

INDIRA GANDHI NATIONAL OPEN UNIVERSITY

SCHOOL OF MANAGEMENT STUDIES

MASTER THESIS PROPOSAL

**Operating and financial performance of cooperatives in Sheka Zone,
SNNPR region, Ethiopia**

A RESEARCH PROPOSAL SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR MASTER OF BUSINESS ADMINISTRATION
(MBA)

Submitted to: - Indira Gandhi National Open University (IGNOU)

Study center:- St. Marry University
Addis Ababa, Ethiopia

Supervisor :- Mr. Dereje Gelana

Submitted BY:- Tesfaye Berhanu Belette

Enrolment No. ID 1256325

Tel. No. 002519 11 629885

Email :- tefaber2004@yahoo.com

September 2015

Addis Ababa

ETHIOPIA

TABLE OF CONTENTS

Table of content	i
Acronyms and Abbreviations	ii
Introduction.....	1
Back ground the study.....	1
Statement of the problem.....	6
Research question.....	7
Objectives of the study.....	7
Scope of the study.....	8
Significance of the study.....	8
Limitation of the study.....	8
Research methodology.....	9
Design of the study and sample selection rationale.....	9
Data collection method.....	11
Secondary data.....	12
Data processing and method of data analysis.....	12
Organization of the study.....	13
Estimated time for study.....	14
Budget estimation for the study.....	15
Reference.....	16

Acronyms and Abbreviations

Coop	Cooperative
CDP	Cooperative development program
Derg	A military Junta that administered Ethiopia between 1974 and 1991
ETB	Ethiopian Birr
EPRDF	Ethiopian People's Revolutionary Democratic Front, a Political Party that rule Ethiopia since 1991
<i>FCA</i>	<i>Federal cooperative Agency</i>
FAO	Food and Agriculture Organization of the united state
GDP	Gross Domestic Product
GoE	Government of Ethiopia
NGO	Non Governmental Organization
SNNPR	Southern Nation Nationality Peoples Representative
S.No.	Serial Number
SDPRP	Sustainable Development and Poverty Reduction Program
WARDO	Woreda Agriculture and Rural Development Offic

Introduction

1. Background of the study

It is visible to see the gap between the rich and the poor gets wider and wider despite the socio- economic and technological developments globally. The world has made progress in eradicating extreme poverty, but around one in five people in developing regions still live on less than \$1.25 per day, according to the UN Millennium Development Goals (MDG) report 2014.

For better economic growth there are internal and external problem, the internal economic growth must be pursued in an equitable that benefits the poor, and an enabling environment must be created that increases the productivities of farmers and nurtures entrepreneurial activity among small and medium –size enterprise. Externally, structural obstacle such as high debt levels and barriers to trade must be removed. The importance of cooperatives is related to this vital issue.

Cooperatives have potential to promote rural development, through community development, income generation, and empowerment of the poor people to enable them to participate in the development process. It is clear that cooperatives can and do substantial contribution. They have an important role in narrowing economic gap and they are taken as a tool of poverty reduction, since they enable the individuals to achieve improved standard of living which cannot be reached in isolation.

A further very general advantage of cooperative is that it cans prevent the harmful effects of destruction. Non- cooperating individuals pursue their own interests their even when such action damages the interests of all.

Cooperatives are one of the essential development actors in all area of social and economic development. As Engelment (1968) and Esman and Uphoff(1984) noted, they

have an instrumental value to mobilize individual resources under a single organization which in turn enable people to make collective effort to satisfy common needs and resolve common problems on mutual basis for the purpose of mutual benefit. Thus, cooperatives

are valuable institutional assets to create productive employment, overcome poverty and active social integration.

Agriculture, including farming, forestry, fisheries and livestock, is the main source of employment and income in rural areas, where the majority of the world's poor and hungry people live. Agricultural cooperatives play an important role in supporting men and women small agricultural producers and marginalized groups by creating sustainable rural employment. Producer cooperatives offer men and women smallholders market opportunities, and provide them with services such as better training in natural resource management, and better access to information, technologies, innovations and extension services (FAO, 2011).

Different cooperatives are playing vital roles around the globe. For example, cooperatives control about 80% of dairy production, while in California most of the specialty crop producers are organized in cooperatives. In Colombia, the National Federation of Coffee Growers provides production and marketing services to 500,000 coffee growers. It contributes to the National Coffee Fund, which finances research and extension for coffee growing communities. In 2005, the Indian Dairy Cooperatives, with 12.3 million members, accounted for 22% of the milk produced in India. 60% of members are landless or have very small plots of land. Women make up 25% of the membership. In Brazil, cooperatives are responsible for 40% of the agricultural GDP and 6% of total agribusiness exports.

In many countries, cooperatives are primarily agricultural. In Viet Nam, 44% of all active cooperatives work in the agriculture sector. In India, more than 50% of all cooperatives serve as primary agricultural credit societies or provide marketing, warehousing and other services to their producer members. In Kenya, 924 000 farmers earn income from

membership in agricultural cooperatives, (FAO, 2011). In Ethiopia 6,566, 694 households (more than 75% from rural) or 33% of the country's population is directly getting benefit from cooperatives.

However, cooperatives around the world over are in a state of instability. In almost all parts of the world, cooperatives face in one or another way facing the same challenges. Such as past attitude (ideology), lack of committed leadership, lack of good governance (management), lack of working capital, attitude and practice of corruption, lack of knowledge and skill, lack in provision and utilization of improved technology, weak vertical and horizontal linkage within and among cooperatives, lack and inappropriate support from government and other stakeholders.

The new economy will be a network economy, and rural peoples will have to learn to function as part of networks. Supporting this, Fairbrairan,(2003) stated that farmers can acquire ownership and control in the processing and handling industries. By obtaining income from these activities, and by exerting control over policy, they can prevent exploitation and keep themselves in business. This option means that farmers can prevent their autonomy and get economic benefits by working in a group.

Cooperation among people has existed since history has been record. Traditional forms of cooperation involved community members voluntarily pooling financial resources through "iqub", which was an association of people having the common objectives of mobilizing resources, especially finance, and distributing it to members on rotating basis. There were also initiatives for labour resource mobilization that were to overcome seasonal labour peaks, known as "Jigie", "Wonfel", among others. There also was the idir, which was an association for provision of social and economic insurance for the members in the events of death, accident, damages to property, among others. These informal associations continue to operate in Ethiopia.

Modern forms of cooperatives were first introduced in Ethiopia in 1960. The new cooperative movement in Ethiopia was triggered by reforms made to the socio-political system. During the socialist government (the Derg regime), cooperatives were formed to assist in the implementation of the Government's policy of collective ownership of properties. Under this system, cooperatives were forced to operate in line with socialist principles, which meant that production and marketing of produce were undertaken through collective mechanisms. Membership to a cooperative was also compulsory, which contravened the basic cooperative principle of voluntarily participation.

Currently, cooperatives are recognized as an important instrument for socio-economic improvement of the community. This importance is recognized in their definition, which considers cooperatives to be:

An association of persons who have voluntarily joined together to a common end through the formation of a democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate (FCA, 2007c: 1).

The Cooperative Proclamation No. 147/1998 identified clear goals and authorities, which supported a more conducive legal environment for the formation of Ethiopian cooperatives. The goals include social, economic and other motives that require joint actions for attaining a common target.

However, the extent to which the cooperatives in Ethiopia have been able to attain these goals has not been adequately analyzed.

SNNPR has a long history of cooperative movement in Ethiopia, which has been characterized by strong growth, thus making a significant contribution to the overall economy of the region and the country as well. Like the federal government, regional government is recognized cooperatives as a major contributor to the rural economic development. Cooperatives are found in all zones, Woreda (district) including urban and

rural areas. From the total population of the region 17 million, nearly 32% of the people participated and benefited directly or indirectly in cooperative associations.

Many cooperatives were established in SNNPR region and the entire country to accomplish this objective. During these periods farmers were forced to pull their produces to the local multipurpose cooperatives and then price of their produce was determined by government.

SNNPR government also gave due attention for the establishment of cooperatives. Accordingly the region formulated cooperative legislation along with federal government legislation, also established government structure up to village level to promote cooperatives. Up to June 2011, in SNNPR about 8,872 (out of which 2,420 are saving and credit cooperatives) primary cooperatives were established with a membership of male 693,898 (76.8%), female 209,861 (23.2%) totally 903,759. In addition to this 44 cooperative unions were established, by taking up 1,003 primary cooperatives as members. By the time 13 cooperative unions and 2 primary cooperatives together established regional farmer's cooperative federation. Overall dominantly these cooperatives are engaged in agricultural input-output marketing, saving and credit cooperatives.

Unlike any other similar sector in the country, Bureau of Marketing and Cooperative has made very crucial work in cooperatives movement. The first one is collection of basic data from all cooperatives across the region; second, rating all cooperatives based on minimum standard criteria. Points under minimum criteria are management and organizational efficiency, member's participation and benefit, capital, input provision and distribution, marketing system and service delivery, accounting and auditing, profitability and its role in environmental protection. The last but not the least, detailed sample study has been conducted from 85 primary cooperatives which are engaged in 17 types of businesses; 16 secondary (unions) cooperatives which are also engaged in 7 types of business; and in one regional farmer's cooperative federation.

According to Bureau of Marketing and Cooperative general assessment most of cooperatives are in critical situation. So the present study will highlight the specific operational and financial performance cooperative around Sheka zone.

2. Statement of the problem

Operational and Financial management has a profound impact on the business efficiency of any enterprise. In a cooperative enterprise sound operational and financial planning and management is the most vital requirement for successful management. A study of business failure in cooperatives would reveal that majority of such failures resulted from the lack of proper operational and financial management. Too often the inefficiency and ineffective function of cooperatives is due to lack of proper input and output measurement, time management, bad debts, unwise investment, corruption, and unskilled manpower. The operational and financial management in cooperatives, though in many respects similar to the private or public sector corporations, has their own distinctive features. The principles, the practice, the legal basis performance criteria and financial bases of cooperatives are not the same as private companies or public enterprises. An understanding of the distinctive features of operational financial management in cooperatives is a prerequisite for their effectiveness efficiency.

The success of any organization depends on many factors, including proper planning, effective execution of activities, suitable evaluation process and adoption of appropriate control measures. Most of the cooperative societies in Ethiopia are administered by people, who are either incompetent or influenced by other dominant people. As a result, the operational and financial performance of cooperatives societies are affected and facing many problems. At present there is no systematic measurement of the functions or activities of the cooperatives in the Sheka Zone. The study, therefore, is an attempt to provide information on the operational and financial performance of cooperative

3. Research question

In achieving the objective in the next section, the study will try to answer the following basic research question.

- i. What are the operating performances of cooperatives in the study area?
- ii. What are the financial performances of cooperatives in the study area?
- iii. What are the determinants of operational and financial performance of cooperatives?

4. Objectives of the study

4.1 General Objective

The general objective of the study is to measure the operating and financial performance of the cooperatives in the zone

4.2 Specific objectives

To accomplish the general objectives, the study has the following sub- objectives.

- To study the general operating of the cooperatives in the Zone.
- To analyze the financial performance of the cooperatives.
- To provide suitable suggestions for improving the operational and financial performance of the cooperatives.

5. Scope of the study

The study is emphasized at measuring the operational and financial performance of cooperatives in Sheka Zone. The study becomes relevant as the cooperatives sector in Ethiopia particularly in Sheka Zone that has not been succeeded.

7. Significance of the study

The main objective of the Ethiopia Government is to bring suitable economic development of cooperatives. The important resource to achieve the development of cooperatives is the operational and financial strength so, the study is significant because it has tried to assess the measurement of operational and financial performance of cooperatives and there by achieves valuable results. It is also believed that the study would come up with basic conclusions and valuable suggestion so that the members of the cooperative improve their return and participation, policy makers and government officials it also can use for making effective decision system for sustainable cooperative growth, researchers can use this study for further research. Besides, it is assumed that the study would be come up with basic findings about measurement of financial performance of cooperatives

8. Limitation of the study

The study is restricted both in space and time. Due to the constraints of resource and time, not all the primary cooperatives involved different income generation activities in the study area not to be covered.

The validity of certain data collected from the cooperative societies and respondents may not be such completely perfect. Even though, the result represents the conditions in Sheka Zone of SNNPR Region state, the results cannot be generalized to the whole part of Ethiopia.

9. Research methodology

9.1 The study area and population

This study will be conducted in Southern Ethiopian, SNNPR region, Sheka Zone. The study area is purposely selected, because of the presence of diversified activities of cooperatives and has an access to get information easily which is believed to be helpful to better address the objectives of the study. The accessibility of the area is believed to enable the undertaking of this study under the prevailing time and financial concentrations.

The study population for this study will be the legally register rural farmers multipurpose cooperatives with minimum operation life of three years in order to obtain educate data (such as annual reports, annual plan etc)

In Sheka zone there are 193 cooperatives distributed in three woreda such as 75 cooperatives in Masha woreda, 80 cooperative in Andracha woreda, and 38 cooperative in Yeki woreda. The study specially focused on these cooperatives which comprise a total of 3860 members out of which 2779(72%) male and 1081 (28%) female. of the cooperatives have organized in one union.

9.2 Design of the study and sample selection rationale.

The method , which will be employed to carry out the research, include literature review, collecting secondary statistical data and survey on selected case study of cooperatives. The literature survey attempts towards the research questions in general, providing theoretical frame work, empirical and historical experience of the cooperative movement. Overall its deal with the research question what constitute a cooperative as a business and cover the description and explanation of the cooperative identify as well as conceptual frame work.

Therefore the study will utilize data obtained from both primary and secondary source. The nature of the data will include both qualitative and quantitative to be normative and positive perspectives.

Thirty seven cooperatives will be taken for sample surveys which constitute 19% of the cooperatives in the zone simple random sampling method will be used to select the individual primary cooperatives. The justification for this sample size is that homogenous character, and constraint of the time and finance.

After sample cooperatives selected with the above mentioned manner questioner will be administered to 788 members. That is 20% of the total members in the thirty seven cooperatives which obtained by average amount of members in each cooperatives.(i.e. $3860/193=20$ is expected average number of members in each cooperatives. Then, in thirty seven sample cooperatives are expected to have $20 \times 37 = 740$. So based on this expectation 94% of the member will be taken as respondents for the questioners. These respondents will be taken using systematic random sampling based on the list of the member of 2014 . This sample size is also justified mainly on the basis of homogenous nature of the member with respect to most characteristics considering this study.

Interviewing and group discussion will also be conducted, as supplementary to the data which will be obtained through the questionnaires.

Group discussion will make with a total of 37 leaders cooperative that is one respondent from each thirty seven sample cooperatives will be taken from the list of the directors of the cooperatives using sample random sampling system. In addition for the group discussion gather information through interview from a total of 8 individuals will be taken that is 2 from regional cooperative promotion office, 3 from Sheka zone union secondary level cooperative officers, 1 from regional Agricultural marketing Agency, and 2 from Sheka zone cooperative promotion office. This key information who can give further information will be selected from experts and department head.

9.3 Data collection method

In order to achieve the objective of the research properly, primary and secondary data (both qualitative and quantitative) will be used. The data will be selected by using a combination of different method and described below.

9.3.1 Primary data: - will be collected through different data collection method such as questionnaires in death interview with cooperatives leaders and officials and focused group discussion.

- i. **Questionnaires;**-the questionnaires includes both closed and open ended question. The open ended question will be taken to find the out the respondents attitudes and perception. But more of closed ended question will be used so as to avoid complications that are inherent in open ended question during coding, summarizing, and processing the obtained information. The questioner will be administered by trained by enumerators and supervised by the researcher, and the based on the result of the evaluation of testing, the questionnaires will be carried to be use for the study. The enumerators will take training for one day based on the questionnaires.
- ii. **Interview with Leaders of cooperatives:** - it is believed that the leaders know the major activities being performed by their cooperatives. Hence activities regarding the quality and adequate in but and output of the market, loan services provision, resource mobilization, employment creation, and communities income diversification among other things. This interview will be more complemented with unstructured and open ended question that will be used where needed so as to allow respondents to express their feeling or ideas on some issues freely and hence obtain more detailed information.

iii. Focus group discussion.

For better complement of the information which will be gathered, the research will conduct focus on group discussion. Group discussion will be made with the experts and heads of respective governmental department with the help of checklist prepared.

9.3.2 Secondary data

In addition to the primary data that will be collected through the above discussion methods, secondary data will be also collected from different sources. Among these sources are published and unpublished secondary data sources such as audit and other operational report and recorded of the under study cooperatives, relevant documents, internet websites, and other pertinent sources. Generally at most effort will be made together with relevant and reliable data both qualitative and qualitative from various sources through the triangulation of the aforementioned different data gathering methods.

9.3 Data processing and method of data analysis

The data gathering will be analyzed in terms of the study objectives already designed. In order to summarize data, tables, and graphs will be used. Moreover, Excel program will be used to process and analysis the collected data, after the data obtained through questioners, it will be aggregated then it will be seen in relation with the information obtained from the interview and group discussion, And interruption of the results using the appropriate descriptive statistics such as percentage, ratio, and mean values. The non – quantifiable data will be discussed through qualitative description.

10. Organization of the study

The thesis is organized in five chapters. The first chapter, introduction covers the background and justification of the study, statement of the problem, purpose of the study, **hypothesis** of the study , objectives of the study, scope of the study, limitation of the study, organization of the study and definition of terms. The second chapter, literature review, covers definition, concepts, and empirical studies. The third chapter, materials and methods includes area of the study, methodology & data collection, sampling technique and samples, techniques of analysis and interpretation. The fourth chapter, discussion and analysis is concerned with the development of Sheka Zone cooperatives including their establishment and origin, organizational structure, management, capital structure, human resource management, training and development, measurement of Sheka Zone Cooperatives operational and financial performance using different parameters and also the perception of members on the role of the cooperatives. And lastly the fifth Chapter, conclusion and recommendation cover the summary of the main findings of the study & the possible suggestions or recommendations to be made.

11. Estimated time and Budget for study

11.1 Time estimation

This time estimation the time need for preparation of the proposal which has been already done.

S.N	Research Activities	Time required
1	Identification of problem	2 week
2	Review of literature	6 week
3	Identification of objectives , information of research questions and hypothesis	1week
4	Selection of research design	1 week
5	Selection of sample	1 week
7	Writing draft the proposal	1
8	Typing and editing of submission of the proposal	1
	<i>Subtotal for perpetration of the research proposal</i>	13
1	Primary field visit and pretesting of the tools of data collection and training of enumerators	1
2	Data collection and editing	6
3	Preparation of code book and master chart	1
4	Processing data	2
5	Statistical analysis of data	2
6	Writing research report	2
7	Typing binding & submission research report	3
8	Contingency time	2
	Subtotal for perpetration proposal up to submission of the research report	19
	Grand total estimated to submit final research report	32

11.2 Budget estimation for the study

SN.	Item	Amount need ETB	Remark
	For research field work expense (10x400)	4000	
	Transport 2 times Addis to sheka (1200x2)	2400	
	Horse rent for 8 days (65x6)	390	
	Coffee and to participant(
	Perdiem to enumerators (4 participant x ETB 235x6)	1410	
	Stationery	500	
	Photocopy typing	1000	
	Telephone communication	400	
	Sub Total	10,100	
	Contingency 5%	505	
	Grand total budget	10,605	

12. Reference

Abebe Ayele Opportunity and challenge of cooperative, Adiss ababa (2005)

Bezabih, E., 2009. Cooperatives a Path to Social and Economic Empowerment in Ethiopia. [Pdf].

ILO Publications, CoopAFRICA Working Paper No. 9. Available at: <http://www.ilo.org/public/english/employment/ent/coop/africa/download/wpno9cooperativesinethiopia.pdf> [Accessed November 2011].

Berhanu Abagaz Essay on Ethiopian Economic development, Asheh-ge published I YTD 1994

Mesfin Abebe The roll of dairy cooperative in improving beneficiaries of small holder farmers in northern zone of Oromiya Addis Ababa 2006

Kebede Dega, the cooperative movement in Ethiopia 1978
Erni Gabmble, Cooperative development (2007)

Federal cooperative commission Rural and directive for organizing farmer's cooperative in Ethiopia (Amaric) 2004

Fulton M-And Sandrson K Cooperative and farmers in sew agriculture university of Ethiopia Economy (1995)

Fairbrain B, Three strategic concept for Guidance of cooperative university of Saskatchewan Cnad, 2003

Ayele Angelo Ago ... posed both opportunities and challenges. ... 2005, Addis Ababa, Ethiopia ...

MOFED Ethiopian sustainable development and poverty reduction Programme (2002)

MOI (Ministry of information) Annual book "Ethiopia 2006 Philip H- Coombs and Manzoor Ahemd , Attacking rural poverty The Jone Hopkins University press , London, UK,1971.

Michael Gertler;- Co-operative memberships a complex and dynamic Social process (2006)