

*Full Length Research*

# Performance of Multi-Purpose Agricultural Cooperatives in Woliata Zone, Southern Ethiopia

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The study was undertaken to evaluate the performance of multi-purpose primary cooperatives in rural areas of Woliata zone. As objective of this study, it was determined the performance levels of multi-purpose primary cooperatives and examined factors affecting performance. The data were collected from both primary sources (by making use of open and closed-ended questionnaire, observation, checklists prepared for focus group discussion and semi-structured interview) and, secondary sources (sectorial strategic plans and annual reports of each selected cooperatives) in the study area. The study cooperatives (12) were selected purposively from the Woredas and stratified random sampling was used for respondent selection. The data were analysed using quantitative and qualitative methods. The ratios measure was used to assess the financial situation of the cooperatives. As the result, in 2014/15, 2015/16, 2016/17 fiscal years the average current ratios of 12 cooperatives, were 2.149, 1.169 and 2.419, respectively. The highest 8.313, 2.490 and 7.404 and the lowest 0.001, 0.013 and 0.011 current ratios of 12 cooperatives in the fiscal years were not satisfactory, respectively. The current liabilities were being increased faster than their current assets. This implies the multi-purpose cooperatives were at risk in different financial analysis.

**Key words:** Cooperatives, Financial ratios, performance, Costs, profit, Members' trust

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## INTRODUCTION

Agriculture is the foundation for Ethiopian economy and the overall economic growth of the country is also highly linked to the success of the agricultural sector. Accordingly, agriculture accounts for about 43% of the country's Gross Domestic Product (GDP), 90% of export, and 85% of employment. As agriculture continues to be an important sector to the Ethiopian economy, the cooperative sub-sector providing vital support services and play a crucial role for the transformation of the agriculture sector. It is visible at all stages of the

agricultural production, chain- production, processing, marketing and credit. It play an active role in the fields of banking, input provision, agro-processing, storage, in facilitating input and output marketing, dairy and many other social and economic activities (NBE, 2013).

A 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 (Lemma, 2009). The people of Ethiopia have got a very long social

history of working together to fulfill their socio-economic needs. Agriculture and trade operations were carried out through cooperative efforts. Many social events are still taking place in rural Ethiopia through collective effort. The Federal Government of Ethiopia has identified Cooperative as form of business organizations as an instrument of socio-economic change of the people. In Ethiopia 80% of the total population economy depends on the agricultural sector and the country's large labour force, fertile land, appropriate agro ecology and available water resources ensure significant potential to improve income of rural people (Dessalegn, 1990).

The financial aspects of rural cooperatives performance on agricultural inputs and outputs marketing empirically could be found weak as a result of weak management that causes suboptimal resource allocation in their use, high loan burdening low liquidity levels, under developed marketing management and lack of knowledge concerning the rural society. Accordingly, poor financial management which creates difficulty in mobilization of finance; high interest rate and high transaction cost, etc. are the potential challenges which contribute for the poor financial performance of rural cooperatives. Rural cooperative movement in Ethiopia in general and in Woliata Zone in particular has shown a dramatic growth not only in number but also in membership size and operational diversity (Soboh, 2009).

The roles of the multi-purpose cooperatives (MPPCs) examined in the world have adapted to the dynamic change. In the world increasingly dictated by the rules of globalization and international value chains, competitiveness is not only a vital strategy but also it is the condition for survival. To confront this situation, smallholders have formed various types of producer organizations to better compete. These organizations have expanded rapidly and broadly speaking, there are dispersed successes on three fronts: market access; service delivery (e.g. input supply, education and extension, etc.) and 'voice' (i.e. advocacy and policy engagement). However, the world of global market forces and dynamic economic, environmental and political change is creating new challenges and opportunities for their organizations (FCA, 2008)

Some of the problems faced by agricultural cooperatives have been, among others, poor management, lack of capital resources, inadequate training, extension and education programme, lack of communication and participation among members, local government interference on the development of agricultural cooperatives, high fragmentation of land holdings of the members', and weak linkages among the activities of the cooperatives e.g., production, credit, marketing etc (FAO, 2010). The objective was to evaluate the performance of multi-purpose primary cooperative associations in the study area. Specifically to; determine the performance levels of multi-purpose primary

cooperative, examine the present situation of multi-purpose primary cooperatives and assess the challenges of multi-purpose primary cooperative societies in the study area,

## **METHODOLOGY**

### **Description of the Study Area**

Woliata Zone is one of the 14 zones in Southern Nations, Nationalities and Peoples Region (SNNPR). The Zone is bordered on the south by Gamo Goffa zone on the west by the Dawuro Zone on the north, northwest & northeast by Kembata Tembaro zone, on the east by the Hadiya, and on the south east by Sidama and north east Oromia region. The administrative centre of Woliata Zone is Woliata Sodontown. Based on 2017 estimates the Zone has a total population of 1,966,404 averagely, out of which 970,450 (49.35%) are men and 995,955 (50.65%) are women. The total area of Woliata Zone is 4,511.7 square kilometres (BoFED, 2017).

### **Data Collection Methods**

The data collection was done from both primary and secondary sources. The reasons behind using a combination of both methods were to reduce the limitations of each method by taking detail data from different sources. The two major sources of data were primary and secondary sources.

From the former source, some relevant data was obtained by making use of open and closed-ended questionnaire, observation, checklists prepared for focus group discussion and semi-structured interview; while from the later source, it was collected through reviewing and analysing the existing published documents of the issue, sectorial strategic plans and annual reports of each selected Woredas of the study area. The major reasons for relying upon primary type of data was also to make easy the broad nature of the concept of multipurpose cooperative in the study area. Secondary data was to supplement primary data in the study area.

### **Sampling Procedure, Sample Size and Data Collection Process**

The random sampling methods were used to accommodate different techniques at a time. Firstly, Woliata Zone was purposively selected for this study because it has a larger number of multipurpose primary cooperative which operates in the supply of different agricultural inputs activities. Secondly a purposive sampling technique was used to come up with four

Woredas in the administrative location of Woliata Zone which have maximum number of multipurpose primary cooperatives.

Thirdly, out of the total multi-purpose primary cooperatives that were comprised under selected Woredas, twelve (12) MPPCs were selected through simple random sampling methods. Finally, a total of 147 cooperative members selected as respondents mainly to collect primary data through stratified random sampling. The stratification was based on gender i.e. male and female headed households to identify the present performance, factors affecting and overall problems of multipurpose cooperative in the study area.

### Data Analysis

The collected data were analysed by using different quantitative procedures and qualitative methods that helped to address the research objectives. Thus, descriptive analysis was also used to explain issues that make the research definable. The qualitative data were partly analysed on spot during data collection to avoid forgotten and identified gaps to be covered through subsequent data collection. Ratio measures by taking the recent three years' financial data like current ratio, quick ratio and net profit margin ratio were intensively employed to capture the financial performance of the MPPCs.

## RESULT AND DISCUSSION

### Financial Performances of Multi-purpose Primary Cooperatives

Financial ratios have been extensively used and evaluated to investigate the financial performances of multi-purpose primary cooperatives in the study area. Liquidity is the ability of the cooperatives to meet current demands for loans, saving deposit withdrawals and to meet other necessary expenses. Liquidity management which is measured by current ratio is frequently used in different literatures to evaluate the financial performance of cooperative firms. High liquidity reflects an ability to repay debts and is valuable for obtaining debt capital. The satisfactory rate of current ratio that is accepted by most lenders as condition for granting or continuing commercial loan is 2.00 (NBE, 1982).

With this principle when the reference years (2014/15, 2015/16 and 2016/17) were observed, most of multi-purpose primary cooperatives in the four Woredas performed below the expected range (Table 1). In 2014/15, 2015/16, 2016/17 the average current ratios out of twelve selected cooperatives in the four Woredas were 2.149, 1.169 and 2.419 in those three consecutive

years respectively. The highest 8.313, 2.490 and 7.404 and the lowest 0.001, 0.013 and 0.011 current ratios in three consecutive years respectively were scored as mentioned above in the study area. In those three consecutive years the performance of majority cooperatives implies that their current liabilities were being increasing faster than their current assets. Though the cooperatives got credit from financial institution, in most cases the government being their collateral, the ability to get credit by their own to meet their short-term demand for money was endangered. Lenders did not desire to extend short-term loan to these MPPCs because lenders requirements of current ratio to remain at or above 2.00 as a condition for granting loan was practically in the study area.

Quick ratio is the ratio of quick assets (generally current assets less inventory) to current liability. Indicates that the company's ability to satisfy its current liability with its liquid assets. A more rigorous liquidity test that indicates if a firm has enough short term assets (without selling inventory) to cover its immediate liabilities. This is often referred to as the "acid test" because it only looks at the company's most liquid assets only (excludes inventory) that can be quickly converted to cash. The rule of thumb for quick ratio is 1 which means the firm can pay its short-term obligations without having to sell inventory (Sexton, and Iskow, 1993).

However, the quick ratios calculated in table-1 shows that all of the sampled MPPCs were scored below 1. This implies that the cooperatives have no financial capacity to pay its short term obligation by using quick assets without selling its inventory in the study area. Out of 12 sampled MPPCs those with current ratios above 2 were only Woybo (8.313), Garagodo (6.554), and Hemebecho (5.879) in 2014/15. Similarly, in 2015/16 Hemebecho was the MPPC that scored 2.490 and in 2016/17 Garagodo (7.404), Hemebecho (2.248), Beddesa (6.507) and Aratu sake (6.337) were the MPPCs which scored above 2. Therefore, these indicated that majority of the MPPCs were higher current liability which cannot be repaid for their lenders in the study area. In the researchers observation most of the MPPCs were extravagant i.e. their administrative cost has been higher than infrastructural investment cost. There was mismanagement in finance utilization in MPPCs. Moreover, Shollakodo and Girrara MPPCs scored below 1 for three consecutive years, which shows the extreme internal and external administrative as well as technical that made the MPPCs more extra negative in the study area.

### Functionality Status of Multi-purpose Cooperatives

As the qualitative data indicated that, capital accumulation performances of the cooperatives in input and output marketing like fertilizers and grain, credit

Table 1 Financial Ratios of MPPCs in the selected Woredas

MPPCS	Current ratio(CR)			Quick Ratio (DR)			Net profit Ratio(PR)		
	2014/2015	2015/2016	2016/2017	2014/2015	2015/2016	2016/2017	2014/2015	2015/2016	2016/2017
<b>Bolosore woreda</b>									
<b>Woybo</b>	8.313	1.008	1.013	0.972	0.981	0.975	-0.004	-0.002	-0.006
<b>Garagodo</b>	6.554	1.007	7.404	0.932	0.934	0.934	0.034	-0.003	-0.017
<b>Hembecho</b>	5.879	2.490	2.248	0.756	0.796	0.730	0.024	-0.006	0.110
<b>S/ZyryaWoreda</b>									
<b>Shola Kodo</b>	0.337	0.268	0.268	0.270	0.328	0.328	-0.158	-0.068	-0.144
<b>Guligula</b>	1.375	1.185	1.185	0.672	0.725	0.725	0.141	0.100	0.191
<b>Bekulosagno</b>	1.076	1.155	1.155	0.293	0.285	0.285	-0.041	-0.003	-0.007
<b>Damotiwoyde</b>									
<b>Baddessa</b>	1.436	1.478	6.507	0.637	0.618	0.137	-0.029	-0.190	0.775
<b>Girara</b>	0.001	0.013	0.011	0.002	0.003	0.001	0.058	0.053	0.163
<b>Aratu Sake</b>	1.715	1.119	6.337	0.296	0.020	0.082	-0.005	-0.058	0.518
<b>Kindokoysha</b>									
<b>Bale</b>	1.019	1.478	1.019	0.947	0.947	0.947	0.008	0.008	0.012
<b>Oyidu Cama</b>	1.699	1.255	1.001	0.723	0.669	0.458	0.111	0.225	0.477
<b>Sorito</b>	0.125	0.568	0.877	0.235	0.124	0.004	0.070	0.002	0.111

Source: Field survey, 2017

facilitation for their members, capital accumulation, membership number, profit and loss were not appropriately managed by the committees as well as the Woreda government in general. However, members of the cooperatives were engaged in agricultural activities which have been dominantly the major means of earning income for consumption of goods and services in the study area.

Moreover, as articulated by focus group discussants and interviewees, to increase production and productivity of most members of the cooperatives have been using inorganic fertilizer and improved seeds, which were being supplied by their MPPCs but the credit provision of fertilizers and seeds haven't been systematic and satisfactory. So that of the repayment conditions is being condition irregular in the study area.

As a result, there was inconvenience, not only between the cooperatives committees and members but also within members themselves. These in turn, indicated that the insufficient coordination level of the Woreda cooperative offices and lack of transparency within the administrative committee of cooperatives working procedure in the resource management processes in the study area. Lack of unity between the committee at MPPCs level was also taken as another big problem in the area because it affected the interests as well as the commitment level of members to fully engage in the MPPCs activities in the study area.

### Present Situation of Multi-purpose Primary Cooperatives

As articulated interviewees, member heterogeneity has been suggested to undermine organizational processes by affecting MPPCs capital investment behaviour, collective decision-making costs, member commitment, and the probability of cooperatives stayed for long period of time from generation to generation as strong as possible in the study area. In the other hand, the inequality among certain member attributes, including experience, information, wealth, and reputation stimulated the formation of collective action and the performance of teams' creative problem-solving and unique proposals, in fact, built aggregate power and knowledge to penetrate the challenges of the study area.

Zonal experts mentioned that the existence of member patron heterogeneity did not necessarily correlate with positive or negative organizational outcomes. This means the existence of members heterogeneity could not be hypothesized to the sole predictor or cooperative success in the study area. Cooperative organizations design collective choice arrangements that maximize positive externalities related to diversity and minimize heterogeneity that has resulted in a cost to the organization (Ostrom, 1990).

However, the idea indicated that the level of heterogeneity among member preferences increases over the life span of the MPPCs have been suggested as

a consequence of internal organizational processes such as divergent proportions of allocated equity and emergent special interest groups arising internally, seeking to pressure management in the study area.

Trust is an indicator of social capital. If a group of people trust each other and in fact can trust each other, it will be easier for them to engage in productive collaboration characterized by low transaction costs. Besides, it will be easier for them to “forgive” each other and keep on cooperating in case of occasional breaches of trust similar to the large and almost inexhaustible “trust credits” that exist among old friends, parents–children or spouses (Barbalet, 2009).

The qualitative data indicated that trusting was risky, even when one has abundance of first-hand information about the other member confidentiality, a member could only entrust that one member with something valuable in the cooperative for the future and then attack the others to the opposite in the study area.

As data in the Table 2, respondents have indicated the level of their agreement or disagreement on various issues that suggest the level of integration of members in the MPPCs activities as well as the current acts of responsibility, good governance and accountability in resources distribution through proclamation No 91/2002 of the MPPCs processes in the study area. Accordingly, about 72(52.39%) respondents replied that Strong members’ involvements were not practiced in their area to minimize the leadership challenges and to enhance the financial capacity in the study area.

As the qualitative data indicated that, the responsibility, good governance and accountability in resources distribution through proclamation No 91/2002 can be one of the indicators as to whether the current situation of members’ within their MPPCs is good or not. Accordingly, all sample households in the table 2 indicated their level of agreement or disagreement on the weak relation of the MPPCs and members’ in their area.

About 81(55.1%) sample respondents agreed and 42(28.57%) strongly agreed on the responsibility, good governance and accountability in resources distribution through the proclamation No 91/2002 in their area. Whereas, about 7(4.76%), 1 (0.68%) and 16(10.88%) of them have strongly agreed, undecided, and agreed on the same issue respectively. Based on this data, the number of respondents who agreed and disagreed on the same issue is very far, given the presence of one undecided respondents is not fair to say the MPPCs system through which the members’ participate in the activities is very fair.

On the other hand, 74.83% of the sample households disagreed upon the fact that planning and implementation activities of MPPCs through the involvement of members are not being undertaken on a regular basis in their area. Similarly, more than three-fourth of the responses shows disagreement on the activities of MPPCs in their area.

Moreover, the various associated challenges tended to impede the full realization of the MPPCs potential in the study area.

The substantial proportion 102(69.38%) of respondents disagreed on the item pertaining to Transparency and accountability in decision making, capital and other resources control activities of MPPCs in their area. Because, the actual participation of the member on their MPPCs can be affected by several challenges related to the committees and members.

### **Challenges of the Multi-purpose Primary Cooperatives**

As the qualitative data indicated that in MPPC in 2015/16 the audit report implied that the committee corrupted one and half a million. In addition to this fact, there was huge unpaid loan and bank interest on the most of MPPCs for instance Shollakodo was forced to pay bank interest only 600,000.00 birr for Nib Bank in 2016/17. There was very weak accountability in the commercial system in which the MPPCs were running the finance in and out of market. The MPPCs have no trend to add value in the products collected from the individual farmers rather than wholesaling in the study area. There was strong coordination failure, lack of accountability and transparency within the MPPCs committees and members, lack of belongingness for the members, lack of trust on the cooperative committees, weak democratic relationship between the committees and members, lack of the professional managers for each of the MPPCs and finally there was very weak financial management which implies that the administrative cost was always greater than the capital investment of the MPPCs in the study area.

The other challenges were extreme shifting of local governments’ preferences, massive external interference and inappropriate interventions of local governments in the study area. MPPCs do exist in all 12 Woredas but its density has remained stable. This would not have happened if MPPCs had played a positive role in the livelihoods of members in study area.

As the qualitative data indicated that, MPPCs also encountered technical skills constraints and capital shortages, which hinder the attainment of its objectives. Lack of skills in MPPCs development was also attributed the allocation of cooperative professionals to the sectors and replacing them with people who have no cooperative background, which affects the performance of cooperatives. MPPCs lack access to financial services. Even unions need collateral from governments in order to borrow from banks. Thus, government attempts to support MPPC development through facilitating access to credit services in the study area. However, the credit services provided through this mechanism haven’t been

**Table 2.** The respondents' level of agreement on the present feature of members' involvement in MPPCs

Items	Response		Degree of Agreement			Total	
	SD	D	UD	A	SA		
Strong members' involvements are highly practiced to minimize the leadership challenges so as to enhance the MPPCs recently in your area.	Frequency	26	46	5	61	9	147
	%	17.68	31.29	3.4	41.49	6.12	100
Currently, acts of responsibility, good governance and accountability in resources distribution through proclamation No 91/2002 is intentionally carried out for the benefit of the members in your area.	Frequency	42	81	1	16	7	147
	%	28.57	55.1	0.68	10.88	4.76	100
Planning and implementation activities of MPPCs by using the members are being undertaken continuously in your area	Frequency	51	59	9	17	11	147
	%	34.69	40.14	6.12	11.56	7.48	100
Transparency and accountability in decision making, capital and other resources control are highly carried out in your area.	Frequency	49	53	7	20	18	147
	%	33.33	36.05	4.76	13.61	12.24	100
Different cooperatives have played huge parts in tackling inequalities in their MPPCs in your area	Frequency	11	18	-	44	74	147
	%	7.48	12.24	-	29.93	50.34	100
Strong interest of involving members in MPPCs is highly encouraged in your area.	Frequency	7	14	-	70	56	147
	%	4.76	9.52	-	47.62	38.09	100
Based on the highly improving characteristics of the members' participation in MPPCs activities, the future capital investment of the cooperative will be better off.	Frequency	11	7	5	53	71	147
	%	7.48	4.76	3.40	36.05	48.30	100

SD=strongly disagree, D=disagree, UD=undecided, A=agree SA=strongly agree

Source: Field survey, 2017

allowed for long-term investment options that could potentially enhance the finance capacity of MPPCs in the area. Almost all cooperatives in woliata zone have no access to long-term credit service for investment purposes.

As articulated by focus group discussants and interviewees, the importance of MPPCs for social and economic development in the study area has not recognized practically by the local government of the area. Therefore, the level of support has been inadequate as demonstrated by the effort to increase the number of MPPCs without giving due attention to improve their functionality, technical viability and profitability in Woliata Zone.

The unsatisfactory level of major farm inputs critical for agricultural production (fertilizers, seeds, agro-chemicals, machineries, etc) at the appropriate time and at the right prices has remained a source of worry and frustration for the members in the study area. Zonal government efforts to develop efficient and effective input procurement and distribution systems that would ensure timely delivery of adequate quantity and quality of farm inputs to farmers

have not been successful due to unequal efforts pressed by Woredas government in the study area. Despite the large sums of money that had been spent on procurement and subsidisation of farm inputs, the problems of availability, accessibility, stability and sustainability still remain in problem.

The adoption of many promising improved packages of technology has been compromised by the unavailability of the complimentary farm inputs so that members' productivity remained constant in the study area.

## CONCLUSION

The multi-purpose cooperatives movement faced a number of problems in the different economic systems of the study area. Most of the MPPCs didn't have professional managers. The viability of the cooperative was not always ensured due to low organization; technical supports and follows up by the concerned bodies. The ever changing structure of the MPPCs bodies at zonal and Woredas level highly affected the

smooth development of cooperative societies in the area. Lack of long term credit affected the investment of MPPCs in different projects that would have economic benefit to members in the study area.

The members' economic and /or financial power to strengthen their MPPCs society was very weak. So that multi-purpose cooperatives were suffering in shortage of capital. The infrastructure facilitation problem, in some of the rural areas of woliata zone hinders the provision of inputs, consumer goods and marketing of members produce by cooperative societies to member patrons. Lack of timely, accurate and reliable market information added to the problem. Therefore, it is high time to the zonal cooperative office, cooperative experts, and higher institutions and MPPCs staff to maximize the existing environment to the advantage of MPPCs development so that members would be benefited from it and cooperatives can contribute to the social and economic development of the study area.

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