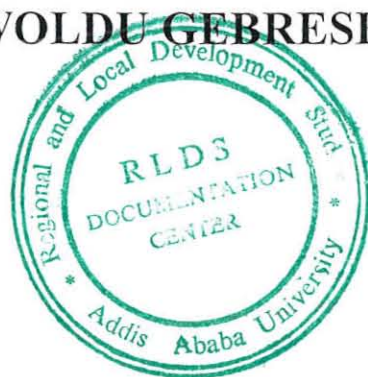


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OPPORTUNITIES, CHALLENGES AND
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AGRICULTURAL BENEFITS:
THE CASE OF MULTI-PURPOSE COOPERATIVES IN
ENDERTA WOREDA, TIGRAY REGION

WOLDU GEBRESELASSIE



August, 2007

**OPPORTUNITIES, CHALLENGES AND CONTRIBUTION OF CO -
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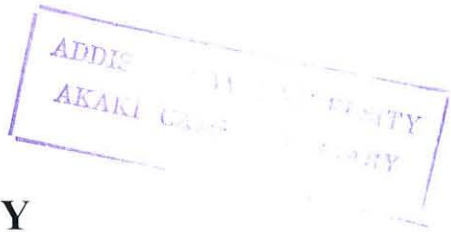
**THE CASE OF MULTI-PURPOSE CO-OPERATIVES IN ENDERTA
WOREDA, TIGRAY REGION**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE
STUDIES
ADDIS ABABA UNIVERSITY**

**IN PARTIAL FULFILMENT FOR THE DEGREE OF
MASTER OF ARTS IN REGIONAL AND LOCAL
DEVELOPMENTSTUDIES**

**BY
WOLDU GEBRESELASSIE**

August, 2007



**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
REGIONAL AND LOCAL DEVELOPMENT STUDIES**

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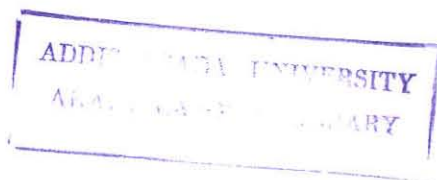
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Woldu Gebreselassie



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TABLE OF CONTENTS

| | Page |
|----------------------------------|-------------|
| Acknowledgment ----- | i |
| Table of Contents ----- | ii |
| List of Tables ----- | v |
| Acronyms and Abbreviations ----- | vi |
| Abstract ----- | vii |

CHAPTER ONE

INTRODUCTION

| | |
|--|----|
| 1.1 Background ----- | 1 |
| 1.2 Statement of the Problem ----- | 3 |
| 1.3 Objective of the Study ----- | 5 |
| 1.4 Significance of the Study area ----- | 6 |
| 1.5 Scope of the Study ----- | 7 |
| 1.6 Research Design and methodology ----- | 7 |
| 1.6.1 Research Design ----- | 7 |
| 1.6.2 Sample Procedure and sample techniques ----- | 7 |
| 1.7 Data Collection method ----- | 9 |
| 1.8 Method of data Analysis ----- | 9 |
| 1.9 Limitation of the Study ----- | 10 |
| 1.10 Organization of the Paper ----- | 10 |

CHAPTER TWO

LITERATURE REVIEW

| | |
|---|----|
| 2.0 Introduction----- | 11 |
| 2.1 Theoretical Concept ----- | 11 |
| 2.2 Defining Co-operative and Co-operative Concepts ----- | 13 |
| 2.3 Principles of Co-operatives ----- | 14 |

| | |
|--|----|
| 2.4 The need for Co-operatives ----- | 15 |
| 2.5 Genuine Co- operatives and Crises of Co-operatives ----- | 16 |
| 2.6 Role of Government in Promoting Co-operatives ----- | 18 |
| 2.7 Organizational Structure and Types of Co-operatives ----- | 20 |
| 2.7.1 Organizational structure ----- | 20 |
| 2.7.2 Types of Co-operatives ----- | 21 |
| 2.8 Agricultural Marketing Co-operatives ----- | 24 |
| 2.9 Benefits Gained from Agricultural Co-operatives ----- | 27 |
| 2.10 Problems and Factors that Affect Agricultural Co-operative Development ----- | 30 |
| 2.10.1 Problems that Face Co-operative ----- | 30 |
| 2.10.2 Internal Factors ----- | 33 |
| 2.10.3 External Factors ----- | 34 |

CHAPTER THREE

DESCRIPTION OF THE STUDY AREA

| | |
|---|----|
| 3.0 Introduction----- | 36 |
| 3.1 General Description of the Region ----- | 36 |
| 3.2 Location of the Specific Study Area ----- | 36 |
| 3.3 Co-operatives and Regional Government Support ----- | 40 |

CHAPTER FOUR

RESULTS AND DISCUSSIONS

| | |
|--|----|
| 4.0 Introduction----- | 44 |
| 4.1 Socio- economic Condition ----- | 44 |
| 4.2 Agricultural Development Benefits ----- | 48 |
| 4.3 Financial Performance ----- | 51 |
| 4.4 Opportunities of Co-operatives ----- | 59 |
| 4.5 Challenges to the Co-operatives ----- | 63 |
| 4.6 Enderta Multi-purpose Union Co-operative ----- | 70 |
| 4.7 Problem in Relation to Co-operatives principle ----- | 73 |

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion -----76
5.2 Recommendation -----84

REFERENCE

APPENDICES

LIST OF TABLES

| | Page |
|--|-------------|
| Table 3.1 Climate, Temperature and Rainfall of the Study Area ----- | 37 |
| Table 3.2 Population Size of the Study area ----- | 38 |
| Table 3.3 Land use and Socio- Economic Conditions ----- | 39 |
| Table 3.4 Sample Taken Based on 2024 data ----- | 42 |
| Table 4.1 Educational level of the Sample Area ----- | 45 |
| Table 4.2 Relationship, Occupation, Household and Land holding Size- | 47 |
| Table 4.3 Supply inputs distributed in Enderta Woreda (1999-2005)--- | 48 |
| Table 4.4 Distribution of agricultural inputs by Enderta Woreda Co-operative office (1996-1998 E.C) ----- | 50 |
| Table 4.5 Financial Profit Achievement and Audit Result ----- | 52 |
| Table 4.6 Total Dividend allocation, no of participants by year ----- | 54 |
| Table 4.7 Membership growth (2004-2006) in the study area ----- | 56 |
| Table 4.8 Yearly production evaluation of Enderta Woreda (2002-2006)----- | 58 |
| Table 4.9 Opportunity of training and type of Training in the study area ----- | 61 |
| Table 4.10 Revolving fund given to members (2002) ----- | 63 |
| Table 4.11 Acknowledgment of Co-operatives and capability to run cooperatives ----- | 66 |
| Table 4.12 Yearly activity of the union (2004-2006) ----- | 70 |
| Table 4.13 Cost of fertilizer in different business sectors ----- | 71 |
| Table 4.14 Improvement of live hood, cooperatives future prospective- | 73 |

ACRONYMS AND ABBREVIATIONS

| | |
|--------|---|
| BOARD- | Bureau of Agriculture and Rural Development |
| BOFED- | Bureau of Finance and Economic Development |
| DA _ | Development Agent |
| FAO- | Food and Agricultural Organization |
| FCA- | Federal Co-operative Agency |
| FDRE- | Federal Democratic Republic of Ethiopia |
| GDP- | Gross Domestic Product |
| ICO- | International Co-operative Alliance |
| ILO- | International Labor Organization |
| IOFS- | Investor-Oriented Firms |
| NGO'S- | Non-Governmental Organizations |
| TCPO- | Tigray Co-operative Promotion Policy |
| UN_ | United Nations |

ABSTRACT

The study is conducted in Enderta Woreda, Tigray Region. Three primary co-operatives are taken to assess the overall challenges and opportunities of co-operatives for agricultural development. Data were collected by interviewing 180 respondents based on questioner. The assessment was supplemented by qualitative data collected from focused group discussion, key informants interview, documents to provide background information and to investigate opportunities and challenges.

The study results show that the policy measure 147/98 has created good environment for the development of co-operatives. There are about 56 different type of co-operatives established in the woreda study area. Supply of inputs, the existence of household package, provision of credit, dividend given to members has shown members that they have benefited from co-operatives. Growth of co-operatives in total number, and membership, tax exemption, and the act of regional government as collateral for credit made, are some of opportunities gained to strengthen co-operatives.

High price and scarcity of inputs, the existence of private business in the market which resulted in no difference in price and quality of inputs is seen as challenges. The study shows that co-operatives do not provide the opportunity of product market of their members. Minimal support of government is another challenge in the study. Violation of co-operatives regulation, lack of sense of ownership, and lack of trained human resource are main problems identified in the study.

According to the study, co-operatives are not operating effectively and efficiently and lack co-operative spirit. They are not exploiting the potential opportunities of the policy environment. Therefore awareness creation and, capacity building are very important to realize their potential opportunities. Co-operative management skill, entrepreneurial knowledge training and ethical attitudes and competitiveness are basic instruments to realize and improve their bargaining power in agricultural productivity.

CHAPTER ONE

INTRODUCTION

1.1. Background

In spite of its long history and rich potential with ancient civilization, and culture, and rich natural resources, Ethiopia remains one of the poorest and least developed countries in the world in terms of economic and social indicators. High incidence of poverty, exponential population growth, food deficits, low social service facilities, chronic unemployment and under - employment, diseases, backward technology and low productivity and environmental degradation etc are mutually integrating challenges that need to be tackled in order to improve the problem as a whole.

The major poverty – related indicators of Ethiopia signal great challenges ahead for the realization of sustainable economic and social development. The per capita income is estimated to be a mere low about \$100, one of the lowest in the world. Out of the total population, only 24 percent have access to safe drinking water, and only 15 percent use adequate sanitation facilities. There is the infant mortality rate of 112 per 1000 live births and a gross primary school enrolment of 62 percent. These are few indicators of the deplorably low social and economic conditions exacerbated, by increasing AIDS pandemic challenges (BOFED, 2005:11).

Since 1992, this new government has been carrying out some sizeable measures to reduce poverty through some serious reform programmers in the political, economic and social spheres. In response to reforms, the economy has displayed remarkable level of growth compared with previous two decades of poor performance. It has registered a steady GDP (gross domestic product) growth balanced between around 3.2 percent during the first two years of reform and an exceptional 10.6 percent in 1995-1996, and further growth of 6.5 percent in 1996 – 1997 E.C (BOFED,2005: 11). The Federal Democratic Republic of Ethiopia (FDRE) has a free market economy, which ensures rapid development, extricate the nation from continued dependency on food aid, and make the poor the main beneficiary of the fruits of the economic growth. The rural development policy and strategy was stated that rapid economic development would be ensured through agriculture – development led and rural – centered development. Agricultural modernization accelerates trade and industry development by supplying raw materials, creating opportunities for capital accumulation and enhancing domestic market increasing employment, and producing cash crops for export, as well as marketable surplus.

One of the basic directions of agricultural and rural -centered development is encouraging the cooperative and private sector. The development policies acknowledge that the role of cooperatives and private sector for rural development is crucial and is expected to plan a great non – substitutable constitutional role in agricultural marketing, agro – processing, expanding commercial agriculture and industrialization, among other gains, and

people's cooperation in development efforts by building social capital. Now-a-day the types of cooperative societies and their diversification have been increasing in Ethiopia. As such analytical assessment of the challenges and opportunities of cooperatives will show how much cooperatives are developed in the study area Enderta Woreda south Tigray Region, and what its growing impacts on related development scenario are.

1.2. Statement of the Problem

Agricultural co-operatives are expected to be autonomous association of rural persons united voluntarily to meet their economic, social as well as cultural needs and aspirations through cooperatively owned and democratically controlled enterprises seeking economic benefits, for their own economic growth and for their members like reduction in cost for services provided, and developing the best uses of the members' resource. But experiences have shown during 1975-90 that service cooperatives often played contradictory and negative roles. According to Alemayehu (1993:5-8) some weaknesses identified were: poor organizations where commonly illiterate poor subsistence farmers were cooperative leaders , lack of proper management where the organization s were weak, corrupt and unaccountable to their members, lack of efficiency where they were not competitive with private enterprises , and finally cooperatives were serving the interest of the state . These problems were seen at the time of command economy where it prohibits market competition in the country.

The recent enactment of cooperative society proclamation No.85/94 and No/14798 has created fertile ground for organizing new ones and re-organizing previous cooperatives. At this time 8,153 primary cooperatives are registered all over the country. Out of these, 4,183 are agricultural multi-purpose cooperatives. Also currently Tigray Region has 1,232 different cooperatives out of which 576 are agricultural multi-purpose.

In the study area Enderta Woreda there are about 56 different cooperative societies, where 39 of them are specialized and 17 are multi-purpose agricultural cooperatives. Given the rapid development of the cooperative sector, there are a lot of problems facing them. Among the others some of them are as follows.

- Cooperatives are not capable to assess the market potentials to satisfy the need of members, like product market, provision of goods and services.
- In principle cooperatives were designed to benefit their members, but in Enderta members are not benefited that is to say that of none members, cooperatives are serving both members and non-members equally.
- Competition of private sector is another problem where cooperatives are not competing the private sector in the study area which indicate no change in price and quality in the provision of goods and services.

- Government support to the already organized cooperatives is minimal than that of government support to organize new ones in the study area.

In relation to the progress of numbers of cooperatives in Enderta Woreda, the researcher undertook research in multi purpose agricultural cooperatives in Tigray Region Woreda to identify cooperative benefits, problems, opportunities related to members, and challenges confronting the cooperatives. This study is intended to provide support for the future cooperative development in the Woreda in particular and in the region in general.

1.3. Objective of the Study

The overall objective of the study is to assess the challenges and opportunities and contributions and benefits of multi-purpose co-operatives in the overall agricultural development in the study area (Enderta Woreda), Southern Tigray.

Specific Objectives

- To review the overall conditions of the agricultural co-operatives functioning in the study area.
- To assess the benefits of multi- purpose co-operatives in the study area i.e. in providing services to members and cooperatives role in agricultural productivity and the problems they face.
- To identify the opportunities they get being membership of the cooperatives like getting training to increase their productivity and

solving their financial problem and challenges they face in the provision of agricultural inputs and challenges in product market of co-operatives in the study area.

- Finally, to make necessary recommendations.

Research Questions

This research aims to provide answers to the following pointed problems based on general and specific objectives.

1. What are the overall conditions of the multi- purpose agricultural co-operatives in the study area?
2. What is the benefit of these co-operatives gained by their members based on their objectives?
3. What are the opportunities and challenges that the co-operatives face in their daily activity, and the problems they face?

1.4. Significance of the Study Area

Currently the objective of Ethiopian government is to bring about sustainable rural development. One of the emergent and implementation – strategies for rural development is the development of co-operatives. Experience shows that developed countries have benefited much more from co-operatives in that they are productive, and competitive, by organizing their resources and man power etc., and by identifying opportunities and challenges and providing tangible results. The study will contribute to the benefit and the growth of co-operatives in general and co-operatives to the people in the study area.

1.5. Scope of the study

There are about 17 multi-purpose primary co-operatives in the study area. Out of these, twelve are organized at secondary level organization (at union level). This study is at Enderta Woreda level, specifically focusing only on topic of the multi- purpose co-operatives. It does not cover other specialized co-operatives in the study area.

1.6. Research Design and Methodology

1.6.1. Research Design

The study is mainly based on descriptive method to explain how the multipurpose co-operative organization has been benefiting their members and contributing to agricultural development. Other qualitative methods are used to explore respondents' attitude, views and perceptions of the services of agricultural cooperatives in the form of input supply, financial service, and output marketing, all in different ways to help poor farmers .Secondary data related to co-operative development is also collected and analyzed.

1.6.2. Sample Procedure and Sampling Techniques

There are 17 multi-purpose agricultural co-operatives in the Enderta woreda study area. The study specifically focuses on the multi purpose agricultural co-operatives which comprise a total of 16,522 members out of which 13,335 (80.70%) are male 3,187 (19%) are female. Twelve of the multi-purpose co-operatives have formed secondary level organization (union level), out of which 9 are founders and 3 are new members of the cooperatives .Thus the study focuses on the founders.

Three primary multipurpose co-operatives were taken for sample survey which constitutes 33 percent of the total founders of the union. At the same time, the union it-self was assessed. Simple random sampling was used to select the individual primary co-operatives in lottery form. Respondents were taken from 2004 list of members to exclude new members from the study. 180 respondents were taken using systematic random sampling based on the list of members which constitute 6 percent of 2004 data. 154 male and 26 female are taken proportionally in the study. A total of 9 key informants were taken for further information, 3 from regional cooperative promotion office, 3 from Woreda cooperative office, 2 from primary cooperative leaders and 1 from agricultural development agent. These key informants were from department heads and experts.

Focus group discussion was conducted purposively in the three selected co-operatives. Two groups constitute six members each, where 2 of them were women in each group discussion in Debri and Mayweini while 8 members in Romanat. The aim of this process was to supplement the questionnaire survey. Finally special discussion was held with the union leader in relation to the organization. However the researcher has made all necessary efforts to make the study complete and valid.

1.7. Data Collection Method

Primary Data

Discussions, survey questionnaires and observations were used as instrument for collecting primary data. Both closed and open ended questionnaires were used for the respondents. The open ended questionnaire was taken to find out their attitudes and perceptions. The questionnaire was administrated by trained enumerators supervised by the researcher. The researcher conducted focus group discussion. Group discussion was made with members with the help of checklist prepared. The enumerators were trained for one day. Pilot survey was taken by the researcher before giving training to enumerators and the questionnaire was rearranged before the training was given.

Secondary Data

Secondary data were collected from Tigray Co-operative Promotion Office (TCPO), Bureau of Agriculture and Rural Development. (BARD), reports from Federal Co-operative, books, journals, Woreda Co-operative Office website and other materials.

1.8. Method of Data Analysis

For closed questionnaire the variables of each questionnaire were filled by the respondents, and tables and forms were prepared for each variable. Data were entered into computer by the data encoder. SPSS was used to get the output of the questionnaire. Simple statistical analysis methods such as tables and percentages are used. Inferential analysis was used for the qualitative data.

1.9. Limitation of the Study

The primary co-operative society and the woreda co-operative office were highly scattered. This created a problem to reach the respondents by the enumerators and to supervise continuously by the researcher due to lack of transport. Again the secondary data from the woreda co-operative office were again dispersed, and were not compiled and arranged properly and some were unavailable within time. Thus, there were problems in collecting and organizing the information. Financial constraint was another problem. However, the researcher has made all necessary efforts to make the study complete and valid.

1.10. Organization of the Paper

The paper is divided into five chapters. Chapter one focuses on background, statement of the problem, objectives of the study, research questions, significance and scope of the study, research design and methodology, limitations and organization of the study. Chapter two presents literature review of international and national cooperative movements. Chapter three describes the profile of the study area. Chapter four examines and analyzes findings of the research and finally, chapter five presents summary and recommendation of the study.

CHAPTER TWO

LITERATURE REVIEW

Chapter two tries to show literature review of international and national cooperative movement. It includes the theoretical concept of cooperatives, definitions, principles, need and types, structures, benefits of cooperatives and lastly the problems and internal and external factors that affect cooperatives.

2.1. Theoretical Concept

For many years the promotion of peasant co-operative institution in the developing countries has generally been influenced and shaped by the modernization efforts, challenging the prevailing dichotomy between “traditional” and “modern” forms of co-operation. But this dichotomization between “modern” and “traditional” is both theoretically and analytically inadequate in any realistic explanation of the different forms of peasant co-operative institutions in African societies. The tendency to structure analysis of peasant co-operative institutions in this manner has led to an exclusive emphasis on the state-regulated forms of peasant co-operative at the expense of other forms (Worsely, ed, 1971:12).

Robert Briscoe and Michael Ward (2000:26) tried to note that Parnell has divided the world of business into two categories at how things get done in general. These categories are the THEM way of getting and the US way.

According to Parnell (cited in Robert and Michael,2000), the THEM approach also is called the conventional theory of action based on the idea that the best way of solving problems and meeting needs is to leave it all to THEM that is to small elites in the society concerned of unusually resourceful and wealthy knowledgeable people. The US approach, also called the co-cooperative theory of action, is meant to doing things upside down, that is things get done most effectively when the people experiencing the problems get together with others like themselves and combine their energies, skills and resources to set up their own organizations. With these organizations, they provide themselves with products, services or experiences especially designed to meet their common needs. The US organizations are designed around the needs of their users, and the users themselves are active in tailoring the organizations to their own special needs.

Erhard Burner and Ben Phillips (2005:7-8) stated that in the 1980s new approaches gradually emerged in which participatory methods became central element in development literature and research and planning. The idea was that involving the poor, marginalized, vulnerable and voiceless people into development processes directly essentially required an approach that gave them more opportunities to develop themselves. As such, development interventions had to be empowering the people, making them capable to be above their current vulnerable condition, and preventing them from being further marginalized. Poor people develop as experts at managing their meager resources under adverse circumstances.

2.2. Defining Co-operative and Co-operative Concepts

Cooperatives have played significant role in economic and social development of different countries, since their existence for about last 160 years; Co-operatives are an appropriate instrument for rural development by integrating the scattered spatial resources together and then directing them in an integrated organization for the benefits of members through participatory and effective self- management.

The term 'cooperative' has been defined and interpreted by different authors differently. According to ILO definition, a cooperative is a group of persons who agree to be the owners of resources, and decision makers and users aiming to promote the overall economic interests of its members. The International Cooperative Alliance (ICA) defines cooperatives, based on values and principles that cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. (ILO, 1998:6). Cooperatives are distinguished from share- holding forms by their democratic nature, with voting rights being assigned to persons rather than the size of sharing. In this sense, they are not for profit as priority, but cooperatives do produce surpluses that can be distributed to their members in the form of patronage fund (Briscoe and Ward, 2000:24).

A cooperative is part of a free enterprise, competitive, capitalistic market system rather than a welfare agency or a charitable society because it is

better and more economic way of doing business (Marvin, 1980:70). According to the international cooperative alliance (ICA), the definition of cooperatives can be explained on basis of its value on self – help, self – responsibility, democracy, equity, equality and solidarity, as well as by guiding principles of cooperatives that guide their formation, organization and activities.

2.3. Principles of Co-operatives

Cooperative principles can ensure the essential features of cooperative organization and help to shape the legislation governing cooperatives. The Congress of ICA (1995:12) held in Manchester revised its principles as the following.

- **Voluntary and open membership.** Cooperatives are open to all persons to be a member. It indicates that the cooperative is owned and controlled by the members who use services without any individual difference in any aspect whatsoever.
- **Democratic member control.** Cooperatives must be controlled by member users; this principle is one- man-one vote principle. Here representatives are accountable to the members.
- **Members' economic participation.** Members contribute equally to the co-operative capital-building to become a member. Any cooperative surplus should be allocated for usual purpose for developing the required business and build up its services. After completing these tasks, the residual profit is distributed back to

members based on their transaction with the cooperative but not on the amount of share capital member owned.

- **Autonomy and Independence.** Cooperatives are autonomous, self-help member-based organizations, and controlled by its members.
- Cooperation among cooperatives.** Cooperatives strengthen the cooperative movement by working together through local, national, regional and international structures.
- **Concern of community.** Cooperatives should work for the sustainable development of their communities through policies approved by their members.

2.4. The Need for Co-operatives

The primary motivation for farmer's participation in a cooperative is to improve their well being, particularly in view of events of market distortions. As such, cooperative do exist and thrive because market often fails to attain the perfect competitive idea. David (1998:48) stressed that of marketing business has to identify the reasons where society needs cooperatives.

- **Market Failure:** - The ability of what to produce, how much to produce and what combination of inputs to use in production is very important and is complicated to accomplish.
- **To benefit from economics of size:** - Cooperatives might provide methods of capturing the benefits of the more efficient organizations in a way that investor – oriented firms (IOFs) would not. **To capture profits from another level:** - entry of co-operative results higher returns in the form of price favorable to farmers.

- To provide missing services:-co-operatives could buy or provide new services that were not serving before.
- To assure supplies or markets: - Membership in cooperative offers main security to farmers. Access to markets for agricultural product can save farmers from loss of their perishable products.
- To gain from coordination: - Risk- sharing ordinarily reduces the variation of returns to the individual members.
- Market power: - Cooperatives tend to decrease the market power of other businesses. A cooperative in fact is to be organized to acquire and exploit market power for the benefit of its members.

Governments of most countries now believe that only through co-operative societies, with the power to supply, imported tools and raw materials, to educate the cultivator use and to see that they bring some immediate return (Margaret, 1963:107).

2.5. Genuine Co-operatives and Crises of Co-operatives

Cooperatives in many countries of the world face crises. However, some cooperatives do run towards, a status of functioning as genuine cooperatives. ILO (1998:71) has tried to identify the factors that produce crises of finance cooperatives many co-operatives.

Cooperatives often fail in developing countries due to a series of crisis, such as finance of credibility, management, identity and capital. The various reasons for these failures are:-

- Members indifference to their own cooperatives
- Members' inability to organize and manage their cooperatives effectively
- Corruption and mismanagement in cooperative societies
- Political interference
- NGO and /or donor dependency
- The fact may be then the whole concept of cooperative organization wrong for many developing countries
- The unsuitable legal, administrative and institutional environment in which many cooperatives run and operate. The root cause comes from management problems, members' alienation.

At the same time, ILO has recommended genuine cooperatives as “an association of persons who have voluntarily joined together to achieve a common end through the formation of democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking in which the members actively participate”.

Some of the co-operative strategies that should be in the process are:

- Make sure that the co-ops are designed to provide services which are in great demand and that there are tangible benefits for members (such as services unavailable to non-members, or a share in the profits according to their participation). This action motivates members to invest adequate funds.

- Distribute profits in the form of bonus shares ,which have to be retained within the co-operative for an agreed period of time .This approach enables the co-operative to reward members for their use of the co-operatives(Robert Briscoe and Michael Ward,2000:65)

2.6. Role of Government in Promoting Co-operatives

The International Co-operative Alliance (ICA) has emphasized that the government is required to help co-operatives, in initiating, advising, sponsoring, counseling and financing them properly, provided that it is consistent with basic co-operative ends and trends and objectives with the building of an independent, self -reliant co-operative movement in time.

Governments have to perceive co-operatives as self help organizations, democratically owned, managed, and controlled by their members and play their role as an advocacy organization for promoting and defending the legitimate interests of their members. They must be given full development and protection to carry out these tasks, and this should be clearly expressed in the legal definition of co-operative laws.

ILO (2000:22) has been arguing that the role of the state should be confined only to the following without any direct or indirect intervention in co-operatives including projecting itself as a potential partner of co-operatives in:

- formulating and initiating a clear public policy on cooperative development;
- creating an appropriate regulatory framework, consistent with the new paradigm shifts, which emphasize privatized market-orientation and limited role of the state; and
- Strengthening, redesigning, and refocusing cooperative development to take them selves to evolve as a self- financing institution.

In many developing countries, states have established specialized credit institutions to finance the co-operative economy. Among others, Kenya, and India have made financing of co-operatives. In Ethiopia the regional governments provide loan guarantee for agricultural co-operatives to take farm loan from commercial banks. According to Munkner (1995:165) government's development policy is to promote the development of self-reliant co-operatives but at the same time the intention is to remain in control. Usually government's officials in developing countries interfere with day-to-day operation of co-operatives and have maintained and even extended their power to supervise and control co-operatives for decades consequently. Co-operative development turned to be run without people's involvement in co-operative affairs, responsibility towards cooperative action. No true co-operative can be built as no real co-operative success can be achieved without members' active participation.

The need for building an independent co-operative has been expressed by many political leaders of developing countries, particularly Nehru, India's

first post independence prime minister. He was above all a deeply convinced co-operator and a visionary co-operative philosopher. His whole life, his work, and his policy were with co-operative ideals and the co-operative spirit, and he was faithful to his co-operative teaching, organizing his people in unity of the purpose by co-operative action. He did promote agricultural co-operative business without bureaucratic interference into co-operative affairs (Andréa's, 1977:117).

2.7. Organizational Structure and Types of Co-operatives

2.7.1 Organizational Structure

David (1989:44) has classified co-operatives according to their membership structure. This classification was for centralized co-operatives, where the farmers hold direct membership, a federal co-operative whose members are other co-operatives and finally a combination of centralized and federated co-operatives.

Management of the co-operative society is often incorrectly thought as including only the hired manager and his key staff. This is far from the truth according to the US Department of Agriculture. Co-operative management should be regarded as a team consisting of four elements; members (owners), board of directors (elected), the manager (hired), and other responsible paid employees. Successful management of a co-operative society, therefore, is based on intelligent and active co-operation of the members with the board and with the manager employees, each group

shouldering its own responsibility to the best of its ability according to Tammy (1997:20).

2.7.2 Type of Co-operatives

Kebebew (1978:6) stated that there are about five types of co-operatives: service co-operatives, producers' co-operative, thrift and credit co-operative, consumers' co-operative, and housing co-operative each, having different advantages and problems.

Service co-operatives:- refer to getting reasonable price for services rendered without interference of middlemen, getting credit at a reasonable rate of interest, having direct access to consumers of their products without middle- men who usually exploit them. David (1989:61) also stresses that service co-operatives obtain a wide variety of specialized services related to farm purchasing and marketing by classifying them as credit, utilities, insurance and special services.

Basically, service- co-operatives is established to raise agricultural productivity by facilitating the pooling of resources for individual farmers in order to meet with and to resolve local agricultural problems co-operatively. Among other things, it is believed that service cooperatives meet the problems of capital for inputs such as fertilizers, pesticides, insecticides, improved seeds and tools, and building storage facilities and other rural infrastructures.

Multi-purpose agricultural cooperatives

Multi- purpose co- operative is the co- operative for promoting members' production (group farming cooperative society), which is frequently found in settlement projects (as rural co- operative communities). This type could

also be described as an all – purpose co- operative society (Eberhard, 1977:98).In some countries the tendency is toward a multi- purpose society, of which the principal objective is the supply for both of agricultural and of household needs. At its best this meets all the needs of the village, for instance, but at less than best than desired. It may result in a confused type of organization requiring more expert management. It may enter into a Perpetual risk that the profits on the bakery may be used to cover loosen on the fertilizer departments (Margaret, 1963:109).

According to Zenchu (2006) multipurpose cooperatives are organized on mutual cooperation, and are engaged in various activities involving farm guidance, marketing of farm products, supplies of production inputs, credit and mutual insurance business and are referred as “multi-purpose agricultural cooperatives”.

Farm guidance: provides member farmers with guidance to improve their farm management and production technologies, promoting joint marketing of agricultural products and purchases of production materials.

Credit business: engaged in various activities including collection of saving, extension of loans, domestic and foreign transaction. Its purpose is for better farming and living of member families by promoting mutual financing among others.

Marketing Business: engaged in marketing farm products mainly through joint grading and joint shipment of products

Supplying business: Intended to supply member farm families with production imputes such as fertilizers, chemicals and agricultural machinery, with lower prices.

Eberhard (1977:95) noted that single – purpose co- operative society, concentrates on one function such as a supply society, the marketing society, or a credit society. In practice, the choice between the multi purpose and the single – purpose co- operative depends on.

- a) The needs of member farms
- b) The economic structure and the development standard of the region
- c) The legal and institutional traditions and condition and
- d) The availability of managements on the spot

Producers' cooperatives

The need for producers' co-operative is the greatest when the margin between producers' prices and consumer prices is too wide, when outlets are too narrow and when prices change too much and too often (Margret, 1957:18).Producers' cooperative prevails in socialist countries or in non-socialist countries among communities with some kind of ideological persuasion.

Consumers' Co-operatives

These types of co-operative are formed by individuals who want to have a supply of consumer goods at a central place at reasonable prices. According to ILO (1988:31), consumer co-operative is related to merchandising co-operatives which refer to a group of different activities carried on by different types of co-operatives, and their ultimate purpose is the sale of goods direct to consumers. In this aspect, ILO has identified some problems where consumer movement has collapsed, while in other type the agricultural

credit or marketing movement has continued to make progress. The reasons for failure are:-

- The business itself is complicated. Because of that it deteriorates very quickly, and suffers from leakage in weighing out.
- Members may fail to pay cash, to settle their accounts promptly, or sometimes even to sell them at all in time.
- The consumers co-operative may face intense competition from other traders.

Thrift and credit co-operatives

Their objective is to promote forced saving which can be utilized on “rainy day” as in housing co-operatives:- where its main objective is to meet housing problems of members through collective actions.

2.8. Agricultural Marketing Co-operatives

In developing countries, the percentages of the population living in rural areas are typically between 60 and 90 percent; the villagers are almost farmers and are distinguished by subsistence economy. Their production unit is based on the family labor which produces the food for its own consumption and for payment of debt, taxes and other expenses (www.coopgalor.com). Another characteristic of the agricultural marketing in rural areas lies in the fact that poor farmers in developing countries sell their produce at the harvest time as ‘distress sale’ because the poor have no

holding power till prices rise as do the better farmers, because of pressure of several type of objectives, as to pay taxes and meet household needs, children's education, clothing and other basic necessities which need urgent fulfillment.

Agricultural marketing co-operatives are set up in order to market and sell the marketable surpluses produced by its members such as cereals, vegetables, oilseeds, coffee, livestock, and fish produces when prices are better for their maximum benefit. So marketing co-operative is a beneficial system in which a group of farmers join together in order to carry out part or all of the process involved in bringing the produce from producers to consumers.

In another aspect, the US department of agriculture (1998:20) has identified the opportunities derived from the marketing cooperatives which enable producers to:

- correct market failure where prices are too low or buyers have left the market,
- provide a service not available otherwise,
- gain market power (negotiating power) against large buyers,
- spread risks and costs ,
- Have enough volume to operate processing plant for value- adding for marketing products the market efficiently or enough to meet the demands of buyers, and there by gain for themselves higher prices.

Furthermore, it must be recognized that membership in agricultural co-operatives must not be limited to farmers, but can also be extended to other people living in the area, such as civil servants and craftsmen. This has led to the expression of rural cooperatives (Eberhard, 1977:5).

Agricultural development at the level of the individual farmers' need:

- a) Application of new techniques of cultivation and other aspects of agricultural production (livestock, fishery, etc.);
- b) The cultivation of new crops or new varieties of those crops that are already grown by the farmer;
- c) Interest in creating local marketing and even processing facilities, individually or in collaboration with others, and establishing better storage facilities.

All these together can be called modernization of farming beginning on a low level, but leading in course of time to mechanized forms of large – scale farming (Eberhard, 1977:24)

Agricultural co- operative's societies may be service co- operatives, or auxiliary societies. Their purpose is to assist the members economy by partially or fully serving one or several economic functions.

At the same time Eberhard (1977:95) has identified that the agricultural service co- operatives can engage in any of the following operations:

- a) Supplying of artificial fertilizers, selected improved seeds or plants, chemicals, tools and technical equipments, lubricating oil and other similar products and animal feed;
- b) Provision of financial means through credit schemes, supply of other needed goods etc. and the arrangements for their repayment
- c) Consultation on agricultural problems with respect to choice of crops, selection of proper cultivation methods.
- d) Produce storages on farms and in the co- operative establishment;
- e) Marketing of cash crops (coffee, cocoa, tea etc) by exportation and of minor crops (vegetables, citrus fruits, etc, within the nation or outside.

Marketing functions of co- operative societies could be evaluated by calculating, for example, the percentage of total supplies to farmers channeled through co- operatives, the percentage of total produce marketed through co- operatives, the quantities marketed per- capita by members in competition with non – members; the quantities of pesticides and fertilizers supplied to members compared with those to non- members.

2.9. Benefits Gained from Agricultural Co-operatives

Conscious farmers today recognize that small farmer business units at individual level is too small to develop bargaining power to influence the price of commodities they sell or price of supplies they buy. To overcome some of the disadvantages of competitive industry in markets characterized by large scale firms, imperfect competition, and unfair trade practices, farmers have combined their overall efforts through co-operative

organizations. The farmers' objective in integrating their business or produce, for example is, through collectively purchasing their inputs and consumer goods, through collectively processing and marketing their outputs and providing collective services to farmer members (USDA, 1980, Biscoe and Ward 2005: 50).

As Marvin (1980:20) has stated, benefits to member patrons and to the community as a whole are both tangible and intangible, Tangible benefits may be seen immediately in improved services, better pricing, and reduced costs. Co-operatives improve members' income by strengthening bargaining power and penetrating into better marketing channels more deeply. At the same time agricultural co-operatives help farmers who are not members by improved prices and cost reductions in the formal market made possible by their competitive effects. Thus many evidences indicate that when successful agricultural co-operatives enhanced competition in local market places, usually non-member communities as well as the members gain economic benefit advantages.

In addition, co-operatives form therefore key civil society actors when they grow in strength and capacity, when social capital linkages are usually broadened horizontally within members of cooperatives and with local governments and non- government organizations (NGOs) .

Usually the limitations and the potential challenge of cooperatives in developing countries has been their continued exclusion of the poor and

women. It was observed that the landless, women and poor households of the community were not made or were not encouraged to be cooperative members. For example, in Kenya, due to inability to pay membership fees and limited time at their disposal, and limited financial or material Resources, they were excluded from membership (Uphoff, 1984 and ILO, 1988:191). Therefore for running cooperative on a democratic basis, women need to be integrated into the decision making process. This strategy will strengthen the financial power of c-operatives. As Bernhard (1977:5) has noted; there are a number of important reasons why co-operatives are receiving increased attention. Co-operatives have a number of key competitive advantages over other types of organizations.

- The varieties of co-operatives (producers, consumers, etc) empower group of stake holders often marginalized by conventional big business.
- They help build social capital and a vigorous community life by developing opportunities for significant decision-making and effective action at the local level
- They provide opportunities for mutual aid and cost-effective service provision tailored precisely to peoples' need.
- They encourage local and individual self-reliance and thereby offer significant alternatives to globalize, investor-driven business.

2.10. Problems and Factors that Affect Agricultural Cooperative Development

2.10.1. Problems that Face Co-operatives

Agricultural co-operatives in the past colonial era in most developing countries were managed and financed by governments and companies for economic, political and administrative objectives. Co-operative functions contrasted with community-led social and economic co-operative in industrial countries (Laidaw, 1978:25). For example, in Ethiopia, governments used co-operatives as administrative organizations through which agrarian reform programs and co-operative production system were implemented and input supply, credit and social services were delivered by co-operatives as part of the government body.

Agricultural co-operatives were established and managed by government staffs, and membership was made compulsory. As a result, farmers failed to see the value and this perception was created in the co-operative institutions. Thus, co-operatives were without members' control, and finally the co-operative were captured by a small elite and middle class bureaucracy. They were also heavily dependent on government subsidies, instead of independence and self-reliant organizations in most developing countries (Hussi, 1993:11).

The planned top down co-operative development in developing countries tended to distort their character, creating vested interests among local

politicians, civil servants, and national government that would not allow the co-operative members to own and manage the concerned cooperatives. The members saw co-operatives as quasi- government agencies, benefiting middle income people rather than the poor, and also corruption and inefficient management existed in co-operative organizations at large (Hussi, 1993:11)

Farmers in developing countries face a number of problems in marketing. The first group of constraint is a physical condition such as insufficient means of transportation, bad roads, and small and under -developed markets. There are no agreed standard rates and weight and measures in most places the scales of measurements and weights used are tilted to the detriment of the interest of farmers. Lack of storage facilities also prevents the farmers from storing their farm produce until the season when the prices rise. This results in loss of income to the majority of the small scale farmers. Another critical problem is the lack of cheap materials packing and containers which are suitable to the produce and the market. In over all situations the farmers in developing countries have very slim bargaining power, and are exploited by middlemen and private traders (Gordon and Kindners, 2001:113).

Another problem in relation to the market operation for farmers is the price of agricultural inputs and implements which are generally too high in developing countries. Majority of small farmers buy inputs and implements from retailers, whereas they are forced to make 'distress sale' at post harvest

time at much lesser prices. Their losses occur at both ends. The system of payment to farmers is also another problem; usually the farmers receive ready payment after a time of payment for their produce and at prevailing rate (Gordon and Kindners'2001:113).

ILO (1985) also has identified that loose management, and low paid inefficient staff, are problems of co-operatives.

- The combination of different kinds of business forms actions, especially in the areas of credit and commerce, requires a highly qualified manager, who is rare.
- Financial control is more difficult, and managerial mistakes can be but are hardly compensated for by success in other business operations of co-operatives if operated manageably. This would follow advanced system of accountancy and efficiency.
- Financial control is one of the most important forms in the system of social control, for checking up on the economic activities of the co-operatives. Confidence it self makes a better control, as a German saying goes.
- The financial audit thus becomes an immediate active instrument management; it influences the fulfillment of the aims of the plan, and controls wastage, irrational expenditure and fraud.

The development or failure of a cooperative in economic life depends on making profitability which also shows that a co-operative society is covering its costs of production out of its proceeds and in addition producing a net gain.

2.10.2. Internal Factors

Co-operatives in many developing countries today face one or more of the crises identified by ILO (2000:204). These are the crises of credibility, crises of management, crises of identity, and crises of scarcity of capital. These may be discussed briefly:

Lack of finance

A major constraint felt by most of the co-operative management's structures is lack of financial resources. Governments are not readily forthcoming in enhancing their contributions towards resources for the co-operatives.

Utilization of training capacity

While there is a widespread need for training, but the training capacity already created remains underutilized. Two further other factors identified by ILO are:

- co-operatives find it difficult to spare staff for institutional training and
- Training programs are not suitably designed to meet the real needs of trainees required for co-operatives movement and its success in the operational fields.

Difficulties in designing new programs

Lack of expertise and external support limits the ability to deliver effective better training programs based on the emerging needs of cooperative staff.

2.10.3. External Factors

Hedlund (1988:87) has identified that policy environment, competition from the private sector, and the nature of domestic and international markets affect co-operative development

Wider policy environment

Government can encourage or discourage cooperative organizations and provide incentive or disincentive in terms of regulations, compliance issues, finance, negative intervention instead of autonomy, and attitudes of authorities and state etc.

Competition from the private sector

Price competition and hostile acts of private institutions or competitors on grounds of economic, political or social may retard or even decisively check cooperatives from their effective work even from the very beginning.

The Nature of Markets

Free market economy is mostly characterized by the unpredictable and volatile nature of markets, in which commodities traded impact on success of co-operatives.

In addition to the above factors, Ken Bate and Mark Whittington (1997: 29) have identified many other external factors affecting co-operative success or failure, as shown below in a diagram.

External Environmental Factors



Adapted from Ken Bate and Mark (1997:29)

A benefiting educational model is most important for developing countries genuinely suited the needs and effective success of new institutions such as cooperatives in a rural setting. Co-operatives serve in this setting to train members in new techniques of behavior, and ways of life. It gives the authorities also the possibility of treating co-operatives as an element of development policy and their need of collaborating with them along the lines of government program for co-operative financing and technical promotion (Eberhard,1977:45).

To conclude this chapter has tried to see concepts, empirical evidence of cooperatives, and the need of cooperatives to develop agricultural cooperatives and their problems and factors that affect the development of cooperatives.

CHAPTER THREE

DESCRIPTION OF THE STUDY AREA

3.0 INTRODUCTION

This chapter tries to over view the description of the region and the study area, the socio economic condition and the development of cooperatives in the region as well as in the study area.

3.1. General Description of the Region

Tigray Regional administration is neighbored by Eritrea in the north, Afar region in the East, Amhara region in the south and the Sudan in the west. The region has six administrative zones: Western, North-western, Central, Eastern, Southern and Mekelle city area, which is the capital of the region. The region is farther divided into 34 rural Woredas (districts) and 12 urban Woredas. The region's total area is estimated to be 53,623 km² (5.3 million hectare out of which 1.0 million hectare of land (18.87%) is cultivated (BOFED, 2006:1).

The population of Tigray is estimated to be 4.335 million with the average growth of 2.67 percent annually. Out of the total population 82.2% live in rural and only 17.8% in urban areas. The sex composition is little higher in favor of females (50.8%) compared to that of male (49.2%). The number of total households is estimated to be 860,000 (BOFED, 2006:1).

3.2 Location of the Specific Study Area: Enderta Woreda

Enderta woreda (district) is located in the Southern Zone of Tigray bordered in the north by kilte Awlaelo woreda (district), in the west by Dogea Temben

woreda, in the east by Abala woreda in the Afar region, and in the south by Samre Seharti and Hintalo Wajirat Woredas.

Climate, Temperature and Rainfall

The annual average temperature of Tigray Region ranges from 11.7°C to 25.4°C .It has divided the region into three different agro- ecological zones: Kola (Tropical), Weinadega (Sub-Tropical) and Dega (Temperate). Sesame, Sorghum Horse bean, lentil, Niger seed, wheat, cotton, barley and Teff are major crops of the region.

Climatically the district is divided into two main seasons the hot season which constitutes 4 percent and Weinadega (Sub-Tropical) covers 96 percent. The main rainy season is from mid-June to mid- September with the annual rainfall of 450 mm. This seasonality leads to fluctuation in temperature in the Woreda to vary from place to place with annual average of 18° centigrade depending on elevations (table3.1).

Table3.1: Climate, Temperature and Rainfall

| Type of climate | unit |
|--------------------------|-------|
| Weinadega (Sub-Tropical) | 96% |
| Kola (Tropical) | 4% |
| Average Temperature | 18°C |
| Annual rain fall | 450mm |

Source: Woreda Enderta Agricultural office 5 Year Strategic Plan 2006

Demographic Condition

According to the strategic plan of Enderta Agricultural Development Office (SPADO) 2006:3), the study area is one of the few highly populated areas in Ethiopia. The population is estimated to be 126,061 out of which 62,242 (49%) are male and 63820 (51%) are female. The household head composition is 66.4 percent male and 33.6 percent female (table3.2).

Table 3.2: Population Size

| Description | Total Population | % |
|---------------|------------------|-------|
| Male | 62242 | 49% |
| Female | 63820 | 51% |
| Male headed | 18146 | 66.4% |
| Female headed | 9176 | 33.6% |

Source: Enderta 5 years strategic plan (2006)

Land use pattern and Socio-Economic Condition

Regional land is totally under state/public ownership, like in other part of Ethiopia. The farmers have the right to use or to rent the land. The Woreda mainly depends on rain-fed agriculture, which leads to a lot of fluctuation in the success of farming. Forest area and area closure constitute 28.3, and 28.1 percent of the total area respectively. The woreda is characterized by highly degraded land and suffers from erratic rainfall both in all seasons. Conservation practice of land is only meager (0.4%) and irrigable land is very small (0.5%) and insignificant (table 3.3).

The socio-economic condition of the Woreda almost dominantly depends on subsistence agriculture. Mekelle, the capital of the region, serves as the political and commercial market for the area. In addition to agriculture, some people in the Woreda depend on off-farm activities for their livelihood by involving in trading salt from Afar, selling stone, sand and fire wood to Mekele dwellers among others.

The main crops grown in the area include wheat, barely, teff, and sorghum etc. production is based on rain- fed agriculture.

Table 3.3: Land use and socio economic condition

| Classification | Quantity (Hectares) | Percent (%) |
|-----------------------------|---------------------|-------------|
| Rain fed land | 30955 | 37.6 |
| Grazing land | 3978 | 4.8 |
| Forest Area | 23314.5 | 28.3 |
| Area closure | 23196.50 | 28.1 |
| Soil and water conservation | 360 | 0.4 |
| Irrigable land | 490 | 0.5 |

Source: Enderta Woreda Agricultural office 5 years strategic plan (2006)

3.3. Co-operatives and Regional Government Support

The primary purpose of cooperatives is serving their members. Accordingly, the objectives of the co-operative societies established under the proclamation no.147/98 include one or more of the following.

- To solve problems collectively which members cannot individually solve.
- To achieve a better result by coordinating their knowledge, wealth and labor.
- To promote self-reliance among members
- To collectively protect, withstand and solve economic problems.
- To improve the living standards of members by reducing production and service costs by providing input or service to their occupations at a minimum cost or by finding a better price to their products or services.
- To expand the mechanism by which technical knowledge could be put into practice.
- To develop and promote savings and credit services
- To minimize and reduce the individual risks and uncertainties
- To develop the social and economic culture of the members through education and training.

To enable achievement of the above stated objectives, the Regional State of Tigray has encouraged agricultural intensification through the facilitation of availability of new agricultural technologies and techniques and provision of