSPCS, against the democratic member controlled principle, however, the opposite appeared to be the case where member participation in the amendment of the bylaw of the cooperative was passive, even it can be said it was null. One of the key informants who was the former promoter of cooperatives reported the amendment of the bylaw of the TFMFSPCS as follows;

*The bylaws of the MPCSSs including TFMFSPCS were drafted by the AW CPB guided by the model bylaws distributed by the ANRS CPB. Collecting the*

*signatures of the members from various public meetings and endorsing them (signatures) in the draft, with others, the amended bylaw of the cooperative was submitted to ANRS CPB for the re-registration of TFMFSPCS. Finally, without having member-approved bylaw, the cooperative was re-registered by the regional CPB on 27 November, 1999.*

The response of the other key informants and the conclusion from the group discussion also strengthens the above presented response of the former cooperative organizer of AW. They reported that members did not participate in the amendment of the bylaw. Rather, most members do not know the amendment of the bylaw and the re-registration of the cooperative.

Although a sustainable cooperative development policy must be endorsed by those who are primarily concerned, that is, the cooperative members (ILO, 1996), members of TFMFSPCS did not engage in approving the amended bylaw of their cooperative, and hence, members did not make decision over the association and operation provisions of the cooperative. In other words, since the bylaw of the cooperative was drafted based on the inputs of the prevailing model bylaws and approved by the CPB, the amendment of the bylaw was made in pursuance with a top-down decision making process. As members did not debate and reached on a common agreement over the association and operation provisions of the cooperative, it may also bring difficulties in practicing the internal governance constitution of TFMFSPCS on the ground. In such a circumstance in which cooperatives are initiated through a top-down approach, they are less likely to 'institutionalize' a community development process, and they are more prone to failure (Zeuli et al, 2005; Zeuli and Radel, 2005) as well as members may never feel a true sense of ownership and loyalty (Zeuli and Radel, 2005).

Besides approving and amending the governing principles, members govern their enterprise through participating in representative elections. In this regard, respecting the democratic cooperative values and principles, article 20 of the proclamation (147/98) states;

*The supreme organ of any society is the general assembly (GA), and*

Article 21 (1-10) of the legislation is read:

*The GA of a society shall: pass decisions after evaluating the general activities of the society; approve and amend the bylaws and internal regulations of the society; elect and dismiss the members of management committee, control committee and when necessary the members of other sub-committees, determine the amount of shares of a society; decide on how the annual net profit of the society is distributed; give decisions on the audit report; hear work reports and give proper decision; decide that a society either be amalgamated with other society or be divided in pursuance of this proclamation, approve the annual work plan, and budget, decide any issue submitted by the management committee and other committees.*

The legislation also recognizes the right of members to elect or to be elected, and read as;

*Any member of a society shall have the right to elect or be elected (Article: 14 (1: C)), The GA of a society shall elect or dismiss the members of the management committee, controlling committee and when necessary the members of other sub-committees (Article 21(3)).*

Perhaps, members' most critical task is the election of a good board of directors (Zeuli and Cropp, 2004), and participating in election, members exercise their rights of decision making to delegate their legal authority to the members of the MC to run their business in accordance with their interests. Regarding this, this study revealed that the participation of members of AVPPCS in electing members of the MC is active and the election process is democratic. Through engaging actively, in the regular GAM, which is held every two years, in April, among others, members elect the members of the MC and other committees. One of the key informants, for example, reported;

*The participation of members in the various general assembly meetings (GAMs) is high. Although our bylaw states that the cooperative holds its regular GAMs twice a year, we hold GAMs more than twice. Particularly during the irrigation season there are cases where AVPPCS holds GAMs twice a month.*

From the response of the key informant, in terms of member participation in representative elections, it can be inferred that the governance of AVPPCS is member-controlled and member-oriented. In so doing, members delegate their authority to members whom they believe to control and operate their collective organization in line with their needs. Also maintaining strong connection with their cooperative, they may make the cooperative provide the services required by them. Moreover, active member participation may enable the cooperative to ensure membership-accountable governance in its

decision making and business affairs. The current chairman of the cooperative who participated as one key informant, for instance, argued that when members feel something is wrong in the action of the representative or when they feel election of new or re-assignment of officer positions will bring better performance in the operation of the society, they elect or dismiss members of representatives at any time within their term of office. Furthermore, they hold account the MC to inform them about the business activities of their cooperative.

Examined in terms of the same indicator, unlike AVPPCS, the governance of TFMFSPCS is undemocratic. In contrary, the democratic principle of cooperatives and the governing principles of the cooperative, the key informants reported, and the minutes of the cooperative showed, that representatives are not elected by members on time. For example, the key informants argued that the representatives of TFMFSPCS who are elected in 1999, 2002, and in 2005 are elected at community meeting, while the representatives elected in 2008 are elected in a meeting held by members at their corresponding *kebeles*. Although the electoral process both legitimates the representatives and holds them to account for their actions (Brown, 2007), member participation in the election of members of MC of is passive in TFMFSPCS. The members of the MC are elected undemocratically by the members of the community who do not have any ownership stake with the cooperative and legal authority to elect the members of the MC. This implies that the MC of the cooperative is illegitimate and unaccountable to membership. Although the effectiveness of a board in supervising management depends largely on whether the shareholders really use their voting rights (Pellervo, 2000), the members of TFMFSPCS are adversely impacting the effectiveness of the MC as they are not exercising their voting rights in the election of the members of the MC, and members of representatives are not member-elected. Rather, they are elected by people who are residing in the area of operation of the cooperative to govern the operation of the enterprise on behalf of the members. This suggests that there is a form of *defacto* representation in the governance process of TFMFSPCS due to the absence of member participation to select

representatives who formally represent the membership and the MC of the cooperative is not legal representative of members. Furthermore, the election process of TFMFSPCS disrespects the internal governing principles of the cooperative. Although representative elections are carried out every three years in June in a GAM held at the office of TFMFSPCS, in *Abba Shenie* (TFMFSPCS, 1999), the election which is held in 2008 is done at meetings conducted separately in both *kebeles* (at *Denka* for *kebele* 01 and *Begido* for *kebele* 02) where the cooperative operates business. Besides, elections are delayed.

Moreover, the participation of members of TFMFSPCS in the annual general assembly meetings (GAMS) is passive, and it is the other governance constraint identified in the cooperative. In the general assembly meetings (GAMs) members approve the annual budget, investment and balance sheet, and consider such other matters the significance of which may affect the cooperative's general operation such as the reforms of the bylaws and new articles of cooperative (Cracogna, 2002). The participation of members of TFMFSPCS in the annual GAMs is also low, and passive member participation in this important cooperative governance institution indicates that members do not make decision over, and control, the association, operation and resources of the cooperative.

#### **4.2.5. Poor Member Participation in Financing**

Financial structure is closely connected to the nature of the capital markets and also to the legal forms of the company the business takes (Pellervo, 2000). In many respects cooperatives are quite similar to other types of corporations (Zeuli and Cropp, 2004); however, guided by their specific principles, cooperatives have their own specific financial structure. "Member economic participation" is one of the seven cooperative principles specially designed and endorsed by ICA in the 1995 cooperatives identify statement for addressing the financial structure of cooperatives. According to the principle, members contribute equitably to, and democratically control, the capital of their cooperative. At least part of the capital is usually the

common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as condition of membership. Members allocate surpluses for the following purposes: developing their cooperatives, possibly by setting up reserves part of which at least would be indivisible; benefiting members in proportion to their transaction with the cooperatives; and supporting other activities approved by the membership (ICA, 1995). From the principle, it can be understood that purchasing voluntarily the minimum numbers of share capital non-members become member as well as participating actively in patronage, members finance adequately their enterprise and discharge their financial obligation.

In this respect, the finding from this study revealed that while AVPPCS has mobilized adequate financial capital from its members, where as TFMFSPCS has failed to do so.

Table: 4.5. Per unit value of share capital (PUVSC), registration fee (CRF) and borrowings of the cooperatives (in Eth. Birr).

Cooperative	PUVSC	CRF	Total	Borrowing
AVPPCS	50	10	60	500 (2008)
TFMFSPCS	7	1	8	1446827.6 (1998-2008)

Prepared by the Reseacher

Although a high level of member share capital provides for greater member control and commitment (Wadsworth and Duffey, 2001), member share capital contribution is low in TFMFSPCS, and it is one of the constraints of governance faced the cooperative. Besides its smallness in amount also contributed without their volunteer decision, the financial contribution made by members in the form of share capital is not only poor in its quantity but also it is poor in its quality. The explanations given for the poor share capital provision by members and for the unsound financial position of the cooperative have both historical and contemporary origins.

Studies have illustrated that historically in socialist countries, all strategic sectors of the national economy were regulated, owned and controlled by governments. ILO (1996), for example, pointed out that in socialist

countries, governments frequently applied, among others, limitation of private initiatives. The state discourages the creation of independent social and economic organizations, and restricts dissect democratic decision making and popular participation in order to save guard its ideological objectives (ILO, 1996). As private organization, cooperatives were not exception and did not escape, but suffered more, from the problem. Supported by governments, they functioned primarily as service cooperatives rather than as business enterprises owned and managed by members (Bekele et al, 2006) as well as finance mobilization in the form of equity was not given considerable attention and the amount of many from members was limited to the value of the minimum share capital (ILO, 1996). Financial assistances granted by governments in the form of subsidies had prevented them from mobilizing internal finance means, from developing knowhow on financial techniques, and from becoming independent and self- reliant (Matthews, 2004).

Following the liberalization of the economy, however, the situation in Ethiopia is changed. The current government has withdrawn itself from subsidizing cooperatives. As one of the most notions in business is that organization reflect the characteristics of business environment in its own organizational structure (Nilsson, 1999) cooperatives are responding to these changes by merging , by finding new ways of raising capital and by developing new organizational forms (Fulton, 1999). Financed adequately by their members, and competing in the market without the protection of the government, therefore, cooperatives in Ethiopia are expected to meet the needs of the cooperators in the context of the free market economy. To this end, keeping constant the per unit value of share capital (PUVSC) 7 Eth.Birr, TFMFSPCS had responded to the liberalized economy by increasing the minimum number of shares to be sold for being membership from three (3 share capital x 7 Eth.Birr=21 Eth.Birr) to six (6 share capital x 7 Eth.Birr = 42 Eth.Birr) (see Table: 4.5). Nonetheless, the reaction made by the cooperative is not adequate enough to make the cooperative competitive and sustainable in the free market environment. For example, the key informants from the cooperative and AW CPB reported that although the

cooperative has increased the amount of member financial contribution to their cooperative by 50% but compared to the changes taken in the financing of the cooperatives and changes taken in the market it is insignificant: on the one hand cooperatives are not subsidized by the government, on the other hand experience has shown us that inflation has risen alarmingly, particularly in the last 2-3 years. Being in this context the financial increment made by members is too small and has not brought any financial power to the cooperative.

Moreover, the quality of the finance provided by member in the form of share capital is poor, and it has affected negatively the ownership feeling and the participation of members in controlling their cooperative. Ownership is commonly assigned to persons who have some transactional relationship with the firm (Hansmann, 1999), and their commitment (transactional commitment) must be large enough to show continuing concern about how their invested money is being managed and that will motivate them to accept ownership responsibility (Wadsworth and Duffey, 2001). Of course, I agree with Wadsworth and Duffey (2001), that the transactional commitment of members must be large enough, but in cooperatives, as it is stated in the first cooperative principle large scale transaction is not a sufficient condition for members to have a feeling of membership and ownership. To have a feeling of membership and ownership as well as to assert their responsibilities resulted from membership, among others, also the way in which the transaction made is important: whether the members have transacted with the cooperative voluntarily or not. For members, therefore to have a feeling of membership and discharged their obligations and exercise their rights in accordance with the cooperative principles, among others, the adjective 'large' must be preceded by the noun 'voluntary'; i.e. the transaction members hold with their enterprise must be voluntary large scale transaction.

Despite the voluntary principle of cooperatives, however, the study revealed that the transaction members hold with the multipurpose cooperative societies (MPCSs) in the form of purchasing share capital is not conducted

voluntary by the farmers. Even though it is not compulsory as it was in the previous government of Ethiopia, it is conditional transaction. Because as it is analyzed in this study under the “government intervention” section, currently, farmers purchase share capital from and become members to, the MPCSSs, to get the credit given by the government through the MPCSSs. That is, they do not become members with the intention of meeting their individually unmet and common needs through their own collectively owned enterprise; rather they conduct the transaction to become beneficiary from the government provided credit. This suggests that as the transaction is conditional in contrary to the voluntary principle of cooperation, members lack membership and ownership feeling.

In addition to purchasing share capital members finance their organization by engaging in patronage. According to Brichall (2004) once they (non-members) become members, emanating from the authority of membership, they have some obligation that should be discharged, and rights that should be exercised only by themselves (Brichall, 2004). Wadsworth and Duffey (2001) argued that one basic requirement of membership in cooperatives is to patronize and use its service. Using the cooperatives is members easiest responsibility to carry out, and by using it as much as they can members help the cooperative to generate more income above cost and return patronage refunds to members at the end of the cooperatives business year using the cooperative helps provide the financing to keep it operating and indicates how members gain the benefits they sought when they first formed the cooperatives (Wadsworth and Duffey, 2001).

As private business that can flourish or perish, cooperatives should build up their capital base through entrepreneurial skills and the financial participation of members (ILO, 1996). Continuing, ILO (1996) illustrated that although each cooperative should strive for self reliance and thus try to raise capital among its members, it is not realistic to expect that members will capital of fully financing the cooperative business right from the start. As the empirical evidence from this research showed, TFMFSPCS has not mobilized adequate internal capital from its members and this suggest that, among

others, if the cooperative is need of competing in the free market and ensuring the benefit desired by the cooperators, the cooperative has to fill its financial deficits from outsiders.

Zeuli and Cropp (2004) wrote that a cooperative also a corporation, and has perpetual life, limited liability of investors, and is controlled by a board of directors elected by members, and they all participate in the same labor and capital markets and must similar wages management compensation and interest rates (Zeuli and Cropp,2004). Participating in the same capital market therefore if it respects their autonomy, cooperatives can raise funds from outside sources to finance their operations. A recent study conducted by rouse in 2006 to review the experiences, to identify the main lessons learned and to suggest some priorities for the future on producer group enterprise (PGE) explained that cooperatives can finance themselves from three different financial sources, where PGE include in the study a wide body of organizations ranging from small group enterprise and inter-group association to larger more formula mutually-controlled business like agricultural cooperatives, rural credit unions, *caisse* or *banques populaires*. PGEs raise funds to finance their operation from: external providers such as bank loans, business advances, donor/ government grants, etc.; retained group enterprise earnings; and group member capital contributions or savings. However, since the providers of these three sources of funds, each have their vested interests in ensuring that “their” funds are properly used, source of funding affects group governance and member control. Therefore, as a general rule, the higher the provision of external funds to total capital, the more likely the enterprise will be responsive to the demand of those external providers; the higher proportion of retained earnings to total enterprise capital, the more responsive the enterprise will be to those who are entrusted with managing the group business; and the higher member capital contribution to total enterprise capital, the more responsive the enterprise is to member investor priorities and demands (Rouse, 2006).

As it is experienced practically, in most of the developing countries, including Ethiopia, prior to the liberalization of their economy, cooperatives

were usually financed either by governments or by donors or by both. Dependence on governments or donors restricted growth, allowed outside control and reduced autonomy, commitment and participation of members (OCDC, 2007). As it is evidenced in TFMFSPCS, the problem still exists in the MPCs and it is one of the major constraints threatening the governance of the multipurpose cooperatives. For example, from 1999 to 2008, TFMFSPCS has borrowed 1161627.7 Eth. Birr from government and donors, but only through the government. However, the borrowing was not demand-driven, member-controlled and members-benefited. Rather it was allocated and imposed by the government on the MPCs to fund targeted group of people who reside in the operational area of cooperatives. Moreover, the specific purpose for which the credit is used is determined by the government, and the allocation of profit gained from the interest rate of the credit is decided by the government. Hence, although it is forbidden in principle, in practice, in terms of financing cooperatives, the government is interfering in the decision making of the MPCs. In short, undemocratic government financing is threatening the governance of the MPCs.

Although cooperatives need adequate capital for daily operations and to purchase the necessary physical facilities and cover working capital requirements (Zeuli and Cropp, 2004), resulting from the poor financial contribution of the members, lack of adequate scale financial capital is constraining the governance of TFMFSPCS at its operation level. For instance, the key informants reported that shortage of capital is one of the factors that influenced adversely the competitiveness, and employee compensation capacity of the cooperative. It can be argued that inadequate economies scale is the pressure that squeezes the trigger for the formation of cooperatives. This suggests that for cooperatives to operate competitive in the market and provide members with the benefits they need, among others, cooperatives should mobilize adequate financial capital. But the key informant argued that shortage of capital has affected adversely the volume of consumer goods TFMFSPCS transacts. Shortage of capital is preventing the cooperative from bypassing middlemen and from purchasing large volume of goods. So, the cooperative purchases small volume of consumer

goods from the private wholesalers from whom most of the local retailers purchase. Even there are some local retailers who bypass the wholesalers found in Dessie and purchase from Addis, and purchase large volume of goods. Resulting in low volume of purchase, with others, inadequate scale of financial capital has prevented the cooperative from lowering its transaction cost, and thereby, from providing the consumer goods to its members at differentiated price.

Furthermore, the low financing position of the cooperative has limited the cooperative from paying reasonable salary to its employees (see Table 4.6 which shows the working time and the amount of salary paid for each of the employees of the cooperative).

Table: 4.6. Salary of Employee of TFMFSPCS

Position	Duration	Working day per weak	Working hour per day	Monthly salary	Salary/day (24 hr)	Salary/8 hours
Manager	6	Monday-Friday	8	130	4.6	1.5
Accountant	6	Monday-Friday	8	210	57.5	2.5
Salesman 1	14	Monday-Friday	8	160	5.7	1.9
Salesman 2	2	Monday-Friday	8	180	6.4	2.1
Salesman 3		Monday-Friday	8	180	6.4	2.1
Guard 1	20	The whole weak	24	130	4.6	1.5
Guard 2	2	The whole weak	24	90	3.2	1.1
Guard 3	2	The whole weak	24	120	4.3	1.4
Guard 4	16	The whole weak	24	120	4.3	1.4

*Source: Adopted from TFMFSPCS.*

As special types of business organizations, cooperatives are subject to other general laws, such as the civil code, commercial code, labor code, rural code and in particular, the laws regulating taxes, compensation, social security, land tenure and banking, credit and insurance (ILO, 1996). ILO (1996) also recommended that cooperative promotion and development must be consistence with international labor standards. It is vital to ensure that provisions applicable to workers in cooperatives guarantee the respect of basic rights enshrined in international labor standards, among others,

equality of opportunity and treatment. In this regard, ILO (1996) states that the stand of ILO is that, in any case, the employees' special status may cause some particular consequences that need to be clarified in accordance the labor law and, cooperative employees are covered by the provision of the labor law (which are partly based on the international labor standards) and partly of the industrial relations system.

In view of maintaining smooth employer-employee relationships in general and, among others, to recognize the determination and payment of wages in particular, Ethiopia promulgated the Ethiopian labor law proclamation No.377/03 in 2003. Considering the concept of personnel law, the framework of the international labor conventions, legislatives, directives and constitutions, the proclamation is proclaimed to regulate those organizations' employees and employers that are not financed from the government budget.

As non-government financed organizations, governed by the Ethiopian labor law proclamation, cooperatives are obliged to pay salary to their employees, and employees have the right to receive salary from the cooperative. Despite this fact, however, TFMFSPCS is not paying reasonable salary to its employees and the employees work more than 8 hours per a day (See Table 4.6). This implies that inadequate working capital is one of the factors which made the cooperative ignore formal labor governing institutions. Where, 'institutions' are defined as humanly devised constraints, made up of formal constraints (i.e. rules, laws, constitutions), and informal constraints (i.e. norms of behavior, convention and self-imposed codes of contact) that structure human interactions, and their enforcement characteristics (North, 1990; Bekele et al, 2006), or institutions are "rule of the game" that define the incentives and sanctions affecting people's behavior and distinguish institutional arrangement as sets of rules and the context within which the contracts are governed (Dorward et al, 2004).

This implies that the effectiveness of the governance of cooperatives from the perspective of employer (cooperative)-employee relationships is not only analyzed in terms of the formal institutions but also it should be analyzed in

terms of the informal institutions. In this respect, examined from the perspective of the above presented formal institutions (Ethiopian labor law) and informal institutions (ILO (1996) and ILO conventions) the cooperative doesn't respect the rights of its employees and have not employee-friendly governance structure due to the cooperative's poor financial position. The cooperative is not ensuring employee remuneration structure in pursuance with the relevant labor laws, and conventions.

Moreover, the employee remuneration practice of the cooperative is not respecting the commonly recognized and accepted community-imposed local institutions. The outcome of the analysis of the research indicated that the cooperative is not applying local-responsive and flexible governance process in its human resource management activity. For instance, one of the employees of the cooperative reported;

*Until recently, the wage rate for farm laborers was not more than 5 Eth.Birr, per a day. Today, however, the situation is changed. The average daily farm laborer wage is 15 Eth.Birr per a day. However, according to the newly restructured salary payment structure of the society, we earn, individually, a monthly salary that ranges from 90 Eth. Birr to 210 Eth. Birr. Previously, our salary was large enough at least to hire daily or annual laborers for our farming activities. But, today this has already been history-neither can we hire farm laborers nor we do our farming activities by ourselves because we work the whole day in the society. So, we want to terminate the work, but if we terminate our work by our own decision, despite our long working duration in the cooperative, we may lose the benefits we should get in terms of compensation.*

Although management (and staff) remuneration sachems have become an important instrument of corporate governance (Pellervo, 2000) and staff morale, motivation and a sense of involvement have a critical role to play in delivering good organizational performance (Assefa and Nakiran, 2007), the above response of the key informant indicates that the employee of TFMFSPCS are not feeling a sense of belongingness towards the cooperative, and lack motivation and commitment to serve the owners honesty. Rather, they are waiting for compensation those results from the dissolution of the organization or their termination of work made by the decision of the cooperative.

#### **4.2.6. Membership-Unaccountable Management Committee (MC) and Employees**

Cooperatives are generally overseen by governing boards, which represents the interests of members (Conforth, 2004; Carr et al, 2007). Men and women serving as representatives are accountable to membership (ICA, 1995). Where, accountability is the capacity to call officials (and members) of cooperatives to account for their actions (Karthikeyan, 2006). Karthikeyan (2006) added that effective accountability has two elements vis. answerability and consequences without which accountability is only a time consuming formality. Also both internal and external accountability are needed (Karthikeyan, 2006), the highest being for its members, it is likely to have a lower degree of accountability to government, regulatory and financial institutions (Ruiz-Mier and Ginneken, 2006).

Thus, it follows that for cooperatives to be responsive to members, representative structures need to ensure that board members are held accountable for their action, and their governing institutions work effectively and efficiently (Brown, 2007). To this end, in Ethiopia, the MC is designed to satisfy the requirements of the cooperative legislation, which permits the formation of the organ with limited responsibilities. Endorsed in article 6 of the proclamation (147/98), legally, a 'Management Committee' (MC) means;

*A body elected and empowered by the general assembly (GA) with the responsibility to manage the activities of the society.*

Also Article 23(1) of the legislation states that the MC is membership-accountable.

*Every society shall have a management committee (MC) which is accountable to the general assembly and whose members and manner of election to be determined in the by-laws of the society.*

According to article 24(1-6) of the proclamation (147/98), in Ethiopia, the MC of any cooperative society:

*maintains the minutes of a meeting in writing, the documents and books of accounts of the society; prepares the annual work programmes and budget of the society, implements same upon approval; calls General Assembly (GA) in*

*accordance with the by-law of the society; executes such other decision given by the GA; and submit reports to the GA on the activities of the society.*

Specifically, as they are presented in articles 24 (6) and 54 of the proclamation (147/98) and hereunder respectively, among others, the accountability of the MC is manifested by the communication it makes with members and the corresponding level CPBs.

*The MC of a cooperative is responsible to submit reports to the GA on the activities of the society (Article, 24(6)).*

*Every society shall have the obligation to transmit information to the appropriate authority about the activities it performs (Article, 54).*

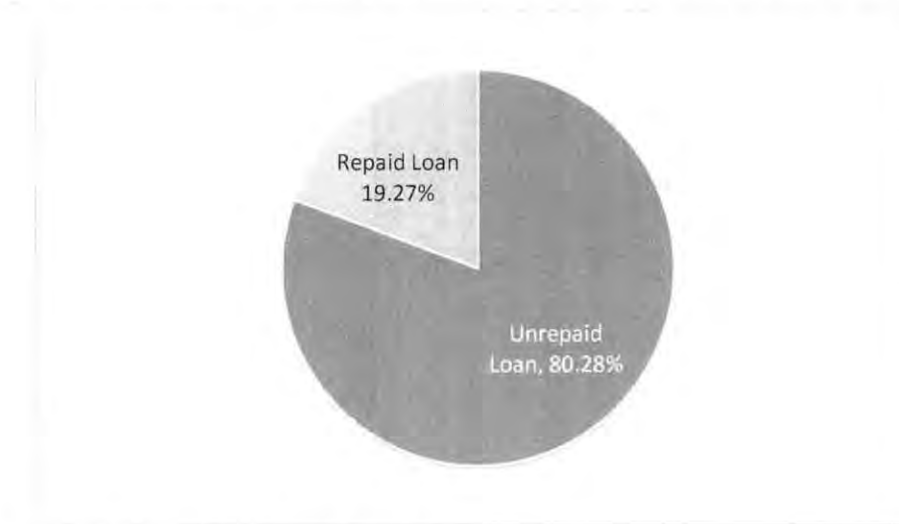
In this regard, this research indicated that the MC of AVPPCS is membership-accountable. Though its effort is constrained by lack of adequate managerial and technical knowledge and skills, all of the key informants from TW CPB and AVPPCS, and the members involved in the FGD argued that, the MC of AVPPCS is committed to ensure membership-accountable governance in the decision making and operation process of the cooperative. To this end the MC holds regular weekly MC meeting on Wednesday, and when it is necessary the committee holds extraordinary MC meeting to evaluate the performance of the officers and *Yewuha Abats* (*Yewuha Abats* are members of AVPPCS who are responsible to manage carrot production and water utilization in the operation area of the cooperative). Similarly the MC of AVPPCS communicates closely with the members to inform about the operation of the enterprise. Besides, through its officers, it contacts with TW CPB at least once a week on Friday to inform periodically to the bureau about the activities of the cooperative. In so doing, the MC demonstrates the fulfillment of the obligations set forth in the license of contract and its compliance with the provisions of the proclamation to the CBP.

Unlike AVPPCS, and despite the democratic principles of cooperation and article 23(1) of the FDRE cooperative law, however, the MC and staffs of TFMFSPCS are neither membership-accountable nor they are accountable to the CPB and to the cooperative because the MC doesn't hold the meeting as it is stated in the internal regulation of the society and, if it holds, most of

the members of the MC miss the meeting. Furthermore, the MC of TFMFSPCS doesn't make regular communication with members, employees and AWCPB. This implies that the operation of the cooperative is not member-controlled. The key informants from AWCPB reported that also the MC of the cooperative does not ensure accountability to the bureau for proper management of the affairs of the cooperative. Also the MC of TFMFSPCS doesn't oversee and control the performance of the manager and other employees.

Moreover, they argued that the MC threatens members discriminately. As it is addressed previously under the 'government intervention section' in this thesis, the credit given to the farmers through TFMFSPCS is not autonomous and did not benefit all members equally without discrimination. But, the discriminatory nature of the credit is more worsen by the MC. For example, the key informants and the FGD participants claimed that against the values and principles of cooperatives, the MC, distributes partially large amount of credit to its members and to farmers it preferred based on the personal relationship they have with them. This suggests that the MC has failed to ensure equitable cooperative governance at the operation level of the cooperative, and instead of realizing solidarity among the members; it is contributing its own share for the disassociation and division of members. Besides its partiality, the uneven-handed credit treatment of the MC has also brought problem in the credit repayment management of the cooperative. The key informants who work as cooperative promoter and as development agents (DAs) argued that since the members of the MC, particularly the officers, take large amount of unlawful credit, which is usually above their repayment capacity, the members of the MC disseminate misleading and wrong information that affect negatively the credit repayment behavior of the borrowers (see figure 1).

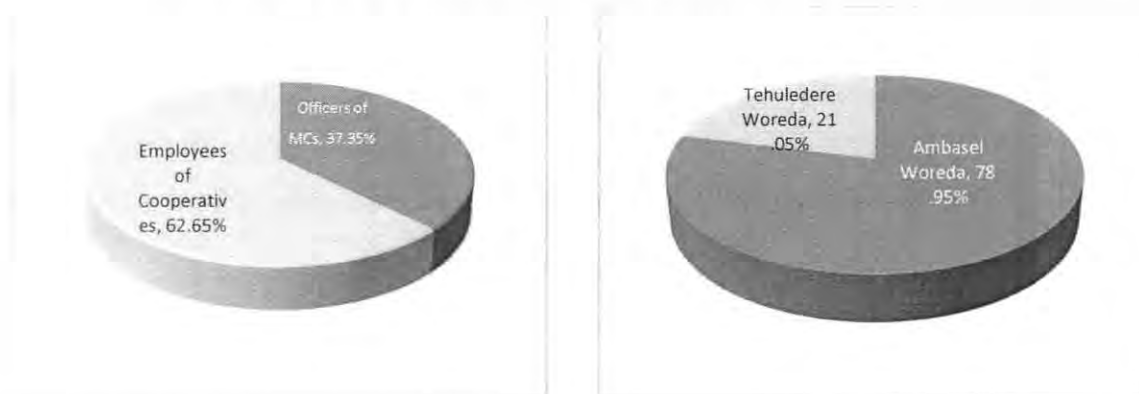
Figure: 1. Credit Repayment performance of TFMFSPCS (1998-2008).



Source: Aopted from TFMFSPCS

The other governance constraint, which manifested the membership-unaccountability of the MC and employees of cooperatives is fund and property misappropriation done by the MC and employees of the cooperatives. For example, as it is shown in figure 2, the supervision reports from the two *woredas* CPBs showed that 298426.34 Eth. Birr is misappropriated by members of the MCs and employees of 18 MPCSSs found in both *woredas*. Of this amount 9472.26 Eth. Birr has been misappropriated by two officers and one employee of TFMFSPCS.

Figure: 2. Amount of Misappropriated money in 15 MPCSSs by *woreda* and by the people who made the Misappropriation.



a. By the people who made the Misappropriation      b. By *woreda*

In addition to the above showed misappropriated money, embezzlement of assets of cooperative is also the other governance constraint identified in TFMFSPCS. The question I raised to the key informants depending on the information I got in the minutes of the society dated on 23/11/2008 revealed clearly the corruption done by the officers of the MC of TFMFSPCS. The minute states that 11 quintals of sugar which is bought at privileged price from Merchandise Wholesale and Import Trade Enterprise (MWITE), Dessie Branch is sold by the officers of the MC to private merchants. Misappropriation of the fuel of the grain mill by the employees of the cooperative is the other problem, which prevented the cooperative from ensuring loyal and sound business operation.

Despite the occurrence of repetitive corruption in the MPCs, however, the key informants argued that no serious measure is taken against the defaulters. On the other hand, opposing this practice, and in pursuance the democratic cooperative principles, however, article 39 of the cooperative proclamation (147/98) is read:

*... where the person who is or was entrusted with the management of the society or who is or has been an officer or an employee of the society ... had made any payment contrary to this proclamation (147/98), the regulation or the by-laws ... caused any damages to the assets of the society by breach of trust or willfully or negligently or has misappropriated the properties of the society ... the appropriate authority shall ask the person who has been found responsible for misappropriation of the fund or property of the society to return or pay same with interest including compensation and damage. Where the person concerned is not willing to do so, the appropriate authority shall take the appropriate legal measure.*

Proclaimed according to the cooperative principles, which are instrumented to practice the values of cooperation, also article 59 of the Ethiopian cooperative amendment proclamation (402/04), states:

*Any concerned organ shall have obligation to cooperate on matters provided in the proclamation.*

However, in addition to the weakness of the CPBs, as the explanation of the key informants, lack of cooperation from other sectors such as police, *woreda* courts and *kebele* level community courts, public prosecutors, etc is one of the factors that prevented the officers and employees of the MPCSS

from being accountable for their corrupted action, and it is affecting negatively the controlling of cooperatives. Thus, as the key informants argued, most of the time cooperatives do not open cases in formal legal institutions; rather they follow traditional method for recovering misappropriated assets of cooperatives.

Moreover, participation of officers and employees in local political issues is identified as one of the factors, which prevented the cooperatives from ensuring membership-accountable governance in their decision making and operation activities (see table: 4.7.).

Table: 4.7. Participation of MC Officers of both cooperatives, and employees of TFMFSPCS, in *kebele* administration activities.

Cooperative	Positions				
	Chairman	Treasurer	Secretary	Manager	Accountant
AVPPCS	Deputy spokes Person of 012 <i>kebele</i> in TW	Chairman of 012 <i>kebele</i> community court in TW	Deputy chairman of 012 <i>kebele</i> in TW	No employee	
TFMFSPCS	Chairman of 02 <i>kebele</i> land administration and utilization committee in AW	Deputy chairman of public relation committee in 01 <i>kebele</i> , AW	Chairman of public organization committee in 01 <i>kebele</i> , AW	Deputy chairman of public relations committee in 02 <i>kebele</i> , AW	Secretary of spokesperson of 02 <i>kebele</i> in AW

*Prepared by the Reseacher*

Political neutrality is a cooperative fundamental and Rochdale pioneers considered that it would be unwise for a cooperative association to get affiliated or become identified with any political group or party

(Verakumaran, 2003). However, with regard to political interference, from the perspective of MC election and employee hiring, the governance structure of both of the cooperatives does not provide effective barriers to political interference. While the procedure for electing board members is critical in shielding a cooperative from political influence (Mier-Ruiz and Ginneken, 2006), both of the cooperative do not have clear and transparent election procedures which prevent the election of the members of the MC and employees of cooperatives from political involvement (see Table :4.7).

In fact, unlike the situation which was during the Derg regime, thought there is still intervention of local government officials, at least in principle, the officers of the MCs are elected and employees are hired democratically by members. Nonetheless, this study showed that the involvement of the officers of both cooperatives and employees of TFMFSPCS in the *kebele* administration activities is constraining the governance of the cooperatives. For instance, the key informant from the officers of AVPPCS argued that since they don't have enough time to lead their cooperative effectively, the participation of the members of the MC in *kebele* administration made the officers not to contribute their maximum effort in the management of their cooperatives. Word by word the response of the key informant is narrated as:

*At the cost of our individual or personal life, as much as possible we are trying to discharge our responsibilities in both offices. Although there are individuals who can replace us in our kebele position, still we did not raise the issue as we don't consider it as a problem. But in the future it will be taken into account.*

In addition to lack of sufficient time to govern their cooperatives, the engagement of the officers in political issues made the operation management of the cooperatives, specifically the MPCSSs, undemocratic. The key informants from the CPBs, for example, contended that one of the factors which contributed for the misappropriation of the resources of the societies is the participation of the leaders in local political activities: they use their political power as a shade, and don't follow the rules for distributing credit and are not accounted for their actions.

Introduction of such politically oriented governance in cooperatives affects the autonomy of cooperatives in different ways. Ruiz-Mier and Ginneken (2006) noted that political influence introduces criteria other than technical considerations in decision making and can quickly interfere with a cooperative's performance. A cooperative utility captured by politician normally adopts multiple objectives beyond that of good services provisions. Excluding active politician from being elected, rotating elected members, and incorporated other checks and balances are often found to be practices associated with cooperatives that manage to keep political influence at bay (Ruiz-Mier and Ginneken, 2006).

With other qualities, however, an alert membership that recognizes the potentially harmful efforts of political influence is essential for shielding cooperative (Ibid, 2006), and effective leadership and administration would included some degrees of political consciousness (Asaju, 2002).

#### **4.2.7. Lack of Education and Training**

“Education, training and information” is the fifth ICA cooperative principle. Part of the principle states: Cooperative provide educational and training for their members, elected representatives, managers and employees to so that they can contribute effectively to the development of their cooperatives (ICA, 1995). For cooperatives with their unique principles, business and governance structure, education about cooperative principles, practices and benefits is their lifeblood and extremely important, and it must be a continuing priority (Wadsworth, 2001).

Despite the fact that continuous education for members is vital for a successful cooperative (Lawless and Reynolds, 2004), however, in this regard, inadequate cooperative education and training given to members is one of the constraints of governance in the researched cooperatives. The key informants from AVPPCS, for instance, reported that members who registered until 2006 (about 201 members) have attended training up to three times on cooperative background and principles, and on irrigation and production of vegetables. But since 2007 no member has gained any training; even all of the members of the MC have not received training.

Table: 4.8. Formal education level of officers of the cooperatives.

Cooperative	Term of office	Grade of officers		
		chairman	secretary	Treasurer
AVPPCS	April 2004-march,2006	9 <sup>th</sup>	12 <sup>th</sup>	6 <sup>th</sup>
	April 2006-March 2008	6 <sup>th</sup>	7 <sup>th</sup>	7 <sup>th</sup>
	April 2008-March, 2010	6 <sup>th</sup>	7 <sup>th</sup>	4 <sup>th</sup>
TFMFSPCS	June 1999-Sep. 2002	4 <sup>th</sup>	10 <sup>th</sup>	2 <sup>th</sup>
	Oct.2002 –Sep. 2005	5 <sup>th</sup>	4 <sup>th</sup>	3 <sup>rd</sup>
	Oct.2005 –Sep,2008	5 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>
	Sep.2008-Oct. 2011	4 <sup>th</sup>	3 <sup>rd</sup>	Adult education

*Prepared by the researcher*

Although leadership and employee training in cooperatives therefore should also focus on general business skill such as reading financial statement (Bruun and Oleson, 2003), improving leadership skills, and basic entrepreneurial and business skill and attitudes (Culture et al, 2002), the members of the MCs of both cooperatives and, the employees of TFMFSPCS haven't achieved formal education that provides them with these skills and knowledge (see table: 4.8).

In addition to their low formal educational achievement, the key informants reported that the members of the MCs of AVPPCS and TFMFSPCS and, employees of TFMFSPCS have attended insufficient cooperative trainings, and they don't have adequate knowledge, and understanding about the specific governance structures and processes of cooperatives. The problem is manifested in the business operation of TFMSPCS. One of the key informants from the cooperative, for instance, argued that, although it is not practiced regularly every year, the cooperative conducts grain marketing. The cooperative organizes a temporary purchasing committee, which consists of the officers of the MC, and the manager to purchase grain (usually *Teff*) from anybody in the market. The purchasing is conducted during the harvesting season, while selling the grain is conducted during

According to the response of the key informants and the participants of the FGD, although, members participate actively both in the decision making and business affairs of the enterprise, the efficiency of their participation is constrained by inadequate cooperative training. In the case of TFMFSPCS, however, the constraint becomes worse because all of the members of the cooperative have received no cooperative education and training. All of the key informants from the CPB of AW and the cooperative responded that members of the cooperative have not attended any cooperative training, and the mind of the members in particular and the community in general is infertile for the development of democratic and autonomous cooperative. Not yet understanding and ascertaining their rights in the governance of the cooperative, members haven't dropped the negative attitude and perception they have in the past towards cooperative. According to the key informants, large size of membership in the MPCSSs, shortage of budget and trainers are the factors, which influenced provision of cooperative education and training to member. Lack of motivation from the staffs of CPBs and absence of good attitude from the local governments are the other factors that hindered member education.

In addition to their members, cooperatives have a tradition of teaching their leadership and staff both in principles of cooperation and sound business practice (Frederick et al, 2002). In view of assessing the cooperative knowledge, representatives and employees have, and, thereby, to examine the influence it put on the corporate governance of the researched cooperatives, formal educational level of, and cooperative trainings given to, representatives and employees were analyzed in this study. The outcome of the analysis revealed that the members of the MCs and employees of the cooperatives have low formal education achievement and received inadequate cooperative trainings.

summer season at the office of the cooperative to government office civil servants. Besides its being traditional, ignoring the objectives of cooperatives, and emphasizing on profit maximization, alike the purely capitalist business, the operation of the cooperative is mismanaged by its officers and employees.

Table: 4.9.Cooperative training given to the members of the MCs of both cooperatives and to the employees of TFMFSPCS.

Cooperative	Training year	Topic of training	Duration of training in day	Organizers of training.
AIPCS	2004	On background and principles of cooperatives	5	CPB
	2005	On irrigation and water utilization	3	CPB and ORDA
	2006	On crop production management	5	CPB
TFMFSPCS	2004	On cooperative background and principles	3	CPB
	2006	On cooperative background, principle, management, and accounting	10	Regional CPB.
	2088	On cooperative accounting	4	CPB

*Prepared by the Researcher*

However, the key informant from the cooperatives and the CPBs argued that the training courses were not tailored to suit trainees' individual development needs, and were not successfully adapted to fill the knowledge and skill gaps required for a specific position and to the need of the cooperatives. The trainings couldn't raised the capacity of the trainees to conceptualize the theoretical and practical aspects of cooperative governance, and did not give adequate stress to equip the trainees with the managerial, accounting and technical knowledge and skill demanded by the free market economy.

Although cooperative employees also should be well-schooled in cooperative principles and should be responsible for improving member relations as part of their job, however, the outcome of this research revealed that, among others, absence of adequately educated and trained cooperative employees have constrained the governance of TFMFSPCS. Hired on contractual basis currently TFMFSPCS has nine employees working on four different types of positions (Table 4.10). The cooperative is the only society that has a manager in AW.

Table: 4.10. Formal education level of employees of TFMFSPCS.

Position	Grade
Manager	10 <sup>th</sup>
Accountant	10 <sup>th</sup>
Sales man 1 (at <i>Aba Shenie</i> branch)	5 <sup>th</sup>
Salesman 2 (at <i>Denka</i> branch)	6 <sup>th</sup>
Salesman 3 (at <i>Tis Aba Lima</i> branch)	7 <sup>th</sup>
Guard1 ( <i>Aba Shenie</i> branch)	Adult education
Guard 2 (for the grain mill, in <i>Wuchale</i> )	Adult Education
Guard 3 ( <i>Denka</i> )	Adult Education
Guard 4 ( <i>Tis Aba Lima</i> )	Adult Education

**Source:** TFMFSPCS

Though none of them have completed their high school education, of the nine employees of TFMFSPCS, only five (55.56%) them have attended formal education. (N.B. the manager and the accountant of the cooperative attended their formal education during the former education curriculum). All of the key informants have argued that the manager, the accountant and the salesmen of the cooperative do not have adequate technical and managerial knowledge and skills to carry out their corresponding jobs, and to ensure competitive cooperative business. This has influenced negatively the management, accounting and record keeping of the cooperative. The manager lacks both theoretical and practical knowledge for preparing business plans, organizing, leading and controlling the operation of the society. Similarly, the accountant lacks modern accounting knowledge, and he is unable to prepare timely and standard financial statements; rather he prepares accounts traditionally in unorganized form. Also the salesmen do

lack the ability of recording daily transactions, and it has made difficult the effort made to know the participation of members in the patronage of the cooperative. Besides manifesting the existence of lack of transparent governance in the society, lack of timely and accurate daily transaction record has created conflicts between employees. Resulting in loose resource control this may also facilitate corruption and malpractice in the cooperative.

Considering the employees in terms of the cooperative trainings, the evidence indicated that only three (33%) of them have attended cooperative training on the same topic and for the same number of days as the members of the MC of TFMFSPCS received. However, the employees involved in the key informant interview reported that the trainings were not adequate enough to enhance their capacity and, thereby, to perform efficiently their duties. The trainings were not also tailored to the specific jobs they do.

#### **4.2.8. Weak Market Power**

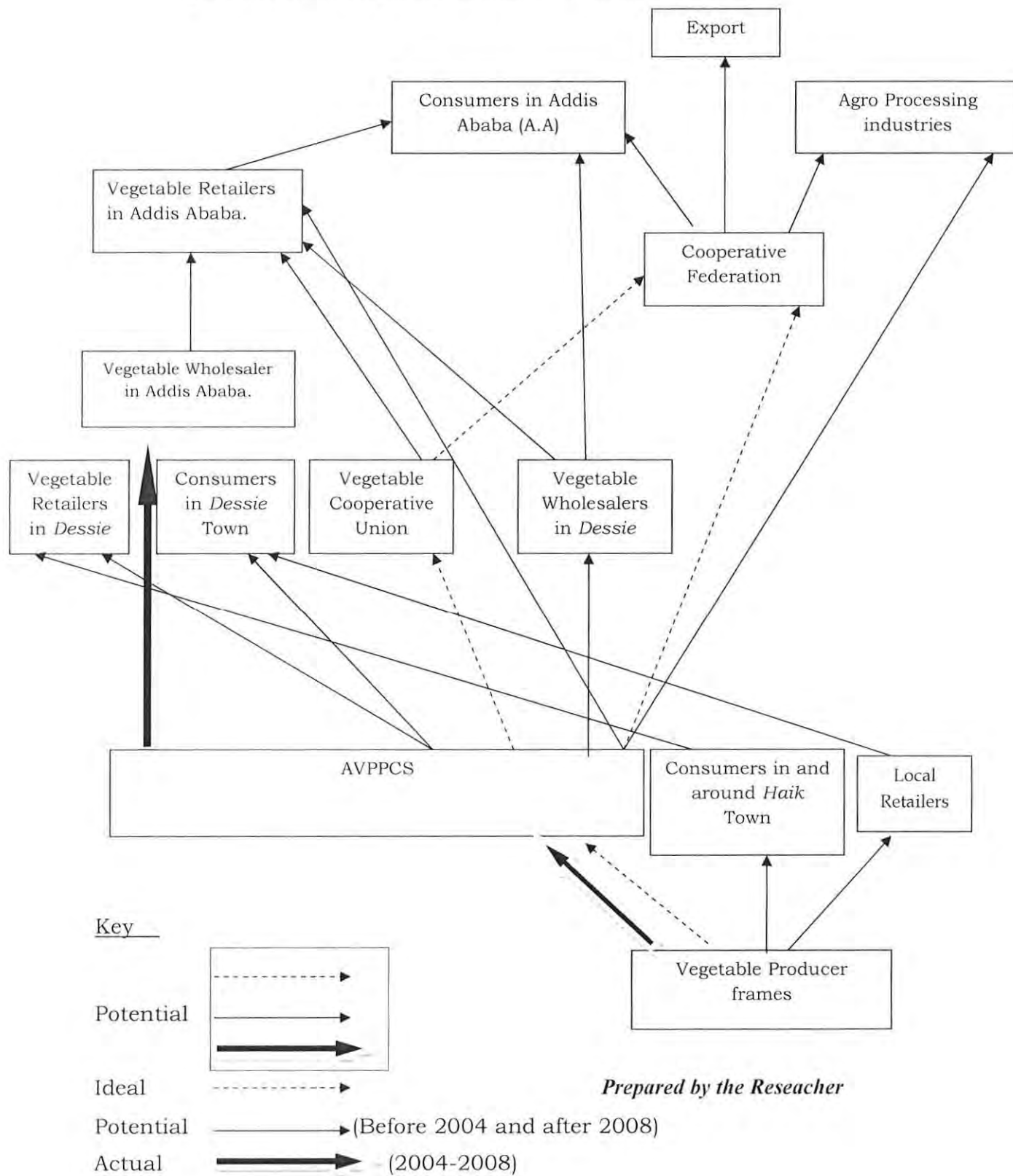
Cooperatives are a specific genus in the market economy and are not always understood (Pezzini, 2007). Some people see them as a poor man's answer to the fury of the free market forces. Others, the true cooperatists consider them as the most effective answer to specific market condition (Heldrskse and Veerman, 2004). In examining the cooperative movement as a whole, it is more natural to stress stakeholders, because cooperatives often try to offer services that the market fails to produce effectively (Pellervo, 2000), and cooperation has its principal strength in knowing how to identify needs which neither the market nor the state has succeeded in meeting (Pezzini, 2007). This suggests that, as a specific people-centered and market-oriented organizations, comprising many small actors working together, cooperatives are established to produce the goods and /or the services required by their members, thereby, to create a force on the market.

In this respect, both of the cooperatives covered in this study have weak market power, and they are not strong-enough to compete in the market and to provide dependable and sustainable differentiated marketing services to their members. Among others, lack of government support, dedicated

professional management and lack of cooperation among cooperative are the main factors associated for the weak market power of the cooperatives.



Figure: 3. Ideal, potential and actual marketing channels of vegetable producer farmers before and after formation of AVPPCS



Established in line with the cooperative principles, all of the respondents argued that, giving the priority for its members, AVPPCS has been organizing supply of inputs, particularly carrot seeds, and selling of carrot produces of members and non-members. In so doing, AVPPCS enabled them to sell their carrot produce at higher prices and at standard unit of measurements. Also, distributing dividends to its members since 2006 AVPPCS has been creating the opportunity to gain addition income for its members. The chairman of the cooperative, for example, reported that before the formation of AVPPCS, filling the 100kg sack as much as it can they were selling their carrot produce to local merchants at a maximum price of 55 Eth. Birr. However, since the establishment of the cooperative, they have been selling their carrot produce by a standard unit of measurement and at higher prices ranging from 70 Eth Birr in 2004 to 300 Eth birr in 2008 per a quintal. Making market contracting with vegetable wholesalers who are living in Addis Ababa the cooperative sold the carrot produce of members and non-members in 2008 at a price of 300 Eth. Birr per quintal, exceeding the price which was in 2003 by 245 Eth. Birr per a quintal. However, since the beginning of 2009, AVPPCS has failed to maintain its usual marketing services and falling at palm of their former exploitators, they (both members and non-members) are selling their produce at average price of 65 Eth.Birr/quintal.

Besides the low price, the market problem also brought problem on the quality of the product and, thereby, resulting in reduction of volume of produce sold at the given price. As of the researcher's observation and the response of the key informants, since the carrot was rooted up and supplied to the local traders a month later from its normal harvest time, significant volume of carrot was cracked and not marketed.

Government has important role to play in all those fields whose social margin returns are higher than the private marginal returns (Shirivastava, 2004). Governments support cooperative marketing by issuing favorable legal framework, and by promoting cooperatives in the market. Such

governmental support is very important to develop market-competitive and member-responsive cooperatives. To this end, in principle, as it is stated in article 5(8-9) of the proclamation (274/02):

*The appropriate authority; promotes the product of the cooperatives so that they may find market and facilitate conditions in order to bring consumers and producers to direct communication in the home market, and provided professional and technical support to process agricultural products of the cooperative to industrial products so that they will have better added value.*

However, due to the various factors mentioned in section 4.2.2 of this case study the appropriate authorities found in the study area do not render sufficient cooperative marketing promotion supports and lack of such support from the CPBs is found as one of the factors that influenced the competence of the studied cooperatives, particularly AVPPCS, in the market. For instance, the key informants from AVPPCS argued that the CPBs are reluctant to consolidate cooperatives and to support the marketing process of the cooperative, even in a problematic situation.

Moreover, lack of dedicated and professional leadership is identified as one of the factors constraining the competitiveness of the cooperatives. The key informants from the CPB and the cooperatives, for instance, argued that the dedication and market-oriented attitude of the MC of AVPPCS is good and encouraging. Despite having these positive qualities, however, the MC is unable to ensure market-oriented management and to interpret its dedication efficiently and effectively on the ground in such a way balancing the interests of the members, among others, due to lack of adequate managerial and technical knowledge and skills. The officers of the MC lack the capacity to sense, analysis and interpret correctly market information, and to adjust it to the produce of members. The MC is not capable to diversify the production activity of members according to the demand in the market and failed to avoid or at least to minimize the marketing risk, and to enhance the competitiveness of the cooperative in the market. On the other hand, in view of meeting the demand in the market, the MC may fail to meet equally the interest of members and members may not gain equal benefits from their common enterprise as the various products of members' may not have equal demand in the market. For example, the key informants argued

that producing other types of vegetables like tomato, potato, onion besides carrot, AVPPCS may diversity its production in line with the market to minimize its market risk. In addition to reducing market risk, through diversification, the cooperative may also increase the efficiency of water utilization management in the area. However, the MC of AVPPCS doesn't apply member-oriented and market-driven diversified vegetable production management in its operation since its members do not have the necessary managerial and technical skills and knowledge to manage the diversified vegetables of members in a balanced manner.

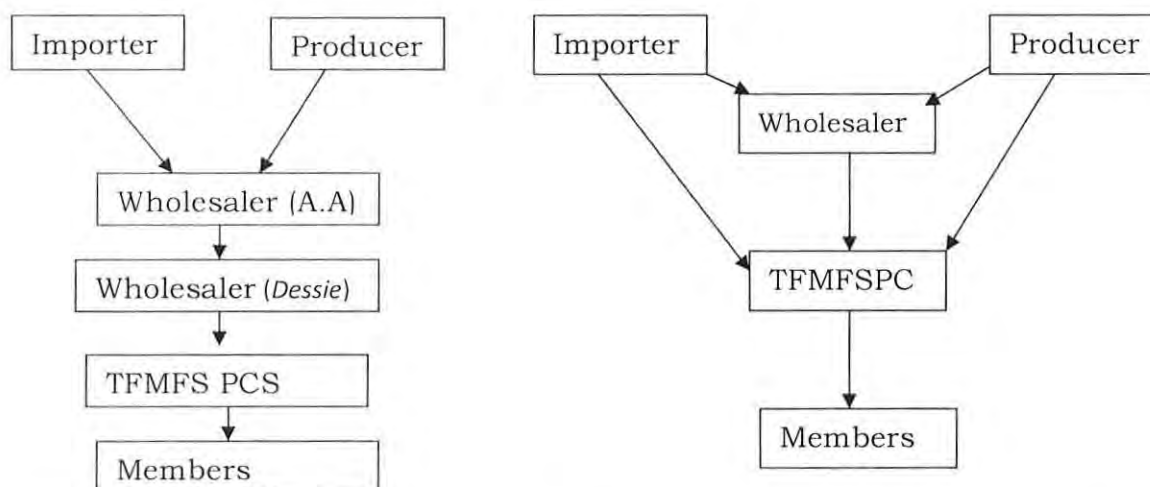
In addition to the market problems mentioned above, lack of viable cooperation among cooperatives is the other factor that constrained the competitiveness of the cooperatives in the market. OCDC (2007) pointed out that cooperative better their members' circumstances either directly or indirectly. Directly, stallholders often organize themselves in primary cooperative. However, against the "cooperation among cooperatives" principle, however, in practice, scale driven cooperation in the studied cooperatives is littered in failure. While AVPPCS hasn't any cooperation with other cooperatives, the cooperation made by TFMFSPCS with other MPCS, is unviable. Impacting adversely the cost of the cooperatives, isolated business operation which is carried out by the cooperatives is constraining the competence of the organizations in the market.

As it is discussed earlier, operating business separately by itself AVPPCS has been providing carrot seeds at minimum price to and has been selling the carrot produce of members and non-members at higher price till the end of 2008, as well as it was saving members and non-members from the exploitation of the unethical local merchants. However, since the beginning of 2009, AVPPCS became unable to sell the carrot produce of members and non-members explicitly due to the treats of new opportunistic market entrants. Given this treat AVPPCS may remain competitive in the market and provide sustainable differentiated benefits to the carrot growers in the study area, among others, if the cooperative was running its business in cooperation with other cooperatives that have similarly objectives. For example, one of the key informants reported that lack of zonal vegetable

cooperative union is one of the factors that influenced the competitiveness of the cooperative. The resource AVPPCS mobilize in the market is not large enough to minimize per unit transaction cost of the cooperative so that the enterprise competes with its competitors and negotiates with its purchasers.

Unlike AVPPCS, TFMFSPCS is a member of *Rikum* Multipurpose Cooperative Service Union (RMCSU).

Figure: 4. Actual and Ideal marketing channel of TFMFSPCS (Prepared by the Reseacher).



I). Actual Marketing Channel of TFMFSPCS    II). Ideal Marketing Channel of TFMFSPCS

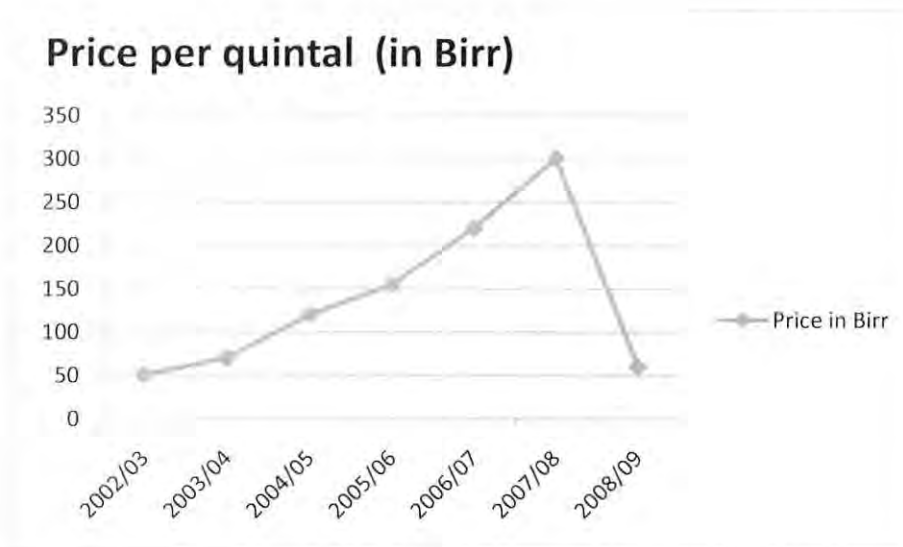
The union was established by 8 MPCs in 2003 in *Dessie* town (the capital of SWAZ) to enhance the bargaining capacity of the primary MPCs in the market. Whereas as the key informants argued RMCSU is not viable and, it isn't operating business competitively in the market and TEMFSPCS hasn't received any differentiated service from the union. Purchasing from Merchandise Wholesale and Import Trade Enterprise (MWITE), *Dessie* Branch, at cost price the union has been selling some consumer goods to its member cooperatives from 2003 to 2005. Due to the disagreement created between the union and MWITE, however, the service of the union didn't continue after 2005. Hence as it was before 2003, since 2006, TFMFSPC purchases consumer goods from private wholesalers found in *Dessie* and distributes it to members and non-members at non-differentiated price.

#### **4.2.9. Lack of Member-Benefited Governance**

Cooperatives are joint member-owned and controlled enterprises for producing goods and/or services where the principal activities and operations are coordinated among members who share risks and profits (Skurnik, 2002; Jussila et al, 2006). Consisting many small actors working together to produce the products and services required by the members as effectively as possible, the primary purpose of cooperatives is to meet the common needs of their members (Pezzini, 2007). In practice, the benefit and added value produced by the business relations between them and the cooperative (Pellervo, 2000). Agricultural cooperatives, for instance, are formed to improve members' bargaining power, reduce costs and risks, access services, such as marketing production and advertizing that they cannot otherwise be able to afford, and achieve economies of scale and increase returns (Carr et al, 2007).

However, the outcome of the analysis got from this research showed that both of the studied cooperatives have failed to ensure dependable member-benefited and democratic governance in their business operation process; but with extreme difference. Though it failed to be sustainable, running its operation according to the cooperative principles, among others, mainly because of market related constraints, AVPPCS has been practicing member-benefited governance process in its operation. The key informants and the members engaged in the FGD, for example, argued that the cooperative has been providing differentiated market access services to its members and the community. It has been providing carrot seed at minimum price and at the door of the farmers. Also figure 5 below indicates that it was selling the carrot produce of member and non-member carrot growers at higher prices. However, as the sources reported and the researcher observed in his field work, the positive market service provision trend of the cooperative changed in to history since the beginning of 2009.

Figure: 5. Trend of marketing performance of AVPPCS



*Prepared by the Reseacher*

The cooperative failed to sell the carrot produce of the farmers at the beginning of the year 2009, and to maintain sustainable member-benefited governance in its operation. Consequently, like the event which was four years ago; i.e. before 2004, all carrot producing farmers have failed at the exploitative palms of local merchants.

Beside the low price, the market problem has also brought problem on the quality of the product, thereby, resulting in reduction of volume of produce sold at the given price. According to my observation and the report of the key informants since the carrot was rooted up and supplied to the local traders a month later from its normal harvest time, significant volume of carrot was cracked and was not marketed.

In addition to the benefits mentioned above, AVPPCS provided credit services to its members. According to the chairman, for the first time in its operation the cooperative rendered a total of 35,300 Eth. Birr to its members in the 2001 Ethiopian fiscal year (2008/09). Out of this total value, 5000 Eth. Birr was given to members by the government for purchasing carrot seed, while the rest 30300 Eth. Birr was given by the cooperative itself. Although AVPPCS was formed primarily to provide better price for the

produce of members also the cooperative benefited its members by distributing dividend in the 2000 Ethiopian fiscal year (2007/08).

In principle, TFMFSPCS is organized primarily to benefit members through: supplying agricultural input, credit services and consumer goods at affordable price; selling members' produce at maximum price; and rendering grain milling service at fair price. However, in practice, the governance of the cooperative has failed to meet none of the benefits to members. Among others, mainly because of lack of: locally-embedded economic activities of the cooperative; professional and dedicated management; and cooperation among cooperatives.

Nonetheless, this doesn't mean that the cooperative doesn't completely conduct business operation-it does. But the business activities, which are operated by the cooperative, are not undertaken on the basis of cooperative principles. Basically corporate governance is the same in cooperatives as in publically coted companies (Pellervo, 2000). However, a cooperative producing services for its members creates the corporate framework and basic rules of entrepreneurship on different collaborative models (Skurnik, 2002). The differences in governance attributes result from the goal of the organizations: an investor-owned firm is formed to give its owners the highest return an investment, while the primary goal of a cooperative is to provide the best service to its members (against the lowest cost) (Bijman and Hendrikse,2004). Whereas TFMFSPCS has failed to provide the services needed by its members. According to the report of the key informants and the conclusion of the FGD participants, lack of member-benefited governance is the other governance constraint identified in the governance of TFMFSPCS. While the cooperative runs credit provision services, and markets in consumer goods without respecting the principles of cooperation, it doesn't undertake business in agricultural input services supply. Of course, the cooperative runs business activities by purchasing and selling grains, and by providing grain milling services. However, in contrary to the objective, governance and ownership structure of cooperatives, members haven't been participating as a customer and/or as a purchaser in the

business activity of TFMFSPCS. Hence, the governance of the cooperative at the operation level of the cooperative is not member-controlled, member-benefited and member patronized.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Conclusion**

To conclude, in general, the evidences obtained from the outcome of the analysis of this research indicated that there are signs of renaissance in the governance of cooperatives in Ethiopia. It can be argued that cooperatives are people-based democratic and autonomous economic and social organizations organized to meet the mutual interest of the cooperators through operating business in the context of the environment. As environment based organization, a cooperative is a product of the social, economic and political conditions that exist in the given environment. Operating business in such context, the governance of cooperatives is affected by various internal and external environmental factors including governments. As external governance factor, governments can affect the governance of cooperatives either positively or negatively. Government may facilitate the movement of member-governed and market-driven cooperatives through issuing supportive legal framework, and providing promotional supports. On the contrary, they may constrain members-governed and market-oriented cooperative movement by enacting unenabling legislation and/ or by not providing the desired promotional supports for cooperatives.

In this respect, the outcome of this research revealed that the FDRE government has shown its intention the development of member governed and market oriented cooperatives in the country. To this end, it is argued that using the common universally accepted ICA cooperative principles as guidance for issuing the proclamation (147/98), and incorporating them under article 5 of the legislation, the government enacted supportive legal framework to facilitate the movement of democratically and autonomously member-governed cooperatives. For the implementation of the proclamation (147/98), also regulation (106/04) is issued by the council of ministers pursuant

to article 59 of the proclamation (147/98). Furthermore, where as it has become imperative to establish autonomous organ responsible for registering, conducting research, rendering training and other technical support, in accordance with article 55 of the cooperative legislation, a cooperative commission establishment proclamation(274/02) is proclaimed on 14 May, 2002. Among others, if these facilitators are applied in consistent with the cooperative principles in the governance process of the cooperatives, starting from the outset of their association, and throughout their operation, cooperatives can ensure member-benefited democratic and autonomous governance in their decision making and business affairs.

Moreover, in principle, the cooperatives covered in this case study have bylaws that have the potential to realize member- governance. Underling the ICA cooperative principles, constituting the particulars provided in article 11 of the proclamation (147/98) and adapted to their specific natures, both of the cooperatives have bylaws which have the possibility to practice democratic and independent governance structure in their internal decision making processes.

Despite the intention of the federal government of Ethiopia and the essence the principles of cooperation, however, in practice, the governance of the cooperatives is not democratic, autonomous and member- based due to various constrains. The outcome of the case study revealed that negative intervention of local governments and government officials, weak organizational capacity of cooperative promotion bureaus (CPBs), lack of locally-embedded business activities and passive member participation in the decision making and economic activities of the cooperatives, lack of adequate education and training by members, by members of the management committee(MC) and by employees, membership unaccountable MC and employees, and poor market competence power of the cooperatives are the factors, which constrained the cooperatives from realized members-

benefited democratic, autonomous and sustainable governance in their decision making and business affairs.

## **5.2. Recommendations**

Having the above discussed research finding, for the cooperatives to practice the institutional governance facilitators availed by the government an set in their bylaws in their decisions and businesses in accordance with the commonly accepted ICA cooperatives principles in the context of the market economy as well as to tackle the constraints of governance faced in the association and business operation of the cooperatives, and, thereby, to ensure democratic and autonomous decision making in their governance process, the researcher forwards the following recommendations.

### **Rendering demand-oriented education and training**

It is argued that for cooperatives with their unique principles, business, and governance structure, education about cooperative principles, practices and benefits is their lifeblood, and cooperatives should provide education and training for their members, representatives and employees so that they can contribute effectively to the development of their cooperatives. As local based economic and social organizations, education should be also given to the members of the community. However, since the cooperatives are not strong enough to render education and training to these and other concerned bodies, governments and non-government organizations should participate in the education and training program in terms of supplying trainers with the finance required for the training.

As people-intensive social and economic organization the efficiency of decision making in cooperatives primarily depends on the quality of the members involved directly by themselves and/or indirectly through their representatives in the governance of the cooperatives. Thus, cooperatives education and training should be given to the members depending on the specific needs of the cooperatives to ensure

professionally member- governed cooperatives. For examples, since the participation of members of AVPPCS in the governance their cooperative is active, the training should be given to enhance the efficiency of decision made by members. On the other hand the training should be given to member's participation efficient active member participation. In general, cooperatives training given to members can ensure active members participation in the decision and economic affairs of the cooperative. In turn, participating activity in the governance of the cooperatives, members delegate their authority to their representatives to whom they believe and hold account their representatives and cooperatives training empowers them also stand against the intervention of outsiders including the govern.

In addition to members, cooperative education and training should be rendered to the members of the MCs and employees of the cooperatives according to their specific needs. Enhancing their professional capacity and moulding their character according to the values and principles of cooperatives, such training enables the MC and employees to run the operation of the cooperatives according to the requirement of the market and the members.

It is also argued that lack of adequate knowledge and experience on general business skills such as reading financial statements, leadership, basic entrepreneurial and business skills and attitudes is resulted from poor formal education of the members of the MCs of the cooperatives and employees of TFMFSPCS. To solve these constraints in the short run training should be given to employees and members of MCs and as necessary as possible in CPBs should be support cooperatives these functions. But in the long run since the coverage of education is in general increasing the problems of cooperatives will be addressed by the general education strategy of the government.

### **Setting member-shared and locally-specific business activities**

It is argued that lack of members-oriented and locally-specific business activities of the MPCs, including TFMFSPCs, is one of the problems, which constrained the governance of the cooperatives. Because the business activities that the cooperatives in cooperated to achieved their objectives do not bring any business transaction between members and the cooperatives, and it is one of the constraints of governance in the cooperatives.

Therefore, for the TFMFSPCs and for other cooperatives which are faced by similar governance constraints, in order to: ensure voluntarily-organized large membership in their association; maintain member commitment in their decision making and business affairs; mobilize large volume of resource so that they become competitive-enough in the market; and to provide members with differentiated benefits, among others, the cooperatives must be the continuation of the economic activities of the members. At the same time, the business activities, which cooperatives conduct, should be met in the same way neither by the private sector nor by the state.

Evidence from this study, has also shown that to promote member-governed competitive cooperatives, with others, CPBs must be organized independently and staffed adequately with properly trained, well motivated and equipped employees so that they can render regular cooperative supervision and assistance in line with the principles of cooperation.

Moreover, it is argued that control follows finance (Duffey, 2001), and increased member participation in financing the cooperative enterprise tends to improve member governance and control (Rouse, 2006). In this regard, the empirical evidence found from TFMFSPCs indicated that resulted from the poor economic participation of members, lack of adequate financial capital is constraining the governance of TFMFSPCs by adversely impacting the volume of

transaction and incentive structure of the cooperative. Once cooperatives framed economically feasible business activities, mobilizing adequate internal finance capital as much as possible, in such a circumstance cooperatives could finance their external sources. However, the external finance must be demand-driven and member-oriented if we are truly in need of realizing voluntarily member-organized, member-controlled autonomous and sustainable cooperative enterprises in Ethiopia.

### **Cooperation among cooperatives**

Despite the cooperation among cooperatives principle, the outcome of this study also revealed that although such cooperation allow cooperatives to boost their economic capabilities, as well as allow to achieve increased strength to express the purpose of cooperatives in the liberalized market condition, the studied cooperatives run their business operation in isolation and the cooperatives have failed to practice market-oriented and member-benefited governance in their business operation process. This suggests that for the cooperatives to meet the needs of their owners, which are above their individual capabilities by strengthening their bargaining power in the form of market power and to provide the benefits demanded by their members, the cooperatives must cooperate with other cooperatives that have similar objectives.

It is argued that the Federal government of Ethiopia has enacted a supportive legal framework to facilitate the movement of democratically and autonomously member governed cooperatives across Ethiopia. yet one of the constraints faced the governance of the cooperatives is intervention of local governments. In a circumstance where the federal legislation is supportive for promoting members governed cooperatives, the primary measure that should be taken to avoid the interventionist action of local government is empowerment of members to stand against the intervention of the local governments

according to the supportive legislation of the federal government in line the cooperatives principles.

Nonetheless, since the enabling cooperatives legislation framed as a principle at the highest administrative level of the government is translated in to practice by the relationship cooperatives hold with the lowest administrative bodies of the government usually *woreda* administrators, who are the real or practical decision makers, their attitude they have towards cooperatives is vital for the movement of democratically controlled and autonomous cooperatives.

To shape positively the minds of such government administrators according to the cooperatives principles and to ensure member-governed cooperatives, among others training about the principles, benefits, governance, structure, etc. should be rendered to these bodies of the government.

## **ANNEX**

### **A. Key informant interview**

- Formation of cooperatives
- Objectives
- Membership organization
- Member participation
- Benefits gained from the cooperatives
- Election and accountability of MCs
- Employee hiring process
- Education and training
- Supervision and control
- Relationship with CPBS
- Relation with local government
- Suggestion for future action



### **B. Focus Group Discussants**

1. Why was the cooperative organized?
2. How was the cooperative formed?
3. How is your participation in the cooperative?
4. Would you explain the benefits you received from the cooperative, please?
5. How do you see the services of the MC and employees in the cooperative?
6. What actions should be taken for the future?

### **C. Documentary review**

- Cooperative related government legislations
- Cooperative bylaws, reports and minutes



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# **ANNEX**

## **APPENDIX I**

### **A. Key informant interview**

Formation of cooperatives  
Objectives  
Membership organization  
Member participation  
Benefits gained from the cooperatives  
Election and accountability of MCs  
Employee hiring process  
Education and training  
Supervision and control  
Relationship with CPBS  
Relation with local government  
Suggestion for future action

### **B. Focus Group Discussants**

1. Why was the cooperative organized?
2. How was the cooperative formed?
3. How is your participation in the cooperative?
4. Would you explain the benefits you received from the cooperative, please?
5. How do you see the services of the MC and employees in the cooperative?
6. What actions should be taken for the future?

### **C. Documentary review**

Cooperative related government legislations  
Cooperative bylaws, reports and minutes



## **APPENDIX II**

### **ETHIOPIA**

#### **PROCLAMATION NO 147/1998:**

#### **A PROCLAMATION TO PROVIDE FOR THE ESTABLISHMENT OF COOPERATIVE SOCIETIES**

WHEREAS, it has become necessary to establish cooperative societies which are formed by individuals on voluntary basis and who have similar needs for creating savings and mutual assistance among themselves by pooling their resources, knowledge and property;

WHEREAS, it has become necessary to enable cooperative societies to actively participate in the free market economic system;

WHEREAS, it has become imperative to issue a comprehensive legislation by which cooperative societies are organized and managed in order to achieve the above mentioned objectives;

NOW, THEREFORE, in accordance with Article 55(1) of the Constitution of the Federal

Democratic Republic of Ethiopia, it is hereby proclaimed as follows:

#### **PART I GENERAL**

##### **Section 1. Short Title.**

This Proclamation may be cited as the "Cooperative Societies Proclamation No. 147/1998."

##### **Section 2. Definitions.**

In this Proclamation unless the context otherwise requires:

1) "Society" means a cooperative society established and registered in accordance with this Proclamation and it shall in particular include the following:

- (a) Agricultural Cooperative Societies;
- (b) Housing Cooperative Societies;
- (c) Industrial and Artisans Producers' Cooperative Societies;
- (d) Consumers Cooperative Societies;
- (e) Savings and credit Cooperative societies;
- (f) Fishery Cooperative Societies;
- (g) Mining Cooperative Societies;

2) "Cooperative Society" means a society established by individuals on voluntary basis to collectively solve their economic and social problems and to democratically manage same;

3) "Member" means any physical person, or society established under this proclamation which is registered after fulfilling his membership obligations.

4) "General Assembly" means a meeting of members of the Primary Cooperative society or representatives of societies above primary level;

5) "Special resolution" means a resolution passed by a two third majority of the members to be binding on all members;

6) "Management Committee" means a body elected and empowered by the general assembly with the responsibility to manage the activities of the society;

7) "Appropriate Authority" means an organ established at federal level, or a bureau or an organ established for the same purpose at Regional or City Administration level, to organize and register cooperative societies and to give training, conduct research and provide other technical assistance to cooperative societies;

8) "Person" means a natural or juridical person.

### Section 3.

Where the provisions of the Proclamation are set out in the masculine gender they apply equally to the feminine gender.

#### Section 4. Objectives of a Society.

The society to be established under this proclamation shall have one or more of the following objectives:

- 1) to solve problems collectively which members cannot individually achieve;
- 2) to achieve a better result by coordinating their knowledge, wealth and labour;
- 3) to promote self-reliance among members;
- 4) to collectively protect, withstand and solve economic problems;
- 5) to improve the living standards of members by reducing production and service costs by providing input or service at a minimum cost or by finding a better price to their products or services;
- 6) to expand the mechanism by which technical knowledge could be put in to practice;
- 7) to develop and promote savings and credit services;
- 8) to minimize and reduce the individual impact of risks and uncertainties;
- 9) to develop the social and economic culture of the members through education and training.

#### Section 5. Guiding Principles of Co-operative Societies.

- 1) Co-operative societies are voluntary organizations 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) Co-operative societies are democratic organizations controlled by their members who actively participate in setting their policies and making decisions. Every member has equal voting rights and accordingly one member shall have one vote.
- 3) Members shall receive dividends from profit according to their shares and contribution after deducting and setting aside an amount necessary for reserve and social services.

- 4) Co-operative societies are autonomous self help organizations controlled by their members. If they enter into agreement with other organizations, including governments or raise capital from external sources, they shall do so on terms that ensure democratic control by their members and maintain their autonomy.
- 5) Co-operative societies provide education and training for their members, elected representatives, managers and employees so as to enable them to contribute effectively to the development of their societies. They inform the general public, particularly the youth about the nature and benefit of societies.
- 6) Co-operative societies serve their members most effectively and strengthen the societies movement by working together through local, national, regional and international structures.
- 7) Co-operative societies work for the sustainable development of their communities through policies approved by their members.

## PART II FORMATION AND REGISTRATION OF CO-OPERATIVE SOCIETIES

### Section 6. Formation of Co-operative Societies.

- 1) Co-operative societies may, according to their nature, be established at different levels from primary up to the federal level.
- 2) A primary society shall be established by persons who live or work within a given area.
- 3) The number of members in a primary society to be established shall not be less than ten.
- 4) Notwithstanding Sub-Article (2) of this Article, the appropriate authority may specify in the directive, the minimum number of members that could make a society economically feasible.
- 5) A society may sell one of its shares to persons outside its area when the society faces shortage of capital.

### Section 7. Types of Societies.

- 1) A society may engage in either production or service rendering activities in both.
- 2) The field of activities to be engaged in by any society shall be determined by the by-laws of the society.

#### Section 8. Name of a Society.

- 1) Any society shall have its own name
- 2) Words "Cooperative Society and Limited Liability" shall appear in the name of every society.
- 3) A name or distinguishing mark registered by one society shall not be used by any other society.
- 4) The name of every society shall be written boldly and be put at every place where the society's activities are performed. It should also be written or sealed on every notices letters, other specifications and documents which are signed on behalf of the society.

#### Section 9. Registration of a Co-operative Society.

- 1) Any society shall be registered by the appropriate authority.
- 2) Any society, when established shall submit an application for registration together with the following particulars to the appropriate authority:
  - (a) Minutes of the founders meeting;
  - (b) The by-laws of the society in, three copies;
  - (c) Names, address and signature of the members;
  - (d) Name, address and signature of the members of the management committee of the society;
  - (e) A detailed description which proves that the registered members of the society have met the requirements for membership in accordance with the provisions of this Proclamation and the by-laws of the society;
  - (f) Name, address and signature of members of the societies above primary level;

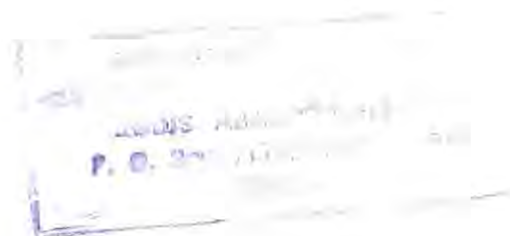
- (g) Plan of the society;
  - (h) Documents showing that the amount of capital of the society and the capital has been collected and deposited in a bank account, if there is no bank in the area, that it has been deposited in a place where the appropriate authority has designated;
  - (i) The description of the land on which the society operates;
  - (j) Other particulars that may be specified in the regulations or directives issued for the implementation of this Proclamation.
- 3) The appropriate authority shall register a society and issue a certificate of registration within 15 days when it is satisfied that the application for registration submitted to it has fulfilled the requirements for registration.
- 4) When the appropriate authority rejects the application for the registration of a society, it shall give a written explanation to the representatives of the society within 15 days. The representatives may appeal to the high court which has jurisdiction on the decision of the appropriate authority.
- 5) The certificate of registration issued to a society pursuant to Sub-Article (3) of this Article is an evidence to prove that a society is registered in accordance with this Proclamation.

#### Section 10. Juridical Personality and Responsibility.

- 1) Any society registered in pursuance of Article 9 of this Proclamation shall have juridical personality from the date of its registration.
- 2) Any society shall not be liable beyond its total asset. It has limited liability.

#### Section 11. By-laws of Society.

- 1) Every society shall have its own by-laws.
- 2) The contents of the by-laws shall include the following particulars:
  - (a) Name and address of the society;
  - (b) Objectives and activities of the society;
  - (c) Working place (area) of the society;



- (d) Requirements necessary for membership of the society;
- (e) The rights and duties of members of the society;
- (f) The powers, responsibilities, and duties of management bodies;
- (g) Conditions for withdrawal and dismissal from membership;
- (h) Conditions for reelection, appointment, term of office and suspension or dismissal of the members of the management committee or other management bodies;
- (i) conditions for calling of meeting and voting of the society;
- (j) Allocation and distribution of profit;
- (k) Auditing;
- (l) Employment of workers;
- (m) Other particulars not contrary to this Proclamation.

3) By-laws of a society may be amended by the special resolution of the general assembly.

However, the amendment of the by-laws of the society shall be effective on the date of its submission to and registration by the appropriate authority.

4) Where the Society decides on the amendment of its by-laws three copies of the amendment and the special resolution of the society made in accordance with this Proclamation shall be submitted to the appropriate authority within 30 days from the date of the decision.

5) The appropriate authority shall register the amendment and give evidence or its registration to the society where it is satisfied that the amendment of the by-laws was made in accordance with this Proclamation and regulations issued for the implementation of this Proclamation.

## Section 12. Amalgamation and Division of Societies.

1) Without prejudice to Article 6 (3) and (4) of this Proclamation, the general assembly of a society through a special resolution may form a new society:

- (a) By dividing itself into two or more societies; or
- (b) By amalgamating itself with one or more societies.

2) The special resolution on the amalgamation or division of the society shall be effective on the date of its registration by the appropriate authority upon verifying that:

(a) The members and creditors of the society fully agree to the amalgamation or division; or

(b) The members and creditors that do not agree have been paid off or their payment is guaranteed.

3) The previous registration of societies shall be canceled from the register as soon as the newly formed society by amalgamation or by division are registered.

4) The rights and duties of societies which have lost their identities by amalgamation shall be transferred to the newly formed society.

5) The rights and duties of a society which has lost its identity by division shall be transferred to the newly formed societies as specified in Sub-Article (2) of this Article.

### PART III THE RIGHTS AND DUTIES OF MEMBERS OF A SOCIETY

#### Section 13. Requirements Necessary for Membership of a Society.

Any individual may become a member of a society where:

1) He has attained the age of 14 if it is a primary society;

2) He is able to pay the share capital and registration fee required by the society;

3) He is willing to implement his obligation and observe the objectives and by-laws of the society;

4) He fulfills other requirements which may be specified in the regulations and directives issued for the implementation of this Proclamation;

5) It is registered with the appropriate authority if it is a society above the primary society.

#### Section 14. Rights and Duties of Members.

1) Any member of a society shall have the following rights:

(a) To obtain services and benefits according to his participation in the society;

(b) To participate in the meetings of the society and to vote;

(c) To elect and be elected;

(d) To withdraw from the society on his request with payment of benefits.

2) Any member of a society shall have the following duties:

(a) To respect the by-laws, directives and decisions of the society;

(b) To perform those activities which ought to be performed in accordance with the by-laws and directives of the society;

(c) To pay for share of capital and registration fee;

(d) To protect the common property of the society.

#### Section 15. Dismissal from Membership.

(1) Any member of a society may leave the society on his own initiative;

2) Any member of a society may leave the society when it is decided by the general assembly to dismiss him from the society because of committing repeated faults;

3) The rights of any dismissed member shall be respected in accordance with the by-laws of the society;

4) Without prejudice to the provisions of Article 13 hereof, any dismissed person may reapply for membership. However, a member dismissed in accordance with Sub- Article (2) of this Article may become a member of the society only if he obtains the approval of the general assembly.

#### Section 16. Payment of Shares.

1) The capital which enables the society to expand its work activities shall be obtained from paid up shares of each member in accordance of the decision of the general assembly;

2) The society may sell additional shares if it is found necessary to promote the financial capacity of the society subject to the decision of the general assembly;

3) No member shall hold more than 10% of the total paid up share capital of such society.

#### Section 17. Register of Members.

Every society shall keep a register wherein shall be entered:

- 1) The name, address, occupation, age and sex of each member;
- 2) The date on which he became a member or ceased to be a member;
- 3) The amount of shares held and the registration fee paid, by each member;
- 4) The name and address of the heir of the member;
- 5) Any other particulars that may be specified in the by-laws.

#### Section 18. Voting.

- 1) Every member shall, regardless of the number of shares he has, have only one vote at the meeting of the society;
- 2) Every member in a primary society shall personally be present at the meeting of the society to cast a vote;
- 3) Every member in a primary society shall personally be present at the meeting of the society to cast a vote;
- 4) Members of a society above primary level shall cast a vote through their representatives.

#### Section 19. Transfer of Share or Benefit.

- 1) No transfer by a member of his share or benefit in a society shall be valid unless:
  - (a) The member has held such share or benefit for at least one year before he transfers;
  - (b) The transfer is approved by the management committee.
- 2) On the death of a member of a primary society, his share or benefit shall be transferred to one of his heirs designated as such in the register of society or failing such designation to his legal heir at law, and where such heir is a member or is willing to be a member.

3) Where such heir is not a member and does not wish to become or is not admitted as a member, he shall be paid the value of the share or benefit of the deceased member.

4) If the shares or benefit to be transferred to a member under Sub-Article (2) of this Article are found to be beyond the limitation prescribed in Sub-Article (3) of Article 16 hereof, the member shall be paid the difference in cash.

5) The transfer or payment concluded in pursuance of Sub-Article (2) of this Article shall not be reversed due to the claims raised by third parties on the society.

#### PART IV MANAGEMENT BODIES

##### Section 20. Supreme Organ of a Society.

The supreme organ of any society shall be the general assembly.

##### Section 21. Powers and Duties of the General Assembly.

The general assembly of a society shall:

- 1) Pass decisions after evaluating the general activities of the societies;
- 2) Approve and amend the by-laws and internal regulations of the society;
- 3) Elect and dismiss the members of the management committee, control committee and when necessary the members of other sub-committees;
- 4) determine the amount of shares of the society;
- 5) decide on how the annual net profit of the society is distributed;
- 6) give decision on the audit report;
- 7) hear work reports and give proper decision;
- 8) Decide that a society either be amalgamated with another society or be divided in pursuance of this proclamation;
- 9) approve the annual work plan and budget;
- 10) Decide any issue submitted by the management committee and other committees.

## Section 22. Calling of General Assembly.

- 1) The general assembly shall meet at least once in a year;
- 2) If the management committee or one third of the members of the general assembly require a meeting to be called, an emergency meeting may be held by giving 15 days prior notice.
- 3) Where the management committee fails to call an emergency general assembly in accordance with Sub-Article (2) of this Article such meeting shall be called by the appropriate authority and shall in such case be deemed to have been called by the management committee.

## Section 23. Management Committee.

- 1) Every society shall have a management committee which is accountable to the general assembly and whose members and manner of election to be determined in the by-laws of the society.
- 2) The term of office of the management committee shall be three years.
- 3) Members of the management committee shall not be elected for more than two consecutive terms. They may be dismissed at any time by the general assembly.
- 4) When members of the management committee leave their office for whatever reasons, they have the obligation to submit for inspection the activities they performed during their term of office.

## Section 24. Powers and Duties of the Management Committee.

The powers and duties of the management committee shall be determined in pursuance of the by-laws and in particular shall include the following:

- 1) Maintain the minutes of a meeting in writing;
- 2) maintain the documents and books of accounts of the society;
- 3) prepare the annual work programme and budget of the society; implement same upon approval;
- 4) call general assembly in accordance with the by-laws of the society;
- 5) execute such other decisions given by the general assembly;

6) Submit reports to the general assembly on the activities of the society.

Section 25. Control Committee.

1) Every society shall have a control committee which is accountable to the general assembly and the number of which shall be specified by the by-laws of the society;

2) The term of office of members of the committee shall be three years. No members of the control committee shall be elected for more than two consecutive terms. They may, while in term of office, be dismissed by the general assembly.

Section: 26. Powers and Duties of the Control Committee.

The Control Committee:

1) Follows up that the management committee is carrying out its responsibilities properly;

2) Follows up that the funds and property of the society are properly utilized;

3) Controls that the various activities of the society are carried out pursuant to the by-laws and internal regulations of the society;

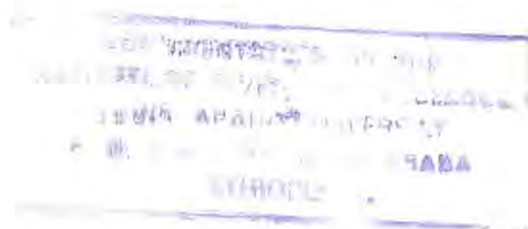
4) Performs other duties given by the general assembly.

Section: 27. Other Sub-Committees.

Other sub-committees may be established pursuant to the by-laws of the society.

PART V SPECIAL PRIVILEGES OF SOCIETY

Section 28. Priority of claims by Society.



Notwithstanding any provision to the contrary in any law, debts owed to the society by member shall take precedence over all other debts, except the debt owed to the Government.

Section 29. Set-off in respect of Share or Benefit of Members.

The shares or benefits of any member may be set-off for debts due to the society from such a member.

Section 30. Share or Benefit not Liable to Attachment or Sale.

Except as provided in Article 29 hereof, the share or benefit of a member in a society shall not be liable to attachment or sale.

Section 31. Government Assistance.

1) Without prejudice to incentives permitted under Investment laws and other laws, societies which are organized and registered under this Proclamation shall be entitled to the following:

a) To be exempted from income tax; provided however, members shall pay income tax on their dividends;

(b) To acquire land as determined by a Region or a City accountable to the Federal Government;

(c) To receive other assistance from the Federal Government or Regional Government or City administration accountable to the Federal Government.

2) An institute responsible for promoting cooperative movement, rendering man-power training and conducting studies and research shall be established.

## PART VI ASSET AND FUNDS SOCIETIES

Section 32. Indivisibility of Asset and Funds of a Society.

Except as otherwise prescribed under Article 33s (2) and 44 of this Proclamation, the asset and fund of a society shall not be divided for the members or any other party.

Section: 33. Allocation of Net Profit.

1) The society shall deduct 30% of the net profit obtained and allocate for the following purposes in accordance with the terms and conditions set forth in the by-laws and plan issued from time to time by the society:

- (a) For reserve;
- (b) For the expansion of work;
- (c) For social services.

2) After the amount prescribed in Sub-Article (1) is deducted the remaining net profit shall be divided among the members; the division shall be made on the basis of the shares the members have in the society and on the amount of goods offered for the sale to the society or goods purchased from the society by members of the society.

Section 34. Restrictions on Borrowings.

- 1) A society shall receive loans from its members or other organizations to such extent and on such conditions as may be specified in the by-laws of the society.
- 2) Interest on loans received from its members shall not exceed the current interest rate of a bank.

Section 35. Restrictions on Loans.

A society shall not extend loans other than to its members or a society established under this Proclamation.

PART VII AUDIT AND INSPECTION

Section 36. Audit.

- 1) The appropriate authority shall audit or causes to be audited by a person assigned by it, the accounts of any society at least once in a year.
- 2) The audit conducted pursuant to Sub-Article (1) of this Article shall include the examination and verification of overdue debts, if any, and cash balance, securities and assets, and liabilities.

3) The audit report shall be submitted to the general assembly.

#### Section 37. Inspection.

1) The appropriate authority may, make or cause to be made by such person to be assigned by it an inspection to the organization, work execution, documents and financial condition of a society.

2) Without prejudice to Sub-Article (I) of this Article inspection may be made when:

(a) A majority of the members of the executive committee request;

(b) Not less than one-third of the total number of members of the society request.

#### Section 38. Keeping Audit and Inspection Results.

Audit and Inspection result conducted pursuant to Articles 36 and 37 of this Proclamation shall be kept in the office of the authority and the society, open and easily accessible to everyone.

#### Section 39. Actions to be taken for Losses of Property or Fund of the Society.

1) The auditor or inspector shall make a report to the management committee or the general assembly or the appropriate authority, as the case may be, where the person who is or was entrusted with the management of the society or who is or has been an officer or an employee of the society, and who, in the course of an audit or inspection has been found to have committed the following acts:

(a) had made any payment contrary to this Proclamation, the regulations or the by-laws;

(b) had caused any damages to the assets of the society by breach of trust or willfully or negligently;

(c) has misappropriated the properties of the society.

2) The appropriate authority who received the report pursuant to Sub-Article 1 of this Article shall give the person concerned an opportunity to present his defence within fifteen days.

3) After fulfilment of the above mentioned conditions, the appropriate authority shall ask the person who has been found responsible for misappropriation of the fund or property of the society to return or pay same with interest including compensation and damages. Where the person concerned is not willing to do so, the authority shall take the appropriate legal measure.

## PART VIII DISSOLUTION AND WINDING UP OF SOCIETIES

### Section 40. Dissolution of a Society.

A society shall be dissolved on the following grounds:

- 1) Where a special resolution for its dissolution is given by the members; or
- 2) Without prejudice to Article 6 (4) hereof, where the number of members of a primary society falls below ten.
- 3) Without prejudice to sub-Articles (1) and (2) of this Article, a society the dissolution of which is decided shall notify same to the appropriate Authority within seven days from the decision for its dissolution.

### Section 41. Liquidator.

- 1) Where the dissolution of a society has been decided upon, pursuant to Article 40 of this Proclamation, the appropriate authority may assign a liquidator. It may, if necessary, determine that his remuneration be paid out of the accounts of the society.
- 2) The liquidator shall receive records, documents and properties of the society as soon as he is assigned. He shall also take the necessary measures to protect the properties and rights, records and documents of the society from damages.

### Section 42. Powers and Duties of the Liquidator.

1) The liquidator shall have all the necessary powers to complete the winding up proceedings. He shall in particular perform the following in order to carry out his duties properly:

(a) investigate all claims against the society and decide on priority of payment among them;

(b) collect the assets of the society;

(c) distribute the assets in accordance with the plan of liquidation approved by the general meeting of the society;

(d) carry on the work activities of the society in so far as may be necessary for the proper liquidation of the affairs of the society;

(e) represent the society in legal proceedings;

(f) call meetings of the members as may be necessary for the proper conduct of the liquidation.

2) The liquidator shall issue notice in a newspaper, before the distribution of property of the society takes place in accordance with Sub-Article (1) (c) of this Article that the society is to be dissolved. It shall proceed with the distribution where no claim is presented within two months from the date of such notice. No claimant shall have a right after the expiration of such limitation.

3) Upon completion of the winding up proceedings the liquidator shall prepare and submit a report to the appropriate authority; he shall deposit the records and documents of the society in such places as the appropriate authority may direct.

#### Section 43. Calling on Creditors.

1) Creditors shall be paid on the basis of a balance sheet prepared by the liquidator upon the commencement of his assignment.

2) Creditors shall be informed of the dissolution of the society and required to file their claims with supporting documents.

3) Creditors appearing in the society's records or who are otherwise known shall be notified directly by registered letter. Notice to other creditors shall be

given by notice, published in two successive monthly issues of a newspaper, and also in the form laid down in the by-laws of the society.

#### Section 44. Protection of Creditors.

1) Until the creditors of the society have been paid or amounts required for payment be deposited, the liquidators may not distribute any part of assets among the members.

2) Where known creditors have failed to present their supporting documents, the amounts owing to them shall be deposited according to the decision of the court.

3) Sums shall be set aside to meet the claims in respect of undertakings of the society which are not completed or which are under liquidation unless the creditors are guaranteed or distribution of assets is postponed until such undertakings are completed.

4) After the payment of claims have been completed or verified that sufficient deposit for payment has been made, the liquidators may distribute the assets of the society among the members based on the amount due to them.

#### Section 45. Cancellation of a society from the Register.

When the winding up proceedings are completed the certificate of registration shall be returned to the appropriate authority who shall cancel the registration of the society, and the society shall upon the date of such cancellation, cease to exist.

### PART IX SETTLEMENT OF DISPUTES

#### Section 46. Conciliation.

The disputes provided under Article 49 of this Proclamation shall be heard by a third party appointed by the disputing parties before they are referred to the arbitrators.

#### Section 47. Arbitration.

- 1) When the disputes provided under Article 49 regarding cooperative societies are not settled by conciliation they shall be referred to arbitration.
- 2) The arbitration shall consist of three persons of high reputation and impartiality.
- 3) The arbitrators shall conduct their hearing and fulfill any of their duties in accordance with the Civil Procedure Code.

Section 48. Appointment of the Arbitrators.

- 1) Each party to the dispute shall appoint one arbitrator. The third arbitrator, who shall be the chairperson, shall be appointed by both parties.
- 2) The appropriate authority shall appoint the chairperson arbitrator when the parties fail to reach an agreement.

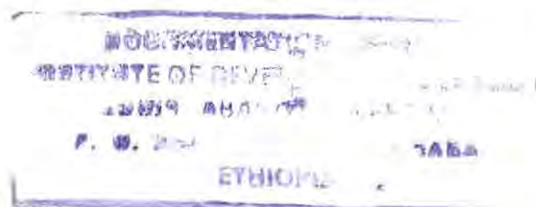
Section 49. Disputes to be referred to Arbitration.

The arbitrators shall have the power to hear disputes not settled by conciliation regarding the organization, management, or operations of a society which arises between:

- 1) members or former members and members or representatives of former members or persons claiming in the name of deceased members; or
- 2) members, former members or members or representatives of former members or heirs of deceased members and any officer, representative of the management committee or employee of the society; or
- 3) the society or the management committee and any former management committee, any officer, agent or employee, or any former officer, agent or employee or the nominee heirs or representatives or representatives of deceased former members or employees; or
- 4) the society and any other society.

Section 50. Civil Court Powers of Arbitrators.

The Arbitrators shall have the same power, with regard to the cases provided under Article 49 of this Proclamation, as a Civil Court for the summoning of



witnesses, production of evidence, the issuing of orders or the taking of any legal measures.

Section 51. Execution.

Any decision, order or award made under this Proclamations shall be taken as though made by a civil court, and, where appropriate, the courts shall have jurisdiction to order the enforcement of any such decision, order or award.

Section 52. Power of Courts.

Appeals on the decisions given by the Arbitrators under Article 47/of this Proclamation may, as the case may be, be instituted in Federal High Court, or the Regional State High Court or the Federal High Court of a city accountable to the Federal Government where the society is situated.

PART X MISCELLANEOUS PROVISIONS

Section 53. Address of a Society.

Any society shall have an address registered pursuant to Article 9 of this Proclamation. All services of process, notices and other communications shall be sent in such address. The society shall inform the appropriate authority of any change in such address within thirty days.

Section 54. Supplying Information.

Every society shall have the obligation to transmit information to the appropriate authority about the activities it performs.

Section 55. Establishment of a Federal Organ.

A Federal Organ responsible for organizing and registering Apex organizations and for rendering training, conducting research and other technical support to societies may be established by law.

Section 56.

Depositing of this Proclamation, Regulations and the By-laws.

Every society shall deposit at its address copies of this Proclamation, the Regulations and the by-laws to be accessible free of charge.

Section 57. Repealed and Inapplicable Laws.

1) The Cooperative Societies Proclamation No.138/1978 and the Agricultural Cooperatives Societies Proclamation No. 85/1995 are hereby repealed.

2) No law, regulation or directive in. so far as it is inconsistent with this Proclamation have force or effect in respect of matters provided for by this Proclamation.

Section 58. Transitory Provisions.

1) The cooperative societies which have been established and operating in accordance with Proclamation No.138/1978 shall be reorganized under this Proclamation.

2) The cooperative societies which have been established and operating in accordance with Proclamation No. 85/1995 shall be deemed to have been established under this Proclamation and shall continue to carry out their functions in accordance with this Proclamation.

3) The societies indicated in Sub-Article (1) of this Article shall continue their operations holding their previous juridical personalities until they are reorganized and registered by the appropriate authority.

4) The appropriate authority shall facilitate the conditions necessary for the reorganization of the societies in accordance with sub-Article (1) of this Article.

Section 59. Issuance of Implementing Legislations.

The Council of Ministers of the Federal Government or the appropriate organ of a Region or city accountable to the Federal Government may issue legislations for the proper implementation of this Proclamation.

Section 60. Effective Date.

This Proclamation shall come into force as of the 29th day of December, 1998.

Done at Addis Ababa, this 29 day of December, 1998.

NEGASO GIDADA (DR)

PRESIDENT OF THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA