

## Governance of Multipurpose Agricultural Cooperatives in North Gondar Zone, Ethiopia

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### Abstract

Although cooperatives play important role to sustainable development through the services they rendered to their members, governance of cooperatives becomes one of the biggest challenges to their sustainability. This study was conducted to examine the governance of multipurpose agricultural cooperatives using primary and secondary data sources. Primary data was collected using Household survey on 274 sample households. Focus group discussion and observation were used to supplement household survey data. Data was analyzed using descriptive statistics and multinomial logistic regression to identify key factors of cooperative governance. The finding of the study revealed that Consistent with focus group discussion results, 63.2%, 34% 56.7%, 45%, 57.7, 66.7%, 57.6% of cooperative members were not satisfied with the services of cooperatives in distribution of chemical fertilizer, improved seeds, credit service, market access service, supply of consumer goods, farm equipment, and profitability of cooperatives respectively. The majority of sample cooperatives examined in this study displays low degree of implementation of key cooperative governance principles. The econometric result revealed that rule of law of law, awareness, and trust were found to significantly influence the satisfaction of members in the performance of primary multipurpose agricultural cooperative. On the other hand, participation, transparency, and accountability were found to influence the dissatisfaction level of members to the performance of primary multipurpose agricultural cooperative. Recommendations include Improve knowledge gap of members, and Bye-law Enforcement.

**Key words: governance, satisfaction, performance, principles**

### 1. Introduction

Cooperatives are important instruments for the success of sustainable development (ILO, 2013), socioeconomic transformation (Olabisi, et.al, 2015). They are solution for equality, poverty reduction, building social capital, improving marketing and financing system, empowering producers, women and the community at large (Ngozi et.al., 2013). They have played tremendous role in job creation, improved working conditions, additional income sources through profit-sharing and distribution of dividends, support community facilities and services, foster democratic knowledge, and social inclusion. As value-based and principle driven organizations, cooperative enterprises are participatory form of business, which is an important aspect cooperative governance. That is why cooperatives are recognized as vital instrument to the sustainable development's triple bottom line of economic, social and environmental objectives, and good governance. However, the contributions of cooperatives are thin in many countries due to governance problems.

Similarly, in Ethiopia Agricultural Cooperatives contribute to poverty reduction by providing economic opportunities for their members; employment, livelihoods, wide variety of services, empower the disadvantaged to defend their interests; provide security to the poor by allowing them to convert individual risks into collective risks; and mediate member access to assets to earn a living (ATA, 2012). Agricultural cooperatives in particular help farmers access the inputs required to cultivate crops and keep livestock. In addition to making accessible agricultural inputs, they help process of agricultural products, transport and market their produce (ibid). These services help pull members of cooperatives out of poverty. This is a

simple reality that Agricultural Cooperatives are important for poverty reduction in Ethiopia. More than 900,000 people in the agricultural sector are estimated to generate most of their income through their cooperatives (Lemma, 2008). However, agricultural cooperatives are not in a better position to contribute to the attainment of sustainable development due to governance problems of cooperatives (Wanyama, 2014). Agricultural cooperatives are not in a better position to contribute to the attainment of sustainable development because of poor capacity, inefficient managerial capacities, and unsustainable financial services (ATA, 2012).

In Ethiopia, various studies were conducted on agricultural cooperatives. These studies were mostly restricted to the performance of Multi-Purpose Cooperatives in agricultural input and output marketing (Muthualu, 2013; Alema et al., 2008; Jemal et al., 2008), financial performance (Dejene, 2014), the role of agricultural cooperatives in development activities (Dorsey and Tesfaye, 2005), cooperatives members' social interactions, internal governance regimes, and economic performance (Ruben and Heras, 2012). With regard to the governance of cooperatives, Bernard et al. (2007) argued that most of the multipurpose agricultural cooperatives in Ethiopia have a high level of distrust among members due to government policies that establish cooperatives only for the interest of government rather than farmers interest themselves.

The governance problem is reported as one of the biggest challenge to the viability of cooperatives in North Gondar Zone of Amhara Region (North Gondar Zone Cooperative Promotion Office official report, 2016). This would highlight that the governance of the existing multipurpose agricultural cooperatives need to be investigated, as large numbers of cooperatives becoming inactive to serve their members. Empirical studies by Osterberg & Nilsson (2009) confirmed that cooperative governance can affect either positively or negatively the success of cooperatives. This research was, therefore, conducted to provide empirical knowledge about the governance of multipurpose agricultural cooperatives in North Gondar Zone, Amhara Region on the basis of following objectives:

1. to analyze the satisfaction of multipurpose agricultural cooperative members towards the overall performance multipurpose agricultural cooperatives in the study areas
2. to analyze the extent of the implementation of cooperative governance in relation to governance principles in the study area

## **2. Methodology**

This survey study, targeting sustainability of multipurpose agricultural cooperatives, was carried out in selected districts of North Gondar zone of Amhara Region. The study was conducted in North Gondar Zone of Amhara Regional State to examine the governance of multipurpose agricultural cooperatives. In the zone, large number of multipurpose agricultural cooperatives (410) have been established legally. The zone represents the wide range of agro-ecology and agricultural production types where the contribution of the cooperatives could be seen across the diversity.

This study was conducted based cross sectional household survey data supported with key informant interview, and focus group discussion as the main strategy of the research. Wide range of data was sourced from primary and secondary sources. The primary data was collected using household survey, group discussion, observation and key informant interview, focusing on implementation of governance principles, socio-economic aspects of cooperative members, activities and performance of cooperatives in term of impacting the life of member and community at large. The secondary data was also sourced from reputable journals, official reports, working documents, and proceedings.

Three stage cluster sampling procedures were adopted to select representative respondents for household survey. The first stage of sampling was selection of the representative study areas in North Gondar Zone (in this case districts). In this regard, all agro-ecology and farming systems were taken into consideration at this stage. Taking the geography and agro-ecology, five representative districts were selected purposively. Here, agro ecology was considered as a stratification factor since each agro ecology has its own unique features and comparative advantages for the establishment of multipurpose agricultural cooperatives. Here purposive sampling was used mainly to select sample districts since the multipurpose agricultural cooperatives in each agro-ecology have almost similar type services and engagements of business activities so that any one of the cooperatives are assumed to represent the respective agro-ecology. The second stage of sampling was

selection of sample multipurpose agricultural cooperatives in consultation with district cooperative promotion offices, taking into consideration accessibility for data collection. The third stage of sampling was selection of sample households from selected sample cooperatives in the district. The list of members of the respective cooperatives (sample frame) was taken from each multipurpose agricultural cooperative as an entry point at this stage. Taking the household as unit of analysis, the head of households (male or female headed), was taken randomly as sample respondent from the sample frame. Regarding the sample size, total of 274 sample respondents were identified from sample multipurpose agricultural cooperatives taking into consideration proportion to the size of the member in each sample multipurpose agricultural cooperatives.

Table 1: Distribution of Sample Respondents by Agro ecology and sex

Agro-Ecology	Number of cooperatives	Number of respondents		
		male	female	Total
Low land	4	99	17	116
Mid land	5	70	16	86
Highland	3	58	14	72
Total	12	227	47	274

The collected data was analyzed using STATA software. The portion of quantifiable data was entered into the SPSS computer software program and transferred to STATA 13 software. The output was discussed using appropriate statistical techniques: descriptive measures (frequency, mean, percentage). The responses to the open-ended questions were summarized and described as they related to the objective of the study. Cooperative Governance is multidimensional concept measured by accountability, transparency, trust, democratic relation and participation (Manasan et.al, 1999). These measurements are not directly measurable. The measurement of each of these latent variables was carried out separately with the help of observable indicators and the extent of the implementation of each governance pillars was analyzed by the index for each latent variable. The assumption was that a cooperative member satisfaction level causes predictable reactions and the responses can be captured and quantified through a survey. Sample respondents were asked their satisfaction about fourteen questions which represent the universal domains of cooperative governance. An index for each pillar was developed for ease of interpretation.

### 3. Results and Discussions

#### Descriptive Analysis of Household Demographic Characteristics

The demographic characteristics of the sampled households were analyzed and presented in table three. The demographic characteristics of sample respondents were characterized by a high proportion of male cooperative members (83.2%). As the sample respondents (cooperative members) were selected randomly, the high number of male respondents may indicate the pattern of male domination of cooperatives members across all the cooperatives. Regarding the age of distribution of cooperative members, 43.1 and 31.4 percent of the respondents were in the age range of 31-45 and 46-60 years respectively. About 16.8 percent of the cooperative members were above the age of 60 years. On average, a sample respondent cooperative member was about 47 years old. This shows that the majority of cooperative members were found within the productive age group. The majority of cooperative members have capacity to engage in farming activities and able to actively participate in cooperative. Therefore, the results from the same table showed that majority of the sample cooperative members were still in their active age with average age of 47.4 years.

The pattern of distribution of the family size of sample respondents was shown in table three. Family size of respondents has average of 6 persons per household (Table three). The minimum family size was one while the maximum was about 14. Only 35 percent of sample respondents have formal schooling. About 43.8% (60) of the sample cooperative members were illiterate which is twice larger than the proportion of respondents who are able to read and write. Sample cooperative members who can read and write were

about 21.2% which was low compared to illiterate ones. Meanwhile, most of the cooperative members were married (84.7%) while few were unmarried without spouses (15.3%).

Table 2: Demographic Characteristics of Respondents

		%	Remark
1	Sex		
	Male	83.2	
	Female	16.8	
2	Age of respondents		Min =16; Max = 90; Mean =47.4
	15-30	8.8	
	31-45	43.1	
	46-60	31.4	
	Above 60	16.8	
3	Marital status		
	Single/Unmarried	8.8	
	Married	84.7	
	Divorced	3.6	
	Death separation	2.9	
4	Family size		Min = 1; Max = 14; Mean = 6
	1-3	13.1	
	4-6	48.9	
	7-9	29.9	
	Above 9	8	
5	Education level		
	Cannot read and write	43.8	
	Read and write	21.2	
	1-4 grade	35	

Source: Own survey data

### Satisfaction level of Cooperative Members

To determine the satisfaction of cooperative members, core satisfaction items were utilized. The satisfaction items were identified based on extensive literature review. The participants of the household survey were interviewed to rate each satisfaction items relative to their perception of the satisfaction level to the overall performance of multipurpose agricultural cooperatives. Then, based on the ratings, satisfaction levels of members of cooperatives were computed and the result was shown in table four below.

Table 3: Satisfaction level of Sample Multipurpose Agricultural Members (N= 274)

SN	Satisfaction items	Strongly dissatisfied	dissatisfied	satisfied	Strongly satisfied
1	Timely distribution of fertilizer	15.8	21	36.4	26.8
2	Distribution of improved seeds	12.7	21.3	35.8	30.2
3	Provision of credit services	21.8	34.9	25	18.3
4	Facilitate market access	12.3	32.7	29	26
5	Supply of consumer goods	19	38.7	25.5	16.8
6	Supply of Farm equipment	22.4	44.3	16.7	16.6
7	Profitability	18.6	39	26.5	15.9

Source: own survey data

Based on the responses of sample cooperative members, 63.2% of them expressed their satisfaction about the timely distribution of chemical fertilizer (table 4). On the other hand, 36.8 percent of respondent were not satisfied the timely distribution of chemical fertilizer. This finding was cross checked with the result of focus group discussions. Focus group discussants agreed that unnecessary actors are involved in the distribution of chemical fertilizer. A case in point was the involvement of ACSI in fertilizer marketing, incurring addition transaction costs at the expense of the farmer. The involvement of many actors extended

distribution time of fertilizer coupled with beaurocratic procedures. Still large numbers of cooperative members were not satisfied with the services of cooperatives during distribution of chemical fertilizer. Similarly, 66 percent of sample multipurpose agricultural cooperative members showed their satisfaction to the respective cooperatives with respect to improved seed distribution. Unlike chemical fertilizer, small number of sample respondents (34%) were expressed their dissatisfaction to the service of improved seeds distribution.

Regarding the perception of multipurpose agricultural cooperative members towards credit and market services, the majority of the respondents declared that they were not satisfied with provision of credit service (56.7%). In terms of the services of cooperatives in facilitating market access for members produce, 45 percent of them were not satisfied. The result of focus group discussion showed that here and there, the multipurpose agricultural cooperatives tried to purchase members produce with relatively better prices. However, delayed and untimely release of loan from banks for purchase members' agricultural produce was reported as the critical bottle neck of cooperatives. Similarly, the same problem was reported on cooperative unions. Lowland area multipurpose cooperatives reported that there was no timely marketing service. Delayed release of money to effect payment for members of primary cooperatives for their supply of agricultural produces. Sometimes members sell their agricultural produce to private traders due delayed payment.

In addition to agricultural production inputs and credit services, supply of consumer goods with minimum price was one of the priority intervention areas of multipurpose cooperatives. The majority of respondents (57.7%) expressed their dissatisfaction with the service of consumer goods supply. Yet, 42.3 per cent of the respondents declared that they had satisfied with the same service. This finding was consistent with the results of focus group discussion. Particularly sugar and edible oil were in the hands of the government and the government allocates these consumer goods (utilities) for private traders and multipurpose agricultural cooperatives for fair distribution to the end users. But the respective multipurpose agricultural cooperative management members and cooperative promotion offices experts expressed their dissatisfaction with regret that fair and sufficient amount of sugar and edible oil is not allocated to the multipurpose agricultural cooperatives. This would imply that there is much to be done to satisfy the interest of the cooperatives through adequate and timely supply of consumer goods. Under such circumstances, it would not fair to assume cooperative members demonstrate their willingness and sense of ownership to the performance the cooperatives.

Regarding the participation of multipurpose agricultural cooperative members towards buying consumer goods from their respective cooperatives, the overall of replies of sample cooperative members was displayed in Table five. Sample multipurpose agricultural cooperative members declare that they do regularly visit (47.4%) their cooperatives to purchase consumer goods. Perhaps, the limited regular visit of members of multipurpose agricultural cooperatives for purchase of consumer goods is attributable to limited supply, which is beyond the control of cooperatives. Meanwhile, 32.3 percent of sample cooperative members replied that they were visiting their cooperatives irregularly to purchase consumer goods. Yet, more than 10% of the respondents did not participate in the purchase of consumer goods from cooperatives. This finding was justified with focus group discussion, indicating that the no participation of members is attributed to their willingness or unwillingness for purchase of consumer goods. Rather the adequate supply and timely is central issues of members participation in this regard.

**Table 4 Participation of members in buying consumer goods from cooperatives**

Response	Response in percent
No Participation	10.2
Participate occasionally	9.5
Participate some times	32.8
Participate regularly	47.4

Source: own survey data

**Implementation of Good Governance Principles**



The main target of cooperatives is satisfying members' needs in their socio-economic business operations. The benefits of cooperatives attract members participate in various business operations of the cooperatives such as, consumer goods, agricultural inputs, output marketing, and other socioeconomic interest of members. The achievement of these main targets of multipurpose agricultural cooperatives depends on the level of the implementation of cooperatives governance principles. Therefore, understanding the level of implementation of governance principles is the central point of this section. The result of the response of sample multipurpose agricultural cooperative members about implementation of cooperative governance principles was presented in table six. Many multipurpose agricultural cooperative members express their degree of satisfaction with regarding participation, responsiveness, honesty, equality, rule of law, and accountability. These principles are assumed to be the basis for proper services delivery provided by the respective multipurpose agricultural cooperatives.

Table 5; Response of Multipurpose Agricultural Cooperatives Members Satisfaction

Good Governance Practices	Percentage of Responses			
	Strongly dissatisfied	Dissatisfied	Satisfied	Strongly satisfied
Responsiveness	19.7	39.8	28.1	12.4
Leaders honesty to the cooperative	16.8	28.9	34.6	19.7
Equal treatment of members	16.7	27	27.1	29.2
Transparency	17.4	31.4	32.2	19
Democratic Governance (Rule of law)	16.0	30.6	30.0	23.4
Members participation	13.8	31.8	31.8	22.6
Accountability	18.6	28.8	29.6	23.0

With regard to members' perceived level of the implementation of governance principles of cooperatives upon achieving their goal, the respondents were asked their satisfaction to the implementation of cooperative governance principles to understand their perception. The indicators used to measure members of multipurpose agricultural cooperatives perception on the implementation of governance principles of cooperatives included: participation, responsiveness, honesty, equality, rule of law, and accountability.

Consequently, the result of respondents' response indicated that, 54.4, 40.5, 54.3, 56.3, 53.4 and 52.6 per cent of the sample respondents expressed their satisfaction to the implementation of members' participation, responsiveness, honesty, equality, rule of law, and accountability respectively (table 6). On the other hand 45.6, 59.5, 45.7, 43.7, 46.7 and 47.4 per cent of the respondents expressed their dissatisfaction to the implementation of participation, responsiveness, honesty, equality, rule of law, and accountability respectively. The finding of this study would indicates that members' perception were negative on implementation of governance principles of cooperatives towards achieving their objectives. The percentage difference among the cooperative governance principles for participation, responsiveness, honesty, equality, rule of law, and accountability is almost closer to each other.

The majority of sample cooperatives examined in this study show high degree of responsiveness problem. Although the long term success of cooperative and its long term impact on members' livelihood is dependent efficient and effective management, large number of sample cooperative members replied that the management committee of the cooperatives is not responsive as expressed by their satisfaction rating. At least on paper, the role of management committee of cooperatives is recognized in improving all round good governance practices within the multipurpose agricultural cooperatives. Therefore, all what has been discussed here clearly indicate poor governance within the sampled multipurpose agricultural cooperatives. Although it is location specific, Dayanandan & Dagnachew (2015) finding is consistent with this study finding.

Particularly, during the focus group discussion held in the study areas, members' participation was boldly expressed in the discussions. Annual meeting, and marketing (both agricultural produce and consumer goods) were reported as the main areas of members' participation. Predominantly, two annual general meeting were designed to ensure participation of members and this established in the bye-law of cooperatives. But every member of the multipurpose agricultural cooperatives is not attending the annual general meeting. The bye-law urges the respective multipurpose agricultural cooperatives to dismiss the

member who fail to do so. But meetings were cancelled or conducted with 50% +1 quorum. It has been observed from different sources that every member attend meetings when meetings were arranged to elect new management committee. This would showed that members of multipurpose agricultural cooperatives showed low effort to control the committee, approve annual plans, and other issues subject to be decided in the annual general meetings. Thus there has to be some mechanism to improve the sense of belongingness, and participation.

#### **4. Conclusion and Recommendations**

##### **Conclusion**

Survey research was conducted to analyze the governance practices of multipurpose agricultural cooperatives in selected districts of North Gondar. More specifically, the study was designed to find answers for the following basic questions:

1. Do the members of cooperatives satisfied with the performance of their cooperatives
2. To what extent do cooperative governance principles implemented in the selected multipurpose agricultural cooperatives?

In order to answer these research questions, quantitative and qualitative data was collected. Members' satisfaction was determined using predetermined satisfaction items (indicators). These indicators were developed based on day-t-day operations of cooperatives. Index for each governance pillars was determined using factor analysis. The data was analyzed and discussed using appropriate statistical techniques (descriptive measures, multinomial logistic regression).

The findings of this study showed that 63.2%, 34%, 56.7%, 45%, 57.7, 66.7%, 57.6% of cooperative members were not satisfied with the services of cooperatives in distribution of chemical fertilizer, improved seeds, credit service, and market access service, supply of consumer goods, farm equipment, and profitability of cooperatives respectively. This was consistent with result of focus group discussion. Sample respondents expressed their strong dissatisfaction to the effectiveness and efficiency of distribution of chemical fertilizer. This was justified with involvement unnecessary stakeholders in the marketing of chemical fertilizer without adding any value to the end users (farmers). The satisfaction level of sample multipurpose agricultural members is valuable to understand the performance of multipurpose agricultural cooperatives and seek for improvements.

Furthermore, the findings of in this study indicated that cooperative governance systems and practices are still under development. While many cooperative members of multipurpose agricultural cooperatives express low degree of satisfaction with the services provided by their cooperative. This was evidenced with members' satisfaction on implementation of participation, responsiveness, accountability, rule of law, honesty. The majority of cooperatives displays low degree of implementation of key cooperative governance principles. This would have an impact on the long-term success of a cooperative, and members' interests and needs. The low downward responsiveness is unlikely to contribute to building trust between members and the cooperatives, and within cooperative members themselves.

##### **Recommendations**

Based on the findings of this study the following recommendations were suggested.

**1. Improve knowledge gap of members:** The result of econometric analysis indicated that rule of law, awareness, and trust were found to significantly influence the level of satisfaction of members to the performance of primary multipurpose agricultural cooperative. This finding heighted the need for maintain rule of law within the mandate of cooperatives, continuous awareness creation, and build trust between the cooperatives.

**2. Bye-law Enforcement:** The majority of the respondents declared that they were not satisfied with service delivery of cooperatives. The service delivery of multipurpose agricultural cooperatives depends on the level of the implementation of cooperatives governance principles. The result of econometric analysis was found to affect significantly the dissatisfaction of members to the performance of their multipurpose agricultural cooperatives. Many of the cooperative members fail to participate in annual general meetings and marketing of agricultural produce. Such failure in the participation of members in all affairs of the cooperatives has contributed to the governance problems of cooperatives.

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